

**The internationalization of the firm:**  
An analysis of a Brazilian eucalyptus pulp exporter in 2018 based on  
Uppsala and Bartlett & Ghoshal models

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To my best friend and husband, Lrcio Benedetti, for his complicity, kindness, and love. I am grateful for having you by my side.

## ABSTRACT

### **The internationalization of the firm: an analysis of a Brazilian eucalyptus pulp exporter in 2018 based on Uppsala and Bartlett & Ghoshal models**

The present research had compared how Uppsala and Bartlett & Ghoshal (B&G) models explain the internationalization process of the Brazilian pulp producer Fibria.

The Uppsala model describes the developments of *capabilities* that enable the firm to move towards higher *commitments* abroad. Despite its *sine-qua-non* dependence on foreign markets, it is unlikely that Fibria will internationalize its production to another country, given the *country-specific advantages* that the company has in Brazil. Nevertheless, Fibria set its structure abroad even when the direct exports would suffice to reach the markets without any foreign direct investment.

B&G deals with the aspects of the organizational structure and described the Transnational type as the evolution of the international firm. In their typology, Fibria was a *Global* and *Ethnocentric* type, but interestingly, elements of *Transnational* and *Geocentric* models were also observed in the company.

Both theories overlap or complement each other in many aspects. However, they could not explain the peculiarities of the internationalization of Fibria. One reason is the lack of country-related elements in these models.

Eventually, comparisons between theories such as those presented enable decision-makers to align the corporate strategy using suitable models, bearing in mind the limitations that each method entails.

## Kurzreferat

### **Internationalisierung von Unternehmen: Analyse eines brasilianischen Eucalyptus-Zellstoff-Exporteurs im Jahres 2018, basierend auf den Theorien von Uppsala und Bartlett & Ghoshal**

Die vorliegende Studie vergleicht, wie die Modelle von Uppsala und Bartlett & Ghoshal (B&G) den Internationalisierungsprozess des brasilianischen Zellulose-Produzenten Fibria erklären.

Das Uppsala-Modell beschreibt die Entwicklung von *capabilities*, die es dem Unternehmen ermöglichen, ein höheres Maß an *commitment* im Ausland einzugehen. Trotz der unweigerlichen Abhängigkeit von ausländischen Märkten ist es unwahrscheinlich, dass Fibria seine Produktion in ein anderes Land auslagern wird, da das Unternehmen in Brasilien über *länderspezifische Vorteile* verfügt. Fibria hat seine Vertriebsstrukturen im Ausland demnach festgelegt, auch wenn die direkten Exportmöglichkeiten ausreichen würden, um eine Marktbearbeitung ohne ausländische Direktinvestitionen zu ermöglichen.

Bartlett und Ghoshal beschäftigen sich mit dem Aspekt der Organisationsstruktur und beschreibt den *Transnational*-Typus als die Evolution eines internationalen Unternehmens. Anhand dieser Typologie entspräche Fibria dem *globalen* und *ethnozentrischen* Typus, wobei auch Elemente des *transnationalen* und *geozentrischen* Modells im Unternehmen beobachtet werden konnten.

Beide Theorien überschneiden sich in vielen Aspekten oder ergänzen sich. Sie konnten jedoch die Besonderheiten der Internationalisierung von Fibria nicht erklären. Ein Grund hierfür liegt im Fehlen *länderspezifischer Elemente* dieser Modelle.

Letztlich dienen Vergleiche zwischen Theorien wie den beiden vorgestellten dazu, es EntscheiderInnen zu ermöglichen, die Unternehmensstrategie mittels eines passenden Modells auszurichten - unter Berücksichtigung der Einschränkungen, die die jeweilige Theorie mit sich bringt.

## Acknowledgment

*“Knowledge emerges only through invention and re-invention, through the restless, impatient, continuing, hopeful inquiry human beings pursue in the world, with the world, and with each other” - Paulo Freire<sup>1</sup>*

This master thesis concludes three cycles in my life: my degree in International Marketing and Sales at the University of Applied Sciences of Vorarlberg, my career at Fibria, and my residence in Austria. For this reason, my most sincere gratitude and appreciation to all the people who accompanied and helped me along this journey with all my appreciation.

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<sup>1</sup> Cf. Freire 2005, p. 72.

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## Nomenclature and anachronisms

Aracruz or Aracruz S.A.	Aracruz Celulose S.A. (group)
B&G	Bartlett and Ghoshal Model
B3	Brasil Bolsa Balcão (Stock Exchange in Sao Paulo)
BEKP	Bleached eucalyptus pulp
BEPS	Base Erosion and Profit Shifting
BHKP	Hardwood kraft pulp
BoD	Board of Directors
BoO	Board of Officers
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CVC	Consecutive Voyage Contract
CVM	Stock Exchange Commission in Brazil
EBITDA	Earnings before income taxes, depreciation, and amortization
EC	European Commission
Eldorado	Eldorado do BrazilSA(group)
EMEA	Europe, Middle East, and Africa
EPG	Ethnocentric, Polycentric and Geocentric Theory
EU	European Union
FAM	Fibria Annual Meeting
FDI	Foreign Investment Direct
Fibria or Fibria S.A.	Fibria Celulose S.A. (group)
FSA	Firm-specific advantages
FSC	Forest Stewardship Council
GCO	Global Commercial Officer
ha or per ha	Hectare or per hectare
HQ	Headquarters
HR	Human resources
IoT	Internet of Things

IPs	Intellectual properties
IRS	Internal Revenue Service
IR	Investor Relations
JIBS	Journal of International Business Studies
Klabin	Klabin S.A. (group)
M&A	Mergers & Acquisitions
MBEs	Multinational Business Enterprise
MNC	Multinational Companies
MNEs	Multinational Enterprises
NMHW	Northern mixed hardwood
NYSE	New York Stock Exchange
OECD	Organization for Economic Co-operation and Development
OLI	Eclectic Paradigm Theory (ownership, location & internationalization)
p.y.	per year
PEFC	Program for the Endorsement of Forest Certification Schemes
PPPC	Pulp and Paper Product Council
Q&A	Questions and answers
RBV	Resource-based view
R&D	Research and development
RD&I	Research, Development & Innovation
RISI	Resource Information Systems Inc
SEC	Stock Exchange Commission of the United States
SKU	Stock keeping unit
SMHW	Southern mixed hardwood
Suzano or Suzano S.A.	Suzano Celulose e Papel S.A. (group)
ttons or ktons	Thousand tons
U-Model	Uppsala Model
UN	United Nations
USA	United States of America

USD	United States Dollars
VCP or VCP S.A.	Votorantim Celulose e Papel S.A. (group)
WWII	World War II
ZBB	Zero-based budget

# Chapter 1: Introduction

There are several reasons for the internationalization of the firm, many ways to implement and shape its strategy and operations, and specific attributes that may create favorable conditions for its success or failure. The dispersed configuration of their activities depends directly on their purposes, and the role of each unit within the outlined strategy. Moreover, these configurations are influenced by the political and economic scenario, new possibilities of international relationships, and different ways that the firm can do its businesses. The inherent characteristics of the firm, industry, and markets will also influence the decision-making processes and configuration of the operation abroad. For all these reasons, internationalization is a complex decision to be made and implemented, and it is not an option that is available to any company.

The present study skips the precedent or determinant factors and focuses on how the internationalized companies operate. Companies might seek different levels of internationalization, and this is analyzed here under two perspectives:

- i) how the evolution of the firm and its networks influence the choices and decisions made, according to the Uppsala Model (U-Model), and
- ii) how the new configuration has helped to establish and work according to the theory of Bartlett & Ghoshal (B&G) for those companies who had set foot abroad.

The combination of these two theoretical approaches is empirically tested in Fibria S.A., the most prominent Brazilian eucalyptus pulp producer that earned 90% of its revenue from international markets, except South America, in 2018.<sup>2</sup>

The current chapter details how this work had been planned and structured. The research question and secondary objectives of the research are introduced in section 1.1. The following section, 1.2, presents the structure and the content of each chapter. Section 1.3 deals with the main theories about the internationalization of a firm, the method that was used to select them, and why the Uppsala and B&G models passed the screening. The criteria used to select the company for the empirical research and the scope limitations are presented in section 1.4.

Finally, sections 1.5 and 1.6 are dedicated to discussing the source of data used for the research and the methodology. The method included the use of structured interviews by emails and video-conference with executives and employees of the company, competitors, and independent experts, as explained in section 1.7.

With this framework, the author expects to contribute to the academic discussion about the internationalization of the firm with answers to the research questions presented in the next section.

## 1.1. Research question

The research aims to answer how two selected theoretical frameworks, U-Model and B&G theory, explain the international organizational structure of the company Fibria in 2018.

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<sup>2</sup> Cf. Fibria Celulose S.A. 2018b, p. 87.

Various aspects of the relationship under different perspectives, such as internal, external, inter- and intra-organization, are also analyzed under the boundaries of the selected models. Other authors are presented to play a supporting role and to aid a better understanding of the two primary models.

As a secondary objective, the investigation assesses the capacity of academic references in providing a comprehensive description of the internationalization. In this sense, the author intends to identify the limitations of the theoretical framework in explaining the internationalization of the firm. Consequently, it is crucial to investigate if these limitations are inherent to selected models or specific to the empirical case analyzed.

The literature review is also expected to identify in which aspects the two leading theories converge or complement each other.

Lastly, and related to the relevance of this research, it is expected to evaluate the benefits this analysis brings to decision-makers of international organizations in traditional industries like wood pulp. Is it possible that this research helps businesspeople of the Brazilian pulp industry to understand the dynamics of internationalization in their own companies?

There are several researches and theories about the firm and its internationalization processes, but only a few of them are mentioned in this master thesis. Many of these same scholars echoed the lack of more empirical work related to this field in their papers. However, since it involves so many variables and influences, it is not an easy task, and there is no one unique theory that explains all companies. Moreover, the managers may make their decisions intuitively and without any regard to what theories say.

By answering these research questions, this work expects to make one more contribution to the collection of empirical analyses of internationalization theories and to show that, even non-intentionally, these managers make decisions that follow specific patterns. To accomplish that, it is of utmost importance to have a framework to organize the literature and the empirical work, as presented in the following section.

## **1.2. Structure of the research**

As a brief description, Chapter 1 introduces the general problem, objectives of the research, methodological approach, and provides some definitions and details about the scope, limitations, and structure of the thesis.

Chapter 2 is the theoretical core of the work, presenting Uppsala and Bartlett and Ghoshal (B&G) models. Herein, relevant aspects that are core to the analysis of the selected company are introduced to the reader. The essential purpose is to clarify the aspects of internationalization covered by each theory, the convergence, the complementarity, and non-reconciled differences, in case they occur.

Both theories are *evolutionists* and focus on *firm-related advantages*. According to the studied models, the networks and exchanges of the firms with the local and global environments are enablers of internationalization. However, the adopted perspectives and the definitions of internationalization are different for each theory. B&G theory looks only at the wholly-owned

subsidiaries, while U-Model considers a broader spectrum for internationalization beyond ownership.

Chapter 3 analyzes the internationalization of a company under the concepts of the selected theories. The empirical study collects data from different sources and then organizes, structures, and systematically interprets them. The resulting information is analyzed to assess how much Uppsala and B&G models can explain the internationalization of Fibria.

Finally, Chapter 4 summarizes the main finding of this master thesis, answers the primary and auxiliary research questions, presents its relevance to the business-people, and provides a few indications of future researches in this field that would complement the present objectives.

The proposed structure for this thesis is quite simple and follows the traditional format. However, the novelty of this work comes from the debate between the two theories that were carefully selected as explained in the following section, and the empirical work.

### 1.3. Selection of the theories

In academia, the concept of theory and model are not equivalent nor substitutes<sup>3</sup>. Since the semantic analysis of the concepts is not in the purpose of this thesis and to keep it simpler, they are considered herein interchangeable.

Every theory analyzed for this research has limitations or is not comprehensive enough to explain all the decisions of the company to internationalize. It is too complex and difficult to involve all different aspects that affect the decisions of the firm, and scholars have been challenging themselves for many decades to resolve that. There will hardly be a single theory that can sort this out.

Models are made based on the observation of samples that could be biased, like country of origin, for example, or maybe the list of direct and indirect variables is too long to be represented. Subjectivity content is another factor that complicates the situation even more. Some elements are not fully captured, or there are many simplifications, like *ceteris paribus*, *equilibrium*, or *the rational decisions of the agents*, for example, that dissociate the theory from the empirical observations.<sup>4,5</sup> It is difficult to detect the dynamics of the business environment and the decision-making processes of agents under uncertainties, partial ignorance (including their lack of awareness about what they do not know), or the fact that the human being may not consider all possible solutions for each subject.<sup>6</sup>

Many authors recognize that each theory or model tries to answer different questions, and any selected theory should be suitable to cover the relevant aspects that are under debate.

Many other authors tackled the theory of the firm and the interest in how companies grew and internationalized since the last century, and the discussion is not yet over.<sup>7</sup> The transaction costs studied by Coase in 1937 became quite well known for analyzing overall transaction

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<sup>3</sup> Cf. Andersen 1993, p. 214.

<sup>4</sup> Cf. Dunning; Lundan 2008, p. 142.

<sup>5</sup> Cf. Vahlne; Johanson 2013, p. 192–194.

<sup>6</sup> Cf. Vahlne; Johanson 2017, p. 1091.

<sup>7</sup> Cf. Buckley; Casson 2003, p. 222.

costs on the decision about the locational of the firm<sup>8</sup>. In 1966 and 2004, Yair Aharoni introduced a decision-making model for foreign investment and assumed it as a complex social process influenced by the internal and external relationships of the firm.<sup>9</sup> The *Product Life Cycle*<sup>10</sup>, authored by Vernon in 1966, is the inspiration for many developments in marketing strategic theory.

In the '70s, there was a massive introduction of new theories and diverse approaches to the firm and its international positioning. Buckley and Casson, in 1976, were concerned with the conceptualization of the remarkable rise of sophisticated multinational companies in the post-war period, and the understanding of their behavior to influence public policies and governments.<sup>11</sup> Concomitantly, around 1976, the ground was prepared by Dunning for the *Eclectic Paradigm* and successive developments, focused on the advantages that would lead a company to internationalize and the advantages of the foreign direct investment.<sup>12</sup> The U-Model, primarily theorized by Vahlne, Johanson, Wiedersheim-Paul, and others in 1976 and 1977 covered the *entry modes* of internationalization and the evolving aspects of the firm.<sup>13;14</sup>

Henceforward, many authors studied the internationalization of the firm from the perspective of innovation and learning. A few examples are the studies published by Bickley and Tesar in 1977, Czinkota in 1982, Cavusgil in 1980, and Reid in 1981.<sup>15;16</sup> Similarly to the U-Model, these authors explained the gradual development of the firm conjointly with the accumulation of experiences and evolvement.

In 1989, Bartlett & Ghoshal published their acclaimed book "Managing Across Borders" to introduce the *Transnational company* and the case studies of famous companies from different industries.<sup>17</sup> However, in 1990, B&G organized the network theory of internationalization.<sup>18</sup> The analysis focused on the relationships, allocation of resources, power, and role of each unit of the corporation.

There are many new theories, as fresh as the new technologies and the new institutional environment that created new opportunities and strategies. They came to explain what traditional models, created under other contexts and perspectives of the firm, could not do anymore. The *born global* concept is one example. These theories focus mainly on innovative, proactive, and risk-seeking entrepreneurship beyond national borders. For them, the concept of home nation is ethereal. Among the authors working in this fields, it is possible to cite Moen and Servais in 2002, Mort and Weerawardena in 2006, Coviello in 2006, Oviatt and McDougall in 1994, Fillis in 2001; McAuley in 1999, Hordes, Clancy and Baddaley in 1995, and Oviatt and McDougall in 1995.<sup>19</sup>

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<sup>8</sup> Cf. Coase 1937.

<sup>9</sup> Cf. Hermannsdottir 2008, p. 14–15.

<sup>10</sup> Cf. Vernon 1966.

<sup>11</sup> Cf. Buckley; Casson 1976, p. 01–02.

<sup>12</sup> Cf. Dunning 2000, p. 163.

<sup>13</sup> Cf. Johanson; Wiedersheim-Paul 1975.

<sup>14</sup> Cf. Johanson; Vahlne 1977.

<sup>15</sup> Cf. Andersen 1993, p. 212.

<sup>16</sup> Cf. Hermannsdottir 2008, p. 18.

<sup>17</sup> Cf. Bartlett; Ghoshal 1998.

<sup>18</sup> Cf. Ghoshal; Bartlett 1990.

<sup>19</sup> Cf. Hermannsdottir 2008, p. 22–24.

The present work took into consideration the limitations and variety of perspectives of theories to analyze the firm, and it has chosen theories based on the following criteria:

- Theories should be internationally recognized and cited by accredited business schools, and there should be enough academic production about them
- Theories should consider different perspectives of the same subject, i.e., they could complement each other but not fully overlap over themselves
- They need not necessarily be fresh theories, but they should have evolved over the years to resolve more contemporary problems and therefore be still applicable
- They should be theories that explain traditional businesses since the empirical work analyzes an international company in the agriculture industry that produces commodities
- Finally, they should be theories that are of interest to the author of this thesis.

The literature selected for this research complies with the requirements above. Although dated in the late 20th century, they had been evolving to respond to academic criticisms, and amalgamate many aspects of the dynamism of contemporary markets, companies and their ways of doing business. They are widely debated by scholars worldwide.

U-Model focuses on the evolution from a domestic centered to an international approach, the overcoming of the barriers of new markets, and the company learning process along this journey. Meanwhile, B&G Model focuses on the organizational structure and distribution of activities and resources among subsidiaries. Therefore, it is possible to see them as two different approaches that complement each other in some areas but also have convergences in many aspects.

The theories, especially B&G, were subject to other academic works of the author, including a former master thesis about the internationalization of research and development activities of the MNEs, which confirms the personal interest of the researcher on the subject.

In his analysis of bibliometrics, Ferreira (2011, p. 360) showed that the book “Managing Across Borders” reached the sixth position in the ranking of most cited works by one of the leading publications for international business, the Journal of International Business Studies (JIBS). Johanson and Vahlne and their work about U-Model (1977) occupied the fourth position in the same ranking. This ranking proves the academic relevance of both theories.<sup>20</sup>

This section was relevant to present to the reader how vibrant and relevant theories about the firm are. Given such a plethora, it can be particularly troublesome to define the research path and, therefore, the definition of objective criteria for the selection of theories is paramount. The next decision to be made in the next section is the selection of a company for empirical analysis and define what the limitations of this thesis are.

#### **1.4. Company selection and scope limitations**

Some criteria for selections of the relevant company need to be considered to enrich the empirical work. For this particular research, the decision was based on:

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<sup>20</sup> Cf. Ferreira 2011, p. 360.

- A company with a substantial market share and revenue from international markets;
- A company with business units in more than three countries other than the home country (headquarters) to have a minimum diversification among the units
- Preferably, these units should be in other continents and in countries that speak a language different from the home country
- The international units carry activities locally and have a minimum level of economic substance in those countries, such as employees.
- The annual turnover of the company is higher than USD 1 billion
- Preferably public companies since they have a considerable amount of public information to support the research
- Company in a traditional industry preferably with one product or a commodity to avoid the complexity of marketing portfolio influencing the analysis
- Access to executives willing to discuss strategy and structure of the company
- A particular business or company of the interest of the researcher.

Considering that the author of the present thesis has been working for more than 17 years in the pulp business in many countries, the Brazilian company Fibria S.A. was selected because it fulfills all the prerequisites set above.

Brazilian companies are prominent in the global eucalyptus pulp industry due to their relevance and market share. The country- and product-specific features contribute to the competitive advantages of the national players in this extremely internationalized business.

Among available options, Fibria was the global leader concentrating 25% of market share for those specific fibers, and its products were distributed to more than 35 countries in 2017<sup>21</sup>. There is no question about the relevance of its internationalization and its representativeness in the industry.

A company can be present in a market through different means; consequently, the presence in different countries may be differentiated into the following groups for analysis:

- *Permanent place of doing business or permanent establishment* are countries where the company has an official presence (and not only do business) with domicile (via a subsidiary, branch, or representative office), with or without stocks, offices, or employees in the country. The company also has exclusive control of these units.
- *Place of doing business* are locations where the company trade or store their products without having an official permanent establishment in the country. Stored inventories on the premises, like terminals and warehouses, of third parties abroad, are examples of this category.
- *Non-controlled subsidiaries* are companies that Fibria has a stake but does not control the operation. Usually, these companies have other partners, and they lead the business. The international positioning and strategy of these companies may not be decided or highly influenced by the Brazilian company but by their boards.

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<sup>21</sup> Cf. Fibria Celulose S.A. 2018c, p. 150.

For this work, it is not feasible to study the strategy of the company in every country where Fibria is present. Therefore, this research focuses on the first group above where the company has a permanent establishment and controlled subsidiaries.

Since 2019, the pulp industry profile had changed with the merger between Fibria and Suzano and the entrance of Klabin in the market<sup>22</sup>. The consolidation of the international framework and market had not been completed by the time this research started. Therefore, the object of this thesis is a picture of the company and market around 2017 and 2018. The later developments of the industry and company will be considered if the present study can benefit from that only.

The selected company is attractive due to its relevance in the industry and its international experience. The diversity of its locations and sophistication of its networks compensate for the simplicity of its product. That will make a compelling case for the reader, and the next section provides more details about the sources and data utilized in this research.

## 1.5. Data sources

The strategy of companies is a sensitive subject, and companies do not disclose them. In this sense, empirical research relies mainly on public (secondary) data and industry specialized reports.

Fibria was a publicly held company until the end of 2018, and Suzano acquired it in the early weeks of 2019. The successor company is also listed in the stock exchange in New York (NYSE) and São Paulo (B3), and the historical information of the companies remain public and available. These companies are bound to a high level of transparency to comply with the governance required by the regulatory agencies such as the North American SEC – Stock Exchange Commission and the Brazilian *Comissão de Valores Imobiliários* - CVM. The audited annual reports, form 20F, presentations prepared by the investor relations team (IR), and published material facts are additional and trustful sources of data and information about the company and pulp industry.

Other sources for this research were the market data from specialized agencies, like RISI (Resource Information Systems Inc.) and PPC (Pulp and Paper Product Council)<sup>23</sup>, from consultants, like Pöyry and Hawkins Wright<sup>24</sup>, and the reports published by the competitors.

Finally, the primary data collected from interviews confirm the interpretation of secondary data from other sources, to collect further details about the organization and personal impressions and experiences of professionals and competitors. Before more details about the interviews and questionnaires are provided, it is necessary to explain the method used in empirical research.

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<sup>22</sup> Cf. European Commission 2018, p. 29.

<sup>23</sup> Cf. Fibria Celulose S.A. 2018c, p. iii.

<sup>24</sup> Cf. Fibria Celulose S.A. 2018c, p. iii.

## 1.6. Research design

This thesis is a descriptive work based on the literature review of selected theories followed by empirical observations of the business model of Fibria, which was planned considering the following general objectives:

- to map how the industry was organized in 2018 and what was the position of Fibria and other Brazilian competitors in that market
- to list the objective sources of competitive advantages of the company and where they were located
- to map how the international operations of Fibria were in 2018, what kind of activities were internationalized, the purpose of each unit abroad and motives for internationalization
- to map the organizational structure of the company abroad, the company location, how resources were distributed worldwide and how they were connected among themselves
- to map how the international strategy of the company was decided and communicated and what processes were in place to guarantee the linkages among subsidiaries to achieve the short-term and long-term goals
- to identify the limitations or difficulties faced by the company while expanding abroad
- to search among the main Brazilian competitors for patterns and observe if there were exclusive features of Fibria.

The resulting profile would be compared to the theoretical models and highlight their adherence and divergences to answer the research questions by meeting these objectives.

The research process is circular and designed according to the Grounded Theory<sup>25</sup> of qualitative research. Arrows represent interactions among different activities in Figure 1.

Initially, the following assumptions were made to guide the research and tests along the research process:

- Fibria was internationalized because a considerable portion of its revenues came from international markets<sup>26;27</sup>
- the domestic market in Brazil would not consume all its capacity; therefore the primary motive for international expansion was access to other markets
- existence of country-specific advantages related to the home country could be a barrier to the expansion abroad with higher levels of *commitments* such as the internationalization of production
- eucalyptus pulp is a commodity that requires none or limited *local responsiveness*, which means that economic scales are possible sources of advantages in this industry

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<sup>25</sup> Cf. Strauss 1987.

<sup>26</sup> The number of countries is based on data from 2017.

<sup>27</sup> Cf. Fibria Celulose S.A. 2017n, p. 07.

- other Brazilian competitors seem to have similar advantages and international positioning like Fibria, which might indicate a consolidated business model.

The theoretical chapter is sustained with an extensive review of academic works published by authors of each model and their main interlocutors. The predecessors, successors, and critics of these authors are included in specific cases to contribute to answering the research questions. Works of Uppsala scholars published between 1975 and 2019 and the studies of B&G authors from 1989 until 2003 were part of the literature review. Efforts had been made to ease the language intended to create a dialogue, a correlation, or a common ground between (among) the theories to guide the succeeding analysis as well.

In short, the expected outputs of Chapter 2 are the core concepts of each model, the potential intersections between the models, and a list of the aspects that would serve as a script for collection and analysis of the data at the empirical chapter.

Chapter 3 was structured based on this referred list, which describes many relevant perspectives of the international presence of any company. The literature review inspired the list to frame the empirical analysis with categories such as industry, product, strengths, the profile of the international presence, and a brief comparison to its main Brazilian competitors. A few elements might be missing in this analysis, especially if the information was not public or unavailable to this research.

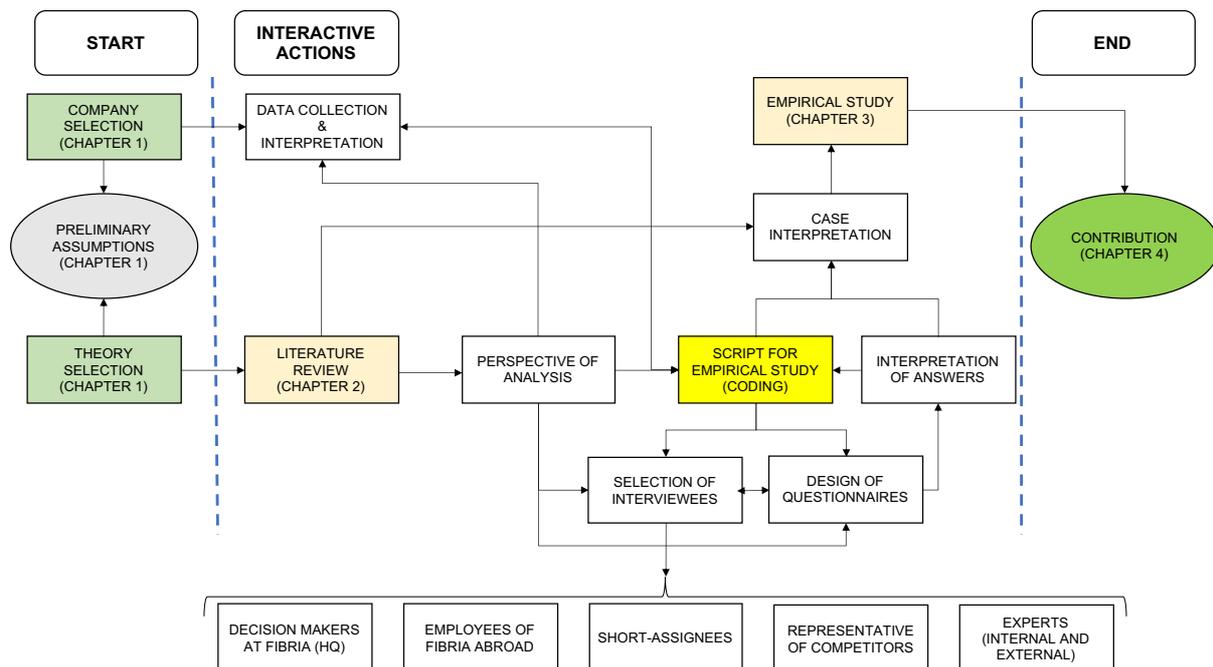


Figure 1 - Methodological workflow based on Grounded Theory of Strauss

Source: elaborated by the author for this research

More details about the secondary data and interviews are provided shortly. However, it is worth to mention that they were processed into information, grouped under these different perspectives (coding) and, only at the end of the chapter, were they referenced to the theoretical models to measure how much the empirical observations match each of them.

New inputs to the script of the empirical part and new demands for interviews were generated along the process of collecting, processing, and interpretation of data and interviews, uniquely when elements not previously observed were identified, like the initiatives of short-assignments and the project- *We are Fibria*, for example. This dynamic approach is represented by arrows in figure 1 too.

During the research, it was observed that the focus was on the perspective of the international structure, the employees of the international subsidiaries, or people engaged with that corporate strategy, like the C-Suit executives. It was not assessed during this project how international the Brazilian structure and the HQ of Fibria were or what the general perception of the Brazilian employees about the presence of Fibria abroad was, for example. The potential dominance of one department over the other into the decisions about the internationalization was not measured either. These aspects could motivate further researches about the internationalization of companies.

The selection of interviewees and the design of questionnaires also followed a similar process as explained in the next section.

## 1.7. Interviews and questionnaires

The empirical part is a retrospective study of Fibria, as mentioned above. The marketing, the organizational and, the structural aspects of the company are pictured based on public data, whose source and availability are out in section 1.5. The most subjective aspects of the business are collected from discussions with the company employees, representatives of the main competitors, and independent experts.

The interviewees were selected according to their link with the international operations of Fibria, expertise, availability, and willingness to answer the questions about the organization, strategy, distribution of activities, coordination of subsidiaries, strategy, and decision-making processes, among other aspects mapped from the theories. Except for the independent professionals, all participants had a vast experience in the pulp industry and were very familiar with the operations of Fibria abroad.

Table 1 shows the interviewees divided by tiers according to their employer (category) and the function or hierarchical group (sub-category). The selection of interviewees was prepared top-down: it started from the highest positions, based on the public list of names of directors and officers responsible for the corporate decisions and strategic planning and following through until the most specific and operational levels.

In Figure 1, tiers 1 and 2 are called *decision-makers at Fibria (HQ)*, tiers 5 and 6 are *employees of Fibria abroad*, tiers 4 and 8 are *internal and external experts*. Tier 3 is for *short assignees*, and tier 7 is for *representatives of competitors*.

The leaders indicated the professionals of tiers from 3 to 8, or they were found in researches on LinkedIn profiles or from the professional network of the author, who worked for more than 17 years in the pulp industry.

It was decided to interview the Head of each office of Fibria abroad to get details about the activities, operations, and integration with the HQ and other units, as shown in tier 5.

Unfortunately, the General Manager of the Hong Kong office was not available for the interview, but another experienced representative of that office was included in tier 6 to provide information about that operation.

The opinion of employees can be biased since they were partially involved in social relationships and business processes. High executives representing the competitors (tier 7) were interviewed to mitigate this risk by providing an external opinion. They were experienced professionals involved with the export of eucalyptus pulp for many years and know the reputation and operations of Fibria as outsiders.

Tier	Category	Sub-category	Number of interviewees	Universe	Location	Criteria for selection	Main aspects covered by the questionnaires
1	FIBRIA S.A. EMPLOYEES	Chairman of Board of Directors	01	09	Brazil	Direct selection from the public list of Board members	Motives and strategy of internationalization
2	FIBRIA S.A. EMPLOYEES	Officers and C-Suit	07	14	Brazil & Austria	Direct selection from the public list of Officers	Motives and strategy of internationalization
3	FIBRIA S.A. EMPLOYEES	Short assignees	04	Data is not available	Brazil	Referred by leaders for having taken part into a short assignment to an international unit	Multi-cultural and professional integration
4	FIBRIA S.A. EMPLOYEES	Corporate areas	03	Data is not available	Brazil	Areas of expertise and participation in global projects. LinkedIn and network of the author.	Strategic planning, budgeting, communications, <i>We are Fibria</i> and <i>Focus of the Client</i> projects
5	FIBRIA GROUP EMPLOYEES	Heads of international subsidiaries	03	04	Austria, Canada & USA (the head of Hong Kong did not answer the questionnaire)	International experience leading operations of Fibria abroad. LinkedIn and network of the author	Main activities, structure, integration with HQ, interaction with other units and participation in global decisions
6	FIBRIA GROUP EMPLOYEES	Managers of international international subsidiaries	04	Data is not available	Austria, Hong Kong & USA	Referred by leaders for having experiences leading teams and operations in international offices. LinkedIn and network of the author	Cultural integration, participation on the corporate decisions, alignment with company strategy, exchange within networks
7	REPRESENTATIVES OF THE MAIN COMPETITORS	Top management	04	Klabin, Suzano, Eldorado	Brazil & Austria	Search from corporate websites, LinkedIn and network of the author	Similarities and differences between their operations and Fibria's, weaknesses and strengths of Fibria abroad
8	INDEPENDENT PROFESSIONALS	Experts	02	Not applicable	Various	Reccomendation according to their expertise and experience with international companies. Network of the author.	International taxation and "doing business" in China
<b>Total number of interviews</b>			<b>28</b>				

Table 1 - Groups of interviewees and references

Source: elaborated for this master thesis. List of directors obtained from Fibria Celulose S.A. (2017h) <sup>28</sup>

The identification of respondents was mandatory, and questionnaires were individually structured and personalized. Each person received from 2 to 10 questions in written form explicitly related to their field of expertise and experience. Written answers were received by email. A few interviewees chose to answer the questions in a recorded video conference. Exceptionally in these cases, interviews were semi-structured due to the spontaneity of the video resource.

Contributions of the interviewees are cited and referred to in the text. However, due to privacy issues and the lack of authorization from the interviewees, transcriptions of the interviews are not integrally published as part of this research.

Altogether, 36 people were invited to participate in this research. However, 8 of them were not available or declined to answer the questionnaires. The complete list of Interviewees is in Appendix XIX.

<sup>28</sup> Cf. Fibria Celulose S.A. 2017h.

The interviews contributed to the interpretation and processing of the data collected for the empirical chapter and enabled the author to draw a more accurate profile of Fibria thanks to the in-depth knowledge and experience of the interviewees.

## **1.8. Final remarks**

This chapter conducted the reader through the details of this work, research questions, and the practical observation that will contribute to find the answers.

U-Model and B&G theory are popular among the scholars of business strategy, and they were incorporate elements of the evolutionary theory, networks, and inter- and intra-organizational relationships. However, the question is how much they can explain the internationalization of traditional agricultural businesses.

Fibria was a significant exporter of commodities and relevant in the pulp industry due to its scale and global presence. Thus, the empirical part assesses and compares the company profile to the mentioned theories. This analysis covers the strategic motivations of Fibria together with the sources of competitiveness, its *modus operandi*, its distribution of resources, the selected locations, the communication flow, the participation of the units into the corporate decisions, and the limits of its internationalization, for example.

The company is alive. It is continuously changing. Its business and strategies are continuously influenced by the environment and by individuals or corporate decisions. In this sense, it is not an easy task to map the profile of a company and establish causality in its operation. However, this research expects to code the information collected from secondary data and interviews according to the Grounded theory and compare it to sample theories.

This exercise intends to contribute to the assessment of the ability of the theories to explain the internationalization of Fibria. The decision-makers should be able to use the theories aware of their benefits, and limits and this work may help them identify the convergences, divergences, and limitations of these theories.

The next chapter introduces the reader to the two selected theories and literature review. Many related authors and their work are also presented to aid the reader. The aim is to provide a comprehensive understanding of the two models with some hints about their background. Additionally, the next chapter includes a few diagrams that would support understandings of the theories and support the empirical analysis of Fibria in the subsequent chapter.

## Chapter 2: The conceptual framework and literature review of the Uppsala and Bartlett & Ghoshal theories of the internationalization of the firm

Globalization and the developments of information technology, foreign affairs, and multilateralism, for example, have played a central role in the transformation of international businesses over the last decades and brought new challenges and opportunities. Additionally, there are cases where national markets are saturated or have changed, urging many companies to seek consumers, advantages, or resources abroad to be competitive in their industries<sup>29</sup>.

This chapter starts with an introduction to the concept of internationalization. The reference to internationalization in literature is vast, and it is possible to cite authors as old as David Ricardo<sup>30</sup> and his theory of comparative advantages of the countries, for example. Nevertheless, it is essential to highlight that, as mentioned by Chandler (1986, p. 405), the internationalization of the 20<sup>th</sup> century is not only the international trade but also different aspects, like the global competition.<sup>31</sup>

There are discussions about the most diverse aspects of the contemporary context, such as born global companies, or the mechanisms of taxation on global e-commerce or advertisement in social media. However, not all of them contribute to our aim here, and that is precisely why it must be specified to the reader the aspects of internationalization covered by this research.

Section 2.1 frames, then, the concept of internationalization and contextualizes the debate.

Likewise, there are several definitions and nomenclatures for companies with an international presence, not necessarily synonyms. Each author and each theory have their preferences, and section 2.2 dedicates a few paragraphs to align the nomenclature and its interchangeability. The aim is to simplify the reading and understanding of the theories.

Section 2.3 introduces U-Model that groups elements of several other theories and authors such as Penrose<sup>32</sup>, Dosi & Marengo<sup>33</sup>, Granovetter<sup>34</sup>, Helfat et. al.<sup>35</sup>, and Barney<sup>36</sup>. In order to not miss any of these elements, and to guide the reader through the subtlety of the model, this section is split into smaller introductions for each of these separate concepts and ending at the Swedish-born model and its evolving firm. A sub-section presents the debate with another model that divided the opinion of the scholars in the late 20<sup>th</sup> century: The Eclectic Paradigm (OLI) of Dunning. Despite being famous for its *entry modes*, the U-Model is more precious than that. The *entry modes* are part of this research, but they focus on how particular and wide are the choices available for companies abroad.

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<sup>29</sup> Cf. Silva; Moraes 2013, p. 64.

<sup>30</sup> Cf. Ricardo 1817.

<sup>31</sup> Cf. Chandler Jr. 1986, p. 405.

<sup>32</sup> Cf. Penrose 1959.

<sup>33</sup> Cf. Dosi; Marengo 2007.

<sup>34</sup> Cf. Granovetter 1985.

<sup>35</sup> Cf. Helfat et al. 2007.

<sup>36</sup> Cf. Barney 1991.

The theory of Bartlett & Ghoshal is introduced in section 2.4. in this chapter. Since this is a structural approach based on a few concepts of the allocation of resources, the section begins with the definitions proposed by the authors. The next sub-section explains how power, control, and *centrality* occur among the units and the HQ in international companies. In their most recent works, the authors included a new management perspective to the model and explored the role of the managers, and the implementation of a bottom-up strategy to bring more dynamism to the companies. The last sub-sections present their analysis of the traps that the companies can face, like the *parochialism*, for example.

Section 2.5 closes with the utmost essential elements and leads the reader to the empirical analysis of Fibria in the next chapter.

## 2.1. The internationalization

Among all the possible definitions of internationalization, this research portrays it as “*the process of increasing involvement in international operations*”, says Welch & Luostarinen (1988, p. 36–37).<sup>37</sup>

There would be other definitions at the early stages of the internationalization of firms because the drivers and possibilities were different at that time. However, after globalization, and the faster and more profound transformation of markets and technologies, the terminology *involvement* has a broader meaning, that represents the different levels and ways of connections and directions (inward-outward interlinks) to markets abroad for all segments, since the most traditional markets, like commodities, to the high techs or digital platforms, for example.<sup>38</sup>

The concept assumes that a certain level of relationship is required by using the word *involvement*, but it does not necessarily demand ownership, which would be the maximum level of *commitment*. By using *operations*, the present work involves direct and indirect, formal, or informal presence, with or without ownership or control.

The definition adheres well to the selected models because the *operations* and *involvement* levels are subtle and included in each theory. Nevertheless, it is possible to anticipate that while U-Model considers indirect exports to be enough of an international operation, B&G focuses on controlled subsidiaries in their model.

The next sections show how internationalization theories were related to robust businesses due to their high demand for scale and resources, and their distinctive *capabilities* to reach other markets and countries. In the contemporary environment, with significant institutional and technological advances, like the IoT, lower border restrictions, and cheaper freight costs, the strategy is now accessible to a broader number of companies of all sizes.

The available and cheap use of video conferences, online chats, webinars, free internet calls are examples of factors that boost the network exchanges and the frequency and ways of integrations. This evolution does not affect the results of the present study. Nevertheless, the

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<sup>37</sup> Cf. Welch; Luostarinen 1988, p. 36–37.

<sup>38</sup> Cf. Welch; Luostarinen 1988, p. 36–37.

new technologies facilitate and speed up the whole internationalization processes, especially to overcome the cultural barriers, and it creates new possibilities for interactions, *entry modes*, and information flows that did not exist when the selected theories were drawn.

Moreover, many traditional businesses focused on domestic markets opt to internationalize for reasons other than the access to new markets. The potential motives are the access to benefit from opportunities in capital markets<sup>39</sup> and access to technologies and innovation that are not available in the home country with the same advantages.<sup>40</sup>

The selected theories of this work can attract criticism due to their capacity (or lack thereof) to explain new business models such as the digital platforms or the technology companies from Silicon Valley, for example. When those theories were formulated, the authors focused on their successful contemporary companies and respective environments.

With the help of technologies, many companies have been reaching markets worldwide without perfectly fitting to any of the theoretical models: they do not have an official permanent establishment abroad, do not use licenses or agents, and do not outsource their value chain nor do they export anything. Concurrently, they use algorithms and big data to reduce the *outsidership*<sup>41</sup> and to boost theirs and their customers' experiences<sup>42</sup>. The governance, intellectual property, management, and *capabilities* are all centralized at their HQ, and their most strategic assets are data that has been processed in high capacity servers located somewhere in the world.

Because of that, at first sight, one could claim that these businesses are not internationalizing in the traditional sense, but this is not accurate. The internationalization is not only about achieving consumers and markets but meeting the ultimate goals of the firm and enabling the business and its profitability. It is difficult to argue that these companies are not internationalized since many of them indeed have been taking advantage of offshore structures to access favorable tax schemes<sup>43</sup> or capital markets to fund their domestic operations, as mentioned above.

Even traditional companies may have the chance to use internationalization to relocate the tax base from higher-tax to lower-tax jurisdictions to pay fewer taxes. There are ways of doing this, such as the relocation of group-company financing, holding and licensing of IPs, leasing of assets, or wholesale trading functions to low tax jurisdictions.<sup>44</sup>

However, the legislation in many countries has been reviewed to deal with these new business models and aggressive tax planning. There are examples like the multilateral initiative of OECD called BEPS, which has been working to seize these businesses<sup>45</sup>, or individual initiatives like in France and Austria to tax the profits of the tech businesses.<sup>46,47</sup> OECD and the EU measures to prevent the erosion of the tax base or the shifting of profit from one country

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<sup>39</sup> Cf. Torre; Schmukler 2007, p. 112.

<sup>40</sup> Cf. Ares 2002, p. 40–42.

<sup>41</sup> Cf. Coviello; Kano; Liesch 2017, p. 1153.

<sup>42</sup> Cf. Vahlne; Bhatti 2019, p. 224.

<sup>43</sup> Cf. Willi 2019, p. 03.

<sup>44</sup> Interview by e-mail with Mr. Levente Torma, independent counsel and tax specialist, on 21.04.2020.

<sup>45</sup> Cf. OECD 2016.

<sup>46</sup> Cf. Kanter 2019.

<sup>47</sup> Cf. Federal Ministry of Finance Republic of Austria 2020.

to another in an abusive manner are in place.<sup>48</sup> The companies will most likely need to respond to this change in the environment and adapt to meet local requirements.

The criticism is fair but not relevant to the present work since the gaps do not jeopardize the analysis of traditional commodity industries aimed at this work.

To conclude, the relevant aspects of internationalization that will contribute to the analysis in Chapter 3 are:

- i) the firm has diverse motivations to internationalize,
- ii) the motives are not necessarily directly linked to the marketing strategies, but they can be access to technology, capital markets, tax planning, and others, and
- iii) the business and institutional environments are so dynamic that it is almost impossible to make general statements valid in all contexts and to all industries.

The next section sets another definition for this work: the firm and the nomenclature for the internationalized companies.

## 2.2. The definitions of the firm

Along with the literature review of the primary authors and their citations, it is possible to identify the lack of a standard nomenclature to refer to the companies with international operations. Every author considers a different perspective of the firm and the internationalization process<sup>49</sup> in his/her theory. To differentiate the firm from one theory to another, they adopt different nouns. If we compare them, some differences even might be marginal if none.

In 1969, Perlmutter used either MNC or international enterprises to analyze the *Ethnocentric*, *Polycentric* and *Geocentric* roles of headquarters towards its subsidiaries.<sup>50</sup>

In the book “Managing Across Borders” of Bartlett & Ghoshal, published in 1989, 4 different nouns were used to refer to international companies, including the word *Transnational*, which was ground-breaking at that time.<sup>51;52</sup> Their nomenclature served as a typology to differentiate the unique identities and features of firms. They are not equivalent, and, at the same time, they are simply variations of companies with international operations. In 1990, the authors used MNC to describe the firms with intra- and inter-organizational systems.<sup>53</sup>

In 1991, the internationalization theory of Buckley & Casson used MNE to refer to an enterprise that owns or controls activities in two or more countries.<sup>54</sup> In 2013, U-Model used MBE to describe the firm with *capabilities* to build, develop, and coordinate value-creating multinational business network structures, involving both internal and external actors.<sup>55</sup> The

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<sup>48</sup> Interview by e-mail with Mr. Levente Torma, independent counsel and tax specialist, on 21.04.2020.

<sup>49</sup> See *Selection of theories* in section 1.3.

<sup>50</sup> Cf. Perlmutter 1969, p. 15.

<sup>51</sup> Cf. Ferreira 2011, p. 359–360.

<sup>52</sup> Cf. Bartlett; Ghoshal 1998.

<sup>53</sup> Cf. Ghoshal; Bartlett 1990, p. 619.

<sup>54</sup> Cf. Buckley; Casson 1976, p. 33.

<sup>55</sup> Cf. Vahne; Johanson 2013, p. 205.

Eclectic Paradigm (OLI), in 2008, used MNE to describe the firm that manages the system of domestic and foreign activities.<sup>56</sup>

These examples illustrate how different nomenclature can be used in various contexts to meet the purposes of each theory and author. To simplify the general understanding of this research and because the typology and nomenclature are not core objectives here, the interchangeability of the terms is justified, without any loss in context for the present purpose. However, exceptions will happen if the semantic is mandatory for differentiation, as it happened with the typology of B&G mentioned above.

Once the definitions are aligned, the ground is prepared to move on with the first part of the literature review dedicated to the Swedish model in the next section.

### 2.3. The Uppsala Model

The Uppsala Model has its roots in 1975<sup>57</sup> and 1977<sup>58</sup> and it was reviewed in 2009<sup>59</sup> and 2017<sup>60</sup>. The authors have published many articles in between to explain the theory under different perspectives and to create a dialogue with other authors, especially in the last two decades.

The U-Model attributes a gradual, incremental, calculated, and oriented rhythm to the internationalization processes of the firm<sup>61</sup> that could happen in steps called *entry modes*. In this sense, the model can be divided in two possible and different approaches for analysis: i) the theory of the firm which focus on the features that enable the companies to evolve and therefore seek for internationalization, and ii) the *entry modes* that describe how the companies can gradually internationalize their operations.

Notwithstanding, the firm would potentially venture abroad at a faster pace and more aggressive approach instead of doing it gradually. The enablers of this alternative approach are:

- i) large companies that have access to resources abundant enough to deal with the consequences and efforts to go abroad without compromising their current businesses,
- ii) firms that can learn and acquire market knowledge from other diverse sources other than experience only, and
- iii) companies with previous experiences in similar markets and conditions that allow them to advance with marginal efforts.<sup>62;63</sup>

The most recent academic work of the authors brings the management and evolution of the firm to the center of the internationalization debate, while the *entry modes* do not have a

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<sup>56</sup> Cf. Dunning; Lundan 2008, p. 143.

<sup>57</sup> Cf. Johanson; Wiedersheim-Paul 1975.

<sup>58</sup> Cf. Johanson; Vahlne 1977.

<sup>59</sup> Cf. Johanson; Vahlne 2009.

<sup>60</sup> Cf. Vahlne; Johanson 2017.

<sup>61</sup> Cf. Tarek; Zouhayer; Adel 2019, p. 735.

<sup>62</sup> Cf. Johanson; Vahlne 1990, p. 12.

<sup>63</sup> Cf. Andersen 1993, p. 211.

protagonist role in there. Herein, as a conscious decision, the *entry modes*<sup>64</sup> are presented with a supporting role as well. Since our empirical case will show, the sample firm seems to fit better with the most aggressive approach mentioned above than the gradual form.

The next section defines the growth of the firm introduced by Penrose, in 1959, followed by a brief highlight of aspects of other theories such as evolutionary and behavioral and to then only reach the U-Model. The aim is to provide a backdrop of how the theory was constructed following the authors that influenced other Swedish scholars.

### 2.3.1. Penrose and the growth theory

The theory of the firm was inbuilt into Economics until the second half of the 20<sup>th</sup> century. In many ways, that aspect influenced the construction of models with assumptions like profit maximization, perfect competition, and the rational decision of agents from the orthodox theories.<sup>65</sup> The U-Model uses various concepts from many authors to confirm the evolution and dynamic aspects of the firm and refute what does not fit their purposes, especially the simplification and gaps that the neo-classic models could not resolve.

In their works, Vahlne and Johanson use Edith Penrose and her theory about the growth of the firm<sup>66</sup> as the roots of their model.<sup>67;68</sup> Her *resource-based view* (RBV)<sup>69;70</sup> considers the company as heterogeneous<sup>71;72;73</sup> and under constant changes<sup>74</sup>. According to Penrose (1959), knowledge is gained through experience<sup>75</sup>, and it is hard to be copied, imitated<sup>76</sup>, or transferred. These are elements of the U-Model foundations. Given the importance of her theory to U-Model, this section is devoted to the studies of Penrose.

The advantages of the social division of labor have been discussed since century XVIII. Adam Smith, in 1776, discussed in his book, "An Inquiry into the Nature and Causes of the Wealth of Nations", how workers could improve the processes and productivity just by learning from their activities and, therefore, experiences.<sup>77</sup> Almost two hundred years later, Penrose takes the concept to another level by including new elements like knowledge, learning, human resources, and management to explain how the company grows.

The first step to understanding her theory is to recognize that knowledge has two distinct components: the *tacit* and the *explicit* (objective or transmissible knowledge)<sup>78</sup>. The latter is easier to understand because it can be coded, copied, and transferred from one person to

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<sup>64</sup> Cf. Johanson; Vahlne 1977, p. 24.

<sup>65</sup> Cf. Buckley; Casson 1976, p. 32.

<sup>66</sup> Cf. Penrose 1959.

<sup>67</sup> Cf. Johanson; Vahlne 2009, p. 1412.

<sup>68</sup> Cf. Vahlne; Johanson 2017, p. 1089.

<sup>69</sup> Cf. Johanson; Vahlne 2009, p. 1414.

<sup>70</sup> Cf. Vahlne; Johanson 2017, p. 1097.

<sup>71</sup> Cf. Vahlne; Johanson 2013, p. 191, 195.

<sup>72</sup> Cf. Johanson; Vahlne 2009, p. 1414.

<sup>73</sup> Cf. Vahlne; Johanson 2017, p. 1090.

<sup>74</sup> Cf. Vahlne; Johanson 2017, p. 1091.

<sup>75</sup> Cf. Vahlne; Johanson 2017, p. 1088.

<sup>76</sup> Cf. Vahlne; Johanson 2017, p. 1091.

<sup>77</sup> Smith said the performance increases by performing the same task continuously and the employee would have insights on how to improve the tasks and tools based on his/her own experience. (Smith 2010, p. 21.)

<sup>78</sup> Cf. Johanson; Vahlne 1977, p. 18.

another. That element can be learned from books, blueprints, classes, training, observations, and reverse engineering. However, knowledge has that other aspect that is more complex, subjective, and can be acquired only through the individual experience and practice<sup>79</sup>. The more *tacit* elements processes and technology have, the harder it is for someone or another company to copy or imitate them. According to Penrose (1959, p. 48), the experience changes the knowledge, the way to use it, and improves the interaction with *firm-specific resources*<sup>80</sup>, which shows a relation to the observations made by Adam Smith (2010, p. 21) in the pin manufacturer.<sup>81;82</sup>

These experiences happen at the individual level within the firm, but the whole organization learns from it, changes its way to work (or use of resources), and interferes into its external context<sup>83</sup>. In other words, the result is not the sum of the individuals learning and experiences as a working unit, but increasing learning develops opportunities at the organization level.<sup>84</sup>

What an employee learns and experiences in his/her plenitude within the firm happens in a specific context of (material and human) resources, processes, management, environment, and mutual (internal and external) interactions.<sup>85</sup> The experience generates new objective learnings and improves the position and use of resources of the firm. If an employee moves to another firm, he/she can take with him/her the knowledge but cannot necessarily replicate it in the same way in this new company without adaptations, because of its specific and private context.<sup>86</sup>

These observations are the bases of the argument about limitations of the growth of the firm: in order to happen, more material and human resources are needed, and whenever these new employees (or resources) join the firm, it takes time and energy to prepare them to work harmoniously and efficiently. Therefore, companies accumulate resources and experiences that enable them to grow, but to do so, they have to incorporate new resources that can slow down their growth pace.

If the cumulative element of knowledge and technology development is considered, innovation follows experience gradually and concomitantly. General innovation depends on the resources available to the firm, its more efficient use, and all the different possible combinations of them.<sup>87</sup>

Penrose inspired further developments, such as *resource-based*, *competence-based*, *knowledge-based*, and (*dynamic*) *capabilities-based* views of the firm. The origin of sustainable competitive advantages has been associated with her findings as well.<sup>88</sup> Later on in this thesis, the influence of her work on the U-Model will become more apparent.<sup>89</sup>

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<sup>79</sup> Cf. Penrose 1959, p. 48.

<sup>80</sup> Penrose had not formulated a specific terminology for this situation. However, *firm-specific resources* is very close to her description.

<sup>81</sup> Cf. Penrose 1959, p. 48.

<sup>82</sup> Cf. Smith 2010, p. 21.

<sup>83</sup> Cf. Penrose 1959, p. 70.

<sup>84</sup> Cf. Penrose 1959, p. 47.

<sup>85</sup> Cf. Penrose 1959, p. 47.

<sup>86</sup> Cf. Penrose 1959, p. 43.

<sup>87</sup> Cf. Penrose 1959, p. 74–76.

<sup>88</sup> Cf. Penrose 1959, p. xxx–xxxi.

<sup>89</sup> Cf. Johanson; Vahlne 2009, p. 1426.

Finally, there is the role of management described by Penrose that will contribute to a further understanding of U-Model: management or entrepreneurial role at the expansion of the firm. For Penrose (1959, p.07), “*enterprising management is the one identifiable condition without which continued growth is precluded - this is one necessary (though not sufficient) condition for continued growth*”.<sup>90</sup>

Penrose was a contributor to all her succeeding authors. Not only because of her work, but many theories started to seek different approaches in the second half of the 20th century, as previously mentioned. One of these innovative approaches was the *capabilities-based* approach, which was also an influence on the core theories of this research. The next section introduces the reader to this concept to pave one more tile towards the U-Model.

### 2.3.2. Capabilities-based theory

The concept of *capabilities*, sometimes called *firm-specific advantages* (FSA)<sup>91</sup>, is widely used by modern management theories, and it belongs to the main framework of U-Model. For this reason, a few paragraphs must be dedicated to its definition. *Capabilities* can be *operational* or *dynamic*. They are the capacity (or ability)<sup>92</sup> of the company to use its resources endowment to perform a task, function, or activity in a minimally acceptable manner to achieve results.<sup>93</sup>

Leiblein (2011, p. 911) listed the resource characteristics, factor market conditions, and performance outcomes as the main pillars of the *capabilities-based theory*.<sup>94</sup> According to him, the performance of the firms depends on their abilities to control, access, and organize the productive resources given (and under the influence of) the market conditions. It seems a simple statement; however, it has possible combinations and potential results that explain the uniqueness of each firm decision implicit in it. The rarer<sup>95</sup> the combination and the obtained results about the demand and competition, the better the competitive advantages of the firm and its market positioning.<sup>96;97</sup>

The value of a resource could be measured by the exclusivity of results derived from the combination or use of them<sup>98</sup> or by the so-called *technical fit*, that is, the quality resulting per-unit cost<sup>99</sup>. The concept of *evolutionary fit* assesses how well the *dynamic capabilities* help firms live or grow by creating, extending, or modifying its resource base<sup>100</sup>, as shown in Figure 2. The latter is influenced by *technical fitness*, competition and market demand.<sup>101</sup>

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<sup>90</sup> Cf. Penrose 1959, p. 07.

<sup>91</sup> Cf. Vahlne; Johanson 2017, p. 1098.

<sup>92</sup> Cf. Vahlne; Johanson 2017, p. 1095.

<sup>93</sup> Cf. Helfat et al. 2007, p. 121.

<sup>94</sup> Cf. Leiblein 2011, p. 911.

<sup>95</sup> Barney added other features to the rareness of the resources that turn them into sources of competitive advantages: valuable, imperfectly imitable, and substitutability. (Barney 1991, p. 105–106.)

<sup>96</sup> Cf. Helfat et al. 2007, p. 45.

<sup>97</sup> Cf. Barney 1991, p. 105.

<sup>98</sup> Cf. Barney 1991, p. 101.

<sup>99</sup> Cf. Helfat et al. 2007, p. 07.

<sup>100</sup> Cf. Helfat et al. 2007, p. 07.

<sup>101</sup> Cf. Helfat et al. 2007, p. 121.

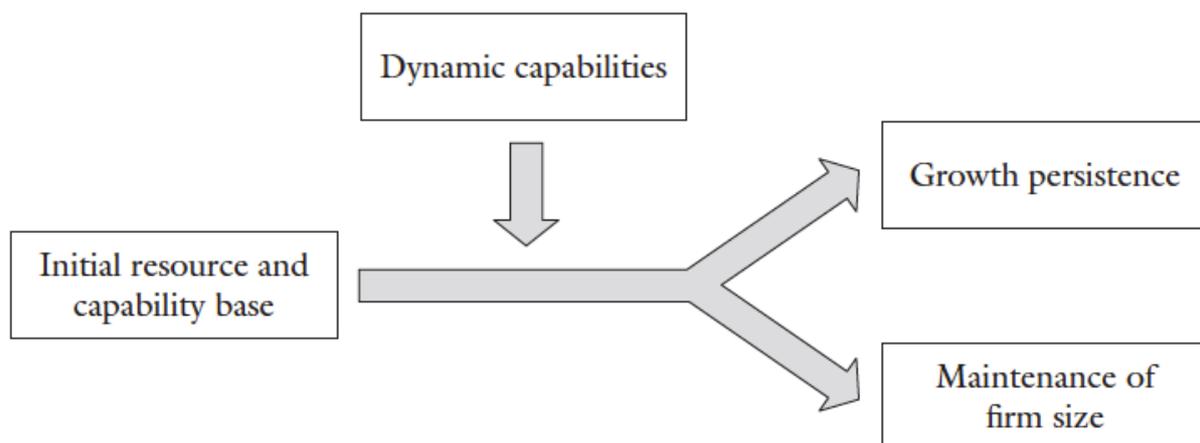


Figure 2 - The *dynamic capabilities*, size and growth of the firm

Source: extracted from Helfat et al. (2007, p. 108)<sup>102</sup>

While *operational capabilities* are used by the company at present to live<sup>103</sup>, *dynamic capabilities* receive this name because they are continuously under transformation. The firm can search, evaluate, acquire, create, recombine, reconfigure, replicate, and modify the existing or new resources according to its strategy and needs. In doing that, a company can influence or change the internal and external business environment, including the market and competitors.<sup>104</sup>

The statement above is not entirely accepted by U-Model since Johanson and Vahlne think that *dynamic capabilities* cannot be bought, but they are built internally.<sup>105</sup>

Finally, a terminology that usually accompanies this discussion is *dynamic managerial capabilities*. It describes the capacity of managers to create, extend, or modify the resource base of an organization to live, grow, or achieve results or opportunities. Well-aligned with Penrose's theory, this capacity arises from previous and cumulated learning and experience of the management.<sup>106</sup>

The *capabilities-based theory* has been popular among scholars, including the authors reviewed in this chapter, since the late 20<sup>th</sup> century. This brief introduction makes the way in the next section to another concept: the *evolutionary* and *behavioral theories*.

### 2.3.3. Evolutionary and behavioral theories

The U-Model describes itself as *evolutionary* and *behavioral theory*<sup>107;108</sup>, but what does that mean?

<sup>102</sup> Cf. Helfat et al. 2007, p. 108.

<sup>103</sup> Cf. Helfat et al. 2007, p. 121.

<sup>104</sup> Cf. Leiblein 2011, p. 921.

<sup>105</sup> Cf. Vahlne; Johanson 2017, p. 1097.

<sup>106</sup> Cf. Helfat et al. 2007, p. 03.

<sup>107</sup> Cf. Vahlne; Johanson 2013, p. 190.

<sup>108</sup> Cf. Vahlne; Johanson 2017, p. 1090.

The *evolutionary* or *behavioral theory* is an alternative response to the mainstream theories of the firm. There was a criticism among many scholars about the simplifications and non-resolved assumptions of the aforementioned neo-classical theories. The rationality of the agents, the profit maximization, and the optimal agency contracts were all examples provided to illustrate some of the most sensitive debates. The *evolutionary theory* and its *embeddedness* view of organizations tried to resolve this by incorporating new elements believed to be more realistic, such as incomplete contracts, uncertainty, networks, behavioral patterns, and agents. The *capabilities-centered* view of the firm, already stated, centered on the debate too.<sup>109</sup>

According to Dosi & Marengo (2007, p. 493), the company is responsible for: i) resource allocation, ii) information processing, iii) efforts elicitation, iv) coordination (mostly through non-price devices) among multiple cognitive and physical tasks, v) coordination of competing claims on the total generated surplus, and vi) experimentation and learning, considering the human bounded rationality, imperfect processes of learning and variations in the distribution of cognitive labor. Each firm has a unique and embedded problem-solving approach throughout the organization, including the labor division, flow of information, processes, decision-making, and operational competencies.<sup>110</sup>

The learning processes and knowledge development, specifically, are directly related to the competencies of the organization again. Learning is an individual process that happens at a personal level with all its limitations in terms of information, systemic view, and bounded rationality. However, it is also possible to talk about *organizational learning*, which is different from the sum of individual learning of its members because it incorporates the knowledge resulting from routines, experiences, exchanges, artifacts, tolls, tasks, interaction, and collective actions of its members and networks.<sup>111</sup>

Part of the *organizational learning* can be codified and preserved as an organizational memory<sup>112</sup> in blueprints, policies, procedures, organigrams, diagrams, and others.<sup>113;114</sup> Cooperation is the key to learning and knowledge transfer among agents. Nonetheless, it is not a perfect flow, nor immediate or costless.<sup>115</sup> Knowledge is incrementally and exponentially accumulated over time.<sup>116</sup>

From the previous two paragraphs, it is possible to identify the influences of Penrose and *capabilities-based* concepts into the *evolutionary* and *behavioral theory*.

Companies are heterogeneous, and the knowledge and organizational practices are *path-dependent*, indicating that their previous decisions and learning experiences accumulated can limit or define their future decisions. *Capabilities* are available to the management to find opportunities and solutions through heuristic methods and diagnostic tools. The management has bounded rationality and limited information, and they are aware that performance depends

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<sup>109</sup> Cf. Dosi; Marengo 2007, p. 491, 493.

<sup>110</sup> Cf. Dosi; Marengo 2007, p. 493.

<sup>111</sup> Cf. Dosi; Marengo 2007, p. 495.

<sup>112</sup> See *Penrose and the growth theory* in section 2.3.1.

<sup>113</sup> Cf. Dosi; Marengo 2007, p. 495.

<sup>114</sup> Cf. Kogut; Zander 1993, p. 637.

<sup>115</sup> Cf. Kogut; Zander 1993, p. 627.

<sup>116</sup> Cf. Kogut; Zander 1993, p. 631.

on the intentions of other actors and themselves. It is implicit that individuals and their actions are not isolated from each other but rather inserted into dynamic and evolving networks.<sup>117</sup>

The *evolutionary theory* also discusses how knowledge and technologies are transferred intra- or inter-organization and at which cost. For Kogut & Zander (1993, p. 636), the transfer happens better and at lower cost intra-organization. *Tacit knowledge* can be an advantage to the firm when going abroad because they are not easily imitated. The more the company can use the *tacit knowledge* successfully, the more they can evolve. When involving new markets, new countries or new actors, knowledge or technology changes and influences the whole network back and forth, creating a *combinative capability*.<sup>118</sup>

The reader will find out shortly that the Swedish authors did not agree with the determinism of *path-dependence*. However, let us tackle another ground theory that had influenced many discussions about internationalization: *transaction costs*.

### 2.3.4. Transaction costs theory

U-Model brings to the discussion of how a company can overcome specific difficulties inherent to the internationalization processes. By doing that and to making a decision about *entry modes*, it is expected that the concerns about contracts, levels of controls, and governance increase. These concerns may be related to the transaction costs theory, and several authors, such as Almodóvar & Rugman (2015: 687, 690), pointed that it would be relevant to investigate the correlation between the theories.<sup>119</sup>

However, for the interest of this research, this section focus only on the factors appointed by Anderson (1986, p. 07) to exemplify the sort of trade-offs between transaction costs and control faced during the internationalization of firms.<sup>120</sup>

The first factor is the *transaction-specific assets*, physical and human investments, customized to meet specific requirements or circumstances for users. Under these *quasi-lock-in* situations, the company may be a hostage of third parties or its employees and investments if it is vertically integrated.<sup>121</sup>

Vertical integration is the preferred choice of internationalization for companies with high proprietary<sup>122</sup> or customized<sup>123</sup> processes and products for enabling higher control of competitive assets. Contrarily, the control over internal or external actors or international subsidiaries is not so critical for mature industries that share better-coded knowledge, and their products require a lower level of controls too.<sup>124;125</sup>

The second factor is the *external uncertainty* and the numerous uncontrolled changes into the external environment that affect the company. When entering into a new market, there is a

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<sup>117</sup> Cf. Dosi; Marengo 2007, p. 492.

<sup>118</sup> Cf. Kogut; Zander 1993, p. 636, 640.

<sup>119</sup> Cf. Almodóvar; Rugman 2015, p. 687, 690.

<sup>120</sup> Cf. Anderson; Gatignon 1986, p. 07.

<sup>121</sup> Cf. Anderson; Gatignon 1986, p. 08, 10.

<sup>122</sup> Cf. Anderson; Gatignon 1986, p. 10–11.

<sup>123</sup> Cf. Anderson; Gatignon 1986, p. 12–13.

<sup>124</sup> Cf. Anderson; Gatignon 1986, p. 11–12.

<sup>125</sup> Cf. Anderson; Gatignon 1986, p. 13–14.

trade-off between flexibility, especially related to changes or reversal, and robust controls if there are *transaction-specific assets* involved. A higher degree of control is required during the internationalization in countries with high-risk.<sup>126</sup>

The third factor is the *internal uncertainty* caused by the lack of knowledge and experience in a specific market or relationship, and that may lead to difficulties in managing and assessing the performance of agents.<sup>127</sup> Regularly, firms rely on third parties in the early stages of internationalization to compensate for their lack of expertise or experience in that foreign market. To mitigate the uncertainties caused by the lack of experience, *trust*, or sociocultural distance, it is not uncommon for a firm to impose close controls on local partners until they gain their own experiences and build *trust*.<sup>128</sup>

There is also the possibility that the business environment and people in a host country learn and develop competencies to work with companies of a specific nationality over time. Everything depends on how prominent the business between the two countries (home and host) is.<sup>129</sup>

Lastly, the potential for *free riding* was cited by Andersen and Gatignon (1986, p. 20-21). A third-party may benefit from the relationship with the firm without compromising the equivalent level of costs. Well-known brands or a company with a high reputation, for example, may face ambiguity between the right level of controls on the partners to keep its market and the *trust* in these third parties who know better the details of the local market. The higher degrees of control would ensure that the partners comply with the company standards and do not jeopardize the intangibles, but that is expensive.<sup>130</sup>

The above description predicted some concepts that would help understand the choices of the companies for the best entry models and the levels of control. The balance between the level of control and transaction costs are key elements for decision-making of *entry modes* ahead. With all the foundations presented, the floor is ready to discuss the conceptual framework of U-Model.

### 2.3.5. Basic concepts of the Uppsala Model

Before starting the next section about core elements of U-Model, let us introduce the basic concepts of the theory to help the reader get familiar with its terminology. They permeate the understanding of the evolving firms and especially help the authors to respond to the simplifications made by neo-classic theories.

The first of them is the *embeddedness approach*. According to Granovetter (1985, p. 482), social relationships are so embedded in behaviors and institutions that it is impossible to dissociate them.<sup>131</sup> To avoid misconduct and opportunistic behavior, the best way to conceive an individual opinion and build *trust* is to build personal and network relationships over time to

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<sup>126</sup> Cf. Anderson; Gatignon 1986, p. 15.

<sup>127</sup> Cf. Anderson; Gatignon 1986, p. 15.

<sup>128</sup> Cf. Anderson; Gatignon 1986, p. 16–18.

<sup>129</sup> Cf. Anderson; Gatignon 1986, p. 19–20.

<sup>130</sup> Cf. Anderson; Gatignon 1986, p. 20–21.

<sup>131</sup> Cf. Granovetter 1985, p. 482.

accumulate shared past experiences. Any wrongdoing would affect this *trust*.<sup>132</sup> This way, companies are tied to each other to share a mutual development, and control each other<sup>133</sup>; for this reason, it would work better than general morality or other institutional arrangements, like contracts, that are generally used to mitigate these risks.

The second element is *asymmetric information*. Customers are not entirely aware of the *capabilities* and resources of the suppliers, and the latter has a limited understanding of the needs of its customers.<sup>134</sup> The knowledge flow between the actors is faster if there are *trust* and *commitment* between them. This shared experience helps them overcome this myopia to find opportunities, and to be creative to improve the position of both. Such a relationship is an investment that takes time, especially during internationalization. The more the actors develop their knowledge (internationalization, institutional, and business), the more customer intelligence they acquire to enable them to adjust their products, services, and marketing strategy to reach better performance.<sup>135</sup>

The third concept is *experiential learning*, which encompasses mutual learning and *commitments* built with repeated practice, over time, and the experience from the relationship between partners. Learning happens when it is consolidated and settled into the minds of individuals and reflected in the organizational routines.<sup>136</sup>

That allows the company to develop new routines, new structural arrangements, knowledge about the market, the business, and the institutions and new *capabilities* that will serve the internationalization.<sup>137;138</sup> It permeates the structural arrangements, the *capabilities* and the resource *commitment* process, enabling the actors to create (innovate) and build *trust*.

The more one can learn, the more they can apply the new knowledge to create and strengthen relationships. Once again, that becomes mutual *trust* and intellectual capital when they succeed, mainly because of its affective and cognitive elements, and the construction of joint social capital.<sup>139;140</sup> The relationships based on *trust* facilitate further and deeper share of knowledge and partnerships, identify new opportunities and *commitments*, and reduce uncertainties and risks, as aforementioned in the definition of embeddedness.<sup>141</sup>

*Sense-making capability* is another concept. Organizational *experiential learning* increases the capacity of the firm and its managers to search and identify opportunities that reduce the uncertainties in a complex and changing environment, especially in foreign markets.<sup>142;143</sup> Additionally, relationships build *trust* and *commitments* over time, which can reduce uncertainties, especially when the firm can influence the environment.<sup>144</sup> The entrepreneurial

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<sup>132</sup> Cf. Granovetter 1985, p. 487–493.

<sup>133</sup> Cf. Johanson; Vahlne 2009, p. 1414.

<sup>134</sup> Cf. Vahlne; Bhatti 2019, p. 209.

<sup>135</sup> Cf. Vahlne; Bhatti 2019, p. 207–208.

<sup>136</sup> Cf. Vahlne; Johanson 2017, p. 1095.

<sup>137</sup> Cf. Yamin; Yusuf 2018, p. 04.

<sup>138</sup> Cf. Vahlne; Johanson 2017, p. 1095.

<sup>139</sup> Cf. Vahlne; Johanson 2013, p. 202.

<sup>140</sup> Cf. Vahlne; Johanson 2017, p. 1095.

<sup>141</sup> Cf. Vahlne; Bhatti 2019, p. 208.

<sup>142</sup> Cf. Vahlne; Bhatti 2019, p. 221.

<sup>143</sup> Cf. Vahlne; Johanson 2013, p. 198.

<sup>144</sup> Cf. Vahlne; Johanson 2013, p. 198.

capability to build relationships, implement strategies, and adapt the actions according to the needs are interconnected to this trust-building.<sup>145</sup>

The fifth aspect, called the *effectuation process*, is said to diminish the risks and uncertainties in this model. Presumably, the management will make decisions based on the information and *capabilities* they have, their past experiences, contingency plans, and affordable losses as a limit instead of pursuing profits.<sup>146;147</sup>

*Historical-dependence* is the preferred terminology by U-Model authors instead of *path-dependence*<sup>148 149;150</sup>. The actions and decisions of the managers and their marginal flexibility to change the course of the history or to create a new path is the U-Model argument against the determinism of the *path-dependence*.<sup>151</sup> This new approach encompasses the heterogeneity, evolutionary and revolutionary aspects of the adaptation of the firm to the dynamic environment and networks.<sup>152</sup>

The next approach is related to *insidership* and counterpoint *liability of outsidership*<sup>153</sup> that replaced the *psychic distance* since the networks were gaining importance within the U-Model.

In 1977, the *psychic distance* was said to be all the obstacles faced by information between markets.<sup>154</sup> There were barriers to the internationalization, such as language, education, business protocol, culture, or level of socio-economic development. Later on, the authors shifted their focus from the country- to the relationship- and network-specific approach<sup>155</sup>, and they started to adopt the concept of *liability of outsidership*. By distancing themselves from the country-related aspects, they were also strengthening the detachment from the OLI, discussed a little further in this work.

Simultaneously, companies could benefit from the new technologies to improve the relationships and networks and overcome difficulties.<sup>156</sup>

*Insidership* is referred to as a business relationship or networks in the internationalization. The higher the *insidership*, the lower are the *transaction costs* associated with doing business abroad. The reasons are that the *experiential learning* reduces the time spent searching for information, risks, and uncertainties. The responses are accelerated by the *trust* and solidarity found among business partners abroad.<sup>157</sup> *Insidership* does not guarantee success in business development, nor does it explain all the decisions made by a company, but it is an

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<sup>145</sup> Cf. Vahlne; Johanson 2017, p. 1094.

<sup>146</sup> Cf. Vahlne; Johanson 2013, p. 199.

<sup>147</sup> Cf. Vahlne; Johanson 2017, p. 1093.

<sup>148</sup> See *Capabilities-based theory* in section 2.3.2

<sup>149</sup> Cf. Helfat et al. 2007, p. 63.

<sup>150</sup> Cf. Vahlne; Johanson 2013, p. 204.

<sup>151</sup> Cf. Vahlne; Johanson 2013, p. 205.

<sup>152</sup> Cf. Vahlne; Johanson 2017, p. 1089–1090.

<sup>153</sup> Cf. Vahlne; Johanson 2013, p. 194.

<sup>154</sup> Cf. Johanson; Vahlne 1990, p. 24.

<sup>155</sup> Cf. Johanson; Vahlne 2009, p. 1426.

<sup>156</sup> Cf. Coviello; Kano; Liesch 2017, p. 1153.

<sup>157</sup> Cf. Almodóvar; Rugman 2015, p. 690.

advantage for internationalization.<sup>158;159 160;161</sup> That is one more reason why a stand-alone theory cannot explain the whole internationalization strategy of companies.

An important note from the authors is that U-Model deals exclusively with business aspects of the MBE, and it does not consider, for example, the financial perspective that may have a different dynamic.<sup>162</sup> However, in the empirical analysis, this limitation should be commented on since financial activity is an aspect of the internationalization of Fibria.

The next section brings the core aspects of the theory, and elements incorporated along the last decades. The approach had also evolved to provide the answers demanded by the new environment and businesses.

### 2.3.6. The evolving firm of Uppsala Model

This section explains the conditions that facilitate the evolution and internationalization of a company, according to the Swedish professors in the '70s and following developments. The present work was based mainly on the work of Vahlne, Johanson, and Wiedersheim-Paul.

The underlying assumption is that the firm evolves due to it is continuous transformation resulting from the mechanism of its *state* and *change variables*. They affect the functioning, learning, decision-making, and expansion of the company and its interaction with the (internal and external) environment. The firm is *continuously becoming*, in a process without a start or an end.<sup>163</sup>

There is a causal relationship between the *change variables* (*commitment processes* and *knowledge development process*) and the *estate variables* (*operational & dynamic capabilities*<sup>164</sup>, and *commitments & performance*), that mutually transform each other over time.<sup>165</sup> Figure 3 represents their association.

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<sup>158</sup> Cf. Vahlne; Johanson 2013, p. 194.

<sup>159</sup> Cf. Johanson; Vahlne 2009, p. 1415.

<sup>160</sup> Cf. Vahlne; Johanson 2017, p. 1088.

<sup>161</sup> Cf. Almodóvar; Rugman 2015, p. 686. p.686.

<sup>162</sup> Cf. Vahlne; Johanson 2013, p. 205.

<sup>163</sup> Cf. Vahlne; Johanson 2017, p. 1088.

<sup>164</sup> Helfat et al. had defined the dynamic capability as “the capacity of an organization to purposefully create, extend, or modify its resource base” and the evolutionary fitness is how good the company can do that considering the influences from competitors, technical fitness and demand. It enhances by its learning and experiences. (Cf. Helfat et al. 2007, p. 03–04, 07–08.)

<sup>165</sup> Cf. Vahlne; Johanson 2013, p. 198.

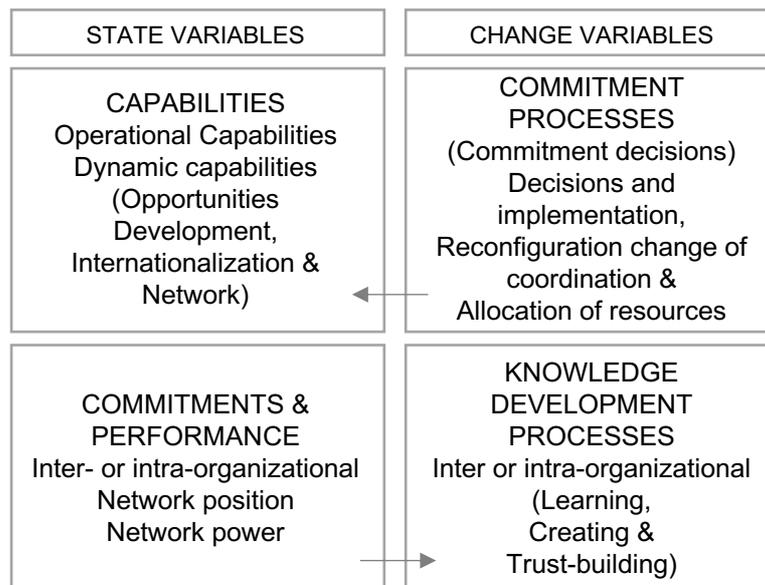


Figure 3 - Diagram of variables of U-Model (2013 and 2017)

Source: elaborated for this work based on Vahlne & Johanson (2013, p. 200; 2017, p. 1092)<sup>166;167</sup>

### 2.3.6.1. Change Variables

*Commitment process* is the decisions and coordination to compromise and allocate (or not) the resources under risks, uncertainties, and partial ignorance<sup>168, 169</sup>. The resources are tangible, intangible, *capabilities*, or human assets.<sup>170</sup> The *commitments* are *dyadic relationships* between internal or external agents that could be purchase or supply agreements (with or without contracts), or tasks between internal departments to seek reasonably positive trade-off between expected benefits and downside outcomes. The allocation of tangible or intangible resources is decided, coordinated, and implemented by the management at different hierarchical levels for complex subjects and small routine tasks.<sup>171</sup>

The continuous *commitment processes* in *dyadic relationships* strengthen *experiential learning*<sup>172</sup> at both ends and affect the other *change variable: knowledge development processes*.

*Knowledge* is gained from the organizational and social relationships between individuals, experiences, and physical interactions. It can be related to internationalization, to institutions, or business.<sup>173</sup> Figure 4 represents the mutuality or reciprocity resulted from intra- and inter-organizational networks concept.<sup>174</sup> The company has more exposure and opportunities to develop new knowledge as long as it has more interactions with other actors.

<sup>166</sup> Cf. Vahlne; Johanson 2013, p. 200.

<sup>167</sup> Cf. Vahlne; Johanson 2017, p. 1092.

<sup>168</sup> The agents are not aware that there are choices and opportunities ignored by them.

<sup>169</sup> Cf. Vahlne; Johanson 2017, p. 1091–1092.

<sup>170</sup> Cf. Helfat et al. 2007, p. 122.

<sup>171</sup> Cf. Vahlne; Johanson 2017, p. 1093.

<sup>172</sup> See *Capabilities-based theory* in section 2.3.2

<sup>173</sup> Cf. Vahlne; Bhatti 2019, p. 207.

<sup>174</sup> Cf. Johanson; Vahlne 1990, p. 18–20.

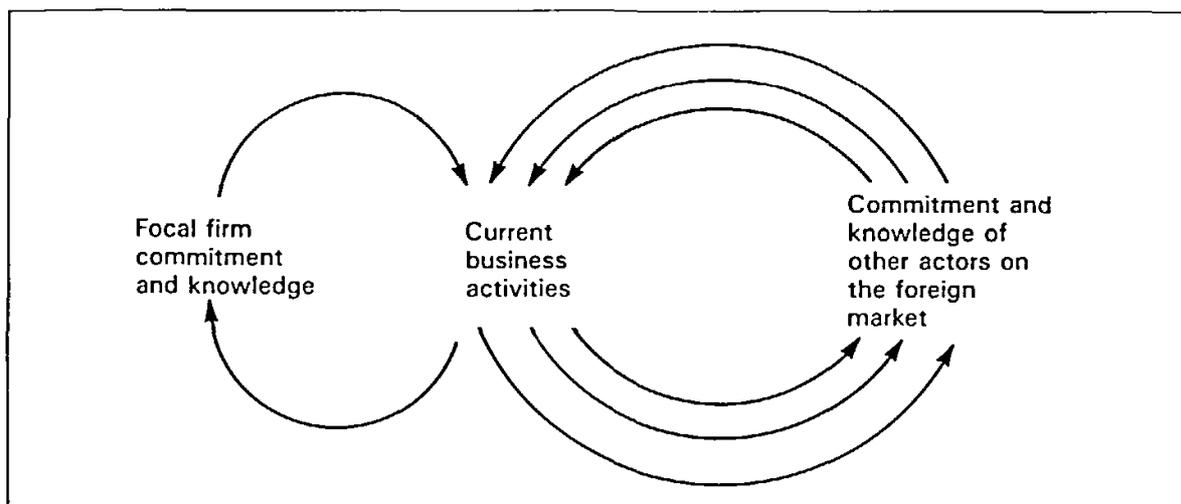


Figure 4 - Multilateral aspects of the internationalization process (networks)

Source: elaborated for this work based on Johanson & Vahlne (1990; p. 19)<sup>175</sup>

There are three elements of the *knowledge development processes* and relationships that are important to the firm regarding the internationalization process: learning, creation, and *trust* building. These are expected to promote *firm-specific advantages* and relationships within the networks.

Over time, *change variables* also affects the *capabilities*, which are *state variables*<sup>176</sup> and, consequently, influence the *commitment* positions, performance, and evolution of the MBE, as represented in Figure 3.<sup>177</sup>

### 2.3.6.2. State Variables

As previously mentioned, *change variables* will affect and change the state variables, which are the *capabilities* and *commitments and performance* of the firm<sup>178</sup>. These concepts evolved along the last decades together with the other elements of U-Model.

The general concept of *capabilities*<sup>179</sup> is not an exclusivity of U-Model. Nevertheless, they are differentiated into *dynamic* or *operational* to serve the purpose of this theory better.

For U-Model, the *operational capabilities* are actual setup to use all *firm-specific resources*<sup>180</sup> to survive. Concomitantly, the firm must feed its *dynamic capabilities* to create new possibilities for *operational capabilities*.<sup>181</sup>

For Eriksson et al. (1997, p. 354), the accumulation of *experiential knowledge* abroad by the local presence (*commitments*), repetition (durable and repetitive interactions), and variation (assortment of foreign markets) enable further internationalization.<sup>182</sup> That is because previous and consolidated experiences in internationalization are incorporated into the *operational*

<sup>175</sup> Cf. Johanson; Vahlne 1990, p. 19.

<sup>176</sup> Cf. Vahlne; Johanson 2017, p. 1095.

<sup>177</sup> Cf. Vahlne; Johanson 2017, p. 1092.

<sup>178</sup> Cf. Vahlne; Johanson 2017, p. 1095.

<sup>179</sup> See *Capabilities-based theory* in section 2.3.2.

<sup>180</sup> Also called firm-specific advantages (FSA).

<sup>181</sup> Cf. Vahlne; Johanson 2017, p. 1096.

<sup>182</sup> Cf. Eriksson et al. 1997, p. 354.

*capabilities*. After all, the *capabilities* and many other *firm-specific resources* are *historical-dependent*.<sup>183;184</sup>

The *dynamic capabilities* of U-Model are correlated to many concepts described so far in this work.

First, they are firm-specific and closely related to the company's history, experience, culture, creativity, and they cannot be bought.<sup>185</sup> Secondly, they are the result of *knowledge development, experiential learning, search, creation, and commitments*. Thirdly, they result from the accumulation of resources, wise choices of the management, and shortage of managerial resources.<sup>186</sup> They are related to the *resource-based theory* of Penrose<sup>187;188</sup>, and, like the knowledge, the development of *capabilities* is firm-specific, time-consuming, and costly.<sup>189</sup>

The last variable is the *commitments and performance*. This item is interesting because it aggregates concepts related but not equivalent in terms of the order, features, and measurements. *Commitments* are more related to the inputs: the distribution or allocation of resources within the organization and the (internal or external) relationships. On the other hand, the performance is related to outcomes: the result of the use of resources and relationships within inter- and intra-networks of the firm.<sup>190</sup>

The model evolved in many aspects and has been incorporated into the networks over the years. The authors embraced the dyadic relationships with external actors in the market and within the firm by itself. The globalization contributed to that.<sup>191</sup> That was a step closer to the theory of B&G. Before starting to talk about this second theory, the next segment presents how the authors debated with the OLI and attempt to refute the convergence of the arguments.

### 2.3.7. The debate with Eclectic Paradigm

In 1990, Johanson and Vahlne<sup>192</sup> chose the *Eclectic Paradigm* or OLI as an interlocutor to discuss their theory published originally in 1977<sup>193</sup>. OLI was the most accepted framework for explaining internationalization, and it was useful to prove their theory at that time.

The debate persisted in the following works of Johanson and Vahlne and enriched the understanding and construction of the U-Model. Despite not being the focus of this thesis, OLI is used here to show how the previous concepts come together to explain the evolving firm and the internationalization of the firm in U-Model. The present section compares the theories under the perspective of Johanson and Vahlne.

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<sup>183</sup> Cf. Vahlne; Johanson 2017, p. 1096.

<sup>184</sup> Cf. Kogut; Zander 1993, p. 637.

<sup>185</sup> See *Capabilities-based theory* in section 2.3.2.

<sup>186</sup> Cf. Vahlne; Johanson 2013, p. 1097.

<sup>187</sup> See *Penrose and the growth theory* in section 2.3.1.

<sup>188</sup> Cf. Vahlne; Johanson 2013, p. 1097.

<sup>189</sup> Cf. Eriksson et al. 1997, p. 340.

<sup>190</sup> Cf. Vahlne; Johanson 2017, p. 1097.

<sup>191</sup> Cf. Vahlne; Johanson 2013, p. 196–197.

<sup>192</sup> Cf. Johanson; Vahlne 1990, p. 16.

<sup>193</sup> Cf. Johanson; Vahlne 1977.

In 2009, the authors referred to their theories as a rational internationalization model, and they did not refute the potential similarities or convergence with the theory of Dunning (1980, 2002 and 2008).<sup>194;195</sup> In 2013, the review of U-Model increased the dynamism, uncertainties, and the limitations of the decision-making process to a level that the theories became irreconcilable, and they had to reconsider their opinion.

Vahlne and Johanson (2013, p. 191) acknowledged that the assumptions of the theories were too different from being merged. For this reason, they preferred to define the U-Model as an alternative approach to OLI.<sup>196</sup>

The appointed differences by Vahlne and Johanson (2013) between OLI and U-Models have been summarized in a table in Appendix I. The theories were seeking answers to different questions, and one perspective would not reduce the importance of another, it is instead an alternative.<sup>197;198</sup> A few divergences are appointed in the following paragraphs.

OLI is analyzing the *foreign direct investment* (FDI), and ownership is the key driver in the relationship between the company in the home country<sup>199</sup> and the international unit. Trade companies or third parties representing the company are not part of the MNE nor the theory. The *location- and ownership-specific advantages*<sup>200</sup> that contribute to the competitiveness of the company are not necessarily at the home country. The model makes certain assumptions or simplifications, and it does not address subjects like uncertainties, for example. The deterministic component of the decisions about path-dependence and transaction costs are part of the model.<sup>201</sup>

The U-Model has not bound its analysis based on ownership or FDI. They look at all relationships, including owned units or third parties, that represent the company abroad. In this sense, the possibility of internationalization, motivations, and drivers is more extensive in the U-Model, and they are not only measured by the *transaction costs*. They focus on *capabilities* and development of competencies of the firm that enables it to go abroad in different ways. These *capabilities* are continuously changing. The learning processes allow managers to find new opportunities, given the resources and *capabilities* at hand. These decisions are marginal decisions influenced by their past experiences, current resources, and limited capacity to comprehend their limitations. In this way, the authors resolve the uncertainties, limiting the possible decisions that the managers can take. They rely on historical-dependence since the company can make decisions to change the course of things.<sup>202</sup>

According to OLI, if the market imperfections are disregarded, and the *firm- and country-specific* and internalization *advantages* are taken into consideration, the export entry mode would be the best choice for companies since it is the simplest and cheapest option.<sup>203</sup>

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<sup>194</sup> Cf. Johanson; Vahlne 1990, p. 1413.

<sup>195</sup> Cf. Johanson; Vahlne 2009, p. 1425.

<sup>196</sup> Cf. Vahlne; Johanson 2013, p. 191.

<sup>197</sup> Cf. Vahlne; Johanson 2017. p. 1088.

<sup>198</sup> Cf. Vahlne; Johanson 2013. p. 192.

<sup>199</sup> This is the country of origin, usually where the HQ is located.

<sup>200</sup> Cf. Dunning 1980, p. 09–10.

<sup>201</sup> Cf. Vahlne; Johanson 2013, p. 191–194.

<sup>202</sup> Cf. Vahlne; Johanson 2013, p. 191–194.

<sup>203</sup> Cf. Eriksson et al. 1997, p. 338.

However, in a realistic scenario, there are *market failures* and several other influences on the internationalization decisions<sup>204</sup>. The rules, barriers and opportunities imposed by governments, competition, access to resources, among other factors<sup>205</sup>, force companies to decide which *entry mode* fits better to the circumstances in that market, as explained in the next section.

### 2.3.8. Entry modes

During the '70s, U-Model scholars observed that Swedish companies were willing to learn and gain experience first at the local markets and only then, gradually moved to internationalization.<sup>206</sup> The level of *establishment chain*<sup>207</sup> abroad and *commitment* decisions increase concomitantly to the increase of the company learnings and experiences and the reduction of *psychic distances* (or *liability of foreignness* as called later on).<sup>208;209</sup> It is possible to make at least two assumptions about how the firm moves throughout the internationalization process:

- i) there are rising engagement and market experience (*insidership*), and simultaneously,
- ii) the level of *liability of outsidership* in the selected countries decreases.

Additionally, three other aspects contribute to the debate, despite not being initially part of U-Model. They are:

- iii) Anderson & Gatignon (1986, p.11-12) mentioned the rising of control and associated costs along the internationalization process. Entry modes and the objectives of controls over international operations mutually affect themselves.<sup>210</sup> That can be related to the transfer of *tacit knowledge*<sup>211</sup> and *transaction costs*<sup>212</sup>.
- iv) Eriksson et al. (1997, p. 342-345) observed the increase in costs associated with further internationalization. These extraordinary expenses are related to the development of knowledge of internationalization (international experience, unique knowledge or experiences), foreign businesses (cooperation, agreements, relationships, networks) and foreign institutions (laws, norms, standards, foreign languages) that the company will have to search, acquire and internalize.<sup>213</sup>
- v) High *commitments* in foreign markets may result in low flexibility, similar to *lock-in* or *sunk-costs* situation, based on the decisions on how to internationalize.<sup>214;215</sup>

It is not uncommon to associate the early stages of internationalization with low engagement, low direct market interactions, and countries with similar psychic to reduce the uncertainties

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<sup>204</sup> Cf. Teece 2014, p. 09.

<sup>205</sup> Cf. Eriksson et al. 1997, p. 338.

<sup>206</sup> Cf. Johanson; Wiedersheim-Paul 1975, p. 305.

<sup>207</sup> Cf. Johanson; Wiedersheim-Paul 1975, p. 307.

<sup>208</sup> Cf. Johanson; Vahlne 1990, p. 12.

<sup>209</sup> Cf. Johanson; Vahlne 2009, p. 1412–1413.

<sup>210</sup> Cf. Anderson; Gatignon 1986, p. 11–12.

<sup>211</sup> See *Penrose and the growth theory* in section 2.3.1.

<sup>212</sup> See *Transaction costs theory* in section 2.3.4.

<sup>213</sup> Cf. Eriksson et al. 1997, p. 342–345, 354.

<sup>214</sup> Cf. Andersen 1993, p. 211.

<sup>215</sup> Cf. Anderson; Gatignon 1986, p. 08, 19.

and risks of a completely unknown environment. Companies would evolve to higher levels of involvement, investment, learning processes, overcome higher psych barriers, and establish robust networks<sup>216</sup> in proportion to the strength and diversification of their presence abroad.<sup>217</sup> The Swedish companies in the '70s confirmed this statement by following entry models (also called institutional arrangements)<sup>218</sup> in steps, as observed by Johanson and Vahlne and listed here:

- i) inexistent export activities: the company is centered at the domestic market, and there is no channel established to get information from other markets, and about sales influencing factors.<sup>219</sup>
- ii) exports using an independent agent<sup>220</sup>: by exporting to neighboring, well-known, and similar countries. The company may overcome the limited knowledge and avoid uncertainties of new markets and countries with the help of third parties. The firm can use their know-how and experiences in fields that the company lacks with reduced *commitment* and investments.<sup>221</sup>
- iii) establish a sales subsidiary in another country: this model requires more *commitment* and finance from the company to have controlled and direct access to information channels and markets.<sup>222</sup> Direct exposure to the foreign market develops knowledge and the *dynamic capabilities* faster by *experiential learning*. The resulting *trust* helps create an opportunity for further *commitments* and investments<sup>223</sup>.
- iv) perform the production abroad: this is the highest possible level of *commitment*, with massive investments and integration to more complex networks. Therefore, it is required financial power, *insidership*, organizational structure, higher control and governance and specific *capabilities*. The risk and control levels are high, and, once implemented, it is challenging to step back due to lower flexibility.<sup>224;225</sup>

The *entry modes* are not the core contribution of U-Model. Given the comprehensive work of authors, especially in the last 20 years, the authors had chosen these stages for the analysis of a specific industry, country, and time. Thus, there are other options, such as licenses or joint ventures, for example<sup>226</sup>. Johanson & Wiedersheim-Paul (1975, p. 307) acknowledge that there are many other possibilities of steps and stages for *entry modes* different than the four forenamed.<sup>227</sup> Markets might be so small or unique that a particular stage or complex *commitments* do not match it. Another possibility is that the company has accumulated

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<sup>216</sup> Network or *insidership* is similar to the definition of institutional advantage of Dunning & Lundan. That is the contextual ability to coordinate the governance of different means of contracts of the firm within the networks. (Dunning; Lundan 2008, p. 134.)

<sup>217</sup> Cf. Vahlne; Johanson 2013, p. 192.

<sup>218</sup> Cf. Anderson; Gatignon 1986, p. 02.

<sup>219</sup> Cf. Johanson; Wiedersheim-Paul 1975, p. 307.

<sup>220</sup> Independent agent is interchangeable for third parties that represents the company and their products with exclusivity or not.

<sup>221</sup> Cf. Johanson; Wiedersheim-Paul 1975, p. 306.

<sup>222</sup> Cf. Johanson; Wiedersheim-Paul 1975, p. 306.

<sup>223</sup> See *Penrose and the growth theory* in sections 2.3.1. and *Capabilities-based theory* in section 2.3.2.

<sup>224</sup> Flexibility is the possibility to make changes or reverse the decisions quickly and cheaply. (Anderson & Gatignon, 1986: 03)

<sup>225</sup> Cf. Anderson; Gatignon 1986, p. 03.

<sup>226</sup> Cf. Eriksson et al. 1997, p. 338.

<sup>227</sup> Cf. Johanson; Wiedersheim-Paul 1975, p. 307.

experiences in other countries that can help them enter into a new market by skipping some levels of the *establishment chain*.<sup>228;229</sup>

Rather than focusing on *entry modes*, the U-Model is concerned about factors that enable companies to evolve to the highest internationalization levels, as previously presented herein. The choices among different *entry modes* are all about strategic decisions of each company since each model requires efforts and *commitments* and brings benefits to the whole business.

There are complementary and diverse perspectives for all possible *entry modes*. One of them is differentiation by elements from corporate and contracting law to define the levels of control and coordination desired. In this sense, there are equity and non-equity modes and a spectrum of different contracting possibilities in between to bind the rights, obligations, and the mechanisms of control<sup>230</sup>, as shown in the following table:

<b>High Control Modes: Dominant Equity Interests</b>	<b>Medium Control Modes: Balanced Interests</b>	<b>Low Control Modes: Diffused Interests</b>
Wholly Owned Subsidiaries	Pluralist Shareholder	Nonexclusive, nonrestrictive contracts
Dominant Shareholder	i) Many partners	Small shareholder:
i) Many partners	ii) Few partners	i) many partners
ii) Few partners	Equal partners (50/50)	ii) few partners
iii) One partner	Contractual joint venture	iii) one partner
	Contract management:	
	i) Restrictive exclusive	
	ii) Franchise	
	iii) Nonexclusive restrictive	
	iv) Exclusive nonrestrictive	

Table 2 - Possibilities of *entry modes* from the legal perspective

Source: extracted from Anderson & Gatignon (1986, p. 05)<sup>231</sup>

According to Table 2, the *entry modes* based on higher equity share potentially result in more control over the affiliated company. Other legal solutions like contracts, franchises, and licenses, such as relationships, may rule the control, covenants, *commitments* and many other business-related governances in relationships with non-related parties and not only with them.<sup>232</sup> It is hard and expensive to have a perfect contract, and, as theorized by Granovetter, *trust-building* is an alternative to mitigate the risks according to the embeddedness approach.<sup>233</sup>

Lastly, the cornerstone insights taken from U-Model that are useful for the empirical chapter are:

- there is only one way for firms to prepare themselves for internationalization: by doing it. That is because the company has to venture itself to learn and gain gradual experiences that will become knowledge, and it will contribute and promote further and more complex moves abroad<sup>234</sup>.

<sup>228</sup> Cf. Johanson; Wiedersheim-Paul 1975, p. 307.

<sup>229</sup> Cf. Eriksson et al. 1997, p. 341.

<sup>230</sup> Cf. Anderson; Gatignon 1986, p. 05–06.

<sup>231</sup> Cf. Anderson; Gatignon 1986, p. 05.

<sup>232</sup> Cf. Anderson; Gatignon 1986, p. 05.

<sup>233</sup> Cf. Granovetter 1985, p. 482.

<sup>234</sup> Cf. Johanson; Vahlne 1977, p. 23.

- the company can decide on diverse *entry modes*, depending on its strategy, competencies to overcome cultural and other barriers, level of involvement desired (including financial) and features of the target markets, especially its size;
- the company can have different *entry modes* in different markets at the same time. It is not a *one size fits all* solution.
- the diverse strategies and *entry modes* simultaneously or historically adopted by the company contribute in different ways and speed up the knowledge and *capabilities* development of the firm. Past decisions and the international experiences accumulated shape the current *operational capabilities*, and they may enable the company to internationalize further.
- the phased entry with increased *commitment* as long as the company gains knowledge and *dynamic capabilities* to do so is expected. However, some companies may rely on other experiences and learnings (*history-dependence*), massive investments, or new technologies to make a more aggressive move and skip the graduated entry.
- some companies have chosen one entry mode, stick to that and never take the next step to more *commitment*. The reasons could be due to the market size, or that they cannot have competitive advantages to justify higher investments, or where the costs to overcome the *outsidership* are too high. Therefore it is better to keep the agency models or licenses, for example.
- the massive and most traditional motivation and driver for internationalization are the market reasons. However, it might be other company- or industry-specific purposes, such as access to RD&I or capital markets.
- the firm makes incremental decisions<sup>235</sup> to adjust themselves or react to changing conditions, which could be the source of problems or opportunities. Even its more disruptive strategies are based on previous experiences, *capabilities*, *commitments*, and its networks of businesses to reduce the uncertainties to an acceptable level.
- the proprietary assets (tangible and intangible) of the firm are critical for vertical integration or partnership with third partners. The assessment of these features, to which extent they are sources of competitive advantages to internationalize, how much the firm wants or needs to coordinate or control them, and how it intends to do that<sup>236</sup> is relevant for the selection of the best entry mode.

The U-Model had been modified to emphasize the processes, network, business exchange, pro-active and entrepreneurial behaviors, and decentralization<sup>237</sup> of multinational enterprise (MNEs). This *augmented* U-Model seems to share a few elements with Bartlett & Ghoshal's approach that starts in the next section.

## 2.4. The Bartlett & Ghoshal Model

Differently from U-Model, Bartlett & Ghoshal are not looking to all means of internationalization but only at enterprises that already have a direct presence abroad through subsidiaries and affiliated companies. The authors define the international corporations, their target group, as

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<sup>235</sup> Cf. Johanson; Vahlne 1977, p. 23, 26.

<sup>236</sup> Cf. Anderson; Gatignon 1986, p. 10–11.

<sup>237</sup> Cf. Vahlne; Johanson 2017, p. 1088.

a group of geographically dispersed organizations that can be differentiated between headquarters and national subsidiaries.<sup>238</sup> They pay attention to the embedded network of these companies (intra-organizational or with external agents) and how this dynamic is unique and expressed in different aspects from resource configuration until the internal distribution of power. That can differ even among the subsidiaries of the same company.<sup>239</sup> Despite looking at the companies under a different prism, the authors and likewise U-Model, are evolutionists.

The macro-structural analysis of MNC involves the centrality and the hierarchical relationship among the HQ and subsidiaries. However, these companies are not internally homogeneous, and there is no single model that could well represent them, given the heterogeneity in organizational systems. The macro-structure may be very inertial, and it may not respond or change at the same pace as the market or the environment changes.<sup>240</sup> On the other hand, the micro-structural analysis focuses on their inter-organizational differences and how internal management processes and multidimensional mechanisms of the headquarters to control the subsidiaries may be more dynamic and influence the structure and strategy of the organizations.<sup>241</sup>

Connected to that, the authors analyze the *capabilities* and the strategic importance of the local environment<sup>242</sup> since the company may have “*different connectedness within and across the national organization sets*”<sup>243</sup> in different countries. These *capabilities* and networks explained in the following section, converges to U-Model.

#### **2.4.1. The network and the densities of the organizational sets**

The authors analyzed companies with subsidiaries in different locations and environments that feature various economic, social, and cultural capital<sup>244</sup>. Their relational networks are diverse and increasingly interconnected among themselves.<sup>245</sup>

An interesting phenomenon is an identity among subsidiaries without losing their individuality, especially how they respond to environmental and organizational aspects under different businesses, functions, and locations.<sup>246</sup> They play a role within the group of subsidiaries, at the company level, where they have different mechanisms of dependence and interdependence in the exchange relationships within the group.<sup>247</sup> The networks explain the specific structural attributes of related parties.<sup>248;249</sup> International companies should be

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<sup>238</sup> Cf. Ghoshal; Bartlett 1990, p. 603.

<sup>239</sup> Cf. Ghoshal; Bartlett 1990, p. 603–604.

<sup>240</sup> Cf. Bartlett; Ghoshal 1990.

<sup>241</sup> Cf. Ghoshal; Bartlett 1990, p. 620–621.

<sup>242</sup> Cf. Bartlett; Ghoshal 1998, p. 328.

<sup>243</sup> Cf. Ghoshal; Bartlett 1990, p. 618.

<sup>244</sup> No intentional reference here to the concept of capital defined by Pierre Bourdieu.

<sup>245</sup> Cf. Ghoshal; Bartlett 1990, p. 606.

<sup>246</sup> Cf. Ghoshal; Bartlett 1990, p. 604.

<sup>247</sup> Cf. Ghoshal; Bartlett 1990, p. 604.

<sup>248</sup> As had been discussed in the section about *entry modes*, the U-Model considered the non-related parties such as agents and suppliers, for example, as part of their analysis.

<sup>249</sup> Cf. Ghoshal; Bartlett 1990, p. 606.

analyzed by their complex organization sets and networks (*inter-organizational* approach) instead of as a unitary organization.<sup>250</sup>

The Federative model of Warren (1967, p.406), presented in Table 3, is a proxy of the Transnational model envisaged by B&G.<sup>251</sup> The exchange relations are based on the transfer of resources (any valued activity, service, or commodity, including finances, products, technology, people, and information) between actors (individually or corporate groups) for mutual benefit.<sup>252</sup> That type acknowledges the corporate role versus autonomy and personality of each unit.

Dimension	Type of Context			
	Unitary	Federative	Coalitional	Social Choice
Relation of units to an inclusive goal	Units organized for achievement of inclusive goals	Units with disparate goals, but some formal organization for inclusive goals	Units with disparate goals, but informal collaboration for inclusive goals	No inclusive goals
Locus of inclusive decision making	At top of inclusive structure	At top of inclusive structure, subject to unit ratification	In interaction of units without a formal inclusive structure	Within units
Locus of authority	At top of hierarchy of inclusive structure	Primarily at unit level	Exclusively at unit level	Exclusively at unit level
Structural provision for division of labor	Units structured for division of labor within inclusive organization	Units structured autonomously; may agree to a division of labor, which may affect their structure	Units structured autonomously, may agree to ad hoc division of labor, without restructuring	No formally structured division of labor within an inclusive context
Commitment of a leadership subsystem	Norms of high commitment	Norms of moderate commitment	Commitment only to unit leaders	Commitment only to unit leaders
Prescribed collectivity-orientation of units	High	Moderate	Minimal	Little or none

Table 3 - Attributes of each inter-organizational interaction

Source: extracted from Warren (1967, p. 406)<sup>253</sup>

B&G theory do not see ownership and control closely related to hierarchical power in all cases. The hierarchical authority (*fiat*) may coexist with different levels of local autonomy, and the relationships of the subsidiary internal and external to the organization may happen in different ways.<sup>254</sup> The competency and power impact the relationship of each subsidiary with the HQ and other subsidiaries, and these interdependencies tend to be reciprocal and sequential.<sup>255</sup>

The *organization set* is the unit of the company that has a relationship with several stakeholders within its local network called *within density*. It is company-, country- and industry-specific.<sup>256</sup> The exchange relationship among all members of different *organization*

<sup>250</sup> Cf. Ghoshal; Bartlett 1990, p. 604.

<sup>251</sup> Cf. Warren 1967, p. 406.

<sup>252</sup> Cf. Ghoshal; Bartlett 1990, p. 608–609.

<sup>253</sup> Cf. Warren 1967, p. 406.

<sup>254</sup> Cf. Ghoshal; Bartlett 1990, p. 607.

<sup>255</sup> Cf. Ghoshal; Bartlett 1990, p. 608.

<sup>256</sup> Cf. Ghoshal; Bartlett 1990, p. 610.

sets of the subsidiaries of the multinational collectively constitutes the external network, according to B&G. This relationship is called *across density*.<sup>257</sup> These concepts, represented in Figure 5, help to answer the main questions formulated by the theory:

- i) how are the resources distributed among affiliates,
- ii) how is the decision about the distribution of resources made, and
- iii) what are the roles of each unit *within* and *across densities* in which they are embedded?<sup>258</sup>

The answers provided by the authors are developed in the following paragraphs.

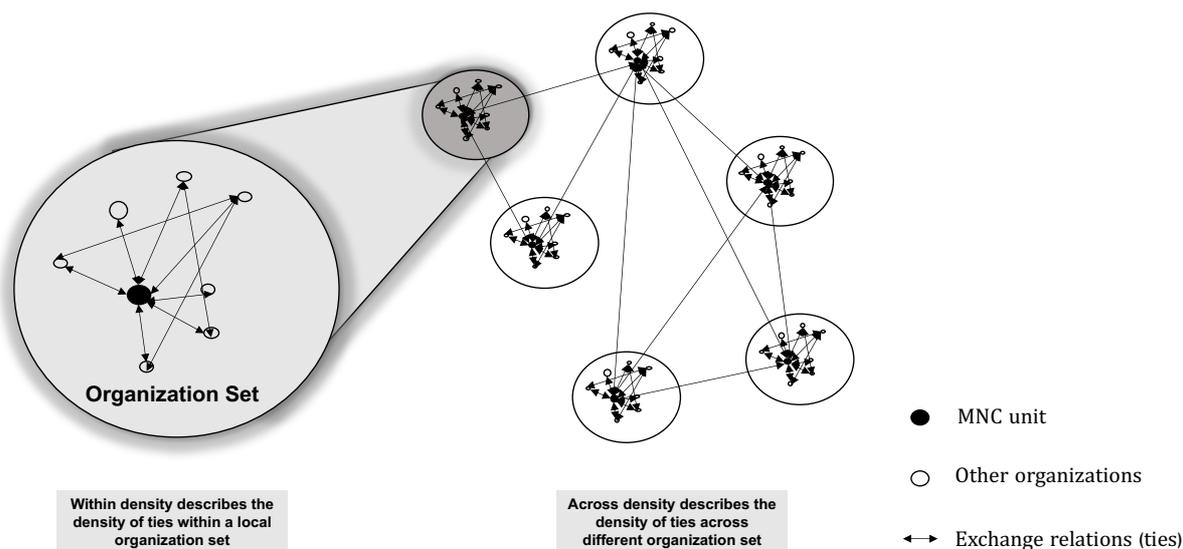


Figure 5 - Representation of *densities* of B&G model (1990)

Source: prepared based on Djodat & Zu Knyphausen-Aufseß (2017, p. 354)<sup>259</sup>

The *distributions of the resources* can be dispersed and specialized at the same time because the resources might be shared among different units<sup>260</sup> to execute similar tasks<sup>261</sup> to attend their local markets. The units are inserted in unique contexts and influenced by the surrounding social structures on the economic behavior of organizations.<sup>262</sup> The technical and operational configuration and the institutional elements influence how the technical and economic resources impact the competitiveness of the company and, consequently, its market share, resources, political power, institutional legitimacy, and social-economic fitness in different businesses and countries.<sup>263</sup> DiMaggio and Power (1983, p. 150) observed that organizations compete for political power, institutional legitimacy, social and economic fitness, and not only for customers and resources.<sup>264</sup> Subsequently, the subsidiary is inserted in two different institutional contexts that continuously worsen the competition mentioned above: the local (external) and the corporation (internal) environment.

<sup>257</sup> Cf. Ghoshal; Bartlett 1990, p. 610.

<sup>258</sup> Cf. Ghoshal; Bartlett 1990, p. 610.

<sup>259</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 354.

<sup>260</sup> Cf. Ghoshal; Bartlett 1990, p. 611.

<sup>261</sup> Cf. Ghoshal; Bartlett 1990, p. 611.

<sup>262</sup> Cf. Ghoshal; Bartlett 1990, p. 611.

<sup>263</sup> Cf. Ghoshal; Bartlett 1990, p. 612.

<sup>264</sup> Cf. DiMaggio; Powell 1983, p. 150.

The concept of *within density of linkage*, represented in Figure 5, is similar to the *insidership* concept for local markets framed by U-Model and introduced previously in this work. It measures how the actors in that location are formally or informally connected and embedded in that industry.

These ties may work as a barrier to new entrants. In these cases, to be successful, it is mandatory to be accepted by the local networks, and the company must make all the necessary connections. Consequently, its units are more dispersed (fragmented) with low specialization.<sup>265</sup>

The environments where *within density* is not relevant, and strong local presence and integration are not mandatory are on the other extreme. The allocation of resources can be defined by other factors, like the scale economies, access to strategic resources, and the comparative advantages of each country, for example.<sup>266</sup> The *within density* is a country-specific trait<sup>267</sup> for B&G, which can influence the international positioning model of the unit.

*Across density* means the external networks or the linkage among different units and their local networks, as represented in Figure 5. Higher *across density* is a *world-system trait*<sup>268</sup> open to more possibilities of exchanges among the subsidiaries and their local networks. The company can take advantage of the flow of resources among the units and have some flexibility for some specialization when the within density is higher.<sup>269</sup>

Since the '90s, when the theory was developed, the technology, the logistics, the free trade, and free border zones, the number of bilateral or multilateral treaties and other efforts contributed enormously to the intensification of these exchanges. The *across density* and its influences in the international positioning of companies are more substantial nowadays.

Djodat and Zu Knyphausen-Aufseß (2017, p. 358) focus on the richness of the variety of interlocutors and the information exchanged as *network range*<sup>270</sup> to map who the actors are and what sort of relationships they have established within the *across density*. That would capture how diverse the exchanges in the networks are.<sup>271</sup> They criticize B&G for not making a distinction between the internal and external networks and the lack of means to assess the network *embeddedness* of the firm.<sup>272</sup>

B&G uses these concepts to analyze how the configuration of resources, power, control, and centrality is configured and how it shapes the structural arrangement of the companies to fit the environment and networks where they are *embedded*.<sup>273</sup> The following section will present how the *density* is related to the structure.

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<sup>265</sup> Cf. Ghoshal; Bartlett 1990, p. 613.

<sup>266</sup> Cf. Ghoshal; Bartlett 1990, p. 613.

<sup>267</sup> Cf. Ghoshal; Bartlett 1990, p. 619.

<sup>268</sup> Cf. Ghoshal; Bartlett 1990, p. 619.

<sup>269</sup> Cf. Ghoshal; Bartlett 1990, p. 613–615.

<sup>270</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 357.

<sup>271</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 358.

<sup>272</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 357.

<sup>273</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 354.

## 2.4.2. The power, control, and centrality

Each subsidiary has an individual and unique density according to the inter- and intra-organization linkages and environment that enables differentiated networks and its various purposes.<sup>274</sup> These elements define the role of the HQ, especially in terms of control, power and centralization, and the distribution of the resources among the units. Despite the changes in technologies and institutions that happened since the theory was written, the overall argument is still valid. The following paragraphs summarize how that happens.

The distance makes it difficult for HQ to control and influence the activities and decisions of the subsidiaries if the unit has a strong role and interaction in its within density. For being an outsider, the HQ can participate in that local network but not as strong as the representatives of the local unit. That results in more local autonomy and independence to the unit in making decisions and developing a more extensive range of activities and functions locally.<sup>275;276</sup>

Table 4 shows that the high *within* and the low *across densities* have higher *dispersity of resources*, more local autonomy for decisions (remote control from HQ loses its efficacy), and low specialization. The opposite situation, with low *within* and high *across densities*, will lead to a highly *inter-organization linkage*, a high flow of resources and exchanges, less concentration of resources, high specialization, and more control at the headquarters.

Across density	High		Low	
	Extensive inter-subsidiary linkage nodes emerge		Linkages among subsidiaries are minimal	
Effect on centrality and power	Centrality of HQ declines, moderate dispersal, high		HQ with highest point centrality	
	High	Low	High	Low
Resources configuration	Different units emerge as nodes for specific activities of the MNC	Resources flows are more free, national resources niches are eliminated	Units need to match structures of local organization set	Economic rationality becomes dominant
	Moderate dispersal, increasing specialization	Resources seeking concentration declines	Dispersal increases, specialization decreases	Low dispersal, high specialization
Centrality and power	Subsidiary power derived from web of local relations	Power of subsidiary derived from dyadic relationships	Subsidiary power derived from web of local relations	Power of subsidiary derived from dyadic relationships
	Remote control loses efficacy, high resources dispersal	HQ power is more effective	Remote control loses efficacy, high resources dispersal	HQ power is more effective

Table 4 - *Densities* and its effects on *centrality*, power, and allocation

Source: prepared based on the graphic representation of Djodat; zu Knyphausen-Aufseß (2017, p. 355)<sup>277</sup>

Table 4 shows two other possibilities: the high *within* and high *across densities* (high-high) and the low *within* and low *across densities* (low-low).

The high-high option has units with robust local and global relationships that split and disperse resources among them. There are high interdependence and increasing specialization in these cases. The R&D hubs located in technological clusters, for example, could illustrate this model: R&D centers that have strong interaction with local stakeholders and environment benefits from enormous synergies and competitive advantages to provide solutions to the other sister units.<sup>278</sup>

<sup>274</sup> Cf. Ghoshal; Bartlett 1990, p. 619.

<sup>275</sup> Cf. Ghoshal; Bartlett 1990, p. 615–616.

<sup>276</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 354.

<sup>277</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 355.

<sup>278</sup> Cf. Djodat 2016, p. 05.

The low-low variation is the opposite. The economic aspects explain their role while their local networks are not strategic for the business or their inter-organizational relevance. The low interactions with sisters are replaced by robust control and power from the HQ. This model explains units that produce standard products driven by costs, access to resources, or scale.<sup>279</sup>

The institutional framework, the specificity of each location in terms of openness to exchange (and change), and the *within* and *across density* can influence and define the strategic choices and configuration of the firm. Regardless of the industry, DiMaggio and Powell (1983, p. 150) say that the large multinational companies assume on similar long-term configurations (mimetic isomorphism)<sup>280</sup> in response to uncertainties and to fit the networks and environments where they are embedded.<sup>281;282;283</sup>

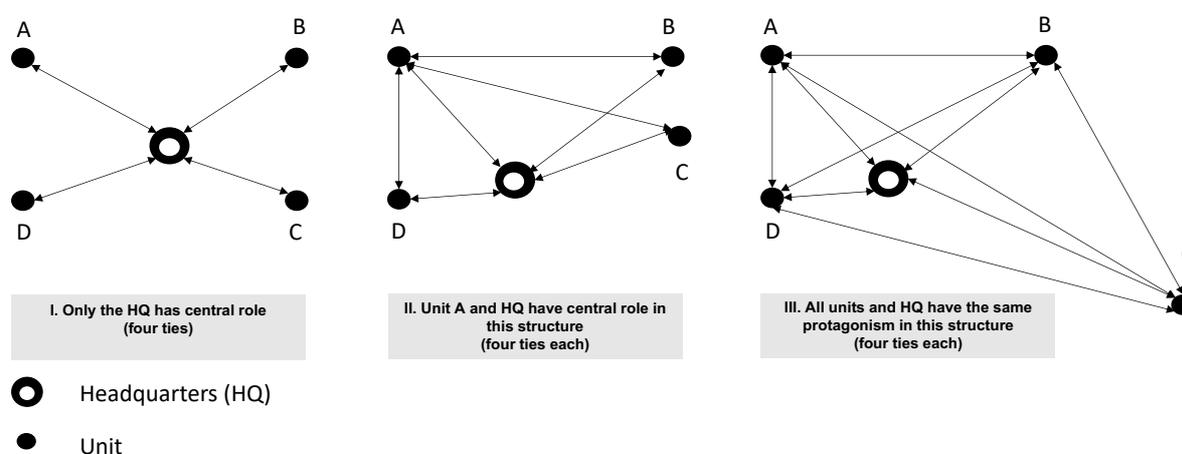


Figure 6 - Examples of *centrality* measures per *node*

Source: elaborated by the author based on Ghoshal & Bartlett (1990, p. 617)<sup>284</sup>

Figure 6 exemplifies the choices of structural configurations and incorporates another contribution from B&G: the *centrality* role. The HQ has always been central in any organization because it is connected to all units, at least from a corporate standpoint, but not necessarily means results in *authority* and *strict control* over the business, as previously explained.

Nevertheless, a few units have differentiated themselves from the others by playing a central role (*node*). The network *centrality* of each subsidiary can be measured by the number of ties (linkages) established with other units.<sup>285</sup> The *centrality* helps the unit, according to Djodat and Zu Knyphausen-Aufseß (2017, p. 358), in its “*ability to access potentially critical resources from other network partners and the stronger its potential influence in the overall network*”.<sup>286</sup>

The examples of Figure 6 are not exhaustive. Every dual relationship counts as one tie in these examples, and every unit with several ties is a *node*, and it has a higher *centrality* in the

<sup>279</sup> Cf. Djodat 2016, p. 05.

<sup>280</sup> The mimetic behavior is the result of a general response to uncertainty or the adoption of similar strategic decisions and solutions taken by the unit.

<sup>281</sup> Cf. Ghoshal; Bartlett 1990, p. 619.

<sup>282</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 361.

<sup>283</sup> Cf. DiMaggio; Powell 1983, p. 150.

<sup>284</sup> Cf. Ghoshal; Bartlett 1990, p. 617.

<sup>285</sup> Cf. Ghoshal; Bartlett 1990, p. 616–618.

<sup>286</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 358.

organization. These ties are formal or informal, and they are close to the concept of *connectedness*.<sup>287</sup>

Subsidiaries with a low number of ties tend to be more independent, have smaller influence, lower exchange within the group, and their *capabilities* and competencies are more local-specific. Most probably, they are driven by a local-by-local instead of a *Transnational* strategy.<sup>288</sup> Different units can have a *structural equivalence*<sup>289</sup>, like unit A and the HQ in model II (Figure 5), if they have a similar *centrality* position in the network structure.

Figure 7 represents the three main elements of analysis of the organizational structure, according to B&G. It is relevant to introduce, in the next section, the models of Perlmutter (1969, p. 12) that would help to understand the typology of B&G. The nomenclature is also useful to identify the roles of HQs and subsidiaries of the selected company in the empirical analysis.

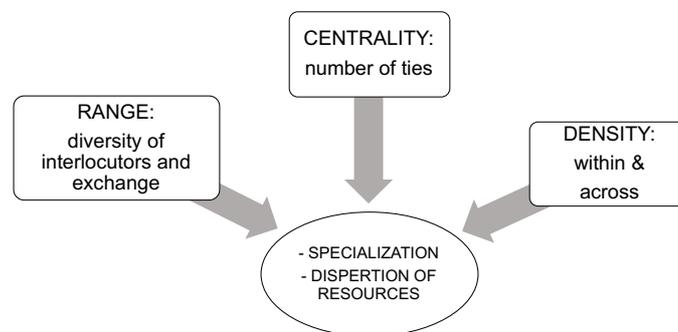


Figure 7 - Structural dimensions of the subsidiary resources configuration

Source: prepared based on Djodat & zu Knyphausen-Aufseß (2017, p. 360)

### 2.4.3. The role of the headquarters and subsidiaries (EPG Model)

Once the role of subsidiaries and HQ within the organization had been reviewed, the Perlmutter model is introduced here to improve the understanding of the foundations of B&G. EPG typology stands for the initials of each type defined according to the relationship, control, and roles of the HQ towards the subsidiaries summarized in Table 5.

<sup>287</sup> Cf. DiMaggio; Powell 1983, p. 148.

<sup>288</sup> Cf. Ghoshal; Bartlett 1990, p. 617.

<sup>289</sup> Cf. DiMaggio; Powell 1983, p. 148.

<b>Organization Design</b>	<b>Ethnocentric</b>	<b>Policentric</b>	<b>Geocentric</b>
Complexity of organization	Complex in home country, simple in subsidiaries	Varied and independent	Increasingly complex and interdependent
Authority and decision making	High in HQ	Relatively low in HQ	Aim for a collaborative approach between HQ and subsidiaries
Evaluation and control	Home standards applied for persons and performance	Determined locally	Find standards which are universal and local
Rewards and punishments; incentives	High in HQ; Low in subsidiaries	Wide variation; can be high or low rewards for subsidiary performance	International and local executives rewarded for reaching local and worldwide objectives
Communication; information flow	High volume to subsidiaries orders, commands, advice	Little to and from HQ. Little between subsidiaries	Both ways and between subsidiaries. Heads of subsidiaries part of management team
Identification	Nationality of owner	Nationality of host country	Truly international company by identifying with national interests
Perpetuation (recruiting, staffing, development)	Recruit and develop people of home country for key positions everywhere in the world	Develop people of local nationality for key positions in their own country	Develop best person everywhere in the world for key positions everywhere in the world

Table 5 - Typology for interactions with subsidiaries in international organizations

Source: elaborated very similar table prepared by Perlmutter (1969, p. 12)<sup>290</sup>

The *Ethnocentric* model, from Table 5, could be defined in short as the organizations that centralize all the most strategic resources and people in the home country. The nationals from home country tend to occupy the most strategic positions, and they have the best career opportunities. The critical decisions, proprietary assets, and strategies are decided and centralized at the HQ. Both the organizational structure and the corporate culture are impacted and agreed upon in the home country.<sup>291</sup>

The side effects could be demotivation of employees as they might have difficulties interacting with and gaining the respect of their local colleagues. The nationality, the lack of geographical mobility to travel or move to HQ, the top-down orders received without a chance to use their capacity, and previous experiences to contribute to it are some potential impact on the subsidiaries.<sup>292</sup>

<sup>290</sup> Cf. Perlmutter 1969, p. 12.

<sup>291</sup> Cf. Perlmutter 1969, p. 11–12.

<sup>292</sup> Cf. Perlmutter 1969, p. 11–12.

On the other end, there is the *Polycentric* model from Table 5. Here the organization is localized. Each subsidiary has its strategic resources and people-centered at the host country and working to better integrate with that local market, environment, and network. The nationals from host country tend to occupy the most strategic positions in the subsidiaries, but they hardly move to the HQ because of their limited or regional business experience. It is to allow the subsidiary to build their own identity and make the decisions. The HQ does not impose their ways of doing business or their culture over the subsidiaries as long as they are profitable.<sup>293</sup>

Since the exchanges and the influences from one unit to another are very low, the company misses the opportunity to find synergies and identify successful strategies, products, and technologies that could also work elsewhere. There is a limited scale economy. The low mobility of people and the risk that the local unit is shaped according to the style and nationality of the country manager limit the global HR opportunities.<sup>294</sup>

The *Geocentric* model in Table 5 is a balanced alternative to the previous models with a participative approach. That places it in a position of merit above all. The good ideas and contribution to the strategic plan are decided by the potential to contribute to the results of the company regardless the nationality. The more the units and people can share, the faster and better the company can develop its *capabilities* in different directions by exchanging experiences and learning together. The global efficiency of the company suppresses any individual results.<sup>295</sup>

The organization will hardly assume just one of these models. It is possible to see companies adopting different models for individual aspects, such as R&D or Finance while taking other behavior for other manufacturer subsidiaries.

The types are shaped and influenced by the corporate culture and its management. In these companies, the identity and subjectivism prevail, and possibly no objective rules to favor one nationality to the detriment of another would ever be found in any company.

The Geocentric man on board is the way forward to achieve the best results and overcome any localism. The investment in training of employees and the opportunity to trust in their colleagues, exchange, and learn from the diversity are alternatives to increase the integration, but that is expensive and takes a long time, according to Perlmutter.<sup>296</sup>

This work does not intend to investigate the corporate culture nor the *spirit* of international companies. However, the following sections discuss the role of the managers on the strategy of the company and tackle some cultural aspects in the same extension that B&G authors have done in their work.

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<sup>293</sup> Cf. Perlmutter 1969, p. 12–13.

<sup>294</sup> Cf. Perlmutter 1969, p. 12–13.

<sup>295</sup> Cf. Perlmutter 1969, p. 13–14.

<sup>296</sup> Cf. Perlmutter 1969, p. 17–18.

#### 2.4.4. The bottom-up strategic response

The MNC of the B&G model can be analyzed under three dimensions: i) structure or *anatomy*, ii) interpersonal relationships and decision processes or *physiology*, and iii) the role of the managers or *psychology*.

The structure (anatomy) is inertial, and there is a long and complicated process to change that.<sup>297</sup> The changes in the organizational structure are more influenced by fashion than the strategic needs of the company.<sup>298</sup> The re-engineering concept during the '90s is one classic example.

Usually, companies cannot respond efficiently to dynamic changes in the market or the environment because of their structure. The response may not come at a convenient timing and it might demand resources that the company does not have immediately available.<sup>299</sup> One link to U-Model can be made here if we consider that the company has to develop *capabilities* to respond efficiently to changes, and it takes time, and it is costly.

In response, it was usual to change the processes or implement a global matrix report.<sup>300</sup> For B&G, these are inefficient responses in change environments that could lead to a lack of accountability and bureaucracy and jeopardize any strategy implementation.<sup>301</sup>

The managers (psychology) are on the opposite side and B&G model sees them as agents of change in the organization since they can implement marginal changes faster.<sup>302</sup>

According to B&G, the bottom-up transformation lead by management actions could also be an alternative, if not the best solution. The strategy implementation should start from the psychological dimension instead of the anatomy or physiology of the company.<sup>303</sup> The success of this approach depends on the clear, continuous and consistent corporate vision<sup>304</sup> well developed and communicated to every member of the organization. The efficient management of human resources is a valuable resource, and it is of utmost importance to commit (*co-opt*) people to individual and corporate goals within the corporate agenda.<sup>305</sup>

The individual manager is a resource that can faster and effectively respond in a fast change environment. At the same time, the company needs to understand the nature of its *administrative heritage* and *capabilities*.<sup>306</sup> What does that mean?

The *administrative heritage* is close to the *historical-dependence* concept used by U-Model to define the past decisions that brought and built the *capabilities* and the managerial responsibilities overtime. Like the U-Model and the evolutionists with their path-dependence,

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<sup>297</sup> Cf. Bartlett; Ghoshal 1990.

<sup>298</sup> Cf. Bartlett; Ghoshal 1998, p. 35.

<sup>299</sup> Cf. Bartlett; Ghoshal 1998, p. 36–37.

<sup>300</sup> Cf. Bartlett; Ghoshal 1998, p. 35–36.

<sup>301</sup> Cf. Bartlett; Ghoshal 1990.

<sup>302</sup> Cf. Bartlett; Ghoshal 1990.

<sup>303</sup> Cf. Bartlett; Ghoshal 1990.

<sup>304</sup> For B&G, a clear vision means “simplicity, relevance, and reinforcement”. The continuity is related to the commitment to strategic objectives and organizational values consistently, and overtime and the whole organization acts coordinately towards the same goals.(Bartlett & Ghoshal, 1990)

<sup>305</sup> Cf. Bartlett; Ghoshal 1990.

<sup>306</sup> Cf. Bartlett; Ghoshal 1998, p. 37–38.

these organizational attributes cannot be replaced, changed, or redirect from one day to another. Therefore, the theories converge to the importance of the understanding of these *capabilities* and this heritage to make the decisions about opportunities and how to use these resources better.<sup>307 308</sup>

Another aspect also related to *administrative heritage* is that the management has consider the effects of their decisions not to generate *lock-in* situations. The managers should pursue solutions that give space for some flexibility and re-routing the structure and the strategy in case of new challenges and abrupt changes in the business environment. The development of new *capabilities* gives a company the strength to adapt to these new challenges in the same way as proposed by U-Model.<sup>309</sup>

Contrarily, if the decisions of the manager are driven by his/her skills, experiences, wishes, opinions, and limited views, the result is what B&G had called *parochialism*. This effect is associated with adjectives that are not usually acclaimed by the best practices in business literature, such as selfish pettiness, provincialism, insularity, and narrow-mindedness.<sup>310;311</sup> In Bartlett & Ghoshal (1998, p. 48) words, “*most companies had been irreversibly influenced by the beliefs and decisions of a handful key (sic) individuals*”.<sup>312</sup>

In extreme cases, the polycentric model<sup>313</sup> can promote the individualism of the managers in each locality that *parochialism* may happen. Ethnocentrism may reach results by imposing individual opinions and styles from the HQ to the subsidiaries. Both models generate same myopia but from opposite sides.

Insofar the *Geocentric man* and the need to develop the managers individually to react in times of changes in the environment and new competitive demands were appointed as a way to overcome *parochialism*, pursue strategies and respond to challenges new. That is precedent to the structure.<sup>314</sup> Before presenting the enablers to make that happen, let us understand the typology proposed by the authors in the next section.

#### 2.4.5. The typology of international companies

The most acclaimed contribution of B&G to the management studies is the typology for MNEs proposed in their book “Managing Across Borders” from 1989 and its second edition in 1998.<sup>315</sup> The typologies count on standardizations to fit into strategies and business models, and they might neglect particular features of the firm. Notwithstanding, the methodology is useful to academic thinking precisely because of this simplification, by excluding non-recurring

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<sup>307</sup> Cf. Bartlett; Ghoshal 1998, p. 38.

<sup>308</sup> Cf. Zalan; Lewis 2006, p. 294.

<sup>309</sup> Cf. Bartlett; Ghoshal 1998, p. 62.

<sup>310</sup> Cf. Merriam-Webster Dictionary n. y.

<sup>311</sup> Cf. Collins English Dictionary n. y.

<sup>312</sup> Cf. Bartlett; Ghoshal 1998, p. 48.

<sup>313</sup> See *The role of the headquarters and subsidiaries (EPG Model)* in section 2.4.3.

<sup>314</sup> Cf. Bartlett; Ghoshal 1990.

<sup>315</sup> Cf. Bartlett; Ghoshal 1998.

aspects for the sake of the most common features and focus on them. Concomitantly, they allow some predictions.<sup>316</sup>

This typology has been influential to scholars, widely cited, and served to further research the environment, strategy, systems, structure, and processes.<sup>317;318</sup> Additionally, they had focused on the (de)centralization and networks<sup>319</sup>. They may complement the U-Model in the analysis of the internationalization.

The conceptual argument involves environmental complexity, strategic demand, and *organizational capabilities* to respond to changes in the international operating environment.<sup>320</sup> It tries to help large international companies to understand why they face more organizational deficiencies to react with local responsiveness<sup>321</sup>, global efficiency<sup>322</sup>, or worldwide innovations<sup>323</sup> than strategic mistakes.

For B&G, the *Transnational company* is the solution or mentality to resolve the hardship of internationalization and to optimize global efficiency.<sup>324</sup> The *Transnational company* had not replaced the other types, nor it is a natural evolution of them. They coexist harmoniously.<sup>325</sup> The Transnational company is an *idealized*<sup>326</sup> form to do business abroad that fits the contemporary and international dynamic operating environment<sup>327</sup>.

This research does not judge the effectiveness and superiority of one model over the others, and the next paragraphs summarize the typology.

Model I (Figure 8) is the *Multinational organization* where the assets, responsibilities, and decisions are decentralized. The control and coordination happen from personal relationships between the management at the HQ and the units. Control and governance are simple, standard, and processual. Each unit is part of a portfolio of independent national businesses focused on meeting the environment, market, and strategic objectives locally.<sup>328</sup> The differentiation is the source of competitiveness, and it captures and reacts to local trends, needs, and institutions.<sup>329</sup> It has decentralized resources, low control, and coordination, and little exchange or specialization among units. Succinctly, probably low across and high within density. This model was popular before WWII.<sup>330</sup>

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<sup>316</sup> Cf. Harzing 2000, p. 101.

<sup>317</sup> Cf. Harzing 2000, p. 102.

<sup>318</sup> Cf. Ferreira 2011, p. 359–360.

<sup>319</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 350.

<sup>320</sup> Cf. Bartlett; Ghoshal 1998, p. 19.

<sup>321</sup> Cf. Bartlett; Ghoshal 1998, p. 8.

<sup>322</sup> Cf. Bartlett; Ghoshal 1998, p. 06.

<sup>323</sup> Cf. Bartlett; Ghoshal 1998, p. 14.

<sup>324</sup> Cf. Bartlett; Ghoshal 1998, p. 20.

<sup>325</sup> Cf. Ares 2002, p. 23.

<sup>326</sup> Cf. Bartlett; Ghoshal 1998, p. 19.

<sup>327</sup> Cf. Bartlett; Ghoshal 1998, p. 19.

<sup>328</sup> Cf. Bartlett; Ghoshal 1998, p. 56.

<sup>329</sup> Cf. Bartlett; Ghoshal 1998, p. 59, 68.

<sup>330</sup> Cf. Bartlett; Ghoshal 1998, p. 55.

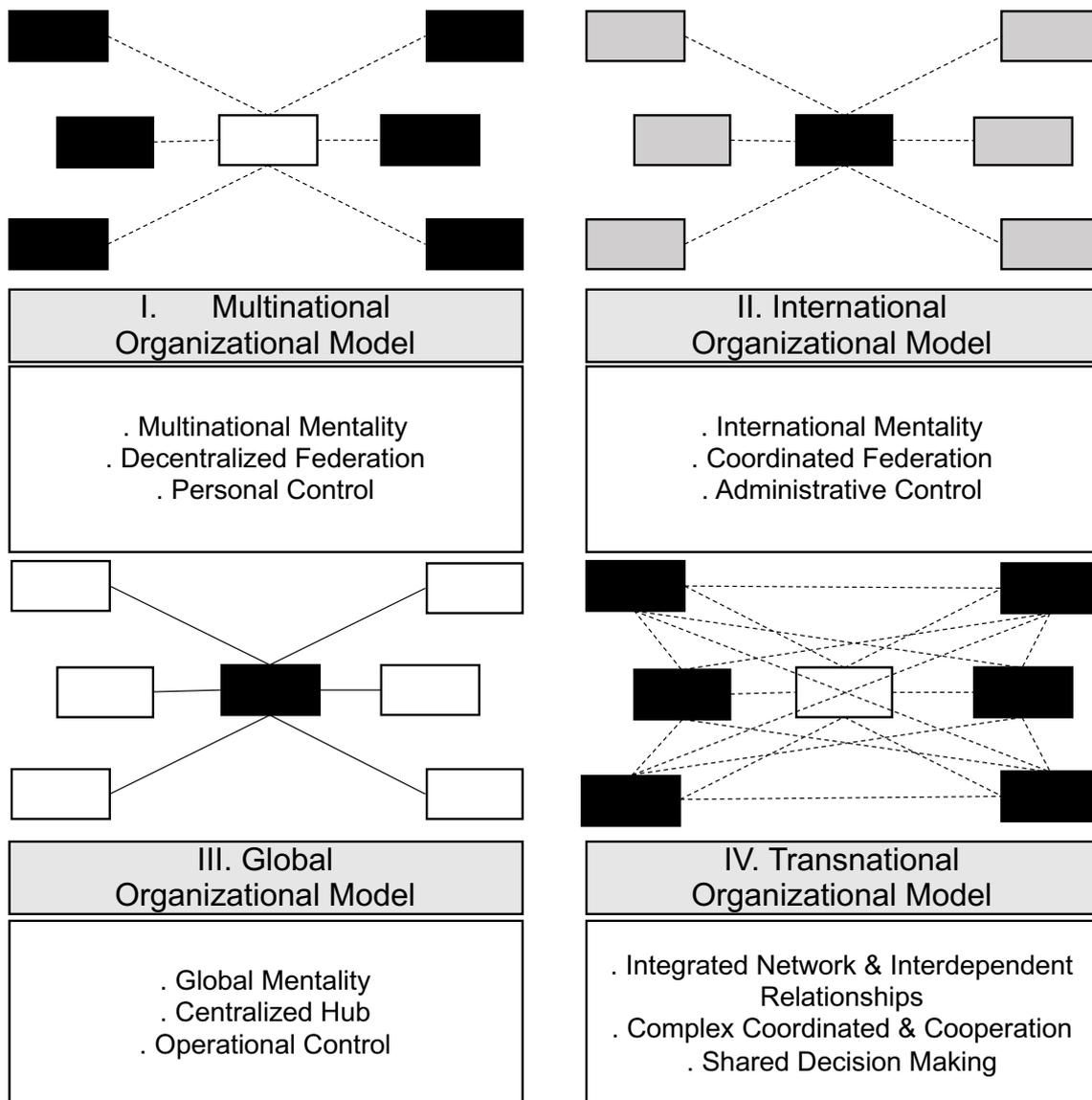


Figure 8 - Diagrams of Bartlett & Ghoshal typology

Sources: elaborated based on diagrams extracted from Bartlett & Ghoshal (1989, p. 57-58, 60, 102)<sup>331</sup>

Model II (Figure 8) is the *International organization*, which has a gradual difference from the multinational: the HQ has some roles and influence over the units mainly related to coordination and planning. There is the specialist corporate staff at the HQ that works with the units to make sure of the implementation of centrally decided plans. The management systems are more sophisticated to guarantee the information flow between the HQ and units (1:1). Local units have flexibility and autonomy to implement the corporate guidance and make the best use of *capabilities* and resources developed at the HQ, where the competitiveness of the company is originated.<sup>332</sup> This model turns the knowledge and skills into solutions for local

<sup>331</sup> Cf. Bartlett; Ghoshal 1998, p. 57, 58, 60, 102.

<sup>332</sup> Cf. Bartlett; Ghoshal 1998, p. 57, 68.

needs.<sup>333</sup> It has decentralized resources, medium to high control and coordination, and little exchange or specialization among subsidiaries.<sup>334</sup> This model was usual after WWII.

Model III (Figure 8) is the *Global organization* where the decisions and resources are highly centralized at the HQ, and it is also called a *centralized hub*. The developments and decisions are made at the HQ and transferred to the subsidiaries to implement it with little autonomy for adaptation or innovation. The management system is relevant to this model, with a unidirectional flow from corporate teams to units. It considers the world a global market, and the company pursues standards instead of customizations. The costs and global-scales efficiencies guarantee economic gains and competitiveness.<sup>335</sup> There is a centralized resources, high control, and coordination, and no exchange or specialization among units.<sup>336</sup> This model was especially standard during the '70s and '80s.

Model IV (Figure 8) is the *Transnational organization*. The maximal global efficiencies of scale and costs are the source of competitiveness. Resources and *capabilities* can be both centralized and decentralized. The most strategic and proprietary assets are usually centralized in units or HQ to be protected. There are corporate processes to maximize their full potential and decentralized to get access to scarce resources that cannot be found anywhere else with the same quality or costs, such as technology clusters, or to meet niche demands via customization.<sup>337</sup> The knowledge and the *capabilities* are dispersed, coordinated, cooperative, complex, and developed in all units (*worldwide learning*) but not in the same way and same pace.<sup>338</sup>

Transnational companies adopt diverse strategies that combine differentiation and local-to-local solutions. The HQ makes shared decisions that affect the operations in several environments globally, and there are contributions from all units in the definitions.<sup>339</sup> Its assets are, at the same time, distributed and specialized. There are a high exchange and flow of information, people, products, services, and resources, which contributes to a high interdependence and cooperation among all units, including the HQ. They are all integrated with networks.

It is difficult to define an objective criterion to identify the *Transnationals* since all aspects are so diffuse: the allocation of resources, the control, and coordination, and the specialization follow a unique logic to enhance the global competitiveness.<sup>340</sup> The global and the local are balanced in all aspects, depending on many factors related to marketing, local and corporation institutions, technologies, etc. The *Transnational companies* transcend the national boundaries and the cartesian way of doing business.

The typology of B&G was constructed based on relevant and precedent works of authors like Perlmutter, Porter, Stopford, Wells and Doz. It had influenced by itself other researches

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<sup>333</sup> Cf. Bartlett; Ghoshal 1998, p. 59.

<sup>334</sup> The exchange happens mainly between HQ and each unit but not among units.

<sup>335</sup> Cf. Bartlett; Ghoshal 1998, p. 59.

<sup>336</sup> The exchange happens mainly between HQ and each unit but not among units.

<sup>337</sup> Cf. Bartlett; Ghoshal 1998, p. 68–70.

<sup>338</sup> Cf. Bartlett; Ghoshal 1998, p. 72–73.

<sup>339</sup> Cf. Bartlett; Ghoshal 1998, p. 70–71.

<sup>340</sup> Cf. Bartlett; Ghoshal 1998, p. 72.

afterward, as presented in Appendix II.<sup>341</sup> That shows how this contribution is to the international management theory.

All the aspects related to B&G presented had fit together in this typology. Finally, it is possible to discuss their last contribution covered by this master thesis: the human resources and the role of the managers in internationalization.

#### **2.4.6. The human resources aspects**

*Transnational companies* are the supreme evolution of the internationalized companies due to the sophistication of their relationships and organization. This section talks about their tools to achieve effective human resources management, and the avoidance of *parochialism* can benefit various other companies.

At first, the *human resources management* should not be the exclusive responsibility of one department but shared among all the managers of the organization. The leaders should be co-responsible for tasks such as recruitment, training and development, mapping talents, and potentials.<sup>342</sup>

The company needs to go beyond its borders to *recruit* and search for the necessary skills and talents in a global pool, regardless of the nationality and domicile of the candidates. The current technologies, the use of online ads, access to shared databases, and professionals' network platforms like LinkedIn and XING, for example, have been helping companies to find the best candidates worldwide.<sup>343;344</sup>

The more *diverse and mixed* profiles of employees in the offices, the more the selection is based on professional attributes instead of nationalities. The better are the results and integration. The appointment of managers from home country to key positions overseas does not contribute to that.<sup>345</sup>

B&G (1998, p.48-51) agrees with Chandler (1986, p. 422-431) that corporate culture, management, and institutional environment are shaped by the national culture of the home country.<sup>346</sup> Companies from Japan, the USA, the United Kingdom, and Germany have culturally different systems because of their different origins.<sup>347</sup> The cultural aspects may become barriers to outsiders to be part of the company and also can be a barrier and risk to the internationalization process.<sup>348</sup> The mixed culture would dilute some cultural aspects, create a company-specific identity, and a welcoming environment to foreigners.

The *past success* of a candidate does not necessarily mean that the employee can handle the challenges abroad. The dynamic of the international units and the complexity of those operations demand characteristics that cannot necessarily be found at the HQ.<sup>349</sup> The

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<sup>341</sup> Cf. Harzing 2000, p. 104–105.

<sup>342</sup> Cf. Bartlett; Ghoshal 1990.

<sup>343</sup> Cf. Bartlett; Ghoshal 1990.

<sup>344</sup> Cf. Bartlett; Ghoshal 2003.

<sup>345</sup> Cf. Bartlett; Ghoshal 1990.

<sup>346</sup> Cf. Bartlett; Ghoshal 1998, p. 48.

<sup>347</sup> Cf. Chandler Jr. 1986, p. 422–431.

<sup>348</sup> Cf. Bartlett; Ghoshal 1998, p. 50–51.

<sup>349</sup> Cf. Bartlett; Ghoshal 1990.

company needs assess candidates beyond the technical, but soft skills, interpersonal competencies, and professional potential should be considered.<sup>350</sup>

There is the risk of having shared values at the subsidiary level, not aligned or in conflict with the corporate ones. In this sense, the organization should find mechanisms to calibrate the local and organizational values and guarantee that the whole organization is harmoniously moving in the same direction. The behavior of individual managers and their overall results must be aligned with the *organizational culture*.<sup>351</sup>

*Training and development* help promote the exchange among employees and build a *unique corporate culture* that permeates all levels of the organization and all locations and is aligned to the corporate goals. Initiatives to improve the professional and interpersonal relationships to develop *capabilities* and competencies help to build a shared view aligned with the culture, values, and the strategy of the organization.<sup>352</sup> Strong *across densities*<sup>353</sup> are valuable resources to managers to improve the performance of their units, and they can contribute to increasing the *centrality* of the unit.<sup>354</sup>

The engagement and *commitment* of the managers to embrace the *goals and the vision* of the company are decisive to make sure they will not fall in the trap of *parochialism* and will make decisions for the best of the global corporate strategy.<sup>355</sup>

For B&G, the manager is the key to successful strategy implementation. The organization can have different functions of managers to guarantee different accountability and roles to integrate the international presence of the organization at all levels. About the U-Model, managers promote the culture and values of the company to permeate the whole network to develop *capabilities*, new opportunities, and *trust*.<sup>356</sup>

The *Business Manager* participates actively in the strategic decisions about locations, allocations of resources in the international organizational set, the delegation of authorities, and coordination of the integrated activities and transactions across borders to improve the efficiency and competitiveness of the global operations.<sup>357</sup>

The *Country Manager*, based at the subsidiaries, takes care of local operations and serves as a sensor to map the local trends and share them within the organization and vice versa. They defend the interests of the unit within the whole organization and provide inputs to the design of the strategy, budget, market positioning, and product development, among other areas. They are either the face of the company in that location (*within density*) and a link to the rest of the organization (*across density*).<sup>358</sup>

The *Functional Manager* is technical and is responsible for an area of expertise at the subsidiary or HQs. The more the functional manager can exchange experiences inter-organization, the better the company can develop its *capabilities*, learn from the experiences

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<sup>350</sup> Cf. Bartlett; Ghoshal 1990.

<sup>351</sup> Cf. Djodat 2016, p. 07.

<sup>352</sup> Cf. Bartlett; Ghoshal 1990.

<sup>353</sup> See *The network and the densities of the organizational sets* in section 2.4.1.

<sup>354</sup> Cf. Djodat 2016, p. 30.

<sup>355</sup> Cf. Bartlett; Ghoshal 1990.

<sup>356</sup> Cf. Djodat; Zu Knyphausen-Aufseß 2017, p. 351.

<sup>357</sup> Cf. Bartlett; Ghoshal 2003.

<sup>358</sup> Cf. Bartlett; Ghoshal 2003.

of others, and find shared solutions. They promote the learning process of the organizations and the transformation of information into business intelligence.<sup>359</sup>

The *Corporate Managers* are the top executives of the company, based at the HQ. The role of these managers is very strategic and generalist. They promote the strategy within the organization, monitor the career of potential new managers within the organization, and prepare future leaders. Their eyes should capture the high potentials across borders and departments. They promote exchange and the liaison among the team members to work organically and harmoniously towards the company goals.<sup>360</sup>

The differentiation among the roles and responsibilities shows how complex these companies have become and how important it is to build a mature approach like the *Transnational mentality*.<sup>361</sup> Like the *Geocentric man* of Perlmutter (1969, p. 17-18), it is rare to find or construct it due to the difficulties of dismantling the *self*, including nationalism, pre-conceptions, and the high investment needed to form a global person.<sup>362</sup>

These managers see themselves and their subsidiaries as strategic partners of a complex network whose goal is to make coordinated decisions towards the best results for the whole, which is the long-term global competitiveness, and act accordingly.<sup>363</sup> They expose themselves and their units to a range of *stimuli*, learn, and exchange knowledge with others. In a sharing environment, every unit can benefit from the learning, developed *capabilities*, and the resources that belong to the whole organization.<sup>364</sup>

The *United Nations (UN) Model* and the *Headquarters Hierarchy Syndrome* are the counterpoints to this *Transnational mentality*. The *UN-Model* gives the same weight and treatment to every unit within the organization, neglecting the different contributions and needs.<sup>365</sup> The *Syndrome* is intuitive: the subordination relationship between HQ and subsidiaries, but that need not necessarily is genuine.<sup>366</sup>

The authors looked at the management and how strategies permeate the whole organization, and they are implemented to achieve efficiency and performance. These aspects will be relevant for the next chapter, especially if it is possible to capture human resources drivers for the international units of Fibria.

## 2.5. Conclusion of the conceptual framework and literature review

This chapter closes with an overview of the two well-known and recognized theories about the internationalization process of the companies.

The first theory, the U-Model, dated from the '70s and continuously updated, has been marked by the evolving approach of the firm. The model looked at the internationalization not only via

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<sup>359</sup> Cf. Bartlett; Ghoshal 2003.

<sup>360</sup> Cf. Bartlett; Ghoshal 2003.

<sup>361</sup> Cf. Bartlett; Ghoshal 1998, p. 117.

<sup>362</sup> Cf. Perlmutter 1969, p. 17–18.

<sup>363</sup> Cf. Bartlett; Ghoshal 1998, p. 117.

<sup>364</sup> Cf. Bartlett; Ghoshal 1998, p. 119–120.

<sup>365</sup> Cf. Bartlett; Ghoshal 1998, p. 114–115.

<sup>366</sup> Cf. Bartlett; Ghoshal 1998, p. 115.

*ownership-* and *location-specific advantages* but also at the *firm-specific advantages*. The company is continuously learning and developing its knowledge and *capabilities* to enable it to go towards international markets. There are different ways (*entry modes*) to go abroad, depending on the competencies of the firm and the respective ways to enter these markets. Trust and networks are a vicious circle to create *capabilities* and knowledge for the firm.

Different markets and locations require different approaches. Everything is intertwined with the *insidership* ability of the company to enter that market at that moment. The managers are also protagonists because the success of the company depends on their initiative to make decisions. They consider the resources available, the past experiences, and the opportunities they can find (*effectuation*). The decisions are gradual, cautious, and, if they build up *trust* among their partners, the uncertainties are reduced. The decisions to change the course of things reduce the determinism of *path-dependence* in the name of the *historical-dependence*.

B&G model has a different prism. Firstly, they look at the subsidiaries only and how the resources are allocated among them worldwide. Allocation can be dispersed or centralized, and the units are specialized or not. Specialized means higher openness to inter-organizational relationships and exchange among subsidiaries. Low specialization means that the units are more self-sufficient, and they have many more activities to perform locally and exchange less with other affiliated companies in the same organization.

B&G authors are concerned about how the allocation of these resources is decided and the role of the HQ in control and coordination over the activities of these units. It is possible that subsidiaries play a central role in the organization and not only the HQ until the level that they work as an integrated network. After observing so many aspects of the structure of the organization and their different patterns, B&G had proposed their typology for international companies.

The strategy needs to permeate all levels and locations to ensure that every individual knows its roles towards the results and avoids diffuse or *parochial* behavior.

The two theories have aspects in common, especially related to the networks and the importance of the relationships with the internal and external actors. For U-Model, the network will speed the learning processes and, therefore, the knowledge development of the firm to go further in the internationalization process. The B&G sees the network as a cause and consequence for the role of the units within the organization, the resources allocation, and institutional power in- and outside the firm. Both of them see the network as a source of power and competitiveness, a source of potential synergies, and a capture of opportunities.

Similarly, the two models see the management as the micro-agent to implement the strategies. The firm performance is the aggregated result of individual actions. Important to highlight that the final result is not the direct sum of individual actions because everything is interconnected within and outside the firm. The continuous interactions with the environment, institutions, other actors at that location and abroad generate knowledge, experiences, and *trust* but also the opposite. The manager must ensure everything happens harmoniously for the best of the whole company and not only for themselves.

There was no indication of any contradictory aspect between the selected theories in this literature review. The two approaches are very distinct in their essences, but they do not contradict each other from the perspective of this research.

Finally, there is a congruence between the two selected theories, and there is a lack of empirical work to confirm them too. The numerous variables and the companies are so dynamic and diverse that it is not a trivial task to formulate robust research. It is also difficult to access comparable information about these companies. To humbly contribute to this field, the next chapter is dedicated to the empirical analysis of the company Fibria to find the elements to assess the theories and vice versa.

## **Chapter 3: The empirical analysis of the international positioning of Fibria under the perspectives of the selected theories**

At this point, the reader has already reviewed the theoretical framework, exploring the elements of the selected theories and the main aspects of the internationalization relevant to answering the proposed research questions. The two theories are widely accredited worldwide, and many empirical studies have been developed to assess the models. Nevertheless, there is still a lack of more empirical investigations in these fields.

The present thesis intends to contribute to that research focusing on one of the most relevant and successful Brazilian companies: Fibria S.A.<sup>367</sup> The company was the market leader in the pulp and paper industry worldwide until 2019 when Suzano acquired it.

This chapter introduces the company, presents the marketing features of the pulp business, and analyzes the international positioning of Fibria from the perspective of U-Model and B&G model.

Section 3.1 is dedicated to providing a general overview of the company and its revenue in 2018. The following item, 3.2, introduces the main features of the business, covering aspects such as the product, the industry in Brazil, the pricing, and the competitive strengths of the firm. Thus, the reader learns the country-specific advantages and the sources of competition for the company.

Section 3.3 portrays the internationalization. Based on the literature review, the criteria to describe and review the most relevant aspects of the international presence of Fibria were selected. This section ends with a brief comparison of the global structure of the Brazilian competitors.

Unit 3.4 describes the management, engagement, and culture in the international units of Fibria to map how the participation of employees and the dissemination of the corporate culture inside and beyond the company gates happened. It tackles human resources and the role of the managers, included in both selected models.

The final remarks in section 3.5 relate Fibria to the literature review. This section aims to summarize the impressions observed from the company profile and prepare the elements to answer the research questions in the following chapter.

The information in this chapter is available and public according to the indicated sources. The figures are related to 2018 unless otherwise mentioned. The specific information obtained from interviews are cited accordingly, and the lists of interviewees are available in the Appendices. The complete transcriptions of the interviews are not public due to privacy protection. The authorizations to use of the information are restricted to citations. The interviewees did not allow the publishing of the full or part of the transcriptions.

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<sup>367</sup> In 2018, Fibria occupied the 36<sup>th</sup> position in the ranking of the 1,000 largest Brazilian companies from all sectors. (Valor Econômico 2019.).

### 3.1. The company

In 2018, Fibria was a Brazilian exporter and, at the same time, the global leader in the bleached eucalyptus kraft pulp (BEKP) market. This section introduces the macro presence of the company worldwide and its key figures.

The extensively cultivated forests in Brazil were one of the most strategic assets of the company, which enabled the production of 7.25 million tons of pulp in 2018. Its four mills were located in Brazil. One of them, Veracel, was a joint venture with group Stora Enso, a Finnish player in the global industry.<sup>368</sup> Fibria employed more than 5,000 workers<sup>369</sup> in Brazil, the United States, Canada, Hong Kong, and Austria.<sup>370</sup> Additional information about the controlling shareholders of Fibria is available in Appendix III.

In 2018, Fibria was an Investment Grade company according to Standard & Poor's and Fitch. Its EBITDA margin of 58% and USD 5 billions of revenue in that year. Table 6 shows that the company was financially sound.<sup>371</sup>

Its clients were large companies with commercial relationships for more than 20 years in most cases.<sup>372</sup> The four largest customers corresponded to 42% of the revenues in 2018.<sup>373</sup> The clients were leading global paper manufactures of sanitary paper & tissue (54%), printing and writing (31%), and specialties (15%) in 2018.<sup>374;375</sup> Many contracts are long-term, and few of them had exclusivity clauses.<sup>376</sup>

Sales by market	Net revenue in 2018				Market Share
	Amount in BRL millions		Amount in USD millions		
EMEA	BRL	6,005	USD	1,643	33.0%
North America	BRL	3,141	USD	859	17.0%
Asia	BRL	7,385	USD	2,020	40.0%
Brazil and others	BRL	1,734	USD	474	10.0%
<b>Total net Revenue</b>	<b>BRL</b>	<b>18,264</b>	<b>USD</b>	<b>4,997</b>	<b>100.0%</b>
Average exchange rate	BRL	3.66			

Table 6 - Net revenue in 2018 by market in BRL and USD

Source: calculated from Fibria Celulose S.A. (2018b, p. 87) and USD dollars average exchange rate from the IRS of the United States of America.<sup>377;378</sup>

According to Table 6, the Asian market accounted for 40% of the net sales that year, followed by EMEA with 33%, North America with 17%, and 10% in South America, including Brazil.<sup>379</sup>

<sup>368</sup> Cf. Fibria Celulose S.A. 2017n, p. 13.

<sup>369</sup> Cf. Fibria Celulose S.A. 2017n, p. 07.

<sup>370</sup> Cf. Fibria Celulose S.A. 2018c, p. 371.

<sup>371</sup> Cf. Fibria Celulose S.A. 2018b, p. 94.

<sup>372</sup> Cf. Fibria Celulose S.A. 2017f, p. F-36.

<sup>373</sup> Cf. Fibria Celulose S.A. 2018b, p. 51.

<sup>374</sup> Cf. Fibria Celulose S.A. 2017f, p. 38.

<sup>375</sup> Cf. Fibria Celulose S.A. 2018b, p. 95.

<sup>376</sup> Cf. Fibria Celulose S.A. 2017g, p. 41.

<sup>377</sup> Cf. Fibria Celulose S.A. 2018b, p. 87.

<sup>378</sup> Cf. Internal Revenue Service of the United States of America n. y.

<sup>379</sup> Cf. Fibria Celulose S.A. 2018b, p. 95.

The exports generated 90% of the revenues from more than 35 countries.<sup>380;381</sup> China was the most significant market and consumed 34% of the global supply of fibers in 2017.<sup>382</sup>

The following section summarizes the particularities of the pulp business that explain a few advantages of Fibria.

## **3.2. The business**

Understanding the business is necessary to recognize the sources of competitiveness of the company and to understand the contribution of the international operation. The product is introduced, followed by an overview of the pulp industry in Brazil and the pricing. The last block brings the main competitive strengths of Fibria. Altogether, this section shows what a consolidated leader in this market means and highlights the origin of its advantages.

### **3.2.1. The product**

BEKP, the only product of Fibria, is a short and hardwood variety of fiber, mainly used to manufacture tissue, printing, and writing paper grades and special papers.<sup>383</sup> Further information about its applications and substitutes is available in Appendix IV.

Figure 9 shows that Fibria produced 25% of the BEKP globally consumed.

The main plantations of eucalyptus trees are in Brazil and India. China, Vietnam, South Africa, Angola, Spain, and Portugal are also producers.<sup>384</sup>

The advantages of Brazil in comparison with other tropical countries with similar soils and climate comes from the persistent efforts in technological developments in forestry and biotechnology, carried out by Brazilian universities and research centers of companies in the sector for more than 60 years.<sup>385;386</sup> Interestingly, the favoritism of Brazil was confirmed by all representatives of the competitors interviewed for this research.<sup>387;388;389;390</sup>

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<sup>380</sup> The number of countries is based on data from 2017.

<sup>381</sup> Cf. Fibria Celulose S.A. 2017n, p. 07.

<sup>382</sup> Cf. Fibria Celulose S.A. 2017g, p. 07.

<sup>383</sup> Cf. Colodette et al. 2006, p. 01.

<sup>384</sup> Cf. OECD 2014, p. 17.

<sup>385</sup> Interview by e-mail with Mr. Jose Luciano Penido, Chairman of the BoD of Fibria, on 06.04.2020.

<sup>386</sup> Cf. Fibria Celulose S.A. 2017f, p. 32.

<sup>387</sup> Interview by video conference with Mr. Carlos Anibal Junior, Commercial Officer for Pulp Business of Suzano, on 09.04.2020.

<sup>388</sup> Interview by e-mail with Mr. Fernando Antonio Elias, General Exports Manager of Klabin S.A, on 07.04.2020.

<sup>389</sup> Interview by e-mail with Mr. Fabio Almeida de Oliveira, Director of International Operations of Suzano, on 06.04.2020

<sup>390</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe of Eldorado, on 06.04.2020.

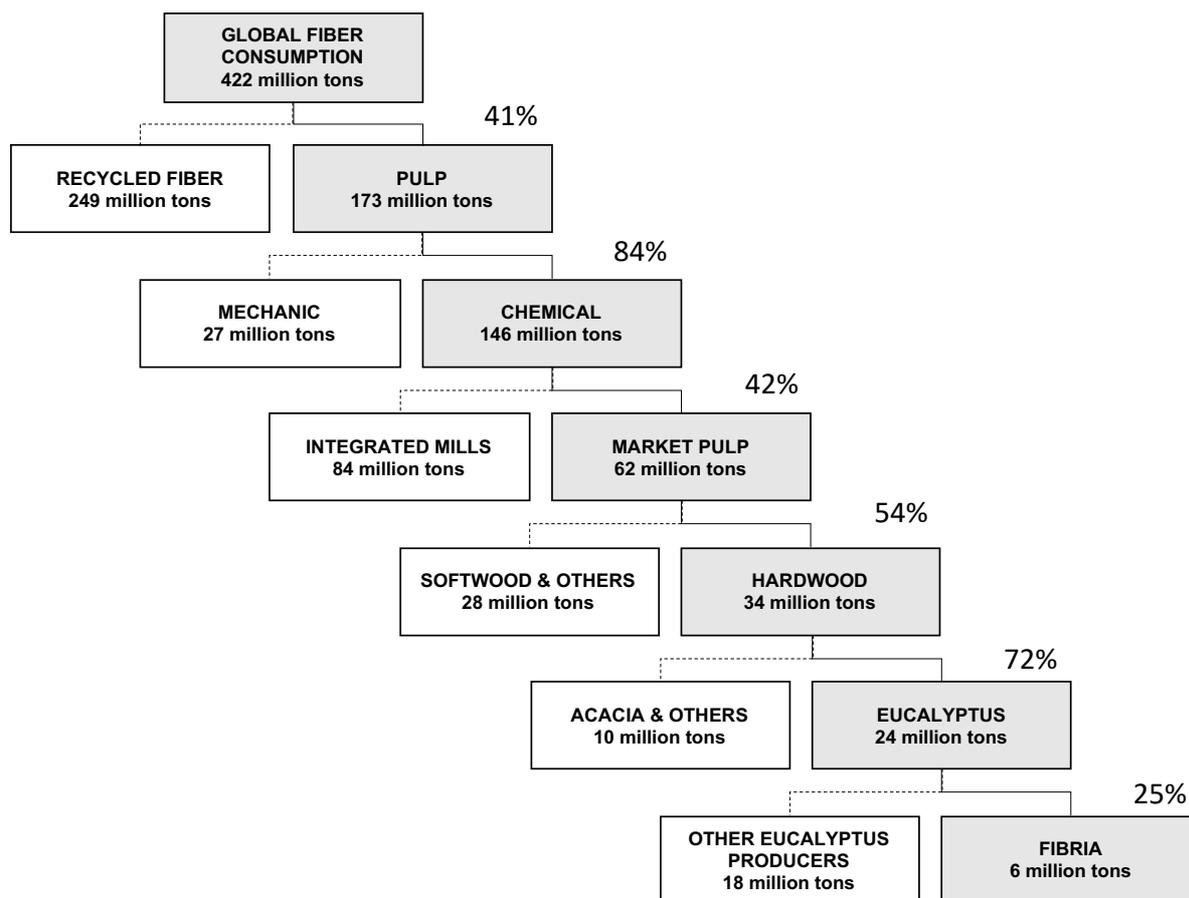


Figure 9 – Global fiber consumption in 2017 (RISI & PPPC)

Source: Fibria Celulose S.A. (2017f, p. 32.)<sup>391</sup>

The shorter life cycle of eucalyptus trees is an ecological appeal and source of advantage to other fibers. While the eucalyptus in Brazil is ready to be harvested in 6 to 7 years, it can take between 8 to 10 years everywhere else. It takes from 25 to 70 years to harvest the softwood species in the Northern Hemisphere.<sup>392</sup> Additionally, as shown in Figure 10, the Brazilian species of eucalyptus have a higher density of fibers with higher productivity per hectare (ha), which is an advantage for many reasons, such as the lower requirements for land, capital investment, and expenses with chemicals and harvesting, for example, to produce the same volume of pulp.

In many documents, Fibria had referred to the customization of its products, and, for this work, it is necessary to analyze what they meant and what is the purposes.<sup>393;394;395</sup> Pulp is a commodity with technical specifications that give different features to the applications. Fibria had an extended portfolio of products due to specifications, product variation among mills, and pulp certification<sup>396;397</sup>. That did not provide relevant customization since the customers did

<sup>391</sup> Cf. Fibria Celulose S.A. 2017f, p. 32.

<sup>392</sup> Cf. Fibria Celulose S.A. 2017g, p. 40, 55.

<sup>393</sup> Cf. Fibria Celulose S.A. 2017g, p. 48.

<sup>394</sup> Interview by e-mail with Mr. Fabio Almeida de Oliveira, Director of International Operations at Suzano, on 06.04.2020

<sup>395</sup> Interview by e-mail with Mr. Ari Tapani Borg, Head of the Commercial Office in Austria, on 06.04.2020.

<sup>396</sup> Custody chain certification, like Forest Stewardship Council (FSC) and Cerflor/Program for the Endorsement of Forest Certification Schemes - PEFC, assures the origin of the pulp from planted trees and not native trees.

<sup>397</sup> Cf. Fibria Celulose S.A. 2017g, p. 56.

not pay a significant premium to have it: another producer could easily replace the pulp from Fibria. Following the terminology of B&G, there was no need for local responsiveness in this industry because the product was the same for all markets. To increase the fidelity, Fibria used its multiple SKUs, its technical assistance, and R&D to improve the few features of the pulp that, consequently, enhances the performance of the production of its customers. In some cases, Fibria became the sole supplier of its clients.<sup>398;399</sup>

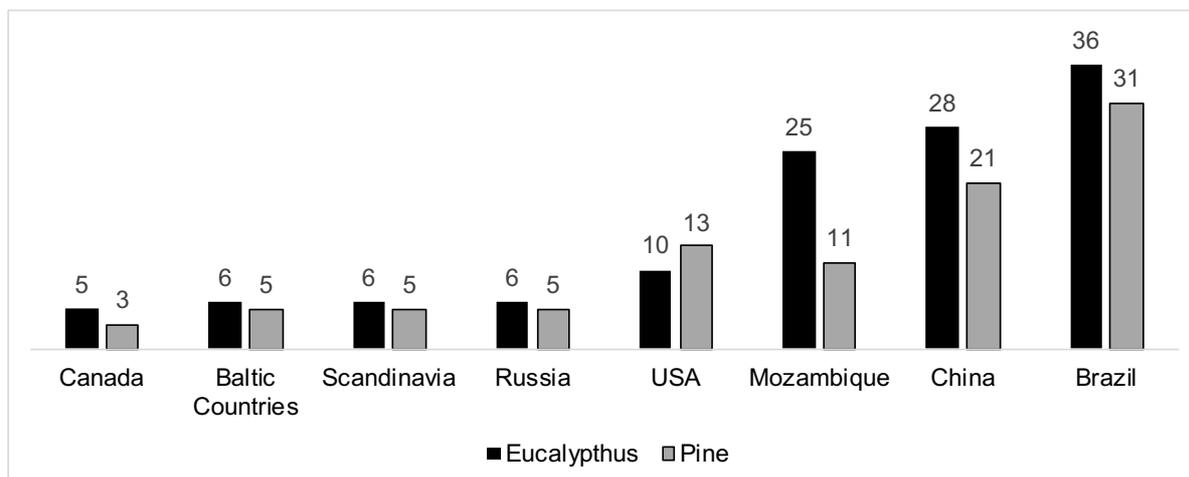


Figure 10 - Productivity of forests by country (m3/ha/year)

Source: extracted from Ernst & Young Assessoria Empresarial Ltda. (2018, p. 11).<sup>400</sup>

The product has ecological, financial, and productivity leverages, and the company is benefiting from these positions. The next section introduces more sources of advantages of Fibria.

### 3.2.2. Industry

The direct competitors of Fibria are the producers of hardwood pulp since the fibers are interchangeable and may provide similar features to the final products. The global leadership of Fibria, which produces only BEKP, is noticed even when compared with manufacturers of BHKP from other countries and that use other trees.<sup>401</sup>

In 2018, 52% of the global BHKP demand or 18 million tons/year, was produced by the ten most significant producers of BHKP in Brazil, as represented in Figure 12. The Brazilian companies accounted for 77% of the referred capacity, while relevant Brazilian-based competitors accounted for 37%. The other largest producers excluded from this research had a foreign origin.

<sup>398</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer, on 03.06.2020.

<sup>399</sup> Interview by e-mail with Mr. Danilo Oyakawa, Technical Assistance Managers for Europe and Asia, on 04.04.2020.

<sup>400</sup> Cf. Ernst & Young Assessoria Empresarial Ltda. 2018, p. 11.

<sup>401</sup> See Appendix XXI.

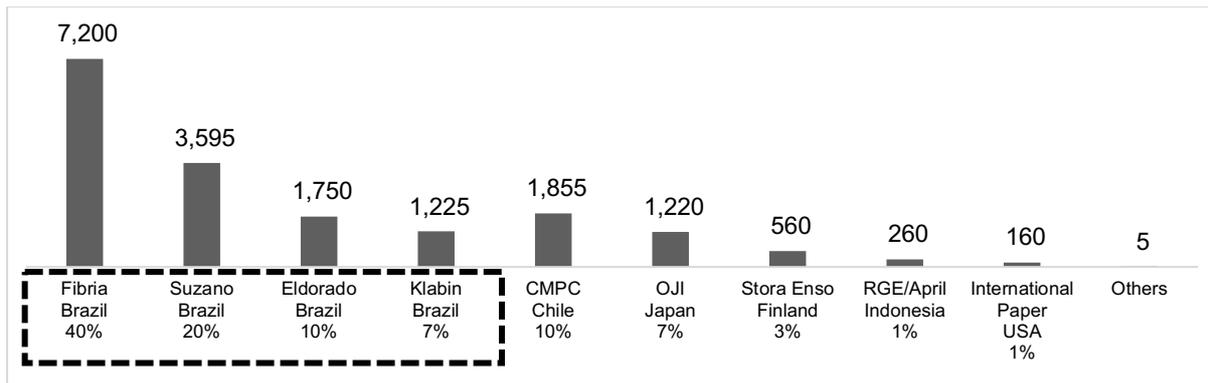


Figure 11 - 10 largest installed capacity of BHKP in Brazil in 2018 (ktons/year)

Source: prepared based on data received from Mr. Joao Cordeiro, Senior Principal at AFRY Management Consulting, on February 10, 2020.

The limitation of the scope with Brazilian companies only enables the comparison of similar firms that compete in the markets with the same product, produce at the same level of costs, and share the cultural and institutional environments in Brazil. Therefore, the selected companies are Suzano and Eldorado. Klabin was not considered as a competitor given its unique relationship with Fibria that will be detailed shortly in this chapter. Before that, the next section discusses the pricing mechanism.

### 3.2.3. The pricing

Like other commodities, the price of BEKP is mainly defined by supply and demand in each market, with small variations due to the incoterms.<sup>402</sup> Many factors can influence the prices in the short and long term, like the economic environment, performance of mills, changes in installed capacities, supply and demand of finishing products, or raw materials, among others.<sup>403</sup> The global level of stocks also indicates the room for price adjustments.<sup>404;405;406</sup>

Appendix V brings additional information, but the conclusion is that companies have limited influence in prices and cannot control them given the market features, such as:

- i) significant contracts have price mechanisms based on price indexes to avoid vulnerabilities, bargains or long price negotiations,
- ii) many customers are essential players in their segment, and they have a stronger bargaining position than the pulp suppliers, and
- iii) the stock level in the whole supply chain in this industry can be used to balance the prices.<sup>407;408</sup>

<sup>402</sup> Cf. Fibria Celulose S.A. 2017f, p. 36.

<sup>403</sup> Cf. Fibria Celulose S.A. 2017g, p. 07.

<sup>404</sup> Cf. Fibria Celulose S.A. 2017f, p. 36.

<sup>405</sup> Cf. Fibria Celulose S.A. 2018a, p. 20.

<sup>406</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer of Fibria, on 03.06.2020.

<sup>407</sup> Cf. Fibria Celulose S.A. 2017f, p. 36.

<sup>408</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer of Fibria, on 03.06.2020.

Once the country and the industry were introduced, the following section seeks other competitive strengths from the perspective of the company.

### 3.2.4. The competitive strengths

During many decades of operations, Fibria built its leadership based on its capabilities and beneficial decisions. The company published the most important competitive advantages from their perspective, and they are presented in the next subsections by area of its *value chain*.

#### 3.2.4.1. The forest and the wood supply

The core competitiveness factor of the BEKP companies comes from the forest.<sup>409;410</sup> Besides the *country-specific advantages*, other advantages originated from agriculture.

The transportation of the wood to the mill is the critical cost of production. Short distances between the forest and the mill are a significant cost-advantage.<sup>411</sup> The average radius registered by Fibria in the 4<sup>th</sup> quarter of 2018 was 205km.<sup>412</sup> The successful planning in silviculture and optimization of logistics options are the success factors here.<sup>413; 414</sup>

Fibria investments in agriculture technologies covered many areas targeting the sustainable use of resources to increase productivity and reduce costs.<sup>415</sup>

The access to the land for plantations is another advantage of Brazil. The country has large areas for agriculture available. The downside is that the company mills are located in populated and expensive neighborhoods in the Southeast and Midwest regions. The company competed for the land with other pulp producers and cultures.<sup>416</sup>

R&D projects had increased the density of fibers of the trees and shortened the harvest cycle of the trees to impact the productivity per ha.<sup>417</sup> Figure 10 shows that Brazil has the highest productivity per ha among the producers, which reduces the capital expenditure with land and the formation of forests.

The technologies portfolio has a spectrum of subjects, including breeding and genetic improvement by clones, genetic transformation, and mutagenesis, to seek different results like resistance improvements of trees, productivity, and chemical consumption reduction. It also covers machinery, equipment, and process innovations in seeding, harvesting, and logistics to make them more efficient.<sup>418</sup>

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<sup>409</sup> Interview by video conference with Mr. Carlos Anibal Junior, Commercial Officer for Pulp Business of Suzano, on 09.04.2020.

<sup>410</sup> Interview by e-mail with Mr. Fernando Antonio Elias, General Exports Manager at Klabin S.A, on 07.04.2020.

<sup>411</sup> Cf. Fibria Celulose S.A. 2017g, p. 61.

<sup>412</sup> Cf. Fibria Celulose S.A. 2018b, p. 04 of 4Q18 Results.

<sup>413</sup> Cf. Fibria Celulose S.A. 2017e.

<sup>414</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe for Eldorado, on 06.04.2020.

<sup>415</sup> Cf. Fibria Celulose S.A. 2017l.

<sup>416</sup> Cf. Fibria Celulose S.A. 2017g, p. 09.

<sup>417</sup> The production requires half of the land that was needed 40 years ago, thanks to the R&D. (Fibria Celulose S.A. 2017g, p. 40.)

<sup>418</sup> Cf. Fibria Celulose S.A. 2017g, p. 40, 55, 100–101.

Theoretically, another country at the same latitude, like in Africa or South America, could offer the same country-specific advantages in terms of soil and climate to produce eucalyptus. In practice, no one has done that yet because Brazilian producers are decades ahead in terms of research and accumulated knowledge from other foreign competitors.<sup>419;420</sup> For example, Fibria had at least 25 species of eucalyptus protected by patents.<sup>421</sup>

The state-of-art technology and developed knowledge are competitive advantages not restricted to agriculture. Production benefits from that as well, as discussed in the next block.

#### 3.2.4.2. The mills

Modern mills and investment in technologies resulted in efficiency in chemical consumption and self-sufficiency in thermal and electrical energy. The company has the lowest production costs in the industry, especially in Tres Lagoas and Veracel mills.<sup>422</sup> The large capacity in each mill, as shown in Figure 12 below, also brings significant economies of scale<sup>423</sup> that are difficult to copy.

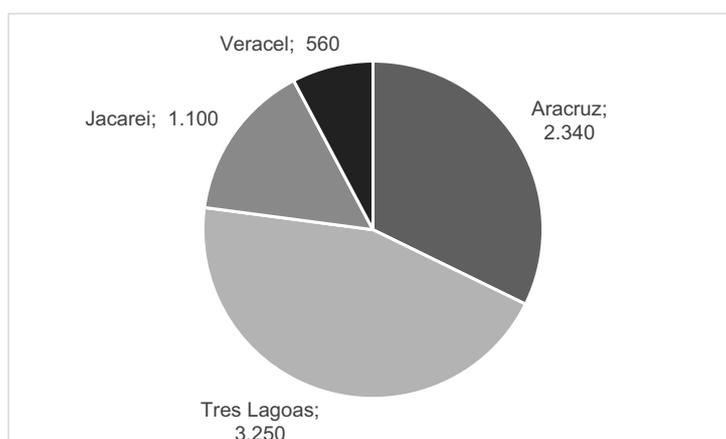


Figure 12 - Production capacity per mill (ktons)

Source: prepared based on the data available at Fibria S.A. (2017: 58)<sup>424</sup>

The four different sites enable the company to shift the orders from one mill to another to meet the needs of its customers<sup>425</sup> and to plan the production, setup of machines, and maintenance downtimes efficiently. The massive capacity also enables the company to be the sole supplier of a few strategic customers and mitigate the operational risks of natural disasters. This same capacity made Fibria the global market leader in BEKP for many years.

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<sup>419</sup> Cf. Fibria Celulose S.A. 2017g, p. 100.

<sup>420</sup> Interview by e-mail with Mr. Jose Luciano Penido, Chairman of BoD of Fibria, on 06.04.2020.

<sup>421</sup> Interview by e-mail with Mr. Fabio Almeida de Oliveira, Director of International Operations at Suzano, on 06.04.2020

<sup>422</sup> Cf. Fibria Celulose S.A. 2017g, p. 40, 57.

<sup>423</sup> Cf. Fibria Celulose S.A. 2017g, p. 39.

<sup>424</sup> Cf. Fibria Celulose S.A. 2017g, p. 58.

<sup>425</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer, on 03.06.2020.

The domestic market in Brazil is too small to absorb the vast production of Fibria, and internationalization was unavoidable.<sup>426</sup>

Associated with this large capacity, smart and competitive logistics solution would be required. The next section provides an overview of the advantages in that area.

#### 3.2.4.3. The supply chain

In developing countries like Brazil, the logistics infrastructure could be a bottleneck for a company with many mills and volume for handling. Fibria invested in logistics solutions to build an efficient supply chain from the forest to the mills of their customers abroad. The company used the delivery to the customers, called *door-to-door* by the CEO<sup>427</sup>, as a differentiation in its services recognized as a strength by its competitors.<sup>428;429</sup>

The company used different freight modals to reduce transportation costs. It counted on combinations of trucks, trains, coastal vessels, and barges to take the wood from the forest to mills. Trains or barges were used to deliver the finished goods to customers or the port.<sup>430</sup>

Fibria operated in partnership with vessel companies to ship the pulp to the international ports of destination. There, the pulp was stored in warehouses owned and operated by third parties.<sup>431; 432</sup> Multiple-year contracts usually bounded the relationship with logistics suppliers, and they are examples of *trust*, *commitment*, and investments in the specialization. The agreements with STX Pan Ocean and Verbrugge are good examples of this situation in Appendix VI.

There were several strategic partnerships and logistics contracts, including with ports in Brazil, not listed here. The above mentioned was enough to show how the company worked in dyadic relationships with strategic partners to build *trust*, reduce uncertainties, develop *capabilities*, and seek joint opportunities. The access to all of these relationships helped Fibria to maintain its cost competitiveness, regularity, and efficiency in the services along its supply chain.

#### 3.2.4.4. Other advantages

There could be many other details that differentiate Fibria and guarantee its competitive advantages. It is beyond the ambition of this work to list all of them. Nevertheless, at least one last example can illustrate hard-to-copy competitive advantages: the offtake agreement with Klabin.

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<sup>426</sup> Interview by video conference with Mr. Carlos Anibal Junior, Commercial Officer for Pulp Business of Suzano, on 09.04.2020.

<sup>427</sup> Interview by e-mail with Mr. Marcelo Strufaldi Castelli, CEO and Chairman of the Board of Officers of Fibria, on 08.04.2020.

<sup>428</sup> Interview by e-mail with Mr. Fabio Almeida de Oliveira, Director of International Operations of Suzano, on 06.04.2020

<sup>429</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe of Eldorado, on 06.04.2020.

<sup>430</sup> Cf. Fibria Celulose S.A. 2017g, p. 61–63.

<sup>431</sup> Cf. Fibria Celulose S.A. 2017g, p. F-28.

<sup>432</sup> Interview by video-conference with Ms. Marina Negrisoli, Head of the Commercial Office of Fibria in the USA, on 10.04.2020.

Klabin is listed among the Brazilian competitors<sup>433</sup>, but they compete exclusively in South America.<sup>434</sup> In 2016, Klabin started up its first greenfield of BEKP. Instead of letting a new competitor with no experience with BEKP into the market<sup>435</sup>, Fibria offered to buy 0.9 million tons of BEKP p.y. to re-sell to its customers using its international commercial structure and expertise.<sup>436</sup> The alliance with Klabin was a strategic move to prevent another player in the international market and to increase its market share without increasing the global capacity. No other competitor had ever made such an agreement to avoid a new entrant in Brazil. More details are in Appendix VII.

Section 3.2 presented several sources of advantages of Fibria. Many country-related aspects, such as the unique productivity of trees in Brazil and the availability of land for extensive agriculture close to the mills. Others are related to the *factors of production*, such as the high requirement of working capital and capital expenditure (land, forest formation, and mills), high productivity of the forests and mills, economies of scale, state-of-the-art technology in different fields, substantial investment in R&D, self-sufficiency in energy, among others. Few elements are related to the company strategy for cost optimization and increase of productivity with high stakes in innovation and long-term partnerships with main customers and suppliers in the industry to the point of reaching high *commitments* and positive lock-in situations with strategic value for its leadership. Brazilian competitors are similarly positioned, but Fibria still has the advantage of its long years in the business and the largest market share.<sup>437;438</sup>

However, this situation results from country-specific advantages (resources endowment and institutional advantages) and firm-related advantages combined and developed in Brazil. They exist regardless of the international structure since the volumes could be, for example, directly exported with the help of agents<sup>439</sup>. Therefore, readers should ask themselves what the advantages of the international structure of the company were. The next section tries to answer that by analyzing what the international presence of Fibria and its contributions to the business was.

### 3.3. The company internationalization

Let us take a look at the company and compare it to the international presence of its competitors.

The first part of this section focuses on the international structure of Fibria to seek elements of *density* and *centrality* of its subsidiaries. At the same time, it intends to understand the role of each subsidiary and its motivations within the international setup of the company.

It is difficult to establish any causality between Fibria and its competitors without a longitudinal approach. However, the second part of this section tries to find similarities among their

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<sup>433</sup> See *The industry* in section 3.2.1.

<sup>434</sup> Interview by e-mail with Mr. Fernando Antonio Elias, General Exports Manager of Klabin S.A, on 07.04.2020.

<sup>435</sup> Interview by e-mail with Mr. Fernando Antonio Elias, General Exports Manager of Klabin S.A, on 07.04.2020.

<sup>436</sup> Cf. Fibria Celulose S.A. 2015, p. 02–03, 06.

<sup>437</sup> Cf. Porter 1990, p. 41, 127.

<sup>438</sup> Cf. Zhang 2016, p. 112–115.

<sup>439</sup> See *Entry modes* in section 2.3.8

international presence to find evidence of the mimetic isomorphism<sup>440</sup>. If there are any unique aspects of Fibria, they may be more apparent after this exercise.

### 3.3.1. The internationalization of Fibria

Fibria had 90% of its revenues from the international markets, but is this enough to make Fibria an internationalized company? Why did the company opt for internationalization? The following categories try to build an overview of the organization to answer these questions. The choices of criteria and itemization of the analysis were inspired by the work of Welch & Luostarinen (1988, p. 38-43)<sup>441</sup>, Dunning (2008)<sup>442</sup> and many other authors cited in this work.

The international units of Fibria were mapped and consolidated in Table 7. By applying the terminology of Table 2 from Chapter 2, the firm had used different legal modes abroad. The grey area of Table 7 below shows the wholly-owned subsidiaries controlled by Fibria, targets of this research. The others were disregarded by considering that they serve the strategy of third parties not covered by the present scope.

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<sup>440</sup> See *The role of the headquarters and subsidiaries (EPG Model)* in section 2.4.3.

<sup>441</sup> Cf. Welch; Luostarinen 1988, p. 38–43.

<sup>442</sup> Cf. Dunning; Lundan 2008.

Name of the subsidiary abroad	Country	Controlled by Fibria? (Y/N/Shared)	Has employees? (Y/N)	Nationality of the Country Manager of the controlled subsidiary at the end of 2018	Holding shares in other companies (HOLDING)	RD&I and Venture Capital (R&D)	Finance (issuing bonds and notes to the market) (FINANCE)	Management, sale, operation, logistics, control and accounting of products (TRADE)
Fibria Overseas Holding KFT	Hungary	Yes	No	N/A	●			
Fibria Trading International KFT	Hungary	Yes	No	N/A				●
Fibria Celulose (USA) Inc.	USA	Yes	Yes	Brazilian & Italian				●
Fibria International Trade GmbH	Austria	Yes	Yes	Finnish				●
Fibria International Trade GmbH - Branch	Hong Kong	Yes	Yes	German				●
Fibria Overseas Finance Ltd	Cayman Islands	Yes	No	N/A			●	
Fibria Innovations Inc	Canada	Yes	Yes	British & Canadian		●		
Votorantim Overseas Trading Operations Limited IV	Cayman Islands	Shared	N/A	N/A			●	
Ensyn Corporation	USA	No	N/A	N/A		●		
CelluForce, Inc.	Canada	No	N/A	N/A		●		
F&E Technologies LLC	USA	No	N/A	N/A		●		
Spinnova Oy	Finland	No	N/A	N/A		●		

Table 7 - International subsidiaries of Fibria (2017/2018)

Source: elaborated from Fibria Celulose S.A. (2017a, p. 67–68).<sup>443</sup> The data about employees and country managers were obtained from interviews (Appendice XIX), LinkedIn profiles, and PPI Transport Symposium 21 (2015).<sup>444</sup>

<sup>443</sup> Cf. Fibria Celulose S.A. 2017f, p. 67–68.

<sup>444</sup> Cf. PPI Transport Symposium 21 2015.

### 3.3.1.1. Operations

The company approach in each unit was analyzed to find how they were designed and how they were operating. The identification of four types of operations in place abroad (commercial, finance, R&D, and legal /corporate law) was possible from the available data and interviews with the employees of Fibria.

The commercial operation was divided by market and geographic area. The production is located in Brazil, and the international units were exclusively dedicated to the sales and distribution of the goods abroad. The sales teams were allocated in trade companies in the target regions. Due to the proximity and the lack of evidence of any sales office or employees located in any other country in South America, this consumer market was likely supplied directly from Brazil. Local teams coordinated the logistics, back-office, and accounting activities related to sales.<sup>445;446</sup>

In 2016, the company decided to relocate the position of Global Commercial Officer (GCO) from the headquarters to the office in Austria. Considering the distribution of sales by market, this move reshaped the commercial operations by moving its commercial executive from the smallest market (South America) and placing him at the geographical center. That shortened his business trips to visit customers in Asia and improved the daily interactions with all markets due to the time zone.<sup>447</sup> Above all, the center of the commercial decisions moved from the HQ and inevitably raised the *centrality* of the Austrian unit.

The second driver, the finance, was used to achieve better conditions in the international capital markets.<sup>448</sup> Interest rates were cheaper in developed markets than in emerging markets, and a global finance operation could secure competitive funding, like pre-exports and bonds. Consequently, it reduced company capital costs.<sup>449</sup>

The two financial subsidiaries in Cayman<sup>450</sup>, shown in Table 7, were used to issue bonds into the international market.<sup>451</sup> The long-term export credits were used to refinance debts and to fund the operations. Until 2013, the trade companies in Hungary and later Austria were engaged in agreements guaranteed by export contracts and receivables of international customers.<sup>452</sup>

The third type of operation is related to R&D, new business prospection, and venture capitals. That strategy led Fibria to invest in businesses in the USA, Canada, and Finland, according to Table 7.

For many years, the company promoted the exchange and networking with other international institutions and companies to keep them updated about the state-of-the-art knowledge,

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<sup>445</sup> Interview by e-mail with Ms. Marina Negrisoli, Head of the Commercial Office in the USA, on 10.04.2020.

<sup>446</sup> Interview by e-mail with Mr. Ari Tapani Borg, Head of the Commercial Office in Austria, on 06.04.2020.

<sup>447</sup> Cf. Fibria Celulose S.A. 2017b.

<sup>448</sup> Brazil has a high country-risk ("Brazil / Economic Studies - Coface" n. y.) and high transaction costs. (Zylbersztajn; Graça 2003, p. 23–26.)

<sup>449</sup> Interview by e-mail with Mr. Guilherme Perboyre Cavalcanti, Chief Financial Officer of Fibria, on 02.04.2020.

<sup>450</sup> The company has 50% of shares of the company Votorantim Overseas Trading Operations Limited IV. The control is shared with Votorantim Participações S.A. and it was used to issue one bond to the market in 2005. (Fibria Celulose S.A. 2017g, p. 94.)

<sup>451</sup> Cf. Fibria Celulose S.A. 2017g, p. 90–91, 94.

<sup>452</sup> Cf. Fibria Celulose S.A. 2017g, p. 92.

understand the market trends, and monitor the competition in the industry. When Fibria decided to set its R&D and innovation operations abroad, it mapped the technologies of interest and started to prospect in biorefinery and development of new materials. The Brazilian options were very limited or non-existing to meet the needs of the company at that moment. The search identified startups and venture capitals in Canada and Scandinavian as the best options. Recently, the regions were prominent in forest product researches.<sup>453</sup>

The fourth type is the legal operation, specifically related to the case of Fibria Overseas Holding Kft. Unfortunately, there is little public information about this operation. The company holds the shares of another company in Hungary, Fibria Trading International Kft, and it had no significant revenues in the last years. Its equity was *circa* USD 114,000 in 2018, and it had no employees.<sup>454</sup> These are hints that the company was not operational or relevant for this research.

### 3.3.1.2. Sales objects

In many cases, internationalization requires the customizations or differentiation of products to achieve markets in different countries. This national responsiveness would make internationalization more complex, and it is one of the main elements of analysis for B&G.

However, as explained previously in this work, this industry does not require any local responsiveness, and the goods were 100% produced in Brazil and exported to all markets.

### 3.3.1.3. Target markets

It was a strategic decision to be close to the markets and clients to develop a long-term relationship. The company tried to avoid the use of traders or agents, except for the markets where the firm was still developing relationships or had a non-recurrent business (spot sales). Internationalization was gradual. It started with the opening of the international offices and followed with the transfer along the years of the activities like sales, logistics, and back-office from the HQ to the units abroad.<sup>455;456</sup> The significant step happened in 2016 with the transfer of the GCO to Austria<sup>457</sup>.

Due to the absence of a longitudinal research in this work, it is not possible to make any assumptions about the past. Nevertheless, regardless of how gradual the process was or how the order to enter was decided, the company successfully overcame the *outsidership*, and that is our focus here. The facts have shown that Fibria sold to 35 countries in 2017, and there were offices located in only four countries where the cultures and institutions were quite different from their home country.

The Uppsala model<sup>458</sup> predicted that large companies might have available resources to expand abroad without compromising the existing operations. These companies can also engage experts and consultants to enter new markets or use their experiences acquired

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<sup>453</sup> Interviews by e-mail with Mr. Fernando Bertolucci, Chief Officer of R&D at Fibria, on 14.04.2020.

<sup>454</sup> Cf. Fibria Celulose S.A. 2018b, p. 62.

<sup>455</sup> Interview by e-mail with Mr. Marcelo Strufaldi Castelli, CEO and Chairman of the Board of Officers of Fibria, on 08.04.2020.

<sup>456</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe for Eldorado, on 06.04.2020.

<sup>457</sup> See *Operations* in section 3.3.1.1.

<sup>458</sup> See *The Uppsala Model* in section 2.3.

during previous expansions to expand to new markets with marginal efforts.<sup>459;460</sup> There are strong indications that Fibria could have taken advantage of all of them, as indicated in the following paragraphs.

Fibria was born in 2009 from the merger between VCP S.A. and Aracruz S.A. The two companies had a long history in this industry in Brazil. In Appendix VIII, there are indications that Aracruz was born to be the largest pulp producer in Brazil to supply the international market in the '60s.<sup>461;462</sup> VCP was younger but also focused on the export.<sup>463</sup> Along their trajectories, both companies had accumulated *capabilities*, experiences, and resources to continue the internationalization.

It is difficult to affirm how much engagement from third parties the company used to support its international presence and overcome the *outsidership*. However, it is possible to see that the company had the financial power to do so if it was needed. For example, in 2018, the company spent USD 46 millions<sup>464</sup> with administrative services rendered by third parties such as lawyers, consultants, and others. This amount is almost as high as the USD 48 millions payroll expenses in the same period.<sup>465;466</sup>

The economic scale and the sound financial situation of the company may have helped it overcome the hardships inherent to the internationalization process.

#### 3.3.1.4. Organizational capacity

The organizational capacity could be measured by the strengths of the company that enabled it to expand abroad. The presented competitive advantages were associated with the operational *capabilities* and competitiveness of Fibria, mainly associated with Brazil. What other factors could contribute to an international presence?

This section searches for the answer to this question in the management and the corporate culture, as they are central elements of internationalization in the view of B&G. They may indicate how prepared the organization is to handle different countries and different markets.

Table 7 shows that the Country Managers of the subsidiaries were not nationals from the country where they were based. Coincidentally or not, only the Brazilian one had worked at the HQ before.<sup>467</sup>

The Head of the Austrian office had a very international background with personal and professional experiences in several countries. He had lived in more than seven countries, spoke fluently seven languages, and always worked for highly internationalized companies. He managed an office that employed around 30 people with more than ten different nationalities in 2018. Despite being located in Austria, the unit had clients in Germany, Italy,

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<sup>459</sup> Cf. Johanson; Vahlne 1990, p. 12.

<sup>460</sup> Cf. Andersen 1993, p. 211.

<sup>461</sup> Interview by e-mail with Mr. Jose Luciano Penido, Chairman of the BoD of Fibria, on 06.04.2020.

<sup>462</sup> Cf. Lorentzen 2000, p. 05, 08.

<sup>463</sup> Cf. Votorantim Celulose e Papel S.A. 2005, p. 45, 75.

<sup>464</sup> The equivalent to BRL 168 millions translated to USD by using the average exchange rate of BRL3.66. (Internal Revenue Service of the United States of America n. y.)

<sup>465</sup> The equivalent to BRL 174 millions translated to USD by using the average exchange rate of BRL3.66. (Internal Revenue Service of the United States of America n. y.)

<sup>466</sup> Cf. Fibria Celulose S.A. 2018b, p. 89.

<sup>467</sup> Cf. Negrisoni 2020.

UK, Poland, France, and Turkey. These customers were also international businesses with operations all over EMEA.<sup>468</sup>

The Head of Fibria Innovations in Canada was a British citizen with second citizenship from Canada. Due to his private and professional experiences, he also had a long international experience. He led 16 people from 12 different countries that spoke all together 20 different languages. The *psych distance* between its unit and the HQ was minimized by the alignment of the organizational culture and the values that contributed to bringing the people together. Although language barriers caused by not everyone at the HQ spoke English, it was said that was easy to get along and work with Brazilian colleagues.<sup>469</sup>

The Head of United States operations is Brazilian, with a second citizenship from Italy. She had lived in different areas in the United States and Denmark besides Brazil. The office in North America is not as diverse as the others. In 2018, the employees in that office were all Brazilians except for one person from Venezuela.<sup>470</sup>

The Head of the Hong Kong branch was a German citizen. The employees were mainly locals, but they interacted with the whole APAC area, including China Mainland.<sup>471;472</sup> Chinese and Brazilians seem to get along too, and the business environment and the institutions in China are welcoming foreign companies.<sup>473</sup> However, the association between Brazilian companies and locals (employees, agents, advisors, and others) to do business in China is unavoidable, especially to overcome the cultural barriers and the institutional framework.<sup>474</sup> Fibria had done that by associating themselves with sales agents in different areas of China Mainland.<sup>475</sup>

From the perspective of the Administrative Managers, their units influenced the elaboration and implementation of the company strategy and decisions at the global level. That was achieved by adopting a participative and collaborative approach to build the strategy and review it whenever was necessary.<sup>476;477</sup> Shortly, more details about the process will come.

Since 2016, the move of GCO<sup>478</sup> improved the organizational capacity from the perspective of the employees of the units, especially in Austria. His presence brought more agility to the decision-making process, dissemination of goals and strategy, and contributed to better sharing of the company values.<sup>479</sup> This change also increased the autonomy of the teams.<sup>480</sup> One possible explanation is the embeddedness: by working together, the team built social relations, and the positive experiences built the *trust* among themselves.

The organizational culture and more details about the strategy will be discussed later on in this chapter. The examples show that the company had managers and teams prepared to

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<sup>468</sup> Interview by e-mail with Mr. Ari Tapani Borg, Head of the Commercial Office in Austria, on 06.04.2020.

<sup>469</sup> Interview by e-mail with Mr. Michael Rushton, Head of Fibria Innovations in Canada, on 02.04.2020.

<sup>470</sup> Interview by e-mail with Ms. Marina Negrisoli, Head of the Commercial Office in the USA, on 10.04.2020.

<sup>471</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe for Eldorado, on 06.04.2020.

<sup>472</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer, on 03.06.2020.

<sup>473</sup> Interview by e-mail with Ms. Fran Tu, Senior Legal Counsel of Vale S.A. in China, on 13.05.2020.

<sup>474</sup> Interview by e-mail with Ms. Fran Tu, Senior Legal Counsel of Vale S.A. in China, on 13.05.2020.

<sup>475</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer, on 03.06.2020.

<sup>476</sup> Interview by e-mail with Ms. Nicole Bello, Administrative Manager in Austria, on 04.05.2020.

<sup>477</sup> Interview by e-mail with Ms. Yolanda Kwow, Administrative Manager in Hong Kong, on 19.05.2020.

<sup>478</sup> See *Operations* in section 3.3.1.1.

<sup>479</sup> Interview by e-mail with Ms. Nicole Bello, Administrative Manager in Austria, on 04.05.2020.

<sup>480</sup> Interview by e-mail with Mr. Ari Tapani Borg, Head of the Commercial Office in Austria, on 06.04.2020.

work in an international environment, with a foreign background and experiences to confirm that. The Country Managers unanimously recognized the global *capabilities* of the company during the interviews for this work.

Lastly, cultural diversity was weak at the HQ and corporate areas in Brazil. The global decisions that affected the international offices, like the HR policies, for example, should consider cultural diversity. It would be helpful to have at least people with international experiences working in these areas to have empathy and understanding of the local differences and needs. Unfortunately, this was not the case in every site, and that was a weakness of Fibria.<sup>481</sup>

### 3.3.1.5. Personnel

This section does not intend to discuss how human resources and the management of Fibria were organized. Each subsidiary was imbedded into an institutional environment that had both the local and global perspectives.<sup>482</sup> The aim is to look at how Fibria handled the activities that resulted from its presence in different countries.

Accounting is one example of this dichotomy since the international unities must comply locally with the statutory requirements of the country where they are incorporated, and likely they have to report to the HQ according to the standards and requirements of the home country for consolidation.

Possibly, this is the case of Fibria International Trading in Austria. The Consolidated Financial Statements of Fibria Group are published in IFRS and Brazilian Reais.<sup>483</sup> The Austrian law requires that the company prepares its financial statements in Euros according to specific General Accepted Accounting Principles of Austria.<sup>484</sup> There are considerable differences between the documents, and the international unit has to produce both. The workload can be multiplied by as many subsidiaries the company has abroad since hardly any other country would accept the Brazilian Reais as a functional currency.

One success factor for international companies is to hire employees and set processes that can handle all the specificities imposed by this global versus local context.

Fibria hired personnel with complementary backgrounds to have different expertise in the controllership area, for example. The team had to take care of numerous countries covered by the company operations, including the countries where Fibria was and where the firm sold and delivered its products. The activities were related to accounting, reporting, and tax activities of all international subsidiaries.<sup>485</sup>

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<sup>481</sup> Interview by e-mail with Ms. Marina Negrisoli, Head of the Commercial Office in the USA, on 10.04.2020.

<sup>482</sup> See *The network and the densities of the organizational sets* in section 2.4.1.

<sup>483</sup> Cf. Fibria Celulose S.A. 2018b, p. 14.

<sup>484</sup> Cf. PwC Austria 2018, p. 03.

<sup>485</sup> Interview by e-mail with Mr. Tiago Sousa Seixas, International Controllership Coordinator in Austria, on 30.05.2020.

The technical experience was required to guarantee the individual compliance requirements in each country and identify potential cross-border impacts and restrictions. The interest to work in multicultural environments and fluency in English was also mandatory.<sup>486</sup>

The area comprises a relatively small multidisciplinary and multi-tasking team that included experience in internal audit, treasury, shared service center, financial accounting, cost accounting, international taxation, and internal controls. All this knowledge was needed to perform the daily routine of the area.<sup>487</sup>

For new situations, Fibria relied on the expertise of advisors at the country level and worked to internalize the knowledge to pursue future autonomy. The constructive long-distance working relationship with the other units was vital to guarantee the business alignment with all interfaces.<sup>488</sup>

The complexity is valid not only for the controllership but also for other areas like the legal department. They had to understand the formal aspects of the legal system of the relevant jurisdiction and how the laws and regulations were applied by the competent authorities and complied by the parties.<sup>489</sup>

#### 3.3.1.6. Organizational Structure

The core element to discuss the organizational structure is how the company departments work together and align with the international operation. Additionally, it is needed to assess how the strategy and decision-making process flow across the organization.

The strategic planning and the budgeting processes were selected to exemplify the internal processes of the company. They show how participative and interconnected the different areas and units were at the international setup. The long- and short-term planning was similarly prepared, collaboratively, and involving different organization levels.<sup>490</sup>

The inputs and ideas for the strategic planning construction were discussed and decided by the managers of all areas of the company, including the international units. The budgeting preparation engaged people from different hierarchical levels in a more comprehensive and inclusive process. There were three rounds of bottom-up inputs and reviews with the final validation by the executive board, followed by the approval of the BoD. The last step was the widely internal communication of the targets to all areas.<sup>491;492</sup>

The achievements of targets related to the budget, such as EBITDA and free cash flow, were rewarded with the annual variable remuneration program offered to the management. The

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<sup>486</sup> Interview by e-mail with Mr. Tiago Sousa Seixas, International Controllership Coordinator in Austria, on 30.05.2020.

<sup>487</sup> Interview by e-mail with Mr. Tiago Sousa Seixas, International Controllership Coordinator in Austria, on 30.05.2020.

<sup>488</sup> Interview by e-mail with Mr. Tiago Sousa Seixas, International Controllership Coordinator in Austria, on 30.05.2020.

<sup>489</sup> Interview by e-mail with Mariangela Bartz, Legal Officer of Fibria S.A., on 11.05.2020.

<sup>490</sup> Interview by e-mail with Mr. Alex Fabiano Cintra, Controller Manager of Fibria in Brazil on 27.05.2020.

<sup>491</sup> Since 2014, the Zero-based budgeting (ZBB) methodology had improved the “cost management culture” of Fibria. (Fibria Celulose S.A. 2017g, p. 40.)

<sup>492</sup> Interview by e-mail with Mr. Alex Fabiano Cintra, Controller Manager of Fibria in Brazil on 27.05.2020.

model was efficient, convergent with strategic planning, and mobilized the whole organization to pursue the same short- and long-term goals.<sup>493</sup>

Monthly, the corporate controllership area consolidated the results and coordinated the construction of the rolling forecast based on the inputs and analysis provided by each area worldwide. The executive board followed up the achievements of the goals monthly, had updates about its completion, and the management could make route corrections or find new opportunities that came up throughout the year.<sup>494</sup>

Another example was the annual commercial planning involving all units. The sales offices were insiders of Fibria in the most relevant markets, to track what was happening and exchange information across the organization. The close interaction among all international and domestic units was key to boost the exchange of information and knowledge within the networks.

The integration of the international offices and departments into the decision-making processes happened with projects and regular initiatives. The people from all units felt part of Fibria.<sup>495</sup>

Fibria Annual Meeting (FAM), held in Brazil by the commercial area, was one of these initiatives. The representatives of all departments could exchange knowledge and strategies with the audience from all units, improve the network, and get to know their co-workers. There were team building activities between the commercial and logistics teams to strengthen the relationships and brainstorming sections to collect strategical inputs for budgeting and planning. At the beginning of the following year, the representatives from all units met again in Austria to follow-up, fine-tune, and review the outputs from the last FAM.<sup>496</sup>

More contributions to this topic will come when the strategy, engagement, and culture are analyzed in this chapter.

The above examples show efforts to integrate the management and employees in its decisions and processes by creating multidisciplinary projects and events that allowed the exchange, networking, and alliances within the organization.

### 3.3.1.7. Finance

From the Brazilian perspective, it was critical to have international funding and strategies related to working capital, capital expenditure, and cost management. Besides that, the company was subject to other risks inherent to a global operation, such as currency and credit risks. This section provides new inputs about that area.

While revenues from exports were mainly in USD, production costs were in Brazilian Reais. The company used economic hedges against the currency, cash flow, interests and

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<sup>493</sup> Interview by e-mail with Mr. Alex Fabiano Cintra, Controller Manager of Fibria in Brazil on 27.05.2020.

<sup>494</sup> Interview by e-mail with Mr. Alex Fabiano Cintra, Controller Manager of Fibria in Brazil on 27.05.2020.

<sup>495</sup> Interview by e-mail with Ms. Nicole Bello, Administrative Manager in Austria, on 04.05.2020.

<sup>496</sup> Interview by e-mail with Ms. Nicole Bello, Administrative Manager in Austria, on 04.05.2020.

commodity price risks.<sup>497</sup> The access to international financial markets favored the company, especially to access competitive loans and to reduce its leverage.<sup>498;499</sup>

The credit committee periodically reviewed the credit position of each client individually. The clients were mainly large companies and with a long and trustful relationship with Fibria. The credit risk was covered by the letter of credits or credit insurance when needed.<sup>500</sup>

From its financial statements, the conclusion is that Fibria was financially well prepared for internationalization.

### 3.3.1.8. Motives

It was a conscious decision of this research to place the motives after the detailed description of the operations. Now the reader should be able to connect the dots of the international positioning of Fibria. The companies may have diverse motives to internationalize, which also determine their methods of operations and other aspects of the internationalization. The operations of Fibria were discussed<sup>501</sup>, but what were the motivations?

Inspired by Welch & Luostarinen (1988, p. 50-54)<sup>502</sup> and further inputs from Chapter 2, a few possible and non-exhaustive motives for the internationalization are listed in the case of Fibria.

The first motive is access to markets and consumers beyond the firm domestic market share. The production capacity of Fibria was large, and it was never meant to be absorbed by the Brazilian market. On the contrary, both VCP and Aracruz, antecessors of Fibria, as described in Appendix VIII, were born to be exporters and expand their sales abroad.<sup>503</sup>

The second motive is the access to specific knowledge, competencies, and technologies. By accessing the international markets, the company could identify opportunities to balance growth, profitability, and risk mitigation through investments in new technologies, innovation, and business acquisitions. The potential resulting diversification was also an alternative to equalize the country-risk associated with Brazil and to its restricted portfolio. The aim was to achieve a stable cash flow, reduce the cost of capital, and improve the valuation multiples. The company decided to focus on bio-business as an alternative for its core resource: the forests.<sup>504</sup>

The third motive is to be part of a network with strategic suppliers, technologies, and customers in *business clusters*. Although there are no clusters for the pulp industry, the Brazilian players chose to operate in similar locations abroad, especially in the USA and Austria. The selection of Canada, the USA, and Scandinavian countries to invest in innovation

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<sup>497</sup> Cf. Fibria Celulose S.A. 2017g, p. F-33.

<sup>498</sup> Cf. Fibria Celulose S.A. 2018b, p. 94.

<sup>499</sup> Interview by e-mail with Mr. Guilherme Perboyre Cavalcanti, Chief Financial Officer of Fibria, on 02.04.2020.

<sup>500</sup> Cf. Fibria Celulose S.A. 2018b, p. 35.

<sup>501</sup> See *Operations* in section in section 3.3.1.1.

<sup>502</sup> Cf. Welch; Luostarinen 1988, p. 50–54.

<sup>503</sup> Interview by video conference with Mr. Carlos Anibal Junior, Commercial Officer for Pulp Business of Suzano, on 09.04.2020.

<sup>504</sup> Interviews by e-mail with Mr. Vinicius Nonino, Chief Officer of Strategy and New Business at Fibria, on 14.05.2020.

was motivated by their relevance in forest-related technologies and research. Fibria would be close to that community of researchers.<sup>505;506</sup>

The fourth motive is to mitigate risks and uncertainty. Based on what has been discussed, Fibria reduced financial risks (accessing stable capital markets and creating cash flow in a strong currency like USD, for example)<sup>507</sup> and commercial risks (overcoming risks associated with cultural barriers and inserting themselves into the networks, for example)<sup>508</sup>. Another potential motivation could be the protection of profits by placing its operations in countries with a double-tax-treaty with Brazil, like Austria, Canada, and Hungary.<sup>509</sup>

Johanson & Vahlne (2009, p. 1412)<sup>510</sup> mentioned that one motivation for internationalization could be the increase of the *commitment* with partners to avoid that they abandon the strategy, i.e., to create strong bonds and *quasi lock-in* situations. In the case of Fibria, the *commitment* is genuine, but the causality is not. The decision to go abroad was likely taken from the motives mentioned above, and that resulted in the creation of local *commitments* with suppliers, like the example of Verbrugge.<sup>511</sup>

Other potential motives do not match the experiences of Fibria.

One example is the control of the supply chain, of the sources of resources, of strategic assets in the industry, and of prices to create barriers to new competitors. It does not seem valid in the case of Fibria since the main competitive advantages are at the earlier stage of the value and supply chain in Brazil, and internationalization would not bring benefits in this matter.

Another potential motive would be the access to resources that can lead to productivity and cost advantages reflected directly in the margin. This motive seems not to be valid in Fibria because it has not identified any production site that can provide more advantages than Brazil.<sup>512</sup> The internationalization strategy can be motivated by more than one reason since they are not mutually excluding.

### 3.3.1.9. Intensity and *centrality*

The constructions of indexes and the degrees of internationalization is a complex subject and not yet resolved by the literature.<sup>513</sup> That is beyond the scope of this work, but there are two simple ways to measure the internationalization of Fibria without stepping into this debate about graduation.

The first is *centrality*, which is a comparison to measure the inter-organization interactions of each unit. The more interactions the unit has, the more central it is. The second way is to look

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<sup>505</sup> Interviews by e-mail with Mr. Fernando Bertolucci, Chief Officer of R&D at Fibria, on 14.04.2020.

<sup>506</sup> Interviews by e-mail with Mr. Vinicius Nonino, Chief Officer of Strategy and New Business at Fibria, on 14.05.2020.

<sup>507</sup> Interview by e-mail with Mr. Guilherme Perboyre Cavalcanti, Chief Financial Officer of Fibria, on 02.04.2020.

<sup>508</sup> Interview by e-mail with Mr. Ari Tapani Borg, Head of the Commercial Office in Austria, on 06.04.2020.

<sup>509</sup> This motivation had not been mentioned in any interview or report. However, it was observed that there are double tax treaties in place in three countries where the company has a presence. That could be a coincidence or not. (Receita Federal do Brazil 2020.)

<sup>510</sup> Cf. Johanson; Vahlne 2009, p. 1412.

<sup>511</sup> See *The supply chain* in section 3.2.4.3, or more details in Appendix VI.

<sup>512</sup> See *The forest and the wood supply* in section 3.2.4.1.

<sup>513</sup> Cf. Ietto-Gillies 2010, p. 15–16.

to a list of criteria and contextualize the intensity of the international structure without any intension of judgment or comparison to other companies.<sup>514</sup>

The concept of *nodes* was used by B&G<sup>515</sup> to measure the relationship between the units within the inter-organizational networks. That information was not available to be measured due to confidentiality bounds. This research created a methodology, detailed in Appendix X, to have an objective comparison among the sample units. Table 8 shows that each unit was scored according to perspectives and criteria that potentially indicate more activities and more transactions. Higher scores mean the *centrality* of the international units.

Regarding the *centrality*, it is possible to observe that the subsidiary in Austria (total score 7) had a central role in the international structure of Fibria, followed by the subsidiary in the United States (overall score 6).

The Canadian R&D unit and Hungarian trading are at the intermediate level of *centrality*. Fibria Innovations Inc. had a strategic role but was not a source of revenue for the company and, for this reason, occupies an intermediate *centrality* among its sisters. Fibria Trading International Kft had no employees nor revenues identified by this research. The trade seemed non-operational, but, according to methodology, the company received an intermediate score for being the only subsidiary with two shareholders.

The Hong Kong Branch, the financial company in Cayman and the holding company in Hungary had the lowest protagonism among this constellation due to their legal and operational nature that resulted in limitations.

This research had selected a few criteria to assess the intensity of the units of Fibria abroad. They were the number and size of units abroad, the contribution of each unit to the consolidated results of the company, the number of countries where the company has units, the management, and ownership distribution, where the higher-value activities allocation, the governance levels, and the autonomy or capacity to take local decisions. Table 8 was designed to measure the *centrality* and not the intensity. However, it contains various information that can help the assessment of the intensity of the units in the next paragraphs.

The first criterion is the *number and size of subsidiaries abroad* controlled by the company. There were only six subsidiaries and one branch relevant to this research. Their size can be measured by the score for the *financial perspective* in Table 8. The USA and Austria are the two significant subsidiaries (score 2) due to their revenues. The financial company in Cayman is medium size (score 1) due to the materiality of its assets and liabilities resulting from the funding activity.

The second criterion is the *share* of its foreign affiliates into the consolidated results of Fibria. Only two units (the USA and Austria) had revenues, and they sum USD 5.3 billions together. There is a high concentration of revenues in only two units that perform relatively simple sales activities.<sup>516;517</sup>

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<sup>514</sup> Cf. Dunning; Lundan 2008.

<sup>515</sup> See *The power, control, and centrality* in section 2.4.2.

<sup>516</sup> The USA and Austrian units added up BRL 19 billions, here translated to USD according to the average foreign rate of BRL3.66 (Internal Revenue Service of the United States of America n. y.

<sup>517</sup> Interview by e-mail with Mariangela Bartz, Legal Officer of Fibria S.A., on 11.05.2020.

The next criterion is the *number of countries* where the company owns or controls value-added activities. There were seven units in six countries<sup>518</sup> since Hungary hosts two subsidiaries. Austria, the USA, Hong Kong, and Canada are the countries where the company has a permanent establishment via subsidiaries and branches. From these countries, in 2017, the sales team did business in more than 35 countries, which shows their high *capillarity*.

The fourth criterion is the *management or ownership* internationalized. Fibria was the ultimate owner of all units presented in Table 8. There were employees and local management allocated to three subsidiaries and one branch. Due to the lack of revenues and employees, one could argue that the Hungarian subsidiaries were not operative in 2018. The lack of public information about the company in Cayman and its intra-group funding purpose might indicate that the corporate treasury area in Brazil supervised its operations.<sup>519</sup> The management was internationalized only in four units, and, possibly, the others were managed directly by the HQ.

The fifth criterion is the internationalization of *higher-value activities* to measure the weight of foreign activities into the knowledge of the company. In the case of Fibria, this is clear for the activities of R&D. The fact that the Canadian company detains patents also indicates a valuable business there.

The activities of the sales offices had a high contribution per headcount since they accounted for 90% of the revenues. However, the most valuable assets and sources of competitiveness of the pulp business are located in Brazil and not in the sales office. Abroad, there are only a limited number of activities.<sup>520</sup>

Regarding the effectiveness of its *governance* over the international network, it seems that the company managed it well based on public evidence. Fibria was a Sarbanes-Oxley certified company<sup>521</sup> and worked with internal boards and committees whose members were the executives or external experts, not directly involved with the operations.<sup>522</sup> These bodies issued their opinions on the whole operation of the company.

The company also published in English and Portuguese several corporate policies and guidance on its website. The analyzed samples are listed in Appendix XX. By making the documents public, the company showed a *commitment* to governance and raised awareness among stakeholders on how it was functioning in different areas.

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<sup>518</sup> The 4 distribution centers in North America, 6 in Europe and 2 in Asia used by Fibria were owned and operated by third parties. They do not match the definition of a permanent establishment in section 1.4. (Fibria Celulose S.A. 2018b, p. 26.)( Fibria Celulose S.A. 2017i.)

<sup>519</sup> Cf. Fibria Celulose S.A. 2017g, p. 90.

<sup>520</sup> Interview by e-mail with Mariangela Bartz, Legal Officer of Fibria S.A., on 11.05.2020.

<sup>521</sup> Cf. Fibria Celulose S.A. 2017i.

<sup>522</sup> Cf. Fibria Celulose S.A. 2017g, p. 103–110.

	Fibria International Trade GmbH.	Fibria Celulose (USA) Inc.	Fibria Innovations Inc.	Fibria Trading International KFT	Fibria International Trade GmbH. - Branch	Fibria Overseas Finance Ltd	Fibria Overseas Holding KFT	
Legal status	Sub	Sub	Sub	Sub	Branch	Sub	Sub	
Country of incorporation	Austria	USA	Canada	Hungary	Hong Kong	Cayman Islands	Hungary	
Number of shareholders	1	1	1	2	1	1	1	
<b>CORPORATE PERSPECTIVE SCORE</b> (sum of the number gray cells & subsidiaries)	<b>2</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>2</b>	
Main activities (form 20F)	Trade	Trade	RD&I	Trade	Trade	Finance	Holding	
Has office and employees? (approx. number of employees in 2018)	Yes (approx. 30 people)	Yes (approx. 10 people)	Yes (approx. 16 people)	No	Yes (number not available)	No	No	
Is the global head of the area located in that unit?	Yes	No	No	No	No	No	No	
<b>OPERATIONAL PERSPECTIVE SCORE</b> (sum of number of gray cells)	<b>3</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>0</b>		
Net revenues in 2018	BRL 16,288,377	BRL 3,140,877	BRL -	BRL -	BRL -	BRL -	BRL -	
Total Assets in 2018	BRL 21,935,069	BRL 651,846	BRL 18,596	BRL 418	BRL -	BRL 7,411,093	BRL 481	
Total Liabilities in 2018	BRL 15,723,316	BRL 501,739	BRL 1,437	BRL 160	BRL -	BRL 7,374,180	BRL 39	
Equity in 2018	BRL 6,211,753	BRL 150,107	BRL 17,159	BRL 258	BRL -	BRL 36,913	BRL 442	
Relevance of the Assets and Liabilities of the company (by materiality)	High	High	Small	Small	Null	High	Small	
<b>FINANCIAL PERSPECTIVE SCORE</b> (sum of number of gray cells)	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	
<b>TOTAL SCORE</b> (sum of corporate, operational & financial scores)	<b>7</b>	<b>6</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>2</b>	
	HIGHER SCORE ←-----						-----> LOWER SCORE	

Table 8 - Scoring the subsidiaries and branches controlled by Fibria

Source: elaborated by the author from various sources, as follow: i) corporate perspective: countries from Fibria S.A. (2017: 67)<sup>523</sup> and shares from Fibria Celulose S.A. (2018b: 16, 62)<sup>524</sup>; ii) operational perspective: activities from Fibria S.A. (2017: 67)<sup>525</sup>, offices and employees from Fibria Celulose S.A. (2017d)<sup>526</sup> & interviews with the Head of each subsidiary<sup>527</sup>, and relocation of the commercial executive from Fibria Celulose S.A. (2017a.)<sup>528</sup>; iii) Financial perspective: copied or calculated from Fibria Celulose S.A. (2018b: 62)<sup>529</sup>.

<sup>523</sup> Cf. Fibria Celulose S.A. 2017g, p. 67.

<sup>524</sup> Cf. Fibria Celulose S.A. 2018b, p. 16, 62.

<sup>525</sup> Cf. Fibria Celulose S.A. 2017g, p. 67.

<sup>526</sup> Cf. Fibria Celulose S.A. 2017i.

<sup>527</sup> From the interviews with the heads of the international offices (Appendix XIX), the headcount in the trade companies were estimated as presented in the Table 8. There was no information for Hong Kong, but for being just a branch of the Austrian company, it is expected to be smaller than the 30 employees of its principal.

<sup>528</sup> Cf. Fibria Celulose S.A. 2017b.

<sup>529</sup> Cf. Fibria Celulose S.A. 2018b, p. 62.

Unfortunately, the *autonomy or the capacity* to take *local decisions* related to, for example, the disposal of assets, finance, and marketing, among others, depends on the individual by-laws and powers delegated to its legal representatives. This information is not publicly available. The management of each unit participated in corporate decision processes, but this research is unable to evaluate how empowered they were to make their own decisions about the local operations.

The internationalization of Fibria has been described under numerous perspectives. The next step is to look for similarities in the international positioning of competitors.

### **3.3.2. The internationalization of its Brazilian competitors**

From public data and interviews with Eldorado, Suzano, and Klabin, the leading Brazilian competitors of Fibria, it was possible to assume that their international positioning was quite similar to the strategy of Fibria. Their operations were not analyzed in-depth, but it was possible to find similarities and differences among them.

Table 9 compiled the analysis of the international subsidiaries of these competitors. The methodology adopted to build the table is presented in Appendix XI.

All companies, especially Eldorado and Suzano, were similarly positioned in what was referred to as a *standard strategy* during the interviews. The main competitors were selling to the same markets, and their sales teams were based in similar countries.<sup>530</sup>

The grey cells in Table 9 confirm that, through wholly-owned international subsidiaries, the Brazilian competitors were located in the same countries where Fibria had sales offices. However, they were in China mainland, and Fibria was in Hong Kong.

In 2017, 8 out of the 14 international subsidiaries of Suzano were linked to the R&D activity within the FuturaGene group.<sup>531</sup> The other six companies and the two representative offices (in China and England)<sup>532</sup> were related to sales and finance activities. Like Fibria, they had a presence in the USA, Cayman, China (mainland), and Austria.

In 2018, Eldorado had four subsidiaries in the USA, Austria, and China (mainland) for finance and trade. Klabin had seven subsidiaries and was present in the USA, Austria, and Cayman. However, Klabin used those subsidiaries for other products and not BEKP. Klabin competed with Fibria only in South America.<sup>533</sup>

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<sup>530</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe for Eldorado, on 06.04.2020.

<sup>531</sup> Cf. FuturaGene 2020.

<sup>532</sup> The representative offices are not listed in the organigram due to their specific legal status. However, they were mentioned in the company reports of 2018 presented to the regulatory agencies in Brazil. (Suzano Papel e Celulose S.A. 2019b, p. 78.)

<sup>533</sup> See *Other advantages* in section 3.2.4.4 or in Appendix VII.

COMPANY		SUB-GROUP	SUBSIDIARY	COUNTRY	%	Year
SUZANO	1	FUTURAGENE	FUTURA GENE AGRIDEV COMPANY LTD	XINJIANG	100.00%	2017
	2	FUTURAGENE	FUTURA GENE DELAWARE INC.	UNITED STATES	100.00%	2017
	3	FUTURAGENE	FUTURA GENE INC.	UNITED STATES	100.00%	2017
	4	FUTURAGENE	FUTURA GENE BIOTECHNOLOGY COMPANY LTD	CHINA	100.00%	2017
	5	FUTURAGENE	FUTURA GENE ISRAEL LTD.	ISRAEL	100.00%	2017
	6	FUTURAGENE	FUTURA GENE HONG KONG LTD.	HONG KONG	100.00%	2017
	7	FUTURAGENE	FUTURA GENE LTDA.	ENGLAND	100.00%	2017
	8	FUTURAGENE	GANSU FUTURA GENE BIOTECH CO. LTD.	CHINA	100.00%	2017
	9	1	SUZANO PULP AND PAPER AMERICA, INC.	UNITED STATES	100.00%	2017
	10	2	SUZANO PULP AND PAPER EUROPE S.A.	SWITZERLAND	100.00%	2017
	11	3	SUN PAPER AND BOARD LIMITED	ENGLAND	100.00%	2017
	12	4	SUZANO TRADING LTDS	CAYMAN ISLANDS	100.00%	2017
	13	5	SUZANO AUSTRIA GMBH	AUSTRIA	100.00%	2017
	14	6	STENFAR S.A.I.C. IMPORTADORA Y EXPORTADORA	ARGENTINA	100.00%	2017
KLABIN	1	1	KLABIN AUSTRIA GMBH	AUSTRIA	100.00%	2018
	2	2	KLABIN ARGENTINA	ARGENTINA	100.00%	2018
	3	3	KLABIN FINANCE	LUXEMBOURG	100.00%	2018
	4	4	KLABIN FOREST PRODUCTS COMPANY	UNITED STATES	100.00%	2018
	5	5	KLABIN LIMITED	CAYMAN ISLANDS	100.00%	2018
	6	6	KLABIN OVERSEAS LIMITED	UNITED KINGDOM	100.00%	2018
	7	7	KLABIN TRADE	UNITED KINGDOM	100.00%	2018
ELDORADO	1	1	ELDORADO USA, INC.	UNITED STATES	100.00%	2018
	2	2	CELLULOSE ELDORADO ASIA	CHINA	100.00%	2018
	3	3	CELLULOSE ELDORADO AUSTRIA GMBH	AUSTRIA	100.00%	2018
	4	4	ELDORADO INTL. FINANCE GMBH	AUSTRIA	100.00%	2018

Table 9 - International subsidiaries of Brazilian competitors

Source: elaborated from Organigrams available at Appendices II to V and from Klabin S.A. (2018: 47)<sup>534</sup>

Excepting for the STX Pan Ocean agreement<sup>535</sup>, the Brazilian companies operated with the same ship owners and, in many cases, with the same logistics suppliers, terminals, warehouses, and ports of destination.<sup>536</sup> Fibria worked with more incoterms to deliver the pulp to the customer. Its logistics services to international customers were recognized as a strength

<sup>534</sup> Cf. Klabin S.A. 2018, p. 47.

<sup>535</sup> See Appendix VI.

<sup>536</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe for Eldorado, on 06.04.2020.

of the company compared to its competitors.<sup>537;538;539</sup> The international logistics could be called its *signature process* of Fibria.<sup>540</sup>

Regarding customers, there were some overlaps between Fibria and its competitors, but there was also exclusivity in several clients. Given the enormous volumes of Fibria, the company had to sell to every customer while the competitors with smaller volumes could focus on a portfolio with a higher margin. Because of that, Fibria sold to spot markets and peripheral markets like in the Middle East and Turkey, for example, where the Brazilian competitors were not so regular.<sup>541;542</sup>

Additionally, to the explanations provided about pricing<sup>543</sup>, competitors recognized the method adopted by Fibria as more creative and pricing protective. It seems that Fibria had a differentiated discount and rebate policy, especially for the most strategic customers.<sup>544;545</sup>

Regarding the use of agents to sell pulp, the preferred approach in this industry is to use your own sales team to be close to the customers, to learn the dynamics of their needs and the needs of their customers, and to build a trustworthy relationship. However, the strategies are not free from the use of agents and trade companies. The situations when the agents persist are:

- i) sell to non-regular markets where the volume does not justify the fixed costs to keep a dedicated team,
- ii) develop and prospect new customers in regions where the company does not have a consolidated presence yet, and
- iii) sell in the spot markets.<sup>546;547;548;549</sup>

During the interviews, I was mentioned that the sales office of Suzano in China Mainland was led by a local to have *insidership* and facilitate the penetration in that market. The company saw that as an advantage. When asked about that, Fibria sais China is a country with significant regional differences, and the company chose the sales office leader based on other attributes, such as his years of experience in the pulp business and the company, as well as his integration with the company values and Brazilian culture. The selected person worked

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<sup>537</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe for Eldorado, on 06.04.2020.

<sup>538</sup> Interview by e-mail with Mr. Marcelo Strufaldi Castelli, CEO and Chairman of the Board of Officers of Fibria, on 08.04.2020.

<sup>539</sup> Interview by e-mail with Mr. Fabio Almeida de Oliveira, Director of International Operations at Suzano, on 06.04.2020

<sup>540</sup> Cf. Teece 2014, p. 29.

<sup>541</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe for Eldorado, on 06.04.2020.

<sup>542</sup> Interview by e-mail with Mr. Fabio Almeida de Oliveira, Director of International Operations at Suzano, on 06.04.2020

<sup>543</sup> See *The pricing* in section 3.2.3.

<sup>544</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe for Eldorado, on 06.04.2020.

<sup>545</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer, on 03.06.2020.

<sup>546</sup> Interview by e-mail with Mr. Marcelo Strufaldi Castelli, CEO and Chairman of the Board of Officers of Fibria, on 08.04.2020.

<sup>547</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe for Eldorado, on 06.04.2020.

<sup>548</sup> Interview by e-mail with Mr. Fabio Almeida de Oliveira, Director of International Operations at Suzano, on 06.04.2020

<sup>549</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer, on 03.06.2020.

with a team of locals and the support of many agents in different areas in China. In 2018, the Asian operations of Fibria, led by the German manager, had an outstanding performance (40% of global sales). It is difficult to predict if the result would be better if led by a local.<sup>550;551;552</sup>

This whole section and its sub-groups provided an overview of how the international presence of Fibria was constructed and how much of that is company-specific and how much is a trend among similar companies in the same industry. The next step is to go deeper into the process, into the management of the company, and analyze how they are connected to the organizational culture. The following section will describe with few examples of how that happened inside Fibria.

### **3.4. Management, engagement, and culture**

One important aspect of internationalization is how the strategy is formulated and how it permeates the different levels and units of the company. One possible question is how the strategy centrally planned at the Headquarters influences the decisions of every single manager in an international organization. Or how it is possible to avoid *parochialism* in these companies? In this section, a few aspects of how Fibria resolved this matter are presented with an emphasis on the communication and organizational culture to create engagement.

The next sections present the analysis divided into four parts:

- i) the information made available to its internal and external networks
- ii) the strategic communication campaigns used for communication with internal networks
- iii) how the company promoted relationships between the internal and external networks, and
- iv) how human resources and management were handled in this international organization.

#### **3.4.1. The communication within the networks**

As a public company and a large corporation in Brazil, the company made information and data available to its stakeholders in transparency and governance. There were several channels used by Fibria to reach the internal and external audiences, and few examples are described in Appendix XII.

Despite not being a piece of communication exclusively directed to the managers, the examples showed that the communication channels produced a substantial and detailed amount of information (in Portuguese and English) accessible to all, inside and outside the organization. The cultural differences of the international offices were also considered to

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<sup>550</sup> Interview by e-mail with Mr. Fabio Almeida de Oliveira, Director of International Operations of Suzano, on 06.04.2020

<sup>551</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer of Fibria, on 03.06.2020.

<sup>552</sup> Interview by video conference with Mr. Carlos Anibal Junior, Commercial Officer for Pulp Business of Suzano, on 09.04.2020.

create a specific communication directed to the international office in complement to all regular channels.<sup>553</sup> These communications specific to the internal network is described in the next section.

### 3.4.2. The strategic communication for internal networks

Regarding messages to employees, it is relevant to analyze the content that was communicated and how this content was communicated. These are important to the construction and dissemination of the organizational culture and strategy to all levels and locations within the company. In this perspective, this block uses two cases to exemplify communication with employees.

The first example is the conception of the program *We are Fibria* and its relationship with the company strategy, culture and discourse within the company. There was a massive communication campaign to take that message throughout the whole organization worldwide in a meaningful way. The second example is the newsletter *Connection* customized to communicate with the employees abroad.

#### 3.4.2.1. The program *We are Fibria*

The corporate program *We are Fibria* started in 2014 to develop the organizational culture to become a high-performance organization. The first step was assessing how the corporate culture, and intangible assets of the company could contribute to the achievement of the long-term strategic plan and goals. A set of initiatives was implemented to disseminate the aspects considered crucial for company success.<sup>554</sup>

In 2016, in the second phase, the branding strategy was constructed with the identity and ambitions concepts. The company motto, "*We are many. We are one. We are Fibria*", used since 2009, became *We are Fibria* to show the maturity level achieved.<sup>555</sup>

The company brought together 100 executives representing all areas and offices, including the international ones, in an event called *Leadership Meeting* in Brazil. The three-day meeting was used to collectively debate and build the new drivers of the company culture.<sup>556;557</sup>

Table 10 shows the resulting pillars, which represented the new organizational culture and how Fibria wanted to be recognized by all stakeholders.

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<sup>553</sup> Interview by e-mail with Ms. Raquel Soares Paolinelli Botinha Macedo, Corporate Communications Coordinator, on 25.05.2020

<sup>554</sup> Cf. Fibria Celulose S.A. 2017g, p. 112.

<sup>555</sup> Cf. Sarau; Quintau 22 2018, p. 03.

<sup>556</sup> Cf. Fibria Celulose S.A. 2017g, p. 112.

<sup>557</sup> Cf. Sarau; Quintau 22 2018, p. 09.

<b>Company's</b>	<b>a) Inspiration</b>	Play a role in building transformational solutions for a fairer and more sustainable society				
	<b>b) Purpose</b>	To cultivate planted forests as a source of life for the creation of shared wealth and the well-being of people				
<b>c) Management Beliefs</b>	<b>c.1) Sense of Ownership</b>	<b>c.2) Human Potential</b>	<b>c.3) Excellence</b>	<b>c.4) Pragmatism</b>	<b>c.5) Open Dialogue</b>	<b>c.6) Alliance</b>
It expresses how we do things around here. It's how we act on a daily basis	We value people who care for the company's business as if it were their own, acting responsibly and passionately, leading by example and commemorating achievements.	People are unique and develop their full potential when we invest time, cultivate their talent, value their achievements and recognize their merits.	Doing more and better, innovation and overcoming challenges, transforming mistakes into lessons, guided by discipline, modesty and simplicity.	Good results are the product of dedicated efforts focused on what is truly relevant, based on a systemic vision of the future.	Environments marked by trust are built through the permanent practice of open dialog and valuing diversity to come up with the best solutions.	Our success is the fruit of our joint efforts strengthened by genuine alliances in which everyone wins.
<b>d) Desired Attributes</b>	<b>d.1) Responsible Action</b>	<b>d.2) Systemic Vision</b>	<b>d.3) Competitive Innovation</b>	<b>d.4) Building Together</b>	<b>d.5) Focus of the Client</b>	<b>d.6) Agility</b>
How we want to be perceived and how we can differentiate ourselves from our competitors. In our day to day activities, we must reflect on if we are acting in accordance with the management beliefs and with the desired attributes	We act ethically in what we do. We practice sustainable development and generate shared wealth together with all our stakeholder groups.	We manage interdependence among the parts and the whole and between the short and the long terms to ensure effective risk management, innovation and rapid adaptation to changes.	We are always seeking new solutions to boost our competitiveness and that of our clients and partners.	We cultivate close dialogue in our relationships in order to jointly develop solutions and manage processes and environments in a shared manner.	We are close to our clients and understand their perspective in order to create value proposition focused on the challenges in their markets.	We act in an integrated manner, simplify processes, optimize information flows and share strategies.

Table 10 - Concept of the Organizational Culture of Fibria (*We are Fibria*)

Source: elaborated from communication booklet distributed to all employees worldwide and public case.<sup>558</sup>

<sup>558</sup> Cf. Sarau; Quintau 22 2018, p. 04.

In terms of targets and strategic alignment, the Form 20-F (2018) contained many insights about the company drivers and strategy to pursue operational excellence.<sup>559</sup> The report showed that all the projects of the company and results were aligned to the strategic plan and referred to the concept of the program *We are Fibria*.

In the Sustainability Report of 2017<sup>560</sup>, there is a reference to the program *We are Fibria* in the letter from the CEO.<sup>561</sup> It also communicated its *Inspiration* and its *Purpose*, as mentioned in Table 10.<sup>562</sup> The short- and long-term goals were also aligned with the organizational culture in the report.<sup>563</sup>

This example shows the strategy and the organizational culture collectively constructed with the participation of all units and departments. Another aspect is that the discourse in the various communication pieces to the internal and external audiences was congruent and aligned with the master concept.

Once the concept and the main elements of the organizational culture were designed, the biggest challenge was to communicate them effectively to all employees, with diverse backgrounds and cultures spread in five countries.

There was a concern that the employees needed to experience these new concepts to learn and incorporate them into daily routines.<sup>564</sup> This approach is related to the *organizational learning* described in Chapter 2. Fibria needed to turn concepts into knowledge and incorporate them into its *capabilities*, as outlined by the U-Model. That would avoid the *parochial* behavior among managers, as recommended by B&G.

The innovative concept of communication developed by the Human Resources and Communication Office used the same approach worldwide, in terms of content and aesthetics. The only difference was the language, Portuguese for the original, and English for the international offices. The clear instructions, the ludic experiments, and the interactive format overcame the cultural barriers within the company.<sup>565</sup>

Appendix IX lists the resources utilized to promote the experience of the organizational culture and the feedback from the employees after the experiences. The results proved that the objectives were successfully achieved, and it was highly appreciated by the employees worldwide. In 2018, the communication campaign was awarded with *Jatobá Prize* for the category *Excellence and Innovation in Internal Communication* in Brazil.<sup>566</sup>

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<sup>559</sup> Cf. Fibria Celulose S.A. 2017g, p. 112.

<sup>560</sup> Cf. Fibria Celulose S.A. 2017n.

<sup>561</sup> Cf. Fibria Celulose S.A. 2017n, p. 07–08.

<sup>562</sup> Cf. Fibria Celulose S.A. 2017n, p. 16.

<sup>563</sup> Cf. Fibria Celulose S.A. 2017f, p. 18–26.

<sup>564</sup> Cf. Sarau; Quintau 22 2018, p. 05.

<sup>565</sup> Cf. Sarau; Quintau 22 2018, p. 05.

<sup>566</sup> Cf. Banco de Cases 2018.

### 3.4.2.2. The *Connection* newsletter

In 2017, focus groups with employees of the international offices were organized to map their needs in terms of internal communications, contents, and media. It was identified that the regular channels offered by the company were effective for Brazilians but not for foreigners.<sup>567</sup>

A monthly newsletter called *Connection* was created, specifically for those employees abroad. A representative from each office suggested the content and the highlights of the monthly edition. Besides the relevant and general information about the company, the newsletter brought visibility to those employees, their local achievements and other subjects according to their needs.<sup>568</sup>

These were examples of participative initiatives that created *commitment* among the employees. By doing that, Fibria promoted the integration of the different units and their employees and the construction of a global identity for the company.

### 3.4.3. The relationship beyond the company walls

The *Focus of the Client* was one of the desired attributes of the company, according to Table 10. That became a drive to the company business to bring competitive advantages via innovation and operational excellence.<sup>569</sup> This strategic driver, so promoted inside and outside the company, deserves the attention here. It is an example of how Fibria built its relationships with external actors to improve the experience, the *trust*, and identification of opportunities. This case fits with the relationships mentioned by the U-Model and B&G model.

The Brazilian professor and writer Jose Carlos Teixeira Moreira promoted the concept of *Focus of the Client* in Brazil.<sup>570</sup> He says that the company needs to understand and offer what the customer and the market want. A more personalized and dual relationship creates long term bonds with customers and diverts the commercial relationship from pricing negotiations only.<sup>571</sup>

The purpose of this project was to build long term relationships, *trust*, and joint development of knowledge. Partnerships and networks would help the companies find opportunities and reduce the uncertainties. Fibria wanted to become an essential part of the business of its customers and the customers of its customers too.<sup>572</sup>

A global action plan that involved employees of the whole company was created to review the processes and building a new relationship with strategic customers and suppliers of Fibria.<sup>573</sup> For two years, approximately 255 employees in Brazil and 45 from the international offices

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<sup>567</sup> Interview by e-mail with Ms. Raquel Soares Paolinelli Botinha Macedo, Corporate Communications Coordinator of Fibria, on 25.05.2020

<sup>568</sup> Interview by e-mail with Ms. Raquel Soares Paolinelli Botinha Macedo, Corporate Communications Coordinator of Fibria, on 25.05.2020

<sup>569</sup> Cf. Fibria Celulose S.A. 2017n, p. 18, 19, 47.

<sup>570</sup> Cf. Fibria Celulose S.A. 2017b.

<sup>571</sup> Cf. Jose Carlos Teixeira Moreira 2017.

<sup>572</sup> Cf. Fibria Celulose S.A. 2017b.

<sup>573</sup> Interview by e-mail with Ms. Marina Negrisoni, Head of the Operations in the USA, on 10.04.2020.

attended training about the *Focus of the Client* concept. More than 100 people were engaged with the action plan of the project.<sup>574</sup>

There was also a communication campaign that used virtual reality<sup>575</sup>, among other resources, and reached all employees.<sup>576</sup>

Beyond the company walls, the program developed around 70 initiatives<sup>577</sup> where each strategic supplier or customer teamed up with Fibria to *dream a dream together*, as described by Ms. Marina Negrisoli, leader of the project.<sup>578</sup> This project was about ownership, and it worked along the whole value chain to achieve a *win-win* situation.<sup>579</sup> The possibility to team up with many different areas of Fibria and its customers opened the opportunity to learn together and strengthen the networks.<sup>580</sup>

The *Focus of the client* project was so successful that the partnerships created transcended the commercial relationship. Fibria and its customers, like Kimberly Clark and Procter & Gamble, partnered in sustainability projects.<sup>581</sup> The alignment between the companies and their brands in social sponsorships is beyond the operations. They are examples of high engagement and *trust*-building between the companies.

Another sign of *trust*-building is the long-term partnerships within the networks. In 2017, 80% of the 20 most significant suppliers of the company had a relationship with the company for longer than 20 years.<sup>582</sup>

The durable and successful partnerships and the *Focus of the Client* moved the relationship between Fibria and its customer and suppliers into a high *commitment* and generated intangible assets. Many partners chose to make them public for marketing purposes and to value their own business. Few examples are listed in Appendix XIII, and it is possible to suggest that this publicity is based on the operational, strategic, and values alignment between the brands.

#### **3.4.4. Human resources and management perspective**

The human resources and the role of the managers are particularly relevant to the selected theories, especially for the B&G model.

In this direction, without the claim of being exhaustive, this section intends to give an overview of:

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<sup>574</sup> Interview by e-mail with Ms. Beatriz Nalevaiko Venturini, Sales Processes and Controls Coordinator of Fibria, on 01.06.2020.

<sup>575</sup> In the 360o video, the customers had explained the customer journey at Fibria. It was used to show the employees how their work was important in such customer experience.

<sup>576</sup> Interview by e-mail with Ms. Raquel Soares Paolinelli Botinha Macedo, Corporate Communications Coordinator of Fibria, on 25.05.2020

<sup>577</sup> Interview by e-mail with Ms. Beatriz Nalevaiko Venturini, Sales Processes and Controls Coordinator of Fibria, on 01.06.2020.

<sup>578</sup> Interview by e-mail with Ms. Marina Negrisoli, Head of the Operations of Fibria in the USA, on 10.04.2020.

<sup>579</sup> Interview by e-mail with Mr. Ari Tapani Borg, Head of the Commercial Office of Fibria in Austria, on 06.04.2020.

<sup>580</sup> Interview by e-mail with Mr. Danilo Oyakawa, Technical Assistance Managers of Fibria for Europe and Asia, on 04.04.2020.

<sup>581</sup> Interview by e-mail with Ms. Marina Negrisoli, Head of the Operations of Fibria in the USA, on 10.04.2020.

<sup>582</sup> Cf. Fibria Celulose S.A. 2017n, p. 45.

- i) how the human resources activities were organized in the company,
- ii) how was the management functions identified in the international offices, and
- iii) how the short-assignment was used by the firm to expand the networks, increase the exchange among the units, promote integration, reduce the barrier distance, and develop knowledge.

#### 3.4.4.1. International Human Resources (HR)

Except for the commercial team that had its officer based in Austria, all the corporate areas had their officers in Brazil. The HQ was the source of general guidance, governance, and decisions related to HR. The units had limited autonomy, defined by corporate policies and procedures.<sup>583</sup>

Regarding the *recruitment* of strategic and management positions, the corporate HR coordinated a succession plan centrally, which was used for the assessments and talent pool of the company worldwide. If no candidates were found in the talent pool of the company, then the area with an open position would lead the recruitment with the support of the HR. For administrative or operational positions, there were assessment tools available to search for internal candidates, but every unit had the autonomy to make choices.<sup>584</sup>

At Fibria, there was no preference for Brazilian employees for management positions abroad. However, like other Brazilian companies, not all employees could speak English at the HQ, and the Portuguese language at the international offices became an asset. Besides the technical and relational skills, alignment with the corporate culture and values, candidates to positions abroad had an advantage in comparison to others if they were fluent in Portuguese and could get along with the Brazilian culture.<sup>585</sup>

For the positions in the home country, there was no explicit preference for Brazilians either. However, besides the language, other factors made the expatriation to Brazil difficult and expensive, like the bureaucracy, for example.<sup>586</sup>

Fibria has undergone a movement in the evolution of its culture in its last years. Extensive development work has been carried out to support the engagement at all units, including those abroad. Regarding training and individual development, the eligibility criteria and the policies were decided by the HQ and implemented by each unit.<sup>587</sup>

Regarding *compensation and benefits*, corporate HR in Brazil hired international surveys to guide attractiveness and retention policies for each location.<sup>588</sup>

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<sup>583</sup> Interview with Ms. Andresa Barros Garcia, General Manager and Deputy Officer of Corporate HR of Fibria, on 05.06.2020.

<sup>584</sup> Interview with Ms. Andresa Barros Garcia, General Manager and Deputy Officer of Corporate HR of Fibria, on 05.06.2020.

<sup>585</sup> Interview with Ms. Andresa Barros Garcia, General Manager and Deputy Officer of Corporate HR of Fibria, on 05.06.2020.

<sup>586</sup> Interview with Ms. Andresa Barros Garcia, General Manager and Deputy Officer of Corporate HR of Fibria, on 05.06.2020.

<sup>587</sup> Interview with Ms. Andresa Barros Garcia, General Manager and Deputy Officer of Corporate HR of Fibria, on 05.06.2020.

<sup>588</sup> Interview with Ms. Andresa Barros Garcia, General Manager and Deputy Officer of Corporate HR of Fibria, on 05.06.2020.

From the interviews, the employees of the international units seemed to recognize that the company is Brazilian (identity), and the operation is more complicated in the home country than abroad. However, they see many aspects of the *Geocentric* firm of the EPG model<sup>589</sup>: the employees feel equal and participative in the operations and strategy, the controls are universal and local, and the communication flows from all sides, among others.<sup>590;591;592;593;594</sup> The Corporate General Manager and HR Officer Deputy described well this situation: Fibria is an *Ethnocentric* company that wanted to be *Geocentric*. In her opinion, the HQ was on top of all decisions.<sup>595</sup>

#### 3.4.4.2. Managers type

The managers are classified according to their responsibilities and interfaces<sup>596</sup> to check how the accountability is distributed in the international operations. The interviews confirmed the various levels and responsibilities in the management structure of the company.

The GCO was based in Austria. He was responsible for the global strategy of the company and worked together with the CEO and other executive officers to plan the long-term strategy of the company. At the same time, he also coached his team members and searched for potential successors. He was the *Corporate Manager* within B&G typology.<sup>597</sup>

The Heads of the international offices fit to the *Country Manager* type. From the interviews with them, one could say that they are the eyes of the company in that locality to collect useful information and build the bridges within the organization to transform their presence into opportunities. They are responsible for the administration and coordination of the local operations and employees.<sup>598;599;600</sup>

The examples of *Functional Managers* identified in the international offices during the interviews were administrative<sup>601;602</sup>, technical assistant<sup>603</sup>, sales<sup>604</sup>, logistics<sup>605</sup> and controllership<sup>606</sup>.

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<sup>589</sup> See *Densities and its effects on centrality, power and allocation of resources* in Table 4.

<sup>590</sup> Interview by e-mail with Mr. Ari Tapani Borg, Head of the Commercial Office of Fibria in Austria, on 06.04.2020.

<sup>591</sup> Interview by e-mail with Ms. Nicole Bello, Administrative Manager of Fibria in Austria, on 04.05.2020.

<sup>592</sup> Interview by e-mail with Ms. Yolanda Kwow, Administrative Manager of Fibria in Hong Kong, on 19.05.2020.

<sup>593</sup> Interview by e-mail with Mr. Alex Fabiano Cintra, Controller Manager of Fibria in Brazil on 27.05.2020.

<sup>594</sup> Interview by e-mail with Mr. Michael Rushton, Head of Fibria Innovations in Canada, on 02.04.2020.

<sup>595</sup> Interview with Ms. Andresa Barros Garcia, General Manager and Deputy Officer of Corporate HR of Fibria, on 05.06.2020.

<sup>596</sup> See *The human resources aspects* in section 2.4.6.

<sup>597</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer of Fibria, on 03.06.2020.

<sup>598</sup> Interview by e-mail with Mr. Ari Tapani Borg, Head of the Commercial Office of Fibria in Austria, on 06.04.2020.

<sup>599</sup> Interview by video-conference with Ms. Marina Negrisoli, Head of the Commercial Office of Fibria in the USA, on 10.04.2020.

<sup>600</sup> Interview by e-mail with Mr. Michael Rushton, Head of Fibria Innovations in Canada, on 02.04.2020.

<sup>601</sup> Interview by e-mail with Ms. Nicole Bello, Administrative Manager of Fibria in Austria, on 04.05.2020.

<sup>602</sup> Interview by e-mail with Ms. Yolanda Kwow, Administrative Manager of Fibria in Hong Kong, on 19.05.2020.

<sup>603</sup> Interview by e-mail with Mr. Danilo Oyakawa, Technical Assistance Managers of Fibria for Europe and Asia, on 04.04.2020.

<sup>604</sup> Interview by video-conference with Ms. Marina Negrisoli, Head of the Commercial Office of Fibria in the USA, on 10.04.2020.

<sup>605</sup> Interview by video-conference with Ms. Marina Negrisoli, Head of the Commercial Office of Fibria in the USA, on 10.04.2020.

<sup>606</sup> Interview by e-mail with Mr. Tiago Sousa Seixas, International Controllershship Coordinator in Austria, on 30.05.2020.

The technical assistance manager is an example to highlight. The manager builds bridges between the customers and the R&D, quality control, sales, and production to assure the best use of the products and satisfaction of the customers. He had a role in breaking the physical and cultural distance between the customer and the operations in Brazil to find solutions and technical opportunities for both sides.<sup>607</sup>

During the research, a *Business Manager* allocated to international offices of Fibria was not identified. If this position existed in the company, it was most likely a corporate position based at the HQ. Despite this, the management structure of Fibria seems to cover well the roles attributed to the international operations and its coordination with the within and across density of the company as debates by B&G.

#### 3.4.4.3. Short-assignments

There are many ways to guarantee the integration among the professionals from different offices and areas, to disseminate the knowledge across and to build up the relationship to find opportunities. The *Focus of the Client*<sup>608</sup> was a multidisciplinary project that engaged many employees worldwide. Another example used by Fibria was the short-assignment.

This section will focus on the results of the interviews made with four Brazilian employees sent to short-assignments in Austria and the USA<sup>609</sup>. They went to cover absences and leaves of other employees or to work in joined projects in different areas.

According to the questionnaires, the short-assignment created empathy among teammates to understand the motivations and the needs of the others. It improved communications, especially between people speaking in their second language, and it helped disseminate the culture and the policies of the company. Lastly, it helped to bring people from different cultures together and promoted integration and relationships.

The employees had the perception that, despite all the efforts to disseminate the strategy and the organizational culture, the leaders comprehended subjects but not passed them down to the analysts. For example, when the HQ requested controls or reports, the people responsible for preparing them did not always know the reasons and use of that information.

All of them saw the experience as valuable from short assignment short assignment professional and personal experience. However, it was said that it was an opportunity but not a reward because it required an individual effort from the employee (being far away from family, to adapt to a new culture and pressure of time to achieve the targets, for example). A hierarchical conflict was also reported, when the person had to respond to the boss at the HQ and the assigned boss in the office.

The short-assignments were a positive experience from the perspective of the employees from the HQ of Fibria. Unfortunately, it was not found cases of short-assignments from the units to

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<sup>607</sup> Interview by e-mail with Mr. Danilo Oyakawa, Technical Assistance Managers of Fibria for Europe and Asia, on 04.04.2020.

<sup>608</sup> See *The relationship beyond the company walls* in section 3.4.3.

<sup>609</sup> Interviews with: Ms. Fernanda Torres, HR Analyst spent 8 months in Austria (by e-mail on 26.05.2020), Ms. Monique Alves, Sales Analyst spent 2 months in Austria (by e-mail on 05.05.2020), Ms. Brenda Julia Santos Lima, Credit Analyst spent 11 months in Austria (by e-mail on 20.05.202) and Ms. Amanda de Freitas Souza, spent 6 months in the USA (by e-mail on 13.05.2020).

the HQ. The interviewees had mentioned that the HQ should also receive people from the units to improve even more the interaction. The exchange should be, in their view, a two ways road and not only from HQ to the subsidiary.

Finally, section 3.4 ends the overview of the management of Fibria and the efforts of the company to configure its human resources, projects, and communication to integrate all the units around the organizational culture and strategy. The managers in international units contributed to the global coordination of resources and the learning process and influenced the reconfiguration of *capabilities* of the company in the long-term. Fibria managed to leverage its valuable, rare inimitable and non-substitutable resources<sup>610</sup> by using its international presence and creating a few *signature processes* and network ties.<sup>611</sup> However, the undisputable weight of the Brazilian culture and HQ's decisions, coordination, *capabilities*, and *commitments* over the international structure cannot be ignored.

### 3.5. Specific remarks under B&G and U-Model

The review of Fibria under the specific perspectives of each selected theory closes this chapter.

Regarding the U-Model theory, which focuses on the evolving aspects of the internationalization, the final remarks consider the source of advantages of Fibria and the motives that led the company to internationalize. The goal is to explain how the theory covers the situation and motivations of the company to go abroad.

B&G theory approaches the *centrality*, *density*, and typologies. The global integration and the local responsiveness are at the center of this debate due to their importance to the models. The aim is to answer if and how Fibria fits into their models and what arguments favor these conclusions.

#### 3.5.1. The U-Model perspective

This chapter has so far presented details about the structure and the operations of Fibria. In this section, it is possible to confront all the information given to assess how the U-Model can explain the case of Fibria.

The U-Model foresees gradual process of internationalization of the companies to overcome the *liability of outsidership*, build up a good network, relationships, and *trust* and develop the necessary knowledge about the market and foreign culture before further commitments. There are exceptions, and it seems that Fibria is one of them.<sup>612</sup>

The size of the company, its history, its financial capacity, and its past experiences possibly helped the company to internationalize. A company with such experience and competencies could do a further internationalization with marginal efforts. For example, the way that Fibria entered in Canada: the company monitored and found the startup company that detained the

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<sup>610</sup> Definition of resources from Barney (1991, p. 105–106.).

<sup>611</sup> Cf. Teece 2014, p. 26.

<sup>612</sup> See *The Uppsala model* in section 2.3.

technology and the accesses to the networks that Fibria wanted, acquired it, and quickly plugged it into its structure and inter-organizational networks.<sup>613</sup>

Looking at the business profile of the company<sup>614</sup>, the resources endowment and the factors of production provided substantial country-specific advantages in this industry in Brazil that could hardly be achieved or copied in another country with the same efficiency and competitiveness. There were also firm-specific advantages built along with its history, its organizational structure, and strategy in Brazil that made its leadership possible in the global industry. Because of the substantial ownership and location elements of the Brazilian operation, it seems that theories like OLI<sup>615</sup> or the Diamond of Porter<sup>616</sup>, not covered by this study, would possibly explain the situation of the company better than U-Model.

If there were no imperfect markets, companies like Fibria would not need to internationalize, and they would export worldwide.<sup>617</sup> However, to sell abroad the production not absorbed in the Brazilian market, the company would still need to count on the help of third parties to reach customers, perform the sales and deliver the goods. This concept of internationalization is distinct from OLI or B&G theories since there is no ownership, but it is for U-Model<sup>618</sup>.

In such a manner, for U-Model, the internationalization of Fibria is unquestionable since the company needed the foreign markets to sell its products<sup>619</sup>. The firm possibly would never have a production abroad given the large scale, low costs, and other advantages exclusively obtained in Brazil<sup>620</sup>, and it could use *entry modes* with no or little *commitment*, instead of wholly-owned subsidiaries, in its internationalization strategy.

But why did Fibria set its structure abroad instead of being restricted to the exports, which apparently would suffice?

There is no information about the margin retained by each subsidiary. However, two units have 90% of contributions to the company revenues, and they performed simple activities with low assets, proprietary processes, products, and intangibles involved. Fibria has a modest international presence with very few operational subsidiaries and one sales team in each market, similar to its competitors<sup>621</sup>.

By opting for the sales offices abroad, the company wanted to take advantage of *experiential learning*, *insidership*, and trustworthy relationships. That would help it to develop new *capabilities*, identify opportunities, and influence its *state variables*, especially those related to its operations in Brazil. The sales offices were a strategic decision to monitor the changes in the environment at the local markets and help the company quickly react to them. The company has done that very well since many customers have been engaged with Fibria for longer than 20 years, and a few of them have chosen the company as the sole supplier<sup>622</sup>.

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<sup>613</sup> Interview by e-mail with Mr. Michael Rushton, Head of Fibria Innovations in Canada, on 02.04.2020.

<sup>614</sup> See *The company* in section 3.1. and *The business* in 3.2.

<sup>615</sup> Cf. Dunning 2000, p. 164.

<sup>616</sup> Cf. Porter 1990, p. 127.

<sup>617</sup> Cf. Dunning; Lundan 2008, p. 97.

<sup>618</sup> See *Evolutionary and behavioral theories* in section 2.3.3.

<sup>619</sup> See *Motives* in section 3.3.1.8.

<sup>620</sup> See *The other advantages* in section 3.2.4.4.

<sup>621</sup> See *Intensity and centrality* in sections 3.3.1.9. and *The internationalization of its Brazilian competitors* in 3.3.2.

<sup>622</sup> See *The company* in section 3.1.

The motivations of Fibria are related to the development of its *dynamic capabilities* to support its *evolutionary fitness*<sup>623, 624</sup>. Despite not focusing on the ordinary concept of access to the markets, Fibria wanted to create ties, long-term *commitments*, and a favorable *quasi lock-in* situation with customers. There are risks associated with strategies that reduce the flexibility or are harder to be reversed<sup>625</sup>, but that is a classic trade-off that decision-makers have to face, and Fibria decided to take the risk. Fibria became admired for its excellence in logistics, regularity, and reliability. A significant part of these high-level services was enabled by the presence of the sales teams doing the interface between customers and the operations in Brazil.

On the side of innovation and finance, there were different strategies. Fibria sought in the international markets the advantages in technology, innovation, new business opportunities, and the best financial costs that could not have been found in Brazil. The internationalization was necessary and unavoidable in a company with resources and *capabilities* to access those markets. These competencies, as described by U-Model, had been developed along the decades of the existence of the company, and it counted on the help of experts to overcome the *insidership*. The use of M&A was one example of that.<sup>626</sup>

The U-Model theorized about the resources to be used by the company to acquire competencies to internationalize. Fibria made use of them not to go further into its internationalization but to improve its operation and its sources of competitive advantages in Brazil.

### 3.5.2. The B&G perspective

Once the motivations to internationalize have been analyzed in previous sections, the B&G contributes to describe the international organizational structure of Fibria and the distribution of resources among the units. This section relies on density<sup>627</sup>, typologies<sup>628</sup>, and management concepts<sup>629</sup> to answer it.

Fibria had made efforts to become an insider in the countries where it was located and build up high *within densities*. The company integrated and handled the local operations with excellence by having people with an international background<sup>630</sup>, by multidisciplinary teams<sup>631</sup>, and by associating themselves with strategic service providers and customers<sup>632</sup>, among other initiatives appointed in this chapter.

The sales units were based in specific countries, but they created their network in their markets. The *within density* was reliable and regional, beyond the borders of the host

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<sup>623</sup> See *Capabilities-based theory* in section 2.3.2.

<sup>624</sup> Cf. Teece 2014, p. 33.

<sup>625</sup> See *The bottom-up strategic response* in section 2.4.4.

<sup>626</sup> Interview by e-mail with Mr. Michael Rushton, Head of Fibria Innovations in Canada, on 02.04.2020.

<sup>627</sup> See *The network and the densities of the organizational set* in section 2.4.1.

<sup>628</sup> See *The typology of international companies* in section 2.4.5.

<sup>629</sup> See *The bottom-up strategic response* in section 2.4.4. and *The human resources aspects* in 2.4.6.

<sup>630</sup> See *Organizational Capacity* in section 3.3.1.4.

<sup>631</sup> See *Personnel* in section 3.3.1.5.

<sup>632</sup> See *The relationship beyond the company walls* in section 3.4.3.

country.<sup>633</sup> Their high capillarity to reach customers in many other countries created an exponential network abroad.<sup>634</sup>

Fibria Innovations was an example of the strategy to use within networks to access knowledge, technologies, and patents.<sup>635</sup> The firm is located inside the campus of British Columbia University, and it is valued for its ability and connections with the local scientific community and innovation networks.<sup>636,637</sup>

The support of third parties like agents, experts, or advisors also helped the entry in new locations until the firm could handle it.<sup>638,639</sup>

The high *across density* was resulted from many other initiatives and is well exemplified by the strategic planning and budgeting processes.<sup>640</sup> It is also promoted with the high exchange among HQ and subsidiaries as described in the sections about management, engagement, and culture.<sup>641</sup> There were several communication initiatives, projects like the *We are Fibria* and *Focus of the client* promoting the engagement among offices, the short-assignments, and even the hierarchical structure with different levels of managers with clear accountability are few examples to remember.

Fibria has a high *across* and a high *within densities* following the models in Table 4. There are extensive linkages and networks, especially in the sales and R&D units. A few subsidiaries emerge with central roles in the inter-organizational network, especially in Austria, where the Global Head of Commercial area was based. Other units were references for specific activities, especially in the case of R&D in Canada. The specialization happens at the trade companies to meet the needs of the regional market, since each sales office is dedicated to a specific geographic area and market that have a different dynamic. However, it is not a specialization in terms of products but rather in logistics, relationships, and market intelligence.<sup>642</sup>

Finally, based on the typology of B&G (1998), the grey cells in Table 11 presents how Fibria was identified into the models after the analysis of its operation in this chapter.<sup>643</sup> The yellow cells represent relatively applicable features, but not equally observed or proportionally distributed among the units.

When the book “*Managing Across Borders*” (Bartlett & Ghoshal, 1998) was written, the authors envisioned the *Transnational model* as the future of international organizations. From the present case, Fibria has not reached that and most likely will never do so, given the nature of

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<sup>633</sup> See *Intensity and centrality* in section 3.3.1.9 and *Organizational Capacity* in 3.3.1.4.

<sup>634</sup> See *Intensity and centrality* in section 3.3.1.9.

<sup>635</sup> See *Motives* in section 3.3.1.8.

<sup>636</sup> Cf. Fibria Celulose S.A. 2017g, p. 71.

<sup>637</sup> Interview by e-mail with Mr. Michael Rushton, Head of Fibria Innovations in Canada, on 02.04.2020.

<sup>638</sup> See *Personnel* in section 3.3.1.5, *Target markets* in 3.3.1.3, *The internationalization of its Brazilian competitors* in 3.3.2 and *Organizational capacity* in 3.3.1.4.

<sup>639</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer of Fibria, on 03.06.2020.

<sup>640</sup> See *Organizational Structure* in section 3.3.1.6.

<sup>641</sup> See *Management, engagement and culture* in section 3.4.

<sup>642</sup> See *Intensity and centrality* in section 3.3.1.9.

<sup>643</sup> See *The typology of international companies* in section 2.4.5.

its product and industry. However, the firm has elements of Transnational companies, and the following paragraphs describe the situation.

The core competitiveness was centralized in Brazil, where the main strategic assets, large scale, cost advantages, and *capabilities* were. The pulp is a commodity, and there is no requirement for local responsiveness in this industry.<sup>644</sup> The R&D and Finance structures existed to boost the competitive advantage of the Brazilian operation too.<sup>645</sup>

The intensity of the internationalization of Fibria was low. Regardless of the high contribution to the global revenues, the small number of operational subsidiaries abroad and their small headcount, compared to the Brazilian operation, were humble.<sup>646</sup> Except for Fibria Innovations, their activities were not proprietary nor the primary sources of competitiveness. Their existence was not mandatory for company operations. They had a role in making bridges to overcome the cultural barriers and the physical distance between customers and the producer and create *embeddedness*.<sup>647</sup>

As much as the strategy, budget and culture-building processes were clear examples of the company's participative management format, with high integration, collaboration, and network exchange, the international units were in the service of implementing corporate decisions, centrally approved by their board of officers and board of directors in Brazil.<sup>648</sup>

Knowledge was created and shared worldwide by Fibria. Despite having a market intelligence at the sales office and many patents in Canada, the most significant intangible and knowledge generated and accumulated since the '60s were highly concentrated in Brazil.<sup>649</sup> The public information shows an imbalance between the amount of information supplied about the Brazilian and the international operations of Fibria. The focus was on the forests and mills, where the most valuable and hard to copy expertise was.<sup>650</sup>

Nevertheless, there is no doubt that the company had integrative management tools and high *densities*.<sup>651;652</sup> The company incorporated many features from Transnational companies, but, in its essence, Fibria was still more similar to a *Global* organization. That is hard to change, given the nature of its business, which is a commodity with country-specific advantages that cannot be replicated so far in any other country.<sup>653</sup>

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<sup>644</sup> See *The product* in section 3.2.1.

<sup>645</sup> See *Operations* in section 3.3.1.1.

<sup>646</sup> See *Intensity and centrality* in section 3.3.1.9.

<sup>647</sup> See *The U-Model perspective* in section 3.5.1.

<sup>648</sup> See *International human resources (HR)* in section 3.4.4.1.

<sup>649</sup> See *The product* in section 3.2.1.

<sup>650</sup> See *The business* in section 3.2.

<sup>651</sup> See *Intensity and centrality* in section 3.3.1.9.

<sup>652</sup> See *Management, engagement and culture* in section 3.4.

<sup>653</sup> See *The competitive strengths* in section 3.2.4.

TYPOLOGY OF BARTLETT & GHOSHAL					ASSESSMENT OF FIBRIA
Definition	1. Multinational	2. Global	3. International	4. Transnational	
		Building strong national presence through sensitivity and responsiveness to national differences	Building cost-advantages through centralized global scale operations	Exploiting parent company knowledge and capabilities through worldwide diffusion and adaptation	The global efficiencies with national responsiveness. The innovation globally created are the sources of competitiveness
ORGANIZATIONAL FEATURES					ASSESSMENT OF FIBRIA
Configuration of assets and capabilities	Decentralized and nationally self-sufficient	Centralized and globally scaled	Sources of core competences centralized, others decentralized	Dispersed, interdependent, and specialized	Massively concentrated in Brazil
Role of overseas operations	Sensing and exploiting local opportunities	Implementing parent company strategies	Adapting and leveraging parent company competences	Differentiated contributions by national units to integrated worldwide operations	Participative and collaborative processes, however all at the service of the Corporate Strategy approved at the HQ
Knowledge	Developed and retained within the unit	Developed and retained at the HQ	Developed at the HQ and transferred to overseas units	Developed jointly and shared worldwide	Developed and shared worldwide, however the home-country concentrated more and has much longer experience
STRATEGIC CAPABILITIES					ASSESSMENT OF FIBRIA
Coordinated efficiency and competitiveness	Global Integration				Core elements are concentrated in the forest and industry
	Low	High	Low	High	
National responsiveness and flexibility	Autonomy				Not mandatory in this industry
	High	Low	Low	High	
Innovation and knowledge transfer	Worldwide Learning				Highly shared in the networks, but the most strategic one was sourced from Brazil
	Low	From HQ to subsidiaries	Low	High	

Table 11 – B&G typology of internationalized firms applied to Fibria

Source: elaborated for the purpose this research based on: i) “Definition” from Bartlett; Ghoshal (1998: 18)<sup>654</sup>; ii) “ORGANIZATIONAL FEATURES” from Bartlett; Ghoshal (1998: 74)<sup>655</sup> and Ares (2002: 25)<sup>656</sup>; and iii) “STRATEGIC CAPABILITIES” from Bartlett; Ghoshal (1998: 74)<sup>657</sup>

<sup>654</sup> Cf. Bartlett; Ghoshal 1998, p. 18, 315.

<sup>655</sup> Cf. Bartlett; Ghoshal 1998, p. 75.

<sup>656</sup> Cf. Ares 2002, p. 25.

<sup>657</sup> Cf. Bartlett; Ghoshal 1998, p. 306–307, 314–316.

Regarding the *capabilities* assessment in Table 11, Fibria had high coordinated efficiency and competitiveness. Its core elements are concentrated in the forest and mills.<sup>658</sup> Despite the differentiated logistics services and close sales relationships in every market spontaneously offered to improve the long-term relationships, there was no obligation for local responsiveness and flexibility in this industry.<sup>659</sup> The innovation and knowledge were transferred among all units, but the most proprietary and strategic of them were again sourced from Brazil.<sup>660</sup>

Interestingly, the leading Brazilian competitors seem to share an international positioning and strategy similar to Fibria<sup>661</sup>, which could indicate the *mimetic isomorphism*<sup>662</sup>.

That being said, it is time to discuss the causality of its profile: had the company purposefully incorporated the management features inspired by a *Transnational* company, as assumed beforehand, or the high integration and networks simply happened due to the small size of the international structure<sup>663</sup>?

Both affirmations may be accurate. The company actively took the benefit of the best practices of international management and, of course, that was possible and successfully implemented because its global structure was small.

One explanation is that the company had high profitability and could afford to apply the best management practices.<sup>664</sup> Secondly, due to being a public company, they had to have high governance standards that involved all units.<sup>665</sup> Another factor is that Fibria was the market leader in its business. Still, it worked together with top-ranked and other leading companies, and it needed to have efficient operations, management, and strategy in place to partner with them.<sup>666</sup>

The company also understood that it was an *Ethnocentric company* that wished to pursue the benefits of *Geocentrism*.<sup>667</sup> The company had invested in communication<sup>668</sup>, network initiatives,<sup>669</sup> short-assignments<sup>670</sup>, multidisciplinary and multicultural relationships<sup>671</sup> as reported in this chapter. The move of the GCO to Austria and the way the functions were distributed among different levels of managers, considering the global and local accountability, were other examples of decentralization in benefiting the global operation. They embodied many aspects of the *Global Manager* envisioned by B&G.<sup>672</sup>

Diversely from the U-Model, the B&G was not looking to different *entry modes* or the graduation toward higher *commitments*, but focused on the internationalization with

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<sup>658</sup> See *The competitive strengths* in section 3.2.4.

<sup>659</sup> See *The internationalization of its Brazilian competitors* in section 3.3.2.

<sup>660</sup> See *The U-Model perspective* in section 3.5.1.

<sup>661</sup> See *The internationalization of its Brazilian competitors* in section 3.3.2.

<sup>662</sup> See *The power, control and centrality* in section 2.4.2.

<sup>663</sup> Four operational unities with less than 80 employees (estimative based on Table 7).

<sup>664</sup> See *Target markets* in section 3.3.1.3.

<sup>665</sup> See *The communication within the networks* in section 3.4.1 and *Intensity and centrality* in section 3.3.1.9.

<sup>666</sup> See *The relationship beyond the company walls* in section 3.4.3.

<sup>667</sup> See *International human resources (HR)* in section 3.4.4.1.

<sup>668</sup> See *The strategic communication for internal networks* in section 3.4.2.

<sup>669</sup> See *Organizational Structure* in section 3.3.1.6.

<sup>670</sup> See *Short-assignments* in section 3.4.4.3.

<sup>671</sup> See *Personnel* in section 3.3.1.5 and *Organizational capacity* in 3.3.1.4.

<sup>672</sup> See *Managers type* in section 3.4.4.2, *Personnel* in 3.3.1.5 and *Organizational Structure* in 3.3.1.6.

ownership, with subsidiaries only. In this context, Fibria had a small but successful international structure. In essence, it was indeed a global company with management in place that enabled it to take great advantage from *within* and *across densities* and develop strategic knowledge in each market.

### 3.6. Conclusion of the empirical analysis

Several elements have been presented to show how Fibria had built and disseminated its strategy and culture to the various levels, departments, and locations within and outside the organization. The communication channels and its rich content, the alignment of the speech, the complex and collective models to reach the participative and collaborative constructions of the culture, strategy, and budget in the company were examples showing how the company tried to build bridges and create engagement among its employees.

This environment and framework developed by the organization it was inclusive, promoted the proximity between the units and headquarters, and enhanced the exchange among people from different backgrounds and cultures. For both U-Model and B&G, this is a fruitful scenario to boost international company *capabilities*, knowledge developments, high *across densities*, and the culture of global managers that would result in better opportunities identifications and mitigation of uncertainties and *parochialism*.

The strong and close relationships with suppliers and customers created the *trust* and contributed to leveraging high *commitment*, which was close to favorable *lock-in* situation. The networks and *experiential learning* developed the *insidership* and market intelligence that fed a virtuous cycle of development of new *capabilities*, especially in the operations based in Brazil.

Nevertheless, the core source of competitiveness of this company is in its operations in Brazil. Regardless of the collaborative and integrated network approach, the forests and production determined the strategy of the company not only in the case of Fibria but in the Brazilian pulp industry.

From the extensive profile of the company presented and analyzed in this chapter and considering the theoretical framework of this research, it is not wrong to say that the internationalization of sales activities was not mandatory but a strategic choice of Fibria. The company would hardly go further in terms of higher levels of FDI, with production facilities abroad. Still, the knowledge acquired from its small units were essential to improve its *capabilities* in Brazil. For this reason, despite being, in theory, a *Global* and *Ethnocentric* company, the management of the company embodies elements of *Transnational* and *Geocentric* companies in many aspects.

Concerning the R&D and Finance units, they only exist to fulfill gaps and limitations, such as the access to innovation in specific fields and developed capital markets. However, they only exist for the benefit of the core operations in Brazil.

To conclude, the next chapter closes this work by providing the answers to the research questions and a few suggestions for further studies related to this field.

## **Chapter 4: Final remarks**

This research is concerned about the internationalization process of the Brazilian agricultural exporter Fibria. It was a leading global company in the eucalyptus pulp business and a national champion for its economic (profitability, exports generation, and others) and social impact (tax, employment, and social investments).

There are well-structured and accredited theories to debate the subject. For this research, the Uppsala Model, formulated in the '70s, and the Bartlett and Ghoshal model, formulated in the late '80s and '90s, were selected. Both of them influenced other authors and the debate with many other theories. The concepts were developed over the years, incorporated different aspects, and are still useful frameworks for the empirical analysis. All these aspects and some background about the theories have been discussed in Chapter 2 of this work.

Chapter 3 used public information to provide an overview of the features of Fibria and its international presence. The 28 interviews with employees of the company in Brazil and abroad, with executives of its main competitors and with independent experts, were made by e-mail or video conference to corroborate the information with more details and examples. Competitors were also compared to identify convergences in this industry or the uniqueness of the firm strategy. The chapter ended with an analysis of the company profile under the perspectives of the core concepts of the two theories.

In this chapter, the main results are shown in section 4.1. Firstly, the convergences and divergences between the theories are presented in the item 4.1.1. The answer to the research questions is given in subsection 4.1.2, followed by the few insights about the limitations of the theories in 4.1.3 and the relevance of these studies to the strategic decisions of the management of the companies in section 4.1.4. For the last, 4.2 closes the work with the indications for further researches that have been identified during its construction.

### **4.1. The main results**

This thesis was structured to analyze the Uppsala and the B&G models and answer how these theories explain the internationalization of Fibria. In doing so, the work assesses the capacity of the academic references used in the literature review to provide a comprehensive description of the internationalization of the firms.

Generally speaking, it was observed that the available studies about the internationalization of the company have different perspectives and provide answers to the questions that the authors selected to research. Despite having a few common areas of interests and convergences, this is what happens with Uppsala and B&G. They have divergences mainly due to their interests as it is presented in the next section.

#### **4.1.1. Convergences and divergences**

This subitem is dedicated to checking the convergences, complementarities, and divergences between the theories.

Both theories are evolutionists and take into consideration the firm-specific advantages. They focus on how the company builds its relationships and networks, how the company develops its *capabilities* and learns over time. From different perspectives, both are concerned about the capacity of the company to operate in another country, overcome the hardship of being an alien (or the *liability of outsidership*), and integrate the social relationships (*embeddedness*) and institutions locally.

Uppsala model finds the best answers in the phased and gradual move and the development of new *capabilities* that empower the company to further its internationalization processes and reduce the uncertainties. B&G trusts on the *within* and *across relationships* to create a favorable environment to internationalize, and the theory also defines the allocation of resources and power.

Both models highlight the role of the managers. Uppsala sees them as the agents responsible for the marginal and small decisions that jointly affect the directions of the company towards the strategy. The B&G model acknowledges that and goes beyond: it is utmost that these managers share the corporate culture and act on the benefit of the corporate strategy. Because individuals take local decisions that impact the whole performance of the company, they must be engaged and motivated by global drivers or corporate strategy.

Regarding their irreconcilable differences, the main topic is the object of interest. For the Uppsala model, the internationalization happens irrespectively of ownership. A company that exports directly from its home country to customers abroad is internationalized in their option, even without any permanent establishment beyond the national borders. For B&G, this is different. They are looking only to the companies that internationalized by ownership, with the use of owned subsidiaries abroad. So, B&G is bounded by legal ownership, and Uppsala is not.

A second difference is that B&G seems to be more concerned about the organizational level and not on the unit level. The professors did theorize about the unit level when discussing the *organizational set* and *within densities*, but the big picture received more attention in their typologies, for instance, how the units are inter-related, how the resources are distributed, how the specialization is defined and what are the dominant forces within the network. Uppsala focused on the individual units and their contribution to the whole internationalization process.

Another aspect is the importance of social relationships. Both of them theorized that, however, the perspectives of B&G go a little further in the elements of the local versus global management and human resources. According to the authors, human resources are as valuable as any other resource, and international organizations have many complexities that need to be addressed to be efficient. For companies, the *Geocentric* model works best, as it prevents *parochialism* that naturally happens given the distance and the cultural aspects.

Finally, Uppsala is looking to an organic and alive organization that is continuously under transformation, learning, creating, and changing. The organization is never ready or finished, and that is why they are so complex and said to be evolving. B&G seems to take a picture of the whole organization and explain the logic and dynamics of the networks that are happening.

#### 4.1.2. Answer to the main research question

The theoretical review and the analysis of the company Fibria aimed to answer how the two selected theoretical frameworks, the U-Model and the B&G theory, explain the international organizational structure of the company Fibria. The relationship under different perspectives such as internal, external, inter- and intra-organization are also analyzed within the boundaries of the selected models since these aspects are part of the view of their authors.

Considering the assets, most of the strategic decisions and the core competitive advantages were in Brazil. The company could have reached its customers with minimal *commitment* and complexity by using direct exports or agents instead of making FDI and setting subsidiaries abroad.

Nevertheless, Fibria decided to internationalize its sales activities and reach its maximum internationalization level. It would not make economic sense to the company to produce in another country because it would not achieve the equivalent level of productivity, costs, and scale comparable to what it had made in the last 60 years, especially related to state-of-the-art technology for forestry and production of BEKP, in Brazil.

The company acknowledged all the benefits of international operations, as described by the evolutionists. However, instead of using all the *experiential learning*, the development of *capabilities* and the networks to go further on the scale of the internationalization (to highest levels of *commitment* and FDI abroad), the company used the market intelligence acquired to guide the transformation of the operational *capabilities* and *commitments* in production at the home country and in its commercial relationships abroad.

The R&D and Finance activities followed another strategy. In these cases, the company used the internationalization to access assets, knowledge, and markets that were not available at home. In this situation, the best advantages were abroad, and further internationalization and further *commitments* could be beneficial to the company. However, they are efforts to benefit the core business in the home country that will take advantage of the acquired knowledge, technology, and funds.

As an organization, Fibria reaped the integration, collaborative and cooperative approach intra- and inter-organization of shared knowledge and many other features observed in the *Transnational* companies envisioned by B&G. Although Fibria fits better with the model of a *Global* company by the proposed typology of B&G, the management and the corporate culture pursued many practices likely to be observed in *Transnational* companies. Management also tried to relieve the impact of being an *Ethnocentric* company in traditional businesses by promoting initiatives to increase the cultural diversity, integration, and merit in detriment of the national elements from the home country.

In terms of Finance and R&D motivations, the selected theories explained the internationalization of Fibria satisfactorily in all aspects since the firm seeks abroad the advantages that could not be achieved in the home country. On the other hand, in Sales, the *modus operandi* and the structure of the company abroad was strategically chosen by Fibria to evolve, develop its *capabilities*, strengthen its networks and to create the favorable conditions to be successful, despite not being the only decisive elements to that. That part was well explained by the evolutionist and firm-specific resources aspects of the theories.

However, the models were not satisfactorily explaining the lack of motivations of Fibria for further internationalization, such as the internationalization of the production. The next section focuses on the limitations of the models.

#### 4.1.3. Limitations of the theories observed in this research

The search for a comprehensive description of the internationalization of the firms highlighted certain limitations of the theoretical framework in explaining the internationalization of the firm.

The limitation of the theories to explain contemporary business models like the digital platforms or the tech companies from Silicon Valley, for example, was appointed upfront in this research<sup>673</sup>. However, these restrictions did not impact this work, which was centered on a commodity producer.

The limitation of the models explaining the internationalization motivated by tax planning, as aforementioned, was not considered relevant for this masterwork either. It is not refuted the possibility that Fibria had selected its locations according to tax optimization<sup>674</sup>. Still, this research had not found any public evidence in that direction to confirm this motivation of Fibria.

Nevertheless, despite not being part of this research, these two limitations are intrinsic to the models, and they could inspire future investigations about these theories.

Specifically affecting the present empirical research, there was a significant limitation related to the sources of competitive advantages of the company and its location. The selected models belong to the group of resource-based theories. As it would be expected, they did not incorporate the country-specific advantages or the locational aspects of competitiveness in their analyses. Other authors, like Dunning (2000) and Porter (1990), would explain better the role of the home country into the decisions about the boundaries and features of FDI and *commitments* abroad.

This work concluded that Fibria did not perfectly match the *Global* type of B&G because the company chose management practices similar to those observed in *Transnational* companies. However, it could also hint about the limitations of the model to explain the company setup.

B&G based their models on the observation of large companies from different industries and origins such as Unilever, Philips, ITT, NEC, Matsushita, Kao, Procter & Gamble, General Electric and Ericsson<sup>675</sup> and there was no objective association between the industry and their typology.

The use of models requires simplifications, and it is possible that the non-discrimination by industry or product was a decision of the authors for the sake of standardization. Nevertheless, it should be observed when using the models to analyze industries in different contexts and dynamics, as the traditional agricultural business.

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<sup>673</sup> See *The internationalization* in section 2.1.

<sup>674</sup> See *Motives* in section 3.3.1.8.

<sup>675</sup> Cf. Bartlett; Ghoshal 1998, p. 23.

#### 4.1.4. Relevance to the business environment

These were the outcomes to the decision-makers in traditional business-like commodity industries that want to seek a presence abroad.

Specific strategies and insights observed in these models can benefit and inspire the company to make decisions on how to set up an international organization, build the networks, and expect from them to achieve the corporate goals. The models can also help the company avoid the most common traps, like *parochialism*, the *United Nations* model, or the *HQ Hierarchy Syndrome*, for example, to assess its competencies and decide upon the best *entry modes* and limits to its *commitments* abroad. With Fibria, it is possible that high FDI and production overseas are not the aim of the internationalization of the company. The most important is that the managers recognize what the objectives of the company are, what needs to be done, and what the limits are, not to put extra effort and money into unnecessary steps.

Last of all and quoting Teece (2014, p. 29), the company needs to create *capabilities* to build its “*signature processes, deploy distinct resources and design good business models and strategies in pursuit of profits*”. The selected location abroad has to contribute to that by providing access to markets, preserving and leveraging its valuable, rare, inimitable, and non-substitutable resources.<sup>676;677</sup> Thus, the managers should look around to see what their firm can do differently and better than their competitors, at least for a short period, until the other players reach the same level of your company again.

#### 4.2. Future developments

During the literature review and the empirical work, few topics were tackled but not developed at the appropriate level because they were not within the scope of this research. However, it is relevant to let these few insights inspire further works about the internationalization of the firms.

A field for research would be to assess how much awareness about all these theories and all these different aspects the decision-makers have when they make their decisions. Are decisions taken based on managers' own previous experiences, intuition, and elaborated business plans, or are they genuinely seeing that there are steps and graduations to enter into a country, and there are theoretical models to inspire them?

A controversial but relevant subject for debate is still the degrees of internationalization. Is it possible to create a single indicator to compile all the relevant aspects of the internationalization? How should they be measured? Can we compare companies with different trajectories, from various industries and setups? Is it possible and fair to graduate them?

Many authors had mentioned the necessity of more empirical work about the evolutionist and resource-based approach for the internationalization of the companies. This work had faced a few potential limitations of the theories that could be clarified with further empirical studies

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<sup>676</sup> Cf. Teece 2014, p. 29.

<sup>677</sup> Cf. Barney 1991, p. 105–106.

in different industries and businesses. Nevertheless, it is not an easy task due to the different behaviors of every individual company and the difficulty in getting the amount of comparable and quality data. In most cases, they are confidential.

Another aspect to be further studied and developed is how to evolve these theories to incorporate new business models, like digital companies, and motivations related to tax planning<sup>678</sup> and how much they can explain the traditional business like the commodities. A debate could cover if the internationalization theories could apply to any business without considering their intrinsic dynamics.

The more these theories are tested and further developed, the higher is the benefit of the decision-makers to use them as proxies for their strategic planning in internationalization.

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<sup>678</sup> See *The internationalization* in section 2.1.

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## I. Main differences between OLI and U-Model

<b>Eclectic Paradigm or OLI</b>	<b>Uppsala Model</b>
The MNE is a coordinator of a system of domestic and foreign activities that are controlled and managed by itself.	The MBEs has the capability to build, develop and coordinate value-creating multinational business network structures, involving both inner and outer actors.
Focuses on structures.	Focuses on changes and development processes.
Analyses the production investment.	Analyses the business relationship among different actors in the market.
Acknowledges the stock of foreign direct investments.	Acknowledges the importance of the dynamic and uncertainty of the economic reality and the evolutionary process.
Defines the institutional advantages of the firm that influences the control of the HQ over internal units.	Defines the network or "insidership" advantages (counter point for liabilities of outsidership) that associated with institutional advantages and relational skills affect the influence of the HQ over internal and external unities. The subsidiaries may play a strategic role in the network position.
Trade companies or representative offices (trade relationship network) are only extension of the manufacturing firm and they are not considered as MNE.	Trade companies fits perfectly to the model MBE model.
Ownership advantages are focused on the structure of the FDI (static analysis) and it is limited to the MNE.	Capabilities advantages contribute to the evolution of the MBE over time (dynamic analysis). There is a diffuse perspective about the borders of the firm since operational and dynamic capabilities are exploited by all actors of the network.
The uncertainties during the decision-making process and from the environment are not resolved by this model.	The extreme uncertainties are assimilated and resolved in their model by solutions such as "effectuation" (more realistic).
Originally based on country-specific advantages, the theory has recently reduced the significance of the nationality of ownership and its influence over the contribution of such firms to national economic welfare. The competitiveness and growth of MNEs has been less tied to their home country's economic success or failure. It acknowledges that a foreign-owned affiliate could be contributing more to the collective results than the headquarters.	The firm-specific relationships are important, while the locations of the actors are totally irrelevant.
Management decision based on the transaction costs analysis.	The management are totally responsible for decisions within the strategic analysis.
Path-dependence and a deterministic view.	History-dependence leaves room for path creation.

Table 12 - Main differences between OLI and U-Model

Source: elaborated by the author based on direct or indirect citations from Vahlne & Johanson (2013)<sup>679</sup>

<sup>679</sup> Cf. Vahlne; Johanson 2013, p. 191–194.

## II. Compilation of works related to B&G typology

Harzing (2000, p. 104-105) compiled studies before and after B&G by affinities in their descriptions, as presented in the table below. Despite of using different nomenclature, samples and perspectives over time, her effort showed the typologies were congruent since they could be grouped, with the exception of the international organization.<sup>680</sup> According to her, the international organization is not so often object of empirical researches.<sup>681</sup>

In an interesting effort to compare the existing typologies and the empirical analysis, Harzing (2000) had prepared the comparison presented in the table below. These auxiliary developments are important to give an idea who were the main authors that followed similar directions as B&G.

Authors	Publishing year	Multinational	International	Global	Transnacional
Perlmutter	1969	Polycentric		Ethnocentric	Geocentric
Stopford & Wells	1972	High FS, Low PD, area division		Low FS, High PD, Product	High FS, high PD, Global matriz
Doz	1980	National responsiveness		World-wide integration	Administrative coordination
Porter	1988	Multidomestic Industry; country centered strategy		Global Industry, Purest global strategy	Global Industry, complex global strategy
Bartlett	1986	Multinational		Global Industry, Purest global strategy	Transnacional
Prahalad & Doz	1987	Locally responsive strategy, autonomous national subsidiaries		Integrated product strategy, worldwide business management	Multifocal strategy, multifocal matrix organization
Bartlett & Ghoshal	1989	Multinational	International	Global	Transnacional
White & Poynter	1990	Geographic area structure	Domestic functional with international division	Global product structure	Matriz Horizontal
Adler & Ghadar	1990	International		Multinstitutional	Global
Roth & Morrison	1990	Locally responsive		Global Integration	Multifocal
Roth, Schweiger & Morrison	1991	Multidomestic		Global	
Sundaram & Black	1992	Multidomestic		Global	Transnacional
Leong & Tan	1993	Multinational	International	Global	Transnacional
Goshal & Nohria	1993	Multinational	International	Global	Transnacional

Table 13 - Academic works related to B&G model

Source: partial reproduction of the tables presented by Harzing (2000, p. 104-105)<sup>682</sup>

<sup>680</sup> Cf. Harzing 2000, p. 102–107.

<sup>681</sup> Cf. Harzing 2000, p. 107.

<sup>682</sup> Cf. Harzing 2000, p. 104–105.

### III. Fact sheet: controlling shareholders of Fibria

The controlling shareholders in 2018 were the BNDES Participações S.A.<sup>683</sup> (29.08%) and Votorantim S.A. (29.42%).<sup>684</sup> About 41.35% of the shares were free float and the remaining 0.14% belongs to the company treasury.<sup>685</sup>

The Votorantim S.A. is the holding company of one of the largest family owned corporations in Brazil. Currently, the group, founded in 1918, has units over 19 countries.<sup>686;687</sup> Votorantim invests in industries like cement, orange juice, energy, mining (specially zinc, copper and aluminum) and bank.<sup>688</sup> The group net income was USD 8,741 millions in 2018.<sup>689;690</sup>

In January of 2019, in a strategic move to consolidate the pulp market in Brazil, the Suzano Papel e Celulose S.A. acquired the majority of the shares of Fibria S.A. and became the controller of the company.

In 2019, the acquisition by Suzano had created the fourth biggest Brazilian company in value, excepting financial industry. The capacity of the new company was 11 million tons of pulp produced by 11 mills exclusively in Brazil. The volume is exported to more than 90 countries.<sup>691</sup>

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<sup>683</sup> This is a state-owned Brazilian development bank.

<sup>684</sup> Cf. Fibria Celulose S.A. 2018b, p. 56.

<sup>685</sup> Cf. Fibria Celulose S.A. 2017n, p. 14.

<sup>686</sup> Cf. Memória Votorantim n. y.

<sup>687</sup> Cf. Votorantim S.A. n. y.

<sup>688</sup> Cf. Votorantim S.A. n. y.

<sup>689</sup> In 2018, the net revenue was BRL 31,948 millions (Votorantim S.A. 2018, p. 04). The average exchange rate on 31.12.2018 was BRL3.66/USD according to the Internal Revenue Service of United States of America (n. y.).

<sup>690</sup> Cf. Votorantim S.A. 2018, p. 04.

<sup>691</sup> Cf. Suzano Papel e Celulose S.A. 2019c.

## IV. Fact sheet: applications and substitutes of BEKP

The cellulose is the most abundant natural polymer, a renewable raw material and vegetal source of fibers. It features qualities such as cleanness, biodegradability, low specific mass, low cost, availability and it can serve to various applications.<sup>692</sup>

There are many categories of fibers and wood fibers and there is a special nomenclature for each group. The BEKP together with other fibers from birch, northern mixed hardwood (NMHW) and southern mixed hardwood (SMHW) are part of the hardwood kraft pulp (BHKP) group.<sup>693</sup> Another group of fibers is the softwood from trees such as pine, spruce and fir. They are used for different applications due to the features they can offer to the final product such as durability and strength.<sup>694</sup>

Differently from synthetic fibers, the wood pulp is natural biodegradable fibers. This has been seen as an advantage and essential feature for flushable products like toilet papers, for example. However, many other products can contain wood pulp such as napkins, handkerchiefs, towels, and toilet rolls; medical papers, baby wipes, diapers, and personal hygiene products; filters for coffee, tea and for cars; fresh food wrapping, paper bags, and paper cups; carton board packaging for solid and liquid products; labels and stickers; newspapers, magazines, and books; print-outs, receipts, envelopes; fabrics and clothing or binding agents in foodstuffs and pharmaceuticals.<sup>695</sup>

Other natural fibers from soft and hardwood are good substitutes for BEKP. Theoretically, the synthetic fibers could be a substitute for wood fibers, but the economic viability or technical feasibility of this change may be questionable. Another aspect is that the features and quality of the final products may differ due to the mix of fibers or grades. Depending on the price of the BEKP, it is possible for consumers to change the blend of fibers in their production. It would require a new set up of machines and chemicals that not necessarily can be faster or inexpensive. There is also technical limitations to blend fibers without compromising the features of the final product. There are market niches that value the sustainable marketing appeal of the recycled and unbleached fibers. In that case, they could be considered substitutes and competitors to the bleached wood pulp of Fibria. Nevertheless, it is still required to mix the used with virgin fibers to produce recycled paper.<sup>696</sup>

The recent increase in the consumption of BEKP indicates the trend migration from long fibers to hardwood.<sup>697</sup> The use of wood fibers has been considered as an alternative to the synthetic fibers for other specific applications like construction materials, for example.<sup>698</sup>

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<sup>692</sup> Cf. Silva et al. 2008, p. 288.

<sup>693</sup> Cf. Reinhard; Weidema; Schmidt 2010, p. 03.

<sup>694</sup> Cf. Suzano Celulose e Papel S.A. 2018, p. 29.

<sup>695</sup> Cf. UPM n. y.

<sup>696</sup> The information was confirmed with Mr. Danilo Oyakawa, technical assistance manager of Fibria International Trade GmbH in 2018, by email on 27.05.2020.

<sup>697</sup> Cf. Fibria Celulose S.A. 2017g, p. 34.

<sup>698</sup> Cf. Tonoli 2010, p. viii–ix.

## V. Fact sheet: price indexes

There are price indexes for every market (PIX, FOEX and RISI), however the European prices are the most common reference in the industry.<sup>699;700</sup> The indexes are compilations of prices informed by producers in previous month. They may be used to index contracts of the current month. Within the month, the companies make the price announcements that will affect the index of the following month only.<sup>701</sup> In this sense, it might happen a time gap between the announcement and the application of price changes.

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<sup>699</sup> Cf. Fibria Celulose S.A. 2017f, p. 36.

<sup>700</sup> Cf. Fastmarkets Foex n. y.

<sup>701</sup> Interview via video conference with Mr. Henri Phillip van Keer, Global Commercial Officer, on 03.06.2020.

## VI. Fact sheet: long-term partnerships in Logistics

It was selected two agreements of Fibria to exemplify the long-term partnerships in international logistics, which was one of the strengths of Fibria<sup>702;703</sup>, according to its own competitors:

1. Verbrugge Terminals is a logistics service provider based in Netherlands and Belgium. They had been working together with Fibria for more than 15 years in Europe when, in 2017, the contract had been renewed for further years until 2022. They do the handling, storage and dispatch of the pulp to the final customers of Fibria by containers, rail, barge and truck.<sup>704</sup>  
The long-term relationship and the investment made by the supplier to specialize its operations to handle pulp are both examples of strong *commitment* decisions and *trust* building mentioned by U-Model.
2. The STX Pan Ocean Co. Ltd., a South-Korean ocean transportation company, had signed in October of 2010 a freight services contracts with Fibria to ship its exports from Brazil to the international ports during 25 years.<sup>705;706</sup> Five vessels were operating exclusively for Fibria<sup>707</sup> and, in 2017, the companies announced another Consecutive Voyage Contract (CVC) with 5 new vessels with the value of USD636million.<sup>708</sup>  
The amount involved, the term of the contracts and the fact that both companies gave disclosure about the agreements signalize again the *commitment* decisions and *trust*.<sup>709</sup>

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<sup>702</sup> Interview by video-conference with Mr. Reginaldo Gomes, General Manager of Sales in Europe of Eldorado, on 06.04.2020.

<sup>703</sup> Interview by e-mail with Mr. Fabio Almeida de Oliveira, Director of International Operations at Suzano, on 06.04.2020

<sup>704</sup> Cf. Fastmarkets Risi 2017.

<sup>705</sup> Cf. Fibria Celulose S.A. 2017g, p. F-67.

<sup>706</sup> Cf. Fibria Celulose S.A. 2011, p. 12.

<sup>707</sup> Cf. Fibria Celulose S.A. 2017g, p. 62.

<sup>708</sup> Cf. Cavalcanti 2017.

<sup>709</sup> Cf. Pan Ocean 2017, p. 06.

## VII. Fact sheet: the pulp offtake agreement with Klabin

Since 2016, the Austrian subsidiary of Fibria signed a take-or-pay agreement until 2022 to buy 900,000 tons of the yearly production of Klabin to distribute it to the international market.<sup>710</sup>

This extra volume had increased the market share of Fibria to 8 million tons p.y. Around 0.3 million tons p.y. was left to Klabin to sell to the domestic market.<sup>711</sup>

At that time, Klabin did not have an international structure with specialized personnel to trade BEKP. Instead of moving abroad, Fibria had offered to use its experience and its portfolio of customers to trade the pulp of Klabin abroad.<sup>712</sup> This agreement had prevented Klabin to sell their BEKP to the main international markets.

In 2018, the termination of the agreement with Klabin had been offered to the European Commission as a remedy to resolve the competitive concerns. A decision of the European Commission (EC) demanded the termination of the contract in 2019.<sup>713</sup>

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<sup>710</sup> Cf. Cavalcanti; Alfano 2015.

<sup>711</sup> Cf. Fibria Celulose S.A. 2017g, p. 41.

<sup>712</sup> Interview by e-mail with Mr. Fernando Antonio Elias, General Exports Manager of Klabin S.A, on 07.04.2020.

<sup>713</sup> Cf. European Commission 2018, p. 29.

## VIII. Fact sheet: background of Aracruz and VCP

In 2009, Fibria was the legal successor of the merger between VCP S.A. and Aracruz S.A. Both companies had long international experiences. Herein, there are few interesting facts to prove that:

### 1. Aracruz Celulose S.A. (Aracruz or Aracruz S.A.)

It was founded by the Norwegian entrepreneur Mr. Erling Lorentzen in late '60s to be an exporter, since his family was in the shipping business and the paper producers were based in the North hemisphere.<sup>714;715</sup> At that time, the capacity installed in Brazil to be economic viable was 400,000 tons and the competitive advantages of the country were known by the founders since the beginning.<sup>716</sup>

### 2. Votorantim Celulose e Papel S.A. (VCP or VCP S.A.)

It was younger but also focused on the exports. At the beginning, the company sold and distributed its products worldwide using Votorantrade, the trade company of Votorantim Group. However, it moved gradually these sales to its own international subsidiaries.

In 2004 and 2005, the subsidiaries VCP Overseas Holding KfT in Hungary, VCP Trading N.V. in Netherlands Antilles and VCP North America in United States were responsible for all its international operations. At that time, Europe had 60% market share followed by Asia and North America with 30% and 10% respectively. In 2006, the sales to final clients shifts from the Hungarian subsidiary to its new Swiss branch.<sup>717</sup>

Other restructuring and changes happened into the international setup of Aracruz and VCP individually and after the merged that led to the international configuration observed in 2018.

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<sup>714</sup> Cf. Lorentzen 2013.

<sup>715</sup> Interview by e-mail with Mr. Jose Luciano Penido, Chairman of the BoD of Fibria, on 06.04.2020.

<sup>716</sup> Cf. Lorentzen 2000, p. 05, 08.

<sup>717</sup> Cf. Votorantim Celulose e Papel S.A. 2005, p. 45, 75.

## IX. Fact sheet: corporate program *We are Fibria*

**Framework:** the program *We are Fibria* was based in a combination of different resources in order to reach the larger number of employees of all levels, nationalities and locations of the company in 2017 and 2018. The main tolls and concepts are listed below<sup>718</sup>:

- More than 250 managers received instructions and a tool kit to learn how to disseminate the concept among its subordinates. They were the *ambassadors* of the program.
- The program targeted all employees, regardless the position and location.
- Visual communication was spread in the offices and mills. It was used key words, pictures and messages aligned with the experience that the employees were going through. The employees also received t-shirts with the messages of the program.
- Every ambassador had received 6 boxes. Each box had a different instruction to lead a team building with the subordinates. They were actually 6 experiences with different purposes and messages. The boxes used ludic methods like gamification, for example, to promote the dialog and engagement.
- Meetings with the CEO promoting an open dialog happened to launch the program in each unit worldwide. His message was aligned with the content and made available in video afterwards.
- Many videos with testimonials of employees worldwide were used. They are still available at the YouTube channel of Fibria.
- The eye-on-eye and open dialog concepts were promoted along the whole campaign.
- Every time the employee attended one of the team buildings with these boxes, he/she received a stamp in his *experiences passport*.
- By participating in all experiences, the employee received a coupon to compete for many prizes.

**Survey results:** a survey among all employees closed the campaign and the results proved the success of the program to achieve the larger number of people, learn the message and incorporate them into their routine at work<sup>719</sup>:

- 92.9 % of the ambassadors thought easy or very easy to lead the experiences;
- 100 % said tool kit was essential to easy understand what it means to be Fibria;
- 100 % believe the experiences were important for their work;
- 92.9 % agreed that the experiences collaborated to strengthen the relationship among the team members;
- 100 % believed that their knowledge about the essence of the company has been greatly increased in comparison to the status previous to the campaign;
- 91.4 % considered that the experiences helped them to understand how to apply the organizational culture in their daily routines;
- 93.6 % considered that the experiences contributed to greater integration and closer relationships in their teammates;

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<sup>718</sup> Cf. Fibria Celulose S.A. 2018d.

<sup>719</sup> Cf. Fibria Celulose S.A. 2018d.

- 91.4 % consider that the face to face communication with their manager (ambassador) was is satisfactory model;
- 87.4 % believe that they have increased or increased their knowledge about the essence of the company significantly after the experiences.

## X. Methodology to evaluate the intensity and *centrality*

A methodology was created exclusively for this work to access the intensity and *centrality* of the subsidiaries into the organizational set according to the B&G Model. The method is described as followed:

1. Sample: wholly owned subsidiaries and controlled by Fibria
  - a. Definition of perspectives: Corporate, Operational and Financial.<sup>720</sup>
2. Score model:
  - a. more complex and more important profiles are highlighted in grey
  - b. each grey cell values 01 score
  - c. each shareholder values 01
3. Criteria and scoring:
  - 4.1. Corporate Perspective:
    - a. Legal status: subsidiaries value 01 and branch values 00, since branches are less sophisticated with limited operation possibilities.
    - b. Country of incorporation: only descriptive and there is no score for this item.
    - c. Number of shareholders: each shareholder values 01 score since it is more complex to report to multiple controllers and representatives than one single one.
  - 4.2. Operational Perspective:
    - a. Main activities: it was considered that the operation in trade and R&D companies are more complex than the ones observed in finance and holding companies and for that reason they had received score 01. Finance and holding got no score.
    - b. Employees: the existence of employees is considered to be a more complex operation because it involves local operations and they received 01 score. Units without employees may be financial or not operational and they received no score.
    - c. Global Head of the operations: the units that host such a high executive has a higher status among the other units in that field. For this reason, the unit received score 01.
  - 4.3. Financial Perspective:
    - a. Net revenue: companies with net revenue received score 01 considering that they contribute to the global turnover of the company. Companies with no revenue received no score.
    - b. Materiality of the assets and liabilities: companies with higher assets and liabilities have a high capital demand that can be associated with Financial and R&D investments. Comparatively, the highest values received 01 score and the others received no score.
4. Total Score:

It is the sum of the sub-total from each category above.

There is a graduation where the units with higher scores are more operational, more complexes, may have higher contribution to the performance of the company.

This total score serves to measure the *centrality* of the unit within the organizational structure. The higher is the score, the higher is the *centrality* of the unit for potentially have more possibility of inter- and intra-group relationships.

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<sup>720</sup> More details about each perspective can be found in the next page.

### **Constructions of the perspective:**

Companies without employees may have legal and financial *commitments* but that is not the type of network of the interest of this work. Therefore, it was formulated the following perspectives to compare the relationships within the networks:

- a. from the **corporate perspective**, a branch has limited scope in comparison to a subsidiary and it should be directly to its principal. Therefore a branch is expected to have less activities intra-group than a subsidiary. Also, companies with more shareholder has more points of interactions than companies with one shareholder.
- b. From the **operational perspective**, it was considered that sales and trade companies are more complexes and may interact more with the HQ and other subsidiaries in comparison to financial or holding companies. This assumption is confirmed by the interviews when the employees mentioned the interactions and joined projects in events like FAM, strategic planning and budgeting, for example. The fact that the Global Head of the commercial area is located in Austria and not at the HQ in Brazil also proved the *centrality* of that unit since he coordinated the sales people all over the world from that location.
- c. The **financial perspective** is straight forward: the flow of revenues and the materiality of its assets shows the weight of that company in comparison to its other sisters. The financial subsidiary has a high score for the size of the bonds and its role to access capital markets and fund the operations. On the other hand, the sales units have different weight into the whole organization. The absence of revenues in Hong Kong, for example, proves that the branch has a less active role in comparison to the subsidiaries, as mentioned in the corporate perspective.

## **XI. Methodology to evaluate other competitors**

The methodology was created exclusively for this work to measure the international presence of the Brazilian competitors of Fibria and compare them. The method is described as followed:

1. Sample: it had included Suzano and Eldorado, the 03 main Brazilian competitors that produce BEKP, and Klabin for being a BEKP supplier and potential competitor after the termination of the offtake agreement mentioned in Appendix VII.
2. Definition of perspectives:
  - a. Name of subsidiary;
  - b. Country where the subsidiary is incorporated or domiciled;
  - c. Shares owned by the competitor.
  - d. Year of the Organigram used as source for this table
3. Exception:
  - a. FuturaGene: it was observed that several companies of Suzano had the name FuturaGene. From the website of the company it was possible to report that this is international R&D arm of Suzano. There were 08 subsidiaries associated with that business.
4. Criteria of analysis:
  - a. Total number of subsidiaries abroad
  - b. Total number of subsidiaries apparently not involved with R&D, i.e., dedicated to other activities such as sales, finance or holding. These companies were highlighted with greys cells.
  - c. Presence in the same countries as Fibria were also highlighted with greys cells. China Mainland was considered for this work and the location in Asia semi-equivalent to Hong Kong.
5. Additional considerations:

From the reports of Suzano, it was observed that the company has representative offices in China and in England that were not represented into the organigram.<sup>721</sup> For this reason, they were not included in the Table 9, but it was referred in the analysis.

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<sup>721</sup> Cf. Suzano Papel e Celulose S.A. 2019b, p. 78.

## XII. Examples of communication channels

Along this work, it was identified few channels to communicate the results, strategy and the values of the company to employees and other stakeholders. The following channels had been analyzed in this research:

- i) **Corporate website:** a massive quantity of information about the company and its operations was available online, including the Sustainability Report, for example.<sup>722</sup>
- ii) **Download center:** within the corporate website, it was originally created to communicate with investors, and it was made available to all the public financial reports, main company corporate policies and general guidance published by Fibria. The Investor Relations (IR) area was responsible for the content in this channel and for its newsletter to receive the notice of news and the invitation to attend to the quarterly calls.<sup>723</sup>
- iii) **Quarterly calls:** they were part of the strategy of IR too. Quarterly, there was one call with the media, and another opened to the public.<sup>724</sup> CEO, CFO and the GCO host the call and they explained the performance of the previous quarter and talk about projects and perspectives. At the end, there is a Q&A section. The recorded calls were made available at repositories such as EaringsCast, for example.<sup>725</sup>
- iv) **Social medias:** generated the most diverse content of the interest of the public. Only the YouTube channel is still online and that was used as a repository for created contents linked to specific campaigns.<sup>726</sup> Few examples were the videos produced for the campaign “Unique people and their stories” where various people talk about their experiences and interfaces with the firm. There are also messages from the CEO and the Chairman of the Board directed to the employees and to the external public.<sup>727</sup>

The Facebook and Twitter channels were used to promote special campaigns and to generate content of engagement to all stakeholders about the company, its values and its people. The messages were directed especially to the Brazilian audience since it was identified that these channels were not so effective among other cultures as it was among Brazilians. In 2018, the diagnosis was made by the corporate communication area with the help of focus groups with employees in the international offices.<sup>728</sup>

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<sup>722</sup> Cf. Suzano Papel e Celulose S.A. 2019a.

<sup>723</sup> Cf. Suzano Papel e Celulose S.A. 2019a.

<sup>724</sup> Despite of being designed and prepared to target investors and analysts of the industry.

<sup>725</sup> Cf. EarningsCast 2018.

<sup>726</sup> Interview by e-mail with Ms. Raquel Soares Paolinelli Botinha Macedo, Corporate Communications Coordinator, on 25.05.2020

<sup>727</sup> Cf. Fibria Celulose S.A. 2010.

<sup>728</sup> Interview by e-mail with Ms. Raquel Soares Paolinelli Botinha Macedo, Corporate Communications Coordinator, on 25.05.2020

### XIII. Examples of partnerships with customers and suppliers

The list of customers of Fibria is not a public information. However, in a search on the Internet it was possible to find a few examples of partnership with customers. These examples of trustworthy relationship and association of the brands indicate the alignment between the strategy and values of the parts of the relationship:

- Kimberly-Clark has one section in their website dedicate to promote the partnership with Fibria as a source of value in wood traceability, pulp certification and the sustainable businesses.<sup>729</sup>
- UPM, in 2018, awarded Fibria with the prize *Supplier of the Year*.<sup>730</sup>
- Proctor & Gamble, in 2018, had its CEO talking to investors about the program *Supply Chain Financing* and Fibria had been cited as a partner since the pilot program.<sup>731;732</sup>
- Andritz Group, in 2018, launched their project *PrimeLine TIAC*, a state-of-the-art tissue paper pilot plant located in Graz, in Austria.<sup>733</sup> As mentioned in their website, Fibria<sup>734</sup> partnered with them to supply the BEKP to the pilot plant.<sup>735</sup>

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<sup>729</sup> Cf. Kimberly-Clark n. y.

<sup>730</sup> Cf. UPM 2018.

<sup>731</sup> Cf. Esty; Mayfield; Lane 2016, p. 01.

<sup>732</sup> Cf. Dunbar 2018.

<sup>733</sup> Cf. Andritz Group 2018.

<sup>734</sup> The website had updated the name to Suzano after the acquisition in January of 2019.

<sup>735</sup> Cf. Andritz Group n. y.

## XIV. Organigram of Fibria in 2017

This is the last individual organigram published by Fibria Group before the acquisition by Suzano Celulose e Papel S.A. in 2019.

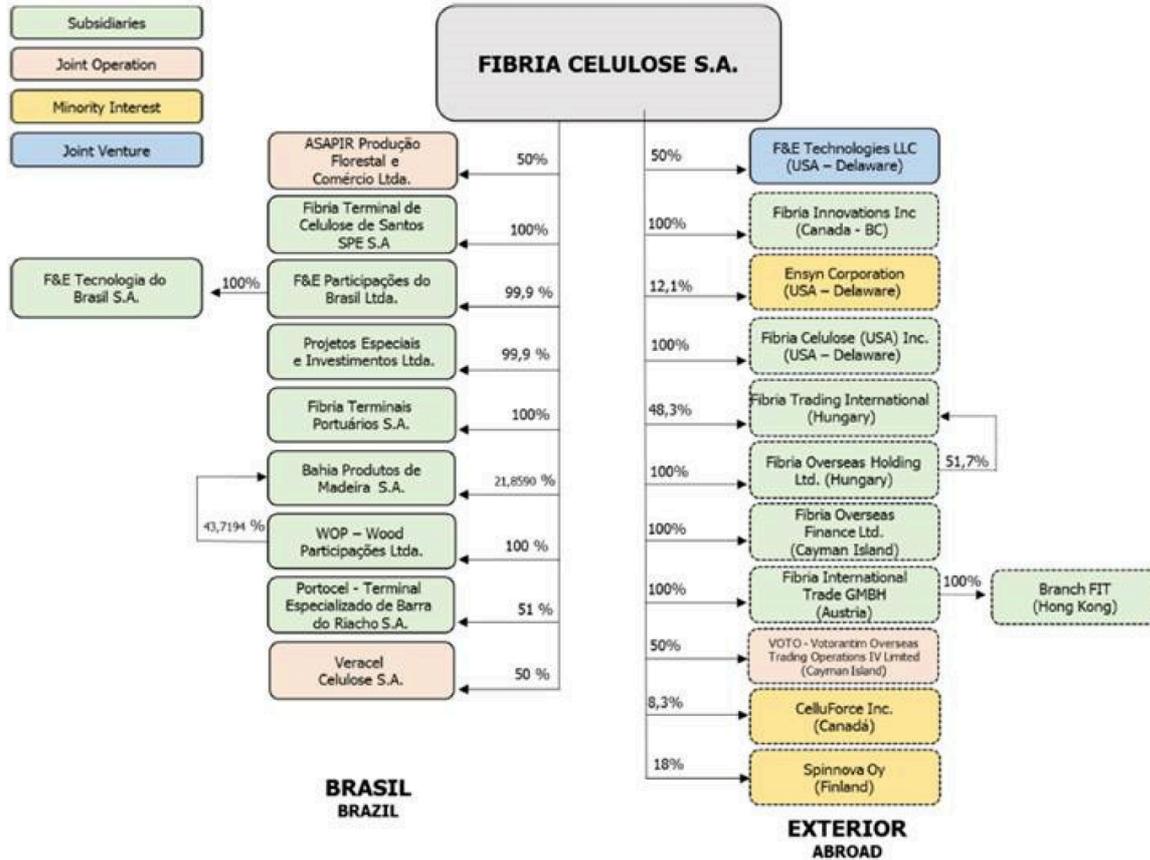


Figure 13 - Organigram of Fibria (2017)

Source: extracted from Fibria Celulose S.A. (2017g, p. 67)<sup>736</sup>

<sup>736</sup> Cf. Fibria Celulose S.A. 2017g, p. 67.

## XV. Organigram of Suzano in 2017

This is the last individual organigram published by Suzano Group before the acquisition of Fibria S.A. in 2019.

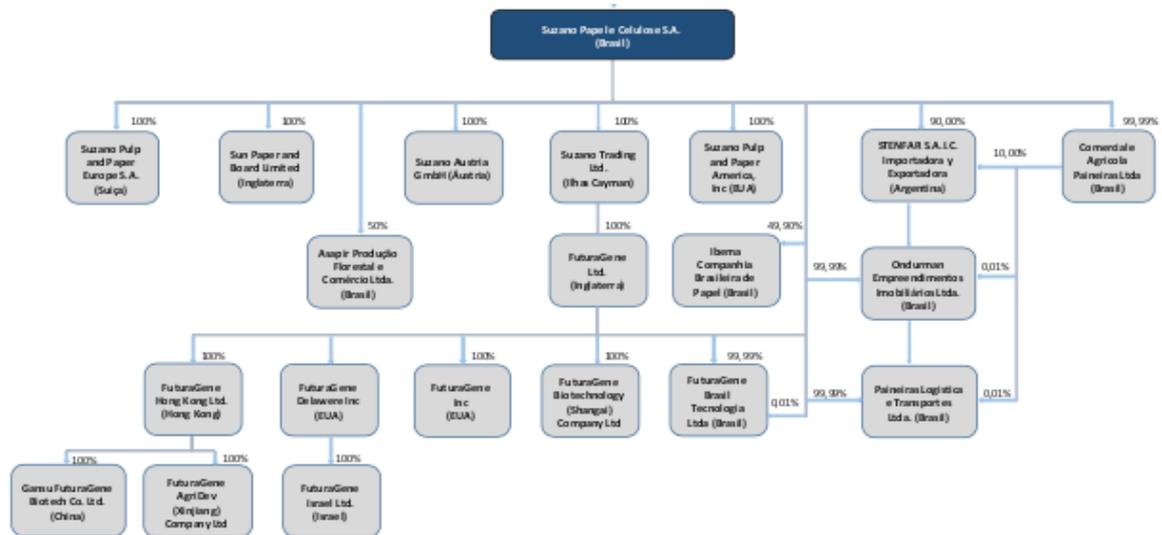


Figure 14 - Organigram of Suzano (2017)

Source: extracted from Suzano Papel e Celulose S.A. (2018, p. 285)<sup>737</sup>

<sup>737</sup> Cf. Suzano Papel e Celulose S.A. 2018, p. 285.

## XVI. Combined organigram of Suzano and Fibria in 2018

In 2018, Fibria S.A. and Suzano Celulose e Papel S.A. did not publish their individual organigrams. The acquisition was effective only in 2019, but the companies published the combined organigrams already in 2018. For this reason, this work brings the individuals in 2017 and the combined to show that there was no change in the organizational structure of the companies in 2018.

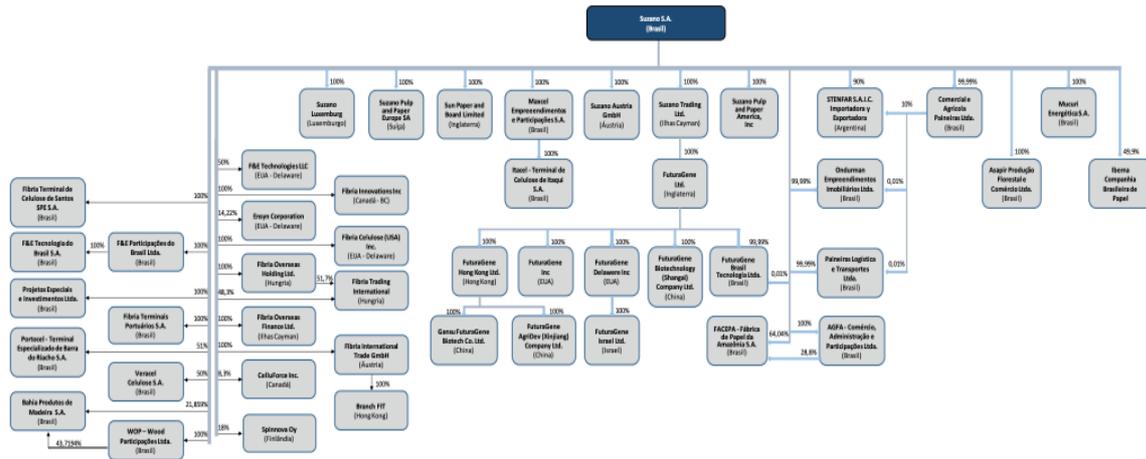


Figure 15 - Combined organigram of Suzano and Fibria (2018)

Source: extracted from Suzano Papel e Celulose S.A. (2019b, p. 295)<sup>738</sup>

<sup>738</sup> Cf. Suzano Papel e Celulose S.A. 2019b, p. 295.

## XVII. Organigram of Eldorado in 2018

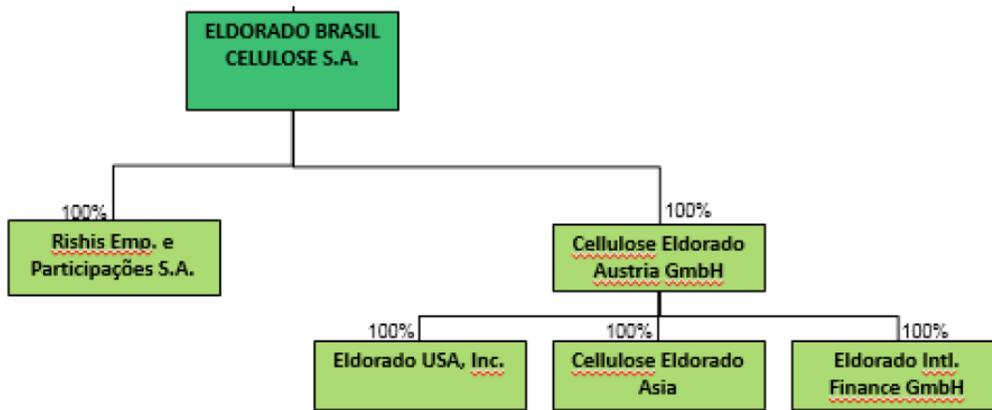


Figure 16 - Organigram of Eldorado (2018)

Source: extracted from Eldorado Brasil Celulose S.A. (2019, p. 179) <sup>739</sup>

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<sup>739</sup> Cf. Eldorado Brasil Celulose S.A. 2019, p. 179.

## XVIII. Organigram of Klabin in 2018

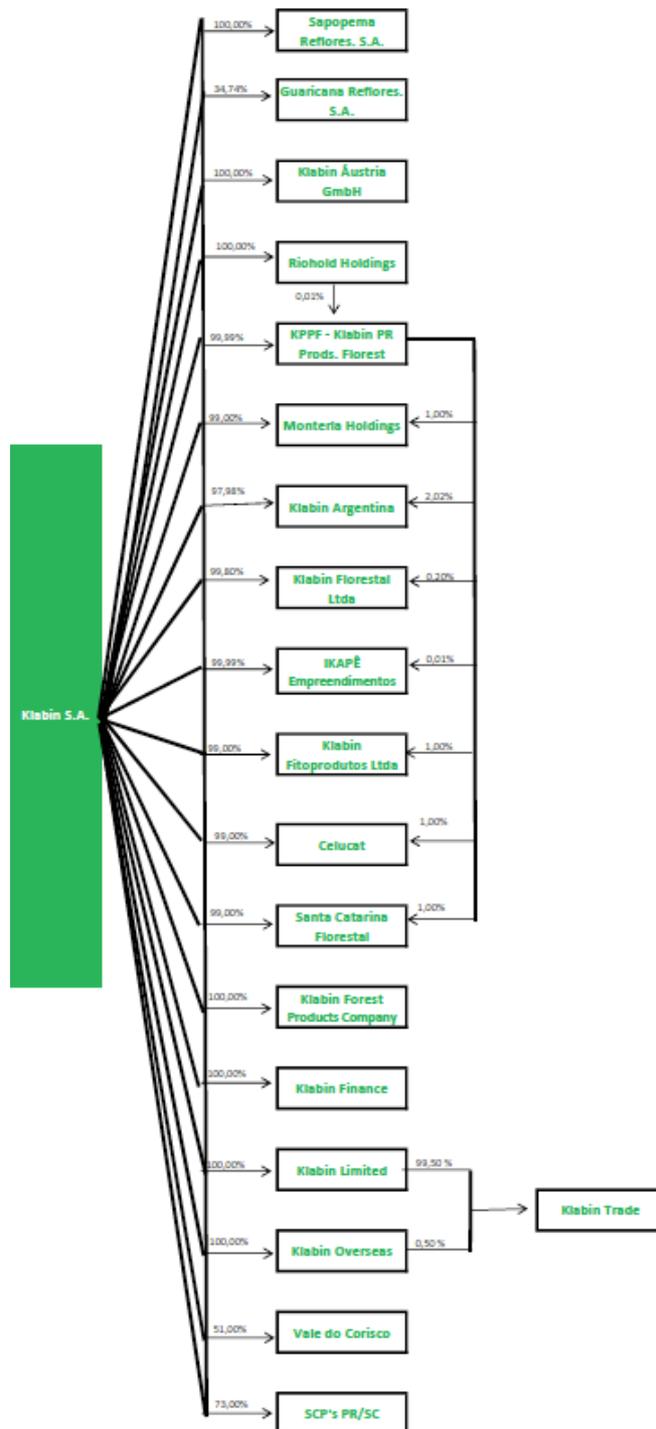


Figure 17 - Organigram of Klabin (2018)

Source: extracted from Klabin S.A. (2019, p. 315)<sup>740</sup>

<sup>740</sup> Cf. Klabin S.A. 2019, p. 315.

## XIX. List of interviews performed by this research

Tier	Ref.	Interviewee (Nationality)	Hierarchic Level	Company	Position	Place of work	Format	Date of Answer	Language (E - English P - Portuguese)
<b>EMPLOYEES OF FIBRIA GROUP IN CORPORATE POSITIONS - Board and C-Suit</b>									
1	1	Jose Luciano Penido (Brazilian)	Board of Directors	Fibria S.A.	Chairman of the Board	Brazil (HQ)	E-mail	06.04.20	P
2	2	Marcelo Strufaldi Castelli (Brazilian)	Board of Officers	Fibria S.A.	Global Chief Executive Officer	Brazil (HQ)	E-mail	08.04.20	E
2	3	Guilherme Perboyre Cavalcanti (Brazilian)	C-Suit	Fibria S.A.	Chief Financial Officer	Brazil (HQ)	E-mail	02.04.20	E
2	4	Fernando Bertolucci (Brazilian)	C-Suit	Fibria S.A.	RD&I Officer	Brazil (HQ)	E-mail	14.04.20	E
2	5	Mariangela Bartz (Brazilian)	C-Suit	Fibria S.A.	Legal Officer (Counselor)	Brazil (HQ)	E-mail	11.05.20	E
2	6	Vinicius Nonino (Brazilian)	C-Suit	Fibria S.A.	New Business and Strategic Planning Officer	Brazil (HQ)	E-mail	14.05.20	E
2	7	Henri Phillip van der Keer (French & Brazilian)	C-Suit	Fibria International Trade GmbH	Commercial and International Logistics Officer	Austria (Subsidiary)	Video- conference	03.06.20	P
2	8	Andresa Garcia de Barros (Brazilian)	Deputy	Fibria S.A.	Corporate Human Resources General Manager (Deputy Officer)	Brazil (HQ)	E-mail	05.06.20	P
<b>EMPLOYEES OF FIBRIA S.A. - Short assignees</b>									
3	16	Brenda Julia Santos Lima (Brazilian)	Analyst	Fibria S.A.	Credit Analyst Sr.	Brazil (HQ)	E-mail	20.05.20	E
3	17	Monique Alves (Brazilian)	Analyst	Fibria S.A.	Commercial Analyst Sr.	Brazil (HQ)	E-mail	05.05.20	E
3	18	Amanda de Freitas Souza (Brazilian)	Analyst	Fibria S.A.	Logistics Planing Analyst Sr.	Brazil (HQ)	E-mail	13.05.20	E
3	19	Fernanda Torres (Brazilian)	Analyst	Fibria S.A.	HR Analyst Sr.	Brazil (HQ)	E-mail	26.05.20	E

Tier	Ref.	Interviewee (Nationality)	Hierarchic Level	Company	Position	Place of work	Format	Date of Answer	Language (E - English P - Portuguese)
<b>EMPLOYEES OF FIBRIA GROUP IN CORPORATE POSITIONS - Managers</b>									
4	20	Raquel Botinha (Brazilian & Italian)	Executive Management	Fibria S.A.	Corporate Communications Coordinator	Brazil (HQ)	Video- conference	25.05.20	P
4	21	Alex Fabiano Cintra (Brazilian)	Executive Management	Fibria S.A.	Controllership Manager - Brazil	Brazil (HQ)	E-mail	27.05.20	P
4	22	Beatriz Nalevaiko Venturini (Brazilian)	Executive Management	Fibria S.A.	Sales Processes and Controls Coordinator	Brazil (HQ)	E-mail	01.06.20	E
<b>EMPLOYEES OF INTERNATIONAL SUBSIDIARIES OF FIBRIA - Heads of international units</b>									
5	9	Marina Negrisoni (Brazilian & Italian)	Executive Management	Fibria Celulose Inc.	President and Head of Commercial and Logistics for North America	United States (Subsidiary)	Video- conference	10.04.20	E
5	10	Ari Borg (Finish)	Executive Management	Fibria International Trade GmbH	Managing Director and Head of Commercial and Logistics for EMEA	Austria (Subsidiary)	E-mail	06.04.20	E
5	11	Michael Rushton (British & Canadian)	Executive Management	Fibria Innovations Inc.	President and COO	Canada (Subsidiary)	E-mail	02.04.20	E
<b>EMPLOYEES OF INTERNATIONAL SUBSIDIARIES OF FIBRIA - Managers</b>									
6	12	Danilo Oyakawa (Brazilian)	Executive Management	Fibria International Trade GmbH	Technical Assistance Manager	Austria (Subsidiary)	E-mail	04.05.20	E
6	13	Nicole Bello (Swiss & Italian)	Executive Management	Fibria International Trade GmbH	Administrative and CRM Manager and Managing Director	Austria (Subsidiary)	E-mail	04.05.20	E
6	14	Tiago Sousa Seixas (Portuguese)	Executive Management	Fibria International Trade GmbH	International Controllership Coordinator	Austria (Subsidiary)	E-mail	30.05.20	E
6	15	Yolanda Kwok (Hong-Kongese)	Executive Management	Fibria International Trade GmbH – Hong Kong Branch	Office and Administrative Manager	Hong Kong (Branch)	E-mail	19.05.20	E

Tier	Ref.	Interviewee (Nationality)	Hierarchic Level	Company	Position	Place of work	Format	Date of Answer	Language (E - English P - Portuguese)
<b>REPRESENTATIVES OF THE MAIN COMPETITORS OF FIBRIA</b>									
7	23	Carlos Anibal Junior (Brazilian)	C-Suit	Suzano Papel e Celulose S.A.	Global Commercial Executive Officer – Pulp Business	Brazil (HQ)	Video- conference	09.04.20	P
7	24	Fabio Almeida de Oliveira (Brazilian)	Executive Management	Suzano Papel e Celulose S.A. and Suzano Austria GmbH	Commercial Director – Europa e Americas	Austria (Subsidiary)	E-mail	06.04.20	E
7	25	Reginaldo Gomes (Brazilian)	Executive Management	Eldorado GmbH	Managing Director and Head of Commercial and Logistics for EMEA	Austria (Subsidiary)	Video- conference	06.04.20	E
7	26	Fernando Antonio Elias (Brazilian)	Executive Management	Klabin S.A.	General Manager – International Market	Brazil (HQ)	E-mail	07.04.20	E
<b>INDEPENDENT PROFESSIONALS - Experts</b>									
8	27	Levente Torma (Hungarian)	Partner	DLA Piper Tax Advisory Ltd. B&T Tax Solutions Zrt.	Counsel and Co-head of Tax Practice	Hungary	E-mail	21.04.20	E
8	28	Fran Tu (Chinese)	Lawyer	Vale S.A.	Lawyer working for a Brazilian company in China	China	E-mail	13.05.20	E

Table 14 - List of performed interviews

Source: elaborated for this research exclusively

## XX. List of compliance documents published by Fibria

It was identified and considered in this research the following public corporate governance documents published by the company between 2016 and 2018:

- Corporate Governance Policy<sup>741</sup>,
- Anti-corruption Policy<sup>742</sup>,
- Transaction with Related Parties Policy<sup>743</sup>,
- Policy of Authorities<sup>744</sup>,
- Sustainability Policy<sup>745</sup>,
- Market Risk Policy<sup>746</sup>,
- Code of Conduct<sup>747</sup>,
- Fiscal Council Internal Regulations<sup>748</sup>,
- Personnel and Remuneration Committee Internal Regulation<sup>749</sup>,
- Sustainability Committee Internal Regulation<sup>750</sup>,
- Innovation Committee Internal Regulation<sup>751</sup>,
- Tax directive<sup>752</sup>,
- Fibria's position on Human Rights<sup>753</sup>.

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<sup>741</sup> Cf. Fibria Celulose S.A. 2016b.

<sup>742</sup> Cf. Fibria Celulose S.A. 2016a.

<sup>743</sup> Cf. Fibria Celulose S.A. 2016f.

<sup>744</sup> Cf. Fibria Celulose S.A. 2017k.

<sup>745</sup> Cf. Fibria Celulose S.A. 2017m.

<sup>746</sup> Cf. Fibria Celulose S.A. 2017j.

<sup>747</sup> Cf. Fibria Celulose S.A. 2017a.

<sup>748</sup> Cf. Fibria Celulose S.A. 2017d.

<sup>749</sup> Cf. Fibria Celulose S.A. 2016d.

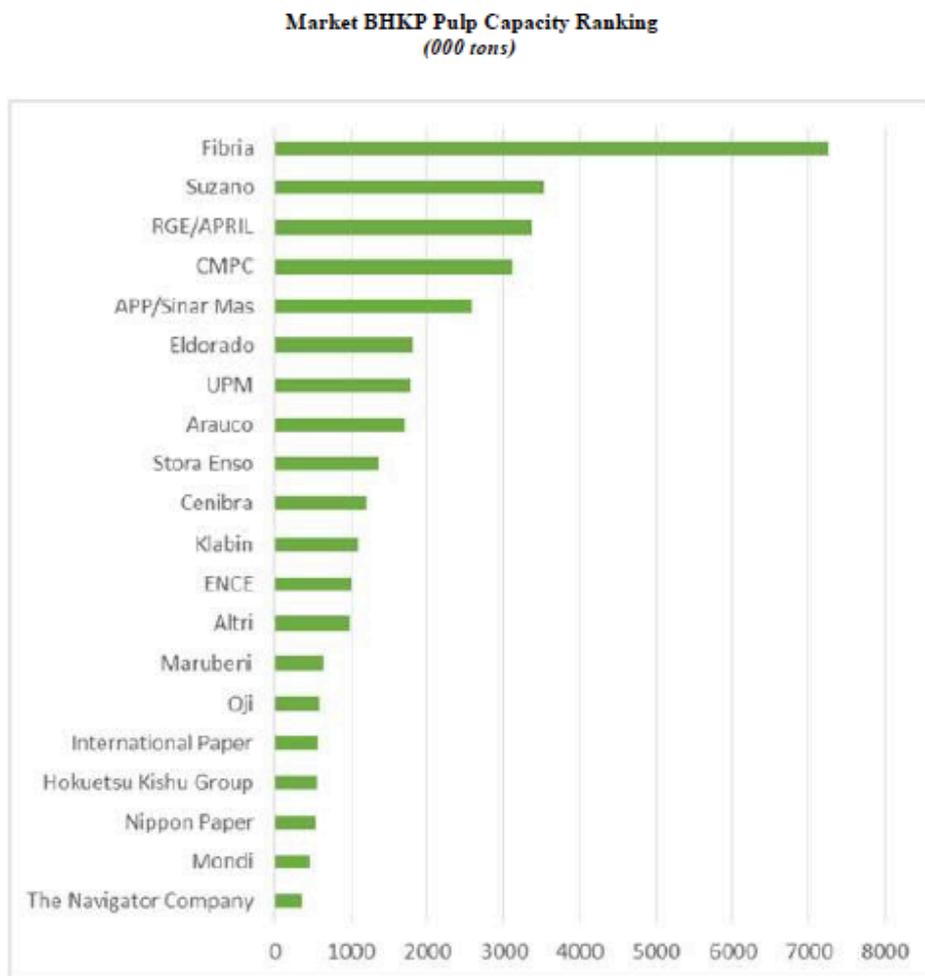
<sup>750</sup> Cf. Fibria Celulose S.A. 2016e.

<sup>751</sup> Cf. Fibria Celulose S.A. 2016c.

<sup>752</sup> Cf. Fibria Celulose S.A. 2017o.

<sup>753</sup> Cf. Fibria Celulose S.A. 2017c.

## XXI. Market BHKP Pulp Capacity in 2017



Source: Pöyry December 2017

Figure 18 - Market BHKP Pulp Capacity in December 2017, by Pöyry

Source: chart extracted from Fibria Celulose S.A. 2017f, p. 33. <sup>754</sup>

<sup>754</sup> Cf. Fibria Celulose S.A. 2017f, p. 33.

## **Statement of Affirmation**

I hereby declare that all parts of this thesis were exclusively prepared by me, without using resources other than those stated above. The thoughts taken directly or indirectly from external sources are appropriately annotated. This thesis or parts of it were not previously submitted to any other academic institution and have not yet been published.

Dornbirn, 03 of July of 2020

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