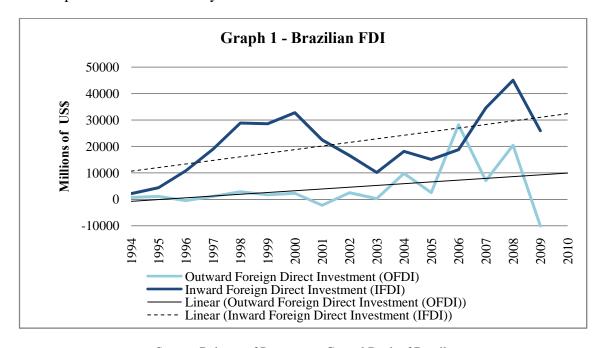


RETHINKING GLOBAL STRATEGY: Internationalization in times of global economic uncertainty¹

In 2008, Brazilian Transnational Corporations (TNCs) made an enormous jump towards internationalization². Even after the eruption of the economic crises in the last quarter of 2008, overall growth remained high and the year ended with a 20 billion dollar balance of outward forward direct investment (OFDI). In 2009, however, the effects of the crisis were felt in a higher extant by the Brazilian companies reversing the previously observed positive trend. Bearing this in mind, the TNCs were forced to rethink their international strategy and management style in order to overcome the impact of the global recession. Thus, this report presents an analysis of the current international scenario and discusses the ways found by Brazilian TNCs to keep their competitiveness in the global market.

This edition of the Transnationality of Brazilian Companies Ranking is based on 2009 results, a year in which the OFDI was harshly affected by the global financial meltdown. Whereas in 2008 the investment flows have decreased primarily in developed economies, in 2009 the unfavorable trend also affected the emerging countries³ (see graph 1). In Brazil, the OFDI decreased 42% in comparison with 2008, as a response to the uncertainty of the crisis.



Source: Balance of Payments - Central Bank of Brazil

The decrease in global investments (OFDI) from transnational companies was even stronger than the decrease in inward foreign investment (IFDI) in Brazil. The capital

¹Based on the Transnationality of Brazilian Companies Ranking 2010 project at Fundação Dom Cabral.

²Based on the Transnationality of Brazilian Companies Ranking 2009 project at Fundação Dom Cabral.

³Comisión Económica para América Latina y el Caribe, 2009; Foreign Investment in Latin America and Caribbean, 2008.

flow from Brazil to the exterior was negative USD10 billion, a global deinvestment of Brazilian companies. This means that the sale of assets and the reduction in the operations abroad were greater than the acquisitions and increase in operations in 2009.

However, the negative recession consequences in 2009 were softened by the positive performance reached in 2008, which generated a "cautiously optimistic" perspective from the Brazilian TNCs regarding the economic recovery (see trend line in graph 1). In spite of the adverse scenario and the average negative results, the study conducted by Fundação Dom Cabral shows that some TNCs maintained their growth levels in international markets. A current question on the minds of executives of international firms is: what strategy should we adopt in order to have positive performance in times of uncertainty?

METHODOLOGY

The 2010 edition of the Transnationality of Brazilian Companies Ranking used the same methodology from the past year. This was done in order to enable comparisons with past rankings and with studies produced by other emerging countries.

Thus, we considered conglomerates instead of individual companies. Therefore, the information presented in this report is with regards to the groups' consolidated numbers. While this makes it more difficult to compare individual companies in the same industry, it aligns the research with rankings produced by other institutions worldwide. Additionally, since one of the group's primary motives to internationalize is to diversify its holdings, analyzing individual companies presents the reader with an inaccurate picture of the overall variance of the firms' results.

First, we built a list of potential companies for the study, including all publically traded companies listed or not on the Bovespa (São Paulo Stock Exchange) and the private limited companies (Ltda.), totaling 400 companies. However, we discovered that the majority of the companies do not have activities abroad, disqualifying them from the potential response pool.

By contacting these companies, we indentified 71 groups with some form of international operation (at least a commercial office), and these were considered as potential transnationals for the survey. The companies were then contacted by a research team from Fundação Dom Cabral and asked to answer a questionnaire with information regarding their international activity in 2009.

Of the 46 questionnaires returned, 41 were valid. The five invalid questionnaires belonged to either companies that don't have activities abroad or only exporters. This year we added the groups JBS-Friboi, Itaúsa, Brasil Foods, Ibope, Ci&T Software, Eletrobrás, Alusa, Spoleto, Fisk, Bematech and Politec. The groups that did not participate were Itaú- Unibanco and Itautec (for being part of the group Itaúsa), Oi (part of the group Andrade Gutierrez) and Aracruz (part of the group Votorantim). There were also some companies that did not participate due to difficulties in obtaining the necessary data for the project.

As for the questionnaire construction, a literature review was performed on the topic of internationalization, seeking an index that reflects companies' transnationality and is applicable to the Brazilian context. Hence, the index used is based on the methodology developed by UNCTAD (United Nations Conference on Trade and Development), adopted in more than 10 countries around the world and thus utilized in this research project for comparability reasons.

The index consists of the assessment of three indicators, which form the degree of internationalization of the companies:

- Revenues/Sales: revenues of foreign subsidiaries / total revenues;
- Assets: foreign assets / total assets;
- Employees: number of foreign employees / total number of employees.

For each one of these three indicators, an index representing the proportion of foreign / total is calculated. Afterwards, these three indexes are combined and their mean reflects the transnationality index of each company.

The multidimensionality of the index also allows comparisons between conglomerates from different industries. This is useful because each sector often demands different ways of internationalizing. For instance, in general, companies from the services sector have a large number of employees abroad but relatively low amount of assets. On the other hand, companies from the manufacturing sector can aggregate high revenues abroad, without necessarily having an enormous number of employees. Therefore, adopting these three indexes balances the diverse forms of internationalization, and attempts to equally value the global activities of companies from all sectors.

In order to better understand the internationalization process of Brazilian companies and to explain the most significant changes regarding the global scenario in 2009, we conducted personal interviews with a number of large groups. The groups were selected for their position in the transnationality index or for relative shifts in their 2009 results. Therefore, this report contains quantitative data obtained from the questionnaires, as well as, qualitative data obtained through semi-structured interviews. The interviews enrich the report by providing valuable explanations about the motivations and main changes of the Brazilian companies' internationalization process.

RESULTS

The principal highlight of 2009 was the effect of the world economic crisis on business both in Brazil and abroad. Whereas the economic downturn was felt only in the last quarter of 2008, slightly compromising annual results, the prolonged crisis during the following months in 2009 significantly accounted for the drop in annual performance.

Table 1 shows the top transnational companies' results, that is, companies with a level of internationalization superior to 10%, totaling 23 companies.

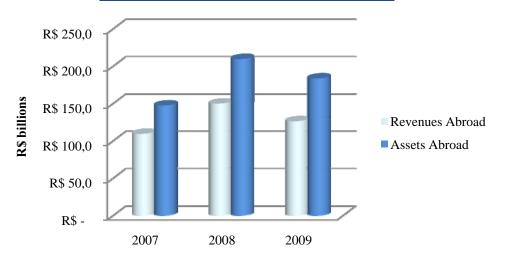
Despite the growth in the number of domestic employees and domestic assets, domestic sales showed a large decline (-14%). The top 23 Brazilian TNCs also decreased its foreign revenues and assets, resulting in diminished internationalization levels (see table 1).

Table 1. Top Transnationals overview (R\$ billions and no of employees)					ployees)		
	2	2007	2	2008		2009	Δ09/08
Revenues							
Domestic	R\$	348,62	R\$	421,01	R\$	361,80	-14,06%
Abroad	R\$	109,41	R\$	149,79	R\$	126,24	-15,73%
Total	R\$	458,03	R\$	570,80	R\$	488,04	-14,50%
% abroad/total	23	3,89%	26	5,24%	25,87%		
Assets							
Domestic	R\$	441,64	R\$	558,53	R\$	597,98	7,06%
Abroad	R\$	147,35	R\$	209,63	R\$	183,60	-12,42%
Total	R\$	588,99	R\$	768,17	R\$	781,57	1,75%
% abroad/total	25	5,02%	27	27,29%		,49%	
Employees							
Domestic	394.154		416.473		437.620		5,08%
Abroad	126.481		176.549		200.663		13,66%
Total	520.635		593.022		638.283		7,63%
% abroad/total	24	1,29%	29,77%		31,44%		

Source: FDC survey of Brazilian TNCs.

Foreign revenues showed the sharpest decrease (-15%) in comparison with the other variables, which can be partially explained by the drop of international demand. In addition, the top transnationals have decreased foreign assets 12%, possibly due to assets sales, reduction in operations, or closing subsidiaries that suffered the most with the financial turbulence (see graph 2).

Graph 2. Evolution of revenues and assets



Source: FDC survey of Brazilian TNCs.

Note that the drop on revenues and assets may be due to external factors such as the deep exchange rate variation between the ends of the past two years. Thus, this drop can be seen as a consequence of: (i) the Dollar and Euro depreciation, (ii) Brazilian products prices' reduction, (iii) diminished sales volume. For a picture of the exchange rate impact, consider that the American Dollar depreciated in relation to the Real by almost 25% between yearends of 2008 and 2009 (from R\$ 2.33 to R\$1.74). As a result, the assets situated in the United States "lost" 25% of its value when converted back to Reais. Thus, the numbers presented in table 1 present severe losses on foreign assets and revenues, which can be partially attributed to this external factor; resulting in a better actual scenario than what the numbers show. The exchange rate variation, if not taken in account, leads us to the potentially erroneous conclusion that the domestic market was more stable and less vulnerable, than the international.

Furthermore, despite the apparent global decrease in investments, it is clear that in general, both the number of national and international employees increased (see graph 3).

250000 200000 150000 100000 50000 Employees Abroad

Source: FDC survey of Brazilian TNCs.

2008

2009

2007

This may demonstrate that the transationals continue to grow and to plan foreign and domestic expansions, as shown by the number of new employees (an increase of approximately 45,000 from 2008 to 2009). This result challenges the assumption that internationalization causes a reduction in domestic job generation. This was an overview of internationalization of Brazilian companies in 2009. The detailed results of the Transnationality Ranking of Brazilian Companies can be found on the following pages. First, the 2009 scenario is presented, including the Transnationality Ranking *per se*, then the regionality index, followed by the main acquisitions of 2009, and finally the ranking by indicator and an evolution of Brazilian internationalization. Next, we present an assessment of TNCs satisfaction with last year's financial and operational performance. Finally, we discuss the impact of the economic uncertainties on TNCs strategy and the tendencies for future investments.

Current Scenario

2010 Brazilian Transnational Corporations' (TNC) ranking

The following table shows the final ranking with most transnational Brazilian companies:

1 JBS-Friboi Food 0.616 0.836 0.873 0.640 2 Gerdau Steel and metal 0.495 0.482 0.544 0.460 3 Ibope Research 0.456 0.321 0.507 0.541 4 Metalfrio Metal-mech 0.437 0.365 0.322 0.507 0.541 5 Odebrecht Construction 0.379 0.456 0.196 0.486 6 Marfrig Food 0.366 0.515 0.232 0.351 7 Vale Mining 0.342 0.339 0.457 0.240 8 Sabó Autoparts 0.288 0.336 0.190 0.338 9 Tigre Building Materials 0.286 0.197 0.428 0.234 10 Suzano Papele Celulose Pulp and Paper 0.276 0.700 0.085 0.042 11 Artecola Chemistry 0.264 0.282 0.297 0.212 12 Lupaech Metal-mech 0.196 0.205 0.129 0.254 13 Camargo Corrêa Construction 0.177 0.175 0.146 0.211 14 Gi&T Software Software and IT Services 0.166 0.368 0.114 0.017 15 Marcopolo Vehicles and parts 0.164 0.120 0.078 0.293 16 Weg Motors 0.162 0.214 0.165 0.107 17 Stefamin IT Solutions Software and IT Services 0.145 0.106 0.161 0.169 18 Votoramim Commodities 0.139 0.168 0.145 0.104 19 América Latina Logística Transportation Services 0.127 0.050 0.018 0.314 20 Tam ¹⁰ Airline 0.126 0.308 0.00 0.068 21 Embrare Acronautics 0.109 0.145 0.109 0.053 22 Natura Hygiene and Cosmetics 0.105 0.065 0.020 0.230 23 Petrobras Energy 0.054 0.055 0.020 0.030 24 Bematech Retail Equipment and Technology 0.055 0.120 0.000 0.048 25 Alusa Energy 0.054 0.055 0.000 0.045 26 Spoleto Food 0.035 0.001 0.000 0.045 27 Andrade Guitiere Food 0.035 0.001 0.000 0.000 30 DHB Automotive Components 0.025 0.001 0.000 0.000 31 Escolas Fisk ⁽²⁾ Language School 0.029 0.000 0.000 0.000 32 Utrapar Fuel Distribution 0.029 0.000 0.000 0.000 33 Marisol Clothing 6.000 0		Table 2. 2010) Transnationality of Brazilian Comp		index		
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TO LICITORIAS LICITES 0.000 0.000 0.000	40	Eletrobrás	Energy	0.000	0.000	0.000	0.000

Source: FDC survey of Brazilian TNCs.

⁽¹⁾ TAM sales numbers correspond to international tickets sales, and include sales based outside of Brazil.

The foreign asset value for the Paraguay subsidiary cannot be released.

⁽²⁾ Franchising.

JBS-Friboi was the company that had the highest transnationality index on the 2010 Ranking. Being the largest private company in Brazil, it has 84% of sales and 64% of employees abroad. The company is located in seven countries, in five continents, showing a great ability of geographic dispersion. Despite the unarguable performance on internationalization, the company has only 37% of its assets abroad. This is partially attributable to the huge growth in the domestic market, where the company has increased its assets 143%, due to the acquisition of the national competitor Bertin.

In the second position, Gerdau has 48% of its sales, 54% of its assets and 46% of its employees abroad, as a result of operations in 14 different countries. The company is the largest producer of long steel in Latin America and has been cautious on the aftercrises scenario. After having announced several operations in Brazil and abroad before the crisis eruption, the company was forced to postpone its plans. However, the impact of the crisis did not affect the company's solidity in its internationalization process, as states the president-director Andre Gerdau "Despite the impact of the crisis in our operations, we managed to achieve 108 years of profit in all years".

Ibope appears in the third position, with 32% of its revenues, 51% of its assets and 54% of its employees abroad. The research institute operates in 14 countries and has recently acquired the American company Zogby International. Considering the seasonality of the electoral research, the institute expects an increase in the domestic market demands in 2010. In addition, the company is optimistic about the growth of international demand of the marketing research sector due to the fact that during a crisis, companies tend to test its products more before releasing them.

The methodology used in other countries does not include financial institutions because of the different economic functions of their assets. Thus, the results of the bank that responded to the survey are presented separately.

If it was included in the list, Banco do Brasil would be in the 28th position, with 5% of its revenues⁵, 7% of its assets and 0.1% of its employees abroad. The greatest highlight of Banco do Brasil is its presence in 23 countries in five continents.

⁵Sales correspond to revenues of foreign subsidiaries, excluding operations with the Head Office.

⁴ Source: PIB Magazine, Mar/Apr 2010.

Regionality

The following table shows the location of subsidiaries of Brazilian transnationals:

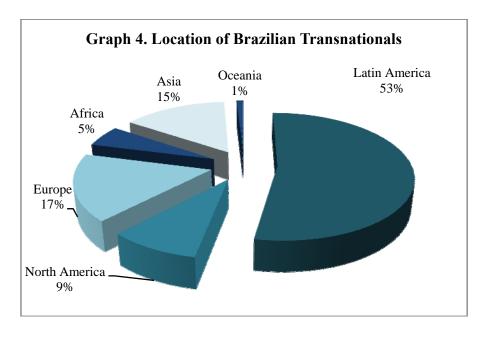
	Ta	ble 3. Regio	nality Index				
Company	Total Countries	Latin America	North America	Europe	Africa	Asia	Oceania
Vale	33	15%	6%	15%	21%	36%	6%
Petrobras	26	38%	8%	12%	19%	19%	4%
Banco do Brasil	23	43%	4%	30%	4%	17%	0%
Votorantim	21	19%	10%	29%	24%	14%	5%
Weg	20	25%	5%	40%	0%	25%	5%
Brasil	20	25%	0%	45%	0%	30%	0%
Odebrecht	17	47%	6%	12%	24%	12%	0%
Stefanini IT Solutions	16	50%	13%	25%	6%	6%	0%
Camargo Corrêa	14	71%	7%	7%	14%	0%	0%
Gerdau	14	71%	14%	7%	0%	7%	0%
Ibope	14	93%	7%	0%	0%	0%	0%
Marfrig	12	33%	8%	42%	8%	8%	0%
Randon	10	30%	10%	10%	30%	20%	0%
Totvs	10	80%	0%	10%	10%	0%	0%
Eletrobrás	10	100%	0%	0%	0%	0%	0%
Tigre	9	89%	11%	0%	0%	0%	0%
Localiza	9	100%	0%	0%	0%	0%	0%
Natura	9	78%	11%	11%	0%	0%	0%
JBS	7	43%	14%	14%	0%	14%	14%
Marcopolo	7	43%	0%	0%	29%	29%	0%
Sabó	7	14%	14%	43%	0%	29%	0%
Escolas Fisk	6	50%	17%	0%	17%	17%	0%
Bematech	6	17%	17%	33%	0%	33%	0%
Metalfrio	5	20%	20%	20%	0%	40%	0%
Artecola	5	100%	0%	0%	0%	0%	0%
Ultrapar	5	60%	20%	20%	0%	0%	0%
Embraer	5	0%	20%	40%	0%	40%	0%
Ci & T Software	5	20%	20%	20%	0%	40%	0%
Suzano	5	20%	20%	40%	0%	20%	0%
Alusa	4	100%	0%	0%	0%	0%	0%
Lupatech	3	67%	33%	0%	0%	0%	0%
Politec	3	67%	33%	0%	0%	0%	0%
Spoleto	3	33%	0%	67%	0%	0%	0%
Marisol	2	50%	0%	50%	0%	0%	0%
DHB	1	0%	0%	0%	0%	100%	0%
América Latina Logística	1	100%	0%	0%	0%	0%	0%
Tam	1	100%	0%	0%	0%	0%	0%
Cemig	1	100%	0%	0%	0%	0%	0%
Average Regionality Index	0	52.95%	9.18%	16.89%	5.43%	14.66%	0.89%

Source: FDC survey of Brazilian TNCs.

In 2009, Latin America continued to be the main destination of Brazilian transnationals, showing an average regionality index of 53%. This trend is typical of the first stages of internationalization, reflecting the influence of cultural and geographical distance on the reduction of the costs involved in the expansion process to these countries. Yet many of the companies in the Ranking are beyond the initial stages of internationalization and demand that we look past cultural and geographic distance reasons for the shift towards Latin America.

One possible explanation is Brazil's recent push to become a regional leader in Latin America. One example of the encouragement promoted by the Brazilian president Lula on the regional integration process is the Brasil-México Strategic Business Forum, which aims to create strategic alliances between the two largest economies in Latin America⁶. The president, in a speech about the commerce among Latin-American countries also stated that: "We need to work under the perspective of reaching the maximum. I am looking forward to see Brazil in an important position" ⁷. The push by the government to open diplomatic doors even further here in the region, as well as synergies of dealing with countries with a long history of economic and diplomatic relations, may be enticing our firms to "retrench" here in the region.

One key example is the acquisition of the Chilean Esso Petrolera by the Brazilian transnational Petrobras. This operation assured a stronger presence of the transnational in Latin-America, which also added 1000 employees to Petrobras' portfolio. Another highlight was the expansion of Ibope in the region, where it has subsidiaries or sales office in 13 Latin-American countries.



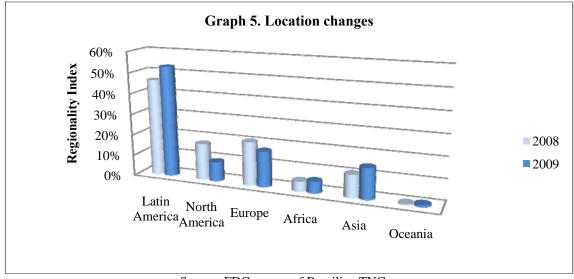
Source: FDC survey of Brazilian TNCs.

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⁶ http://www.apexbrasil.com.br/

⁷President Lula's Speech. http://www.g21.com.br/materias/materia.asp?cod=28466&tipo=noticia

The following graph shows the main changes on the location of the Brazilian transnational companies from 2008 to 2009:



Source: FDC survey of Brazilian TNCs.

There was an expressive reduction of the relative presence in both North America and Europe reflecting the higher intensity of the economic crisis in these regions.

In contrast, the transnationals have increased their focus in other continents. CI&T Software for instance, initiated operations in China and Japan. Emerging as a world power, China has also been explored by Embraer, Radon and Votorantim, and has been the target of new investments from Marfrig and Sabó. To Sabó, China represents a promising market where the company intends to consolidate its position before it looks to the next step: India.

Africa is also rising as a target continent for Brazilian investments. Massive acquisitions were made by Votorantim in five different African countries: South Africa, Cape Verde, Morocco, Tunisia and Mozambique. Besides that, Randon has expanded to Algeria and Kenya, and Weg started operations in Sudan and Senegal. Other examples of companies that have increased their presence in Africa are Marfrig, Petrobras and Totvs.

The following table below shows the changes on the regionality index from 2008 to 2009:

	Table 4.	Regionali	ty Index - A	A09/08	
Latin- America	North America	Europe	Africa	Asia	Oceania
14.6%	-47.0%	-18.1%	16.4%	36.4%	108.4%

Source: FDC survey of Brazilian TNCs.

Another case of a Brazilian company that has strongly invested in Africa is Odebrecht, from the construction sector. The operations developed by the company have contributed for the socio-environmental development of the region since the establishment of its first subsidiary in Angola. In order to deal with the cultural distance between the countries the company uses the Odebrecht Business Technology project that has the purpose of softening cultural shocks.

One of the results of FDC's survey is that the higher the cultural distance experienced by the companies, the less they prefer the acquisition entry mode in case of future expansion. A possible reason for this is that the companies that operate in culturally distant countries already know the difficulties in doing successful business where there is a cultural shock. Thus, they tend to avoid risky entry modes such as acquisitions. The study also shows that the larger the transnational, the weaker the impact of cultural distance in the choice of entry modes. Therefore, large companies which have greater capital reserves are more prone to take risks in the international arena, regardless of the cultural distance.

■ Main Acquisitions

The outward foreign direct investment from Brazilian companies has suffered a massive contraction in 2009, demonstrating a big drop in mergers and acquisitions, as stated by Cepal's report.

The following table presents acquisitions over R\$ 100 million made by the Brazilian transnationals and announced in 2009. Among the main operations is the acquisition of the Argentineans' assets of the company Rio Tinto (Rio Colorado Potassium Project), by Vale. The purchase represents a further step by the mining company towards the diversification of its portfolio. Despite of the leadership position achieved by the company in the iron ore production, Vale intends to play in different sectors, such as the fertilizing, both domestically and internationally.

		Table 5 - Main acquisitions in 2	2009:		
	Buyer	Acquired	Country	Value of transaction US\$ Millions	Industry
1	Vale	Rio Tinto (Projeto Potássio Rio Colorado)	Argentina	850	Ore
2	Banco Itau Holding Financeira	Banco Itau Europa	Portugal	498	Financial Services
3	Petrobras	Esso Chile Petrolera Ltda	Chile	400	Oil
4	Vale	Cementos Argos SACoal Mine	Colombia	373	Ore
5	Vale	El Hatillo coal mining, Cerro Largo coal deposit and Fenoco assets	Colombia	305	Ore
6	Votorantim	Cementos Avellaneda S.A.	Argentina	202	Cement
7	Banco Bradesco	Banco Espirito Santo S.A.	Portugal	132	Financial Services

Source: Comisión Económica para América Latina y el Caribe, 2010; Foreign Investment in Latin America and Caribbean, 2009.

It is important point out that this table aggregates the main acquisitions in 2009 that exceeds R\$100 million. It is possible that other acquisitions have occurred and are not

on this table for three reasons: (i) not announced acquisitions, (ii) acquisitions initiated in 2009, but not yet concluded and (iii) lack of information.

One example is JBS-Friboi, which acquired the second largest chicken producer in the United States, Piligrim's Pride, in September 2009, for an estimated US\$ 768 million⁸.

Ranking by indicator

The following tables present the Brazilian transnationals classification in terms of their assets, revenues and employees index separately. The companies considered for this ranking all have greater than 10% on the measured indicator.

Table 6 presents the ranking by assets index in 2009:

Table	6 - The Top Transnationals	by % Foreign Assets
	Company	% of total assets
1	Gerdau	54%
2	Ibope	51%
3	Vale	46%
4	Tigre	43%
5	Metalfrio	41%
6	JBS-Friboi	37%
7	Artecola	30%
8	Marfrig	23%
9	Odebrecht	20%
10	Sabó	19%
11	Weg	17%
12	Stefanini IT Solutions	16%
13	Camargo Corrêa	15%
14	Votorantim	15%
15	Lupatech	13%
16	Embraer	13%
17	Ci&T Software	11%
18	Petrobras	10%

Source: FDC survey of Brazilian TNCs.

Gerdau is the company with highest assets index (54%), followed by Ibope (51%). In the past two years Gerdau made three big acquisitions: Gerdau MacSteel Inc., in the United States; Sidenor, in Spain; and Corsa Controladora, in Mexico, totaling almost R\$ 1.8 billion of investments abroad. In the third position is Vale, with 46% of its assets abroad, as a result of its presence in 33 countries where the company has operations,

⁸ http://www.estadao.com.br/estadaodehoje/20090917/not_imp436376,0.php

sales offices, and joint ventures. A great amount of Vale's assets are concentrated in the nickel producer Vale Inco Limited (Canada) and the coal subsidiary Vale Australia.

The following table shows the ranking in terms of the revenues index:

Tabl	e 7 - The Top Transnationals	by % Foreign Revenues
	Company	% of total revenues
1	JBS-Friboi	84%
2	Suzano Papel e Celulose	70%
3	Marfrig	51%
4	Gerdau	48%
5	Odebrecht	46%
6	Ci&T Software	37%
7	Metalfrio	36%
8	Sabó	34%
9	Vale	33%
10	Ibope	32%
11	Tam	31%
12	Artecola	28%
13	Weg	21%
14	Lupatech	20%
15	Tigre	20%
16	Camargo Corrêa	17%
17	Votorantim	17%
18	Embraer	15%
19	Andrade Gutierrez	12%
20	Marcopolo	12%
21	Bematech	12%
22	Petrobras	11%
23	Stefanini IT Solutions	11%

Source: FDC survey of Brazilian TNCs.

The major highlight in revenues is JBS-Friboi, with 84% of its revenues abroad. In the second position is Suzano Papel and Celulose, with 70% of its revenues generated by its sales offices in China, Argentina, United States, Switzerland, and United Kingdom. Another giant from the food industry, Marfrig has more than half of its revenues abroad in alignment with its market diversification strategy, having increased its foreign sales by 71%. This increase was mainly attributed to the subsidiary Moy Park, in the United Kingdom. Once the acquisition was concluded in the end of 2008, the positive effects were more intensively felt in 2009. Another favorable fact was the change of the Europeans eating habits. Due to the crises, they started to make more meals at home benefiting Marfrig, whose principal client is a large English supermarket network. Another highlight was Politec for showing the biggest increase in foreign revenues in 2009: a rise of 229%.

The following table shows the ranking in terms of the employees index:

	Table 8 - The Top Transnation Employees	nals by % Foreign
	Company	% of total employees
1	JBS-Friboi	64%
2	Ibope	54%
3	Metalfrio	54%
4	Odebrecht	49%
5	Gerdau	46%
6	Marfrig	35%
7	Sabó	34%
8	América Latina Logística	31%
9	Marcopolo	29%
10	Lupatech	25%
11	Vale	24%
12	Tigre	23%
13	Natura	23%
14	Artecola	21%
15	Camargo Corrêa	21%
16	Stefanini IT Solutions	17%
17	Spoleto	15%
18	Weg	11%
19	Petrobras	10%
20	Votorantim	10%

Source: FDC survey of Brazilian TNCs.

Not surprisingly, JBS-Friboi is one more time at the top of the list, with 64% of its total employees abroad. One interesting fact is that now the company has more employees abroad (54,295) than domestically (44,993). Besides that, JBS-Friboi has had the biggest increase in the number of employees abroad (150%). The acquisition of the American subsidiaries Swift and Piligrim's Pride impacted this result, besides the subsidiaries in Argentina, Italy, Australia, Uruguay, Mexico and Russia. In the second position is Ibope, which employs professionals for data collection and analysis in many different countries of Latin America and in the United States. Metalfrio is in the third position with 54% of its employees working abroad. It is interesting to note that, despite the high index, the company's number of employees dropped 14% from 2008 to 2009.

■ Transnationals' evolution

Tal	ole 9 - Tran	snationality	Index - Ev	olution of pri	or 3 years		
		2009	Δ09/08	2008	Δ08/07	2007	Δ09/07
JBS-Friboi		0.616	2.9%	0.599	13.1%	0.530	16.4%
Gerdau		0.495	-12.1%	0.563	1.1%	0.557	-11.2%
Ibope		0.456	3.0%	0.443	-11.6%	0.501	-9.0%
Metalfrio		0.437	-13.1%	0.503	48.9%	0.338	29.5%
Odebrecht		0.379	-4.3%	0.396	30.5%	0.304	24.9%
Marfrig		0.366	-27.4%	0.504	85.1%	0.273	34.4%
Vale		0.342	-11.1%	0.385	-8.1%	0.419	-18.4%
Sabó		0.288	-11.4%	0.325	18.9%	0.274	5.4%
Tigre		0.286	-3.2%	0.296	43.9%	0.206	39.3%
Suzano Papel e Celulo	ose	0.276	-8.2%	0.300	31.6%	0.228	20.8%
Artecola	,,,	0.264	1.8%	0.259	50.3%	0.173	52.9%
Lupatech		0.196	-16.3%	0.234	13.2%	0.207	-5.2%
Camargo Corrêa		0.177	0.1%	0.177	-23.2%	0.231	-23.1%
Ci&T Software		0.166	1.8%	0.163	65.7%	0.098	68.6%
Marcopolo		0.164	-16.8%	0.197	23.3%	0.159	2.6%
Weg		0.162	-22.7%	0.210	19.2%	0.176	-7.9%
Stefanini IT Solution	ns	0.145	-11.9%	0.165	66.8%	0.099	47.0%
Votorantim		0.139	7.1%	0.130	75.7%	0.074	88.2%
América Latina Logíst	tica	0.127	1.3%	0.126	12.7%	0.111	14.2%
Tam		0.126	3.6%	0.121	-2.1%	0.124	1.5%
Embraer		0.109	19.8%	0.091	-55.0%	0.203	-46.1%
Natura		0.105	1.1%	0.104	27.9%	0.081	29.3%
Petrobras		0.105	-6.2%	0.112	2.7%	0.109	-3.7%
Bematech		0.055	214.2%	0.017	-	0.000	-
Alusa		0.054	-14.9%	0.064	-39.7%	0.106	-48.7%
Spoleto		0.053	19.7%	0.044	10.5%	0.040	32.2%
Andrade Gutierrez		0.051	25.0%	0.041	-25.8%	0.055	-7.2%
Itaúsa		0.039	-9.7%	0.043	-15.9%	0.051	-24.1%
Totvs		0.036	37.0%	0.026	-10.9%	0.029	22.1%
DHB		0.035	-49.1%	0.069	263.2%	0.019	84.8%
Escolas Fisk		0.029	-	0.000	-	0.000	-
Ultrapar		0.029	-41.7%	0.050	17.7%	0.042	-31.3%
Politec		0.024	69.2%	0.014	-95.6%	0.317	-92.5%
Localiza		0.020	-16.8%	0.024	3.0%	0.024	-14.3%
Randon		0.015	-18.9%	0.018	33.2%	0.014	8.0%
Cia Providência		0.012	-45.6%	0.023	-	0.000	-
Brasil Foods	Brasil Foods		-	0.000	-	0.000	-
Marisol		0.008 0.007	-53.9%	0.014	7.2%	0.013	-50.6%
Cemig		0.001	-8.8%	0.002	43.8%	0.001	31.2%
Eletrobrás		0.000	-	0.000	-	0.000	-
Overall Transnacionality	Top 23	0.258		0.278		0.238	
Index	All 40	0.160		0.171		0.155	
		roo: FDC su	2.5				

Source: FDC survey of Brazilian TNCs.

In spite of the turbulence in all sectors caused by the economic crises in 2009, 15 (38%) companies have increased their internationalization indexes in comparison with 2008. The overall transnationality index of the 40 respondent companies, however, dropped from 0.171 to 0.160 indicating the companies, in general, decreased their internationalizations.

With regards to the top transnationals (Top 23 – above 10% of internationalization), the index has also contracted, from 0.278 in 2008 to 0.258 in 2009.

Nevertheless, if we compare 2007, a relatively economically stable year, with 2009, a year full of uncertainties, we observe that, in general there haven't been significant changes (see Overall Transnationality Index, table 9). In addition, 50% of the companies have increased their presence abroad within these two years. This data shows that the crisis hasn't kept Brazilian companies from their expansion plans, but rather slowed down their global growth rhythm.

Votorantim was the company that showed the highest growth on the internationalization index between 2007 and 2009 (88%). The merger of the Votorantim Papel e Celulose with Aracruz Celulose in 2009 may possibly explain the good international performance, since Aracruz Celulose was very international, appearing in the 7th position on the previous Transnationality Ranking of Brazilian Companies. Votorantim's internationalization index was 0.302, with 88% of its sales abroad. The merger also created the world's largest pulp producer: Fibria.

■ International x National Performance

When evaluating the overall performance of the Brazilian trasnationals, it is clear that the 2009 results were inferior to the previous year, especially with regards to foreign operations.

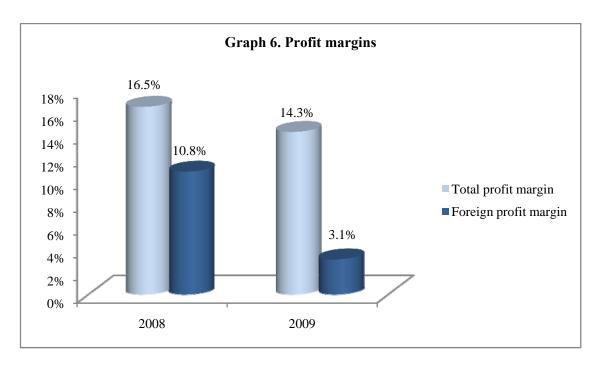
The EBITDA⁹ margins of foreign operations in 2009, for the companies that answered that question (46% of the sample), was, in average, 3%. Conversely, for the domestic operations, the average EBITDA margin was 18%. This result reinforces that the impact of the crisis was stronger in the international market than domestically. There was also an expressive decline from 2008, a year in which the transnationals obtained an average 11% profit margin in their operations abroad versus 18% domestically.

It should be noted that there may be response bias in this number, since companies that have negative EBITDA may be more reluctant to report this number than firms that have a positive EBITDA. Therefore, these results should be considered quite conservative. Furthermore, it is important to consider that exchange rate variations may contribute for those changes.

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⁹Earnings before taxes, interest, depreciation and amortization.

The following graph illustrates the variations in the profit margins:



Source: FDC survey of Brazilian TNCs.

The drastic drop in the profit margins of the foreign versus domestic market (-71.4% against -3.3%), has forced the companies to rethink their means of assessing global performance.

Yet, is the situation as pessimist as it seems? Is it possible to be satisfied with performance even with such low margins? Which are the other performance measures used by the executives in times of economic crisis?

In order to expand the forms of evaluating performance in periods of economic uncertainty, Fundação Dom Cabral has developed a study to measure performance and the degree of satisfaction with foreign results.

Thus, three dimensions¹⁰ of performance were identified: financial, operational and overall effectiveness.

The financial dimension is comprised of indicators that reflect the fulfillment of the economic goals of the firm. The operational dimension includes all non-financial factors that may have an impact on the financial performance. And finally, the overall

¹⁰ Hult, G. T. M., Ketchen Jr, D. J., Griffith, D. A., Chabowski, B. R., Hamman, M. K., Dykes, B. J., Pollitte, W. A., & Cavusgil, S. T. An assessment of the measurement of performance in international business research. *Journal of International Business Studies*, 39(6): 1064-80, 2008.

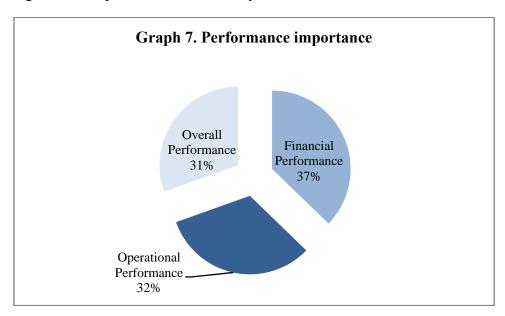
effectiveness dimension is formed by measures that reflect the overall performance, taking into account the achievement of goals and the competition context.

The following table summarizes the measures used by the transnationals as a means to evaluate their performance abroad:

Table	Table 10. Global Performance Measures				
Dimension	Measure				
	Sales				
F:	Sales Growth				
Financial Performance	Profitability				
2 02102222	ROA/ROI (Return on assets/investments)				
	ROE (Return on equity)				
	Market Share				
0	Productivity				
Operational Performance	Quality				
2 02102222	Image				
	Market Access				
	Competitors				
Overall	Objectives				
Performance	Overall				
	Reputation				

Source: FDC survey on global performance.

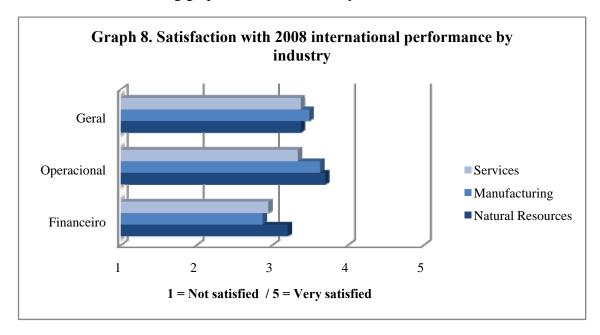
Thus, we were able to identify which of these dimensions is seen as the most important according to the companies, in economically uncertain situations.



Source: FDC survey of Brazilian TNCs.

In this context, the companies gave the most importance to the financial measures of performance such as sales, sales growth, profitability, ROA/ROI and ROE. While the current focus is on cash generation and capital flow maintenance, it is interesting that executives are not solely preoccupied with financial results. As graph 7 demonstrates, the executives allocate approximately equal weight to all three dimensions of performance. This may be attributable to the relatively long term perspective of the leaders in terms of their internationalization plans. For instance, if a firm improves market share and operations abroad, these improvements will eventually result in positive financial results

We also analyzed the satisfaction level of the Brazilian transnationals in each identified dimension. The following graph shows the results by rubric:



Source: FDC survey of Brazilian TNCs.

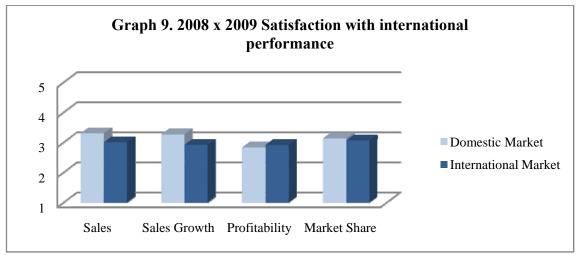
As the graph shows, in general, the Brazilian companies were more satisfied with overall and operational performance than with financial performance. The mean of the financial performance satisfaction was 2.9, in a scale from 1 to 5 in which the number 3 represents neutral. Regarding the operational and overall performance, the means were 3.5 and 3.4, respectively.

This finding is coherent with the timid results of sales and EBTIDA. Hence, measures such as product/service quality (3.9), brand image (3.6), and market access (3.5) were best rated by the companies.

The natural resources companies were the ones that presented the highest levels on both financial (3.2) and operational (3.7) dimensions of performance. On the other hand, the manufacturing companies were the most satisfied with the overall dimension (3.5), however, showed the lowest satisfaction levels with the financial performance (2.9).

The study also showed that these three dimensions are highly positively correlated¹¹, which means that the higher the satisfaction with one of them, the higher with the others. This reinforces the importance of using a variety of performance measures in order to have a more accurate panorama of the situation and to make a realistic assessment of the financial and economic scenario of the companies.

In the next graph we present the companies' level of satisfaction in 2008 and 2009:



Source: FDC survey of Brazilian TNCs.

The Brazilian TNCs were more satisfied with the dimensions sales, sales growth and market share in 2008 than in 2009. This reflects how the recession affected the companies to a higher extent than last year.

Surprisingly, the companies were slightly more satisfied with profitability in 2009 (2.9) than in 2008 (2.8). Since satisfaction is based on the companies' expectations¹² regarding the performance, it is possible that they expected even worst results than they actually had in 2009. Nevertheless, the profitability satisfaction level can be considered low in both years, because it is below 3.00 (neutral), which means that the managers are not satisfied or dissatisfied with the international results. Furthermore, it should be noted that there is no significant difference between the two years international performance, and the principal finding is that they were both relatively low.

¹² OLIVER, R. L. *Satisfaction*: A Behavioral Perspective on the Consumer. McGraw-Hill, International Editions, 1997.

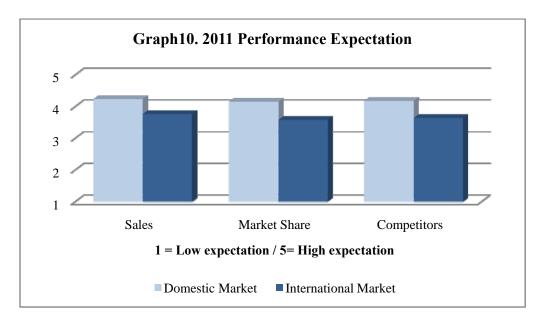
¹¹All the correlations between the performance measures were significant and higher than 0.44.

Future strategy

Based on requests from senior management at our participating companies, we extend the scope of the Ranking project every year. In 2009, the survey expanded to not only focus on the TNCs' current scenario, but also to focus on the future perspectives and changes in the companies' strategy. The question on everyone's mind is: "What to do in order to adjust and overcame the economic uncertainty?". Thus, the companies were asked about their global strategy in 2009 and we will show the results in the next section. First, we will present the companies' future expectations, followed by the types of international strategy and entry modes in new markets. Next, we will discuss the government's role on the international strategy of the Brazilian TNCs.

Performance Expectation

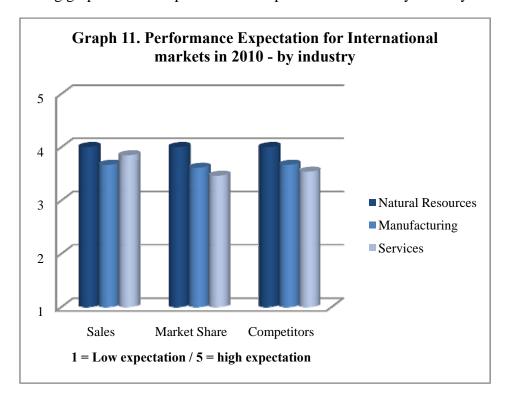
Despite the low satisfaction levels in 2009, the Brazilian TNCs have slightly higher performance expectations for 2011. This belief is based on the recovery of the economy and an increase in demand in 2011.



Source: FDC survey of Brazilian TNCs.

The companies still expect a better performance in 2011 for the domestic market, rather than international. They are more optimistic regarding sales not only nationally (4.2) but also abroad (3.8). On the other hand, in terms of market share, the expectations are less optimistic on both markets (4.2 on the domestic and 3.6 outside).

The following graph shows the performance expectation for 2011 by industry:



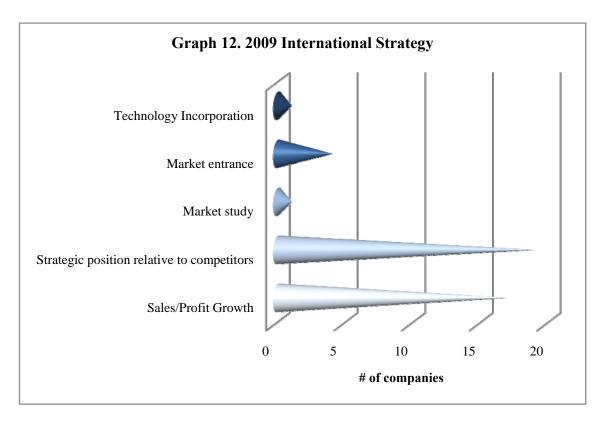
Source: FDC survey of Brazilian TNCs.

The natural resources companies are the most optimistic regarding sales, market share and performance related to competitors (4.0 in each item). It is important to remember that those companies which showed the best satisfaction levels in 2009 are possibly resulting in higher expectations for the next year as well. The companies that experienced a good 2009 tended to expect that the favorable trend will continue.

As for the manufacturing companies, the levels of expectation were the lowest regarding sales in 2011(3.7). By contrast, the TNCs from the services sector are the least optimistic in terms of market share (3.5) and competitors (3.5).

■ International Strategy

The relatively low business performance in 2009 and the modest expectations about a quick recovery of the international market forced the Brazilian companies to rethink their global strategy last year. Consequently, they restructured their entry mode plans as a means to focus on competitiveness and financial performance (see graph 12).



Source: FDC survey of Brazilian TNCs.

From the 40 responding companies, almost half (19) answered that the main purpose of internationalization was to gain or maintain the position in relation to competitors. This shows a major concern with the severe international competitiveness. One of the companies compares the situation with soccer and the World Cup: "Here in Brazil we own the field, but outside, we are just one more team". Besides that, 17 companies (42%) declared that they seek sales/profits growth abroad. That explains why the financial dimension was considered as the most important by the companies in 2009.

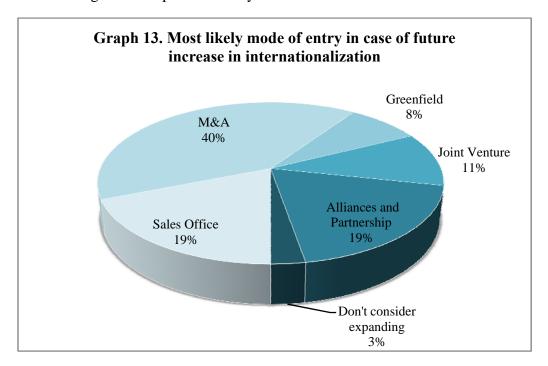
Instead, the TNCs seem to have postponed their plans to study markets and incorporate new technologies as the principal global strategy.

As posted, during times of high uncertainty, the strategy is to search for profitable markets and to win the battle against competitors. The change of strategic focus is noticeable in many companies, including the state-owned ones that were forced to adopt managerial policies that target financial results.

Despite the risky situation on the international market, a great part of the TNCs continue to plan expansions, usually through risky approaches, as demonstrated in the next topic.

Entry modes in new markets

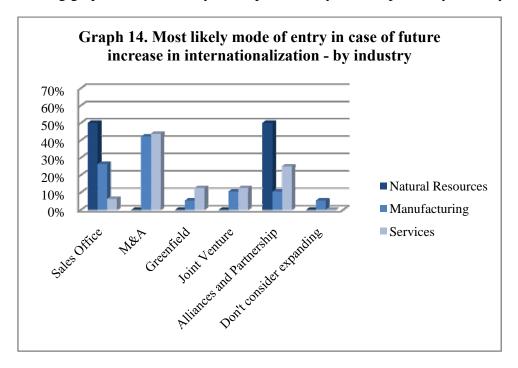
The most likely entry mode in case of future expansion is acquisition or merger, according to the Brazilian TNCs (see graph 13). This mode of entry involves huge capital expenditure and a high degree of commitment with the foreign markets. Therefore, this result supports the assumption that the companies are taking internationalization seriously and do not discard future expansions, despite the economic uncertainty. Furthermore, the relatively good financial position that Brazilian firms were able to maintain throughout the crisis has put them in a comparatively good position versus global competitors to buy assets abroad.



Source: FDC survey of Brazilian TNCs.

Instead of choosing a more risky entry mode, 19% of the surveyed companies expressed their preferences for opening sales offices and the same amount of companies prefer to establish alliances and partnerships in the destination country. The sales offices are preferred by the companies because they help reach suppliers and local clients, and also sell manufactured products from Brazil. This option is largely chosen by companies in the initial stages of internationalization or by those companies that concentrate most of their production chain in Brazil. Differently, the companies that tend to chose alliances and partnerships usually only need that one part of the production process to be executed abroad, for instance, distribution. This is also the case of the franchising companies, which go abroad through alliances with the local franchisers.

The following graph shows the entry mode preferred by the companies by industry:



Source: FDC survey of Brazilian TNCs.

The companies from the natural resources sector, in general, tend to choose sales offices and alliances and partnerships. Since these companies are already present in many countries through productive subsidiaries, is possible that, on the short term, they will be mainly focused on consolidating their investments. An example is Vale, which prefers to enter new markets via alliances or partnerships because it benefits from the expertise of local partners. Another example is Petrobras that, with the *Pré-Sal* discovery, is likely to focus on responding to the national demand and also dedicating part of its reserves to indirect exports, through its sales offices.

Regarding the manufacturing companies, some consider acquisition/merger as the first choice of entry mode and others prefer to establish sales offices. Such companies have intensified their global presence by purchasing companies in the same sector. Gerdau, Marfrig, JBS-Friboi and Votorantim for instance, made acquisitions abroad in the last two years, of over USD 100 million¹³. Such a strategy provides direct access to target markets, avoiding customs barriers and excessive costs of exporting products.

Finally, acquisitions are also preferred by companies from the service industry. Such companies have increased the intensity of their operations abroad in the past years. Thus, 46% of them now consider acquisitions as the most likely entry mode in case of future expansion. One example was the acquisition of 51% of the Curação Airport

¹³Comisión Económica para América Latina y el Caribe, 2009; Foreign Investment in Latin America and Caribbean, 2008.

Partners N.V.'s assets, by Camargo Correa in 2009, increasing its activities in Caribbean¹⁴.

■ The government' role and the internationalization of state-owned companies

Over the past years, the government has intensified its incentives towards internationalization of Brazilian companies. Establishing a subsidiary abroad has lost its negative connotation, that the country would be losing capital and diminishing job generation for Brazilians.

Many giants don't find any more space to grow domestically and face strong competition with global companies. As a result, the best alternative is to establish themselves in foreign markets in order to enhance their strategic position. As the transnational Sabó said: "Going international is a matter of survival and competitiveness, not only on the automotive industry, but also on the globalized world".

With that in mind, the government has created many programs to encourage the internationalization of the Brazilian companies. The BNDES¹⁵ has been conceived for the funding of international expansions, especially in Latin America. The bank of development disposes, among others, the FINEM support program to help companies with acquisitions and implementation projects, as well as expansion and modernization of enterprises abroad.

In addition, the Itamaraty also facilitates the internationalization of the Brazilian companies by means of its diplomatic relations with other countries, through which it negotiates the reduction of the customs barriers and agreements for the establishment of Brazilian subsidiaries abroad. Also, APEX, though the Sectorial Integrated Projects (PSIs) supports the exporting companies, mainly the small and medium-sized that are starting their internationalization processes¹⁶.

Despite the current efforts to maintain the focus on Latin America, as stated by the interviewed companies, the government (e.g., MRE and MDIC) constitutes an important stakeholder of internationalization in different regions of the globe.

The government also acts outside the frontier through its state-owned companies. Petrobras, which is today an example to be followed by other state-owned companies,

 $http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Areas_de_Atuacao/Exportacao_e_Insercao_Internacional/\\$

¹⁴ http://www.a-port.aero/pt/quemsomos/

¹⁵

¹⁶ http://www.apexbrasil.com.br/

has been in the international market since 1972, when it first established its activities in Colombia. Ever since, the company expanded its global presence and today has business in 26 countries.

Being authorized to operate in the international setting in 2008, with the publication of the law 11,651, Eletrobras is currently studying the viability of hydroelectric projects in Venezuela, Peru, Nicaragua, Argentina, Angola and Namibia. The company still does not possess concrete foreign investments, with only two employees abroad, but we can expect a huge jump towards internationalization in the next years.

Another example from the energy sector is Cemig. More internationalized than Eletrobras, but also a beginner, Cemig started its expansion by opening a subsidiary in 2005 in Chile. SWhile still not earning revenues abroad, the company has 14 members of staff dedicated to the conclusion of the Chilean electric energy transmission line.

Therefore, there is much to be expected from the state-owned companies for the next editions of the Transnationality Ranking of Brazilian Companies. In addition, the TNCs may also take advantage of the favorable moment in internationalization: government encouragement and growing opportunities in Latin America and Africa.

CONCLUSION

2010 Ranking and the new strategy facing the global crisis

In summary, the purpose of this year's Ranking was to better understand what Brazilian transnational companies did during 2009 to mitigate the negative effects of the world financial crisis. While the overall degree of internationalization fell slightly for the companies, many firms showed gains over last year. And as the trend line in Graph 1 illustrates, we anticipate that firms will be back on their impressive trajectory of internationalization within a year or two.

While both foreign assets and sales declined markedly last year, the international firms were able to add a significant number of jobs both at home and abroad. The fact that these companies added roughly the same number of jobs abroad as domestically demonstrates their dedication to creating value both for citizens of Brazil and the world. This value proposition will continue to support Brazil's increasingly popular image in worldwide business and social circles.

As might be expected, Brazilian firms were quick to reduce their exposure to the huge market variance in North America and Europe. Instead, they intensified investments in Latin America Africa and Asia. In fact, many leaders of these firms that participate in FDC's COMn Presidents (a partnership coordinated by FDC to discuss pressing business matters), are primarily concerned less with the BRICs countries and more with Latin America and Africa (and of course, China). We anticipate a continuation of the rise of "South-South" trade in both the short and medium term.

While the increase in numbers of foreign employees suggests that our firms are dedicated to growing their positions abroad, it is not without heavy costs. Financial margins took a significant beating abroad last year, fostering the rethinking of global strategy. Although our performance research shows nearly equal weighting among financial, operational, and general measures, the financial measures suffered the most in 2009 (regardless of sector). That said, our results demonstrate that firms expect improvements in all categories for 2011. Indeed, whereas last year executives were quoted in this report as being "cautiously optimistic", this year a CEO best sums up the sentiment about international business as "selective expansion".

The primary strategy in 2009 was to maintain or improve their strategic position in the world. We expect a shift in strategies for this year and next to move back to improving sales/profits projections, as well as, learning from foreign markets. In the medium term, our results show that firms expect to continue accessing new countries for the first time through mergers and acquisitions. The possibility of acquiring new firms is a luxury that most firms from around the world don't share due to massive decreases in their balance sheets. Brazilian firms now have a comparative advantage in this respect, and only time will tell if we have the ability to leverage this advantage to improve our worldwide

status. But if JBS-Friboi's 2009 decisions are any indication of what our firms plan on doing, then Brazil is in for an exciting ride.

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