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Final assignment:

“Inward & outward looking perspectives on Brazil’s business ventures”

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“Inward & outward looking perspectives on Brazil’s business ventures”

Abstract:

When looking at Brazil with a more holistic approach, one can understand that significant differences in the perceived favorability of the cognitive and normative environments are to be found. The cognitive dimension of the institutional environment in Russia and China is perceived as more conducive to entrepreneurship compared to Brazil and India where the normative dimension in China, India, and Brazil is perceived as more favorable compared to Russia. Overall, entrepreneurs with high aspirations fare better in countries with a stable economic and political climate and well-developed institutions.

Because entrepreneurial organizations are typically granted a legal charter to exist, the political and legal structure of the state determines to a large degree the structure and culture of newly-founded organizations. “Good” institutions conducive to economic growth include a limited government, a relatively benign and uncorrupt bureaucracy, a legal system that protects property rights and enforces contracts, and modest taxation and regulation. Legally established businesses in Brazil have thus to compete with the informal businesses, which do not register themselves with the regulatory authorities, and therefore neither pay taxes nor comply with labor laws. Laxity in enforcement encourages such unregistered businesses, undercutting the competitiveness of lawful firms.

Today’s international business faces a continuing (upsetting) challenge between the priorities of globalization and that of localization. Indeed, getting to reconcile between being driven by the universal priorities defined by an organization’s task, or by the differing ways in which individuals may interpret and react to one another’s behavior in different cultural contexts is a challenging, and at times daunting, task. In some cultures, influence may occur primarily in the context of hierarchy and of long-term relatedness. In other cultures, there may be more peer influence and more influence between strangers. In the unique case of Brazil, flexibility in business, this intermediary path between what is and what is not allowed is conditioned by Brazilian cultural trait and distinctiveness of jeitinho. Jeitinho as a way to find the middle path between what is allowed by numerous laws and regulations, and what is practically possible and makes sense.

However, doing business within emerging countries can be frustrating, and as it comes Brazil, the largest South American economy is not for beginners. The Brazilian way of being keeps a close relationship with its history as a colonial dependent and peripheral Third World country with its ethnic formation and geography. Brazil's political risk profile remains highly stable and continues to place South America's largest economy among the higher ranks of social stability and broad policy continuity in the region. Yet, despite its immense potential, Brazil's growth trajectory remains constrained by structural weaknesses, most notably in the form of a highly regulated labor market, an overly complex and burdensome tax system and dearth of access to long-term credit.

Brazil emerged, in early days, as a confluence of three human streams: the Portuguese, the African, and the Indian. Due to its (colonial) past, large heterogeneity (of people, business, sectors), Brazil is often met with an “ethnocentric attitude” borne by many (foreign) managers and executives, ill prepared for economic, social, and cultural differences. Reversely, it is often encountered with “reversed ethnocentrism”, where their counterparts are implementing up to date (yet unfitting) methods, management systems and imported concepts.

Doing business in Brazil is a work in progress, made to an art form, manufacturing the Brazil of tomorrow with reminiscent tools of the past, shaped by people eager to impose their difference on it, with renewed techniques and approaches, rendering the overall task still challenging, while worth the efforts

Introduction

Brazilian firms are latecomers to the international arena, even when compared with other Latin American firms. They were late in entering international markets with Foreign Direct Investment (FDI) and were quite limited in their exporting activities “*until recently*” (Chudnovsky and López, 1999). In fact, even among the largest corporations, few had any FDI activities before the early 1990s. The recent internationalization of Brazilian firms, has today different characteristics when compared with earlier movements, and is part of a more recent (and mainstream) worldwide phenomenon of cross-border investments by firms from Third-World countries. The lateness of Brazilian companies to actively move on the international arena are assessed as being mainly due to their large inner market, combined with the relatively small size of the domestic firms. This might have been a deterrent not only to exporting but also to other forms of internationalization, including FDI.

From the Uppsala internationalization theory it can be deduced that “*firms may not engage in more advanced forms of internationalization if the establishment chain does not develop or if it is disrupted at some point*”. Such was the case of Brazilian firms. However, Dunning et al (1997) claimed that “*economic liberalization in Third-World countries could force domestic firms to internationalize because of a reduction of their market share in the domestic market*”. After many decades of market protection and import substitution policies, the Brazilian market was opened to foreign imports in the beginning of the 1990s. Their operating environment thus moved in a very short period from a regulated and protected market to an open and globalized one.

Indeed, as indicated by Sauvant (2008) referring to [Multinational Enterprises] “*MNEs from emerging markets: like their competitors from developed countries, face the same opportunities and pressures of the globalizing world economy.*” Once pre-conditions for FDI were set, as these changes in the operating environment crystallized, a number of Brazilian firms decided to invest in new ventures abroad. Changes in the mindset of Brazilian managers broadened their perceptions of their operating markets while increased contacts with counterparts from other countries stimulated the learning of new ideas (trial-and-error led), processes, and technologies. However on the domestic front, the fast (globalization led) path of changes may have increased a Brazilian “cultural gap” between internationally driven managers and entrepreneurs and those “traditionally” left behind the globalization reach.

In the present document, we will be consequently looking at A) how businesses in Brazil can grow from within, B) what to expect when reaching for Brazil and C) how entering Brazil as an outsider may be felt like, along with question marks as for what to face, along the ways.

Growing businesses from within

- Where from?

When featuring Brazil as a place to start business, one can refer to a series of global aggregates and data. Among them, the World Bank Group's (key) Economy Rankings¹ of the country, is an interesting (perspective setting) reading. Brazil ranks 120th (out of 189) for its *Ease of Doing Business*, is 167th for *Starting a Business*, 174th for *Dealing with Construction Permits*, 138th for *Registering Property*, 177th for *Paying Taxes* and 118th for *Enforcing Contracts* (to name the most dramatic rankings), which displays a relatively negative picture, confronted by a somehow exhausting (burdensome) bureaucracy². Now, when looking at the 2015 Index of Economic Freedom³, Brazil is ranked as 118th among the 178 (ranked) economies included in the report where India is ranked 128th, China 139th and Russia 143rd. It is interesting to note that all four BRIC economies have been classified as “mostly unfree” where the overall situation of the 2015 Brazil Index is worse than 2014. One could in fact expect Brazil to fare better.

Now, when looking at the World Bank Literacy rate⁵ (ages 15 and older), Brazil reached (2012) 91.0 percent, versus China (2010) 95.0 percent, Russia (2010) 100 percent and India (2006) a low 63 percent. Literacy rate and entrepreneurship may not be directly linked, yet in a broader perspective, and as detailed at a later stage, less educated workers are more often to be found within the informal businesses workforce, of which Brazil abounds with an estimated national average of about 42.2 percent (persons in informal employment) in 2009⁶.

Scott (1995) came to classify, formal and informal institutions influencing the behavior of individuals and organizations, into regulatory, normative, and cognitive categories. “*Regulatory institutions refer to the system of formally enacted laws of a society or nation. Less formal but equally important are normative institutions, established by professional and trade associations to regulate the conduct of their members. Cognitive institutions refer to cultural beliefs and values governing appropriate behavior in social interaction, which are learned through living and growing in a community*”. When looking at

¹ Retrieved June 17th, 2015 from <http://www.doingbusiness.org/rankings>

² “In places like London, you just start work. Here, it takes around six months to get going legally”, as cited by Florian Hagenbuch the German-born entrepreneurs who moved to Brazil and Cofounded Printi, an online business printing startup. Retrieved June 17th, 2015 from <http://www.newstatesman.com/business/2014/04/start-finance-and-brazilian-favelas>

³ Retrieved June 17th, 2015 from <http://www.heritage.org/index/about>

⁴ Brazil's economic freedom score is 56.6, making its economy the 118th freest in the 2015 Index. Its score is 0.3 point worse than the previous year, reflecting declines in half of the 10 economic freedoms including Investment Freedom, the Management of Government Spending, and Monetary Freedom. Brazil is ranked 21st out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the world average. Over the past five years, Brazil's economic freedom has advanced by less than 0.5 point. Improvements in Financial Freedom and Freedom from Corruption have been largely offset by deteriorations in the area of Regulatory Efficiency, including Business Freedom and Labor Freedom. The negative economic impact of Stagnant Economic Freedom has largely been masked by strong growth driven by high commodity prices over the past decade, but a deteriorating international environment and diminished growth expectations have brought these structural issues to the forefront. More broad-based and consistent reforms will be needed to guarantee long-term economic development. Retrieved June 17th, 2015 from <http://www.heritage.org/index/country/brazil>

⁵ Retrieved June 17th, 2015 from <http://data.worldbank.org/indicator/SE.ADT.LITR.ZS>

⁶ Retrieved June 17th, 2015 from http://laborsta.ilo.org/applv8/data/INFORMAL_ECONOMY/2012-06-Statistical%20update%20-%20v2.pdf

Brazil with a more holistic viewpoint, and compare it to the other BRIC, one can understand that significant differences in the perceived favorability of the cognitive and normative environments was found, where *“the cognitive dimension of the institutional environment in Russia and China is perceived as more conducive to entrepreneurship compared to Brazil and India”*. [where] The normative dimension in China, India, and Brazil is perceived as more favorable compared to Russia.

On the cognitive dimension, the ex-socialist economies of China and Russia *“traditionally placed a high emphasis on the inclusiveness and quality of their education systems, whereas India and Brazil are [still] trying to overcome their colonial legacy of relatively lower level of human development measured by indicators such as literacy or school enrollment”*, adds Rangamohan and Manolova (2012). Overall, entrepreneurs with high aspirations fare better in countries with a stable economic and political climate and well-developed institutions (Bosma and Levie, 2009), which has been for the former two the case for Brazil, for over two decades, while still lagging for the latter.

- **How to?**

Because entrepreneurial organizations are typically *“granted a legal charter to exist, the political and legal structure of the state determines to a large degree the structure and culture of newly-founded organizations”*, state Carroll et al. (1988). “Good” institutions conducive to economic growth include *“a limited government, a relatively benign and uncorrupt bureaucracy, a legal system that protects property rights and enforces contracts, and modest taxation and regulation”* (La Porta et al., 1999), which to these days is still not characterizing Brazil. In addition, a key consideration for nascent entrepreneurs is the regulation of entry in terms of the *“number of procedures, official time, and official cost that a start-up must bear before it can operate legally”* (Djankov et al., 2002) of which Brazil abounds.

Indeed, legally established businesses in Brazil have to face the above mentioned limits in (officials) “businesses friendliness” and compete heads on with an important informal businesses sector. Not registering themselves with the regulatory authorities, they do not pay taxes nor comply with labor laws, whereas laxity in enforcement may further encourages such unregistered businesses, and undercut even more the competitiveness of lawful firms. *“The unofficial gray market in Brazil, which reputedly accounts for almost 50% of the economy, discourages the introduction of professionalism in financial record maintenance”*, cites Rangamohan (2012). Law-abiding entrepreneurs, on the other hand, *“face 61 different taxes and an aggregate tax burden of 35%, which is almost twice that of Mexico, China, or India”* (Moffett and Samor, 2005). In the absence of requisite institutional pressures for compliance and transparency, *“businesses tend to remain small and operate on a scale conducive to facilitate taking advantage of the institutional infirmities”*, Rangamohan (2012) adds.

Figure 1 presents with the Brazilian Labor Code (Consolidação das Leis do Trabalho), written in 1943 (slightly modified since), as shared by Botelho and Almeida (2011).

the Brazilian Labor Code	
A worker is entitled to several benefits, such as:	• thirteenth salary to be paid sometime between November and December
	• a 1-month paid vacation
	• severance payment for unjustified dismissal (to be communicated 1 month in advance)
	• a work week of 44 hours
	• at least 50% premium for overtime work
	• a food and commuting subsidy
	• a 4-month paid pregnancy leave of absence for women
	• wages must be at least as high as the minimum wage
	• statute of limitations allowing workers to sue their former employers for violations up to 5 years after the contract termination

Figure 1: Consolidação das Leis do Trabalho (1943)

At first look the above presented Brazilian Labor Code does look relatively close to the one encountered in the Western countries, or at least in some countries known for their “social” approach of the organizations and roles of the institution. As later mentioned by Hofstede (1980): “... we find a Latin cluster (the French and the Brazilian outlooks being very close to one another) opposed to an Anglo-Saxon one”.

- What for?

Colin and Youssef (2013) gathered that most [of the entrepreneurs] studied did not (formally) register “out of choice to avoid the costs, time and effort of formal registration and because it offers potential benefits not found in formal economy, including flexible hours, job training and entry to the labor force, opportunity for economic independence, better wages and avoidance of taxes and inefficient government regulation”. When coming to gender, his study showed too that “women are significantly more likely to be necessity-driven than men and to earn lower incomes from their entrepreneurial endeavor, despite being better educated than them”. The outcome is that gender disparities in the wider labor market are mirrored and reinforced in the realm of informal sector entrepreneurship. “This sphere, in consequence, does not appear to reduce gender inequalities but to reinforce them”, they add.

Volkema and Wetzel (2013) showed alongside that in Brazil, “intrinsic and extrinsic rewards were among the most important motivators at the time these businesses were started”. Enjoying the excitement of starting a new business, meeting the challenge, and proving one could do it were among the five most important motivators, while increasing personal income and income opportunities were extrinsic motivators also among the top five. At the time their businesses were started, among the most important criteria cited were “to enjoy the excitement, followed by increase personal income, and meet the challenge. Information from SEBRAE (Serviço Brasileiro de Apoio às Micro e Pequenas Empresas), the (non-profit private entity) national agency for small- and medium-sized enterprise development, tells that 99 percent of total Brazilian business are small businesses (8.5 million companies), generating 52 percent of employment in Brazil⁷, underlying the weight and strengths of small-, medium- and micro-companies in Brazil (comforting as well a certain informality of the business sector).

⁷ Retrieved June 17th, 2015 from http://www.sebrae.com.br/sites/PortalSebrae/canais_adicionais/sebrae_english

- Shaped by?

Today's international business faces a continuing (upsetting) challenge between the priorities of globalization and that of localization. Indeed, getting to reconcile between being “*driven by the universal priorities defined by an organization's task, or by the differing ways in which individuals may interpret and react to one another's behavior in different cultural contexts*” remains challenging, and at time, daunting a task. Taras et al (2010) confirmed that “*when measured at the individual level, cultural values do have a significant impact on organizationally relevant processes such as citizenship behavior, feedback seeking, team-related behaviors, commitment and identification these effects are stronger when measured among managerial populations than among others*”.

That is where, when taking into consideration (well documented) cultural contexts, and on a broader (world spanning) perspective, “*Guanxi*” in China, “*Wasta*” in Arab cultures, “*Svyazi*” in Russia and “*Jeitinho*” in Brazil come into the perspective. Those are to be placed in conjunction with the (often overlooked) assessment of the “*système D*” in France, the “*combinazione*” in Italy, not to mention the (idiomatic phrase) “*Pulling strings*” in the United Kingdom. These concepts are all defined in terms of informal influence processes that are salient within organizations. As for Brazil, “*one shall not take discourse for practice and appearances for reality*”.

Figure 2 illustrates the main informal influence processes and their meanings.

Informal influence processes and meanings	
Guanxi (“connections”)	<ul style="list-style-type: none"> informal particularistic personal connection between two individuals who are bounded by an implicit psychological contract to follow the norm of Guanxi, such as maintaining a long term relationship, mutual commitment, loyalty and obligation (Chen and Chen, 2004). ➔ <i>Affective ties (“affect-based trust”) among business managers in China is more strongly associated with perceived reliability (“cognition based trust”) than among US managers (Chua et al, 2009).</i>
Wasta (“going in between”)	<ul style="list-style-type: none"> a process whereby one may achieve goals through links with key persons, where these links are personalistic, and most often derive from family relationships or close friendships (Cunningham and Sarayrah, 1993). ➔ <i>(Jordanians) associate Wasta with loyalty and solidarity, while it was reported that they continue to rely on it because it is impossible to overcome bureaucratic obstacles in any other way (Loewe et al, 2008).</i>
Svyazi (“connections”)	<ul style="list-style-type: none"> a more neutral term, than overt corruption, namely blat, is Svyazi, said to be similar to Guanxi (Batjargal and Liu, 2004). ➔ <i>Guanxi relations are more intense and personalistic than Svyazi (Michailova and Worm, 2003).</i>
Jeitinho (“little way out”)	<ul style="list-style-type: none"> creative ingenuity in rapidly achieving short-term solutions to problems, which may include ways of circumventing bureaucratic rules or of avoiding potential difficulties with superiors in strongly hierarchical contexts. It will often involve working through others on an egalitarian basis, with persons who may or may not be previously acquainted (Smith et al, 2012). ➔ <i>Distinguishment between “dar um jeitinho” (to have a way out), close to the notion of corruption, and “jeitinho brasileiro” (Brazilian way out), the use of creativity and pragmatism in dealing with everyday events (Barbosa, 2006).</i>
Pulling strings	<ul style="list-style-type: none"> refers to obtaining favours particularly through links with influential persons, whether these links may be longstanding ones, deriving from family connections, shared schooling, or developing from shorter-term chance contacts (Smith et al, 2012). ➔ <i>As for Jeitinho and Svyazi, “Pulling strings” may derive from longer-term relationships and involve hierarchical relations, but not necessarily so, as they can occur between those at the same organizational level and may not entail strong, continuing, obligations to the same extent (Smith et al, 2012).</i>
Système D (“resourcefulness”) Combinazione (“way around”)	<ul style="list-style-type: none"> means used by individuals and groups to bypass centralization, an excessive rigidity or amount of laws and regulations, the power of the state, authoritarian modes of leadership. ➔ <i>The “système D” and “combinazione” show a double facet, which makes them contradictory, as displaying a certain kind of conflict avoidance in negotiation, yet rendering new management technologies (Best Practices) difficult to implement or not working out at all (Amado and Brasil, 1991).</i>

Figure 2: main informal influence processes, the world over

In some cultures, influence may occur primarily in the context of hierarchy and of long-term relatedness, where in other cultures, there may be more peer influence and more influence between strangers. In the unique case of Brazil, flexibility in business, this “*intermediary path between what is and what is not allowed*” (Tanure and Duarte, 2005), is conditioned by Brazilian cultural trait and “*distinctiveness of jeitinho*” (Smitha et al, 2012). Jeitinho as a way to find the middle path between what is allowed by numerous laws and regulations, and what is practically possible and makes sense. Amado and Brasil (1991) asserting that “*jeitinho emerged as an adaptation mechanism which allows individuals and businesses to function despite the rigid and stifling legislative environment, massive bureaucracy, paternalistic management systems, and the oligarchic economic structure, dominated by powerful hereditary clans*”.

Reaching for Brazil

- Upstarting?

Doing business within emerging countries can be frustrating. As it comes in Brazil, the largest South American economy there is a saying that goes as: “*Brazil is not for beginners.*” (Wood and Caldas, 2002). The Brazilian way of being keeps a close relationship with its past, as a colonial dependent and peripheral Third World country with an ethnic formation and geography. So it is a taken that Brazilian development is to happen if Brazilian people are able positively to recognize their "cultural" personality, within their renewed working environment.

Figure 3 presents key articulation of Brazilian organizations (Amado and Brasil, 1991).

Key articulation of Brazilian organizations
• managerial performance directed toward short-term results with an emphasis on crisis solutions
• lack of strategic planning and/or a gap in planning between the tactical and the operational management levels
• centralized decisions at superior hierarchical levels, with clear incompatibility between responsibility and authority
• excessively hierarchical organizational structure with excessively segmented inner subsystems, without integration
• system of control marked as punitive, with random follow-up mechanisms dissociated from a feedback process
• negotiations carried out with main conflicts not openly discussed
• attitudes tending to be imposed upon subordinates, with soothing behaviors employed before superiors
• inadequate distribution of authority associated with punitive system of control leading to fear of assuming risks and consequently to behaviors of "pushing the problem upwards"- that is, delegation to a superior
• gap between managerial discourse and practice with authoritarian-benevolent system within the limits of interaction. The deliberative-consultative one is predominant, even though the organizational discourse tends to be participative

Figure 3: key articulation of Brazilian organizations

Laurent (1983), showed that the Brazilian representatives seem to dream of eliminating conflicts inside organizations and focus on “*worrying about a precise definition of their roles, believing more than the others that the main reason for having a hierarchical structure is to establish each one's authority*”. Unlike North Americans, and more than their Latin counterparts, Brazilian managers are convinced that they are paid to know, and in front of their own subordinates, do not tolerate uncertainty. In that way, the Brazilians are closer to the French and the Italians on what was called a “social” approach,

in contrast to the North American approach of the organization, which is “functionalist” and “pragmatic”. Hofstede (1980) : *“If the Brazilians are less individualistic than the French and other, richer countries' citizens, they are all marked by the hierarchical power and authority centralization, by attempts to control uncertainty, and by a certain concern for quality of working life and for personal relationships, as well as for a caring attitude toward the less favored ones and the working atmosphere (Hofstede's "femininity" as opposed to "masculinity" a more "achieving and goal oriented" attitude). Again we find a Latin cluster (the French and the Brazilian outlooks being very close to one another) opposed to an Anglo-Saxon one”*.

Figure 4 illustrates the main Strengths, Weaknesses, Opportunities and Threats (SWOT), of Brazil as a whole, anno 2013 as envisioned by Business Monitor International⁸

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> ● Brazil has won the support of the IMF and much of the business community. This has contributed to a more stable and welcoming business climate. 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> ● Despite economic liberalization, significant trade barriers, labor market rigidity and a complex customs system increase business risk.
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> ● Commitments to upgrade physical infrastructure should continue. ● Recent onshore and offshore oil discoveries could help Brazil become a global oil giant. 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> ● Tax reform and new labor legislation are needed to simplify the very complex, onerous tax system and highly inflexible labor market. ● Government intervention in the domestic banking sector and lax regulation distort Brazil's financial system.

Figure 4: Brazil’s SWOT, anno 2013, as envisioned by Business Monitor International

This succinct SWOT analysis presents a contrasting picture of Brazil as a place to do business in and with. Indeed it looks like the leading organizations (whether the IMF, the FIFA, CIO and, rumor had, OPEC) do entrust Brazil with financial support and trust, hoping to see a sea of changes, while in an inner perspective, the forces (standing still) in “motion”, mainly political (and consequently the people as in a democracy), do not believe the country is worth pushing for (craved for) reforms.

- **Self-limitation?**

Brazil's political risk profile remains highly stable and continues to place South America's largest economy among the higher ranks of social stability and broad policy continuity in the region. Yet, despite its immense potential, Brazil's growth trajectory remains constrained by structural weaknesses,

⁸ Only a moderate recovery to come. Business Forecast Report. Q1 2013. Business Monitor International Ltd.

most notably in the form of a highly regulated labor market, an overly complex and burdensome tax system and dearth of access to long-term credit. Furthermore, the Brazilian legal system is becoming increasingly sophisticated in order to complement an expanding and diverse economy. The upshot of this has been a more dynamic and more competitive legal market. While the system is now well structured by Latin American standards, inefficiencies still slow the judicial process, and this has contributed to major backlogs in cases. There are laws for everything it is said, a superabundance of them, in comparison with other countries (especially Anglo-Saxon ones). Thus, it is easier to choose the one law that protects you or the one that punishes your opponents. "Acs inimigos a lei, aos amigos as facitidades da lei" (the law for your enemies, the advantages of the law for your friends), the proverb says.

Figure 5 illustrates the main challenges to Brazil's highly stable political risk profile (BMI Ltd⁸).

Key Challenges	
Closing the income gap	<ul style="list-style-type: none"> • a Brazilian rising middle class ambition to close the "income gap" with Western economies (paramount political importance), placing considerable pressure to keep public spending programs flowing
Rising fiscal uncertainty	<ul style="list-style-type: none"> • a poor rating of Brazil due to its large size of public spending (GDP), leading to a necessary reforming of its highly complex and (often conflicting) tax code
High labor market rigidity	<ul style="list-style-type: none"> • some of the highest hiring costs in the world (additional burden on the public sector) and an highly inflexible labor market (limiting private-sector employers willingness to hire)
High entry barriers	<ul style="list-style-type: none"> • often conflicting regulatory frameworks across states, high taxes and local companies' state subsidies
Regulating Off-shore reserves	<ul style="list-style-type: none"> • the need to overcome the technological challenges of bringing oil and by-products efficiently to market
Tackling deforestation	<ul style="list-style-type: none"> • a highly lucrative timber industry taking considerable political dimensions due to enormous local benefit (proceeds of logging, cattle and soy cycle)
Cracking down on gang violence	<ul style="list-style-type: none"> • virtually no control over the affected areas for the federal government
Drug trafficking risk to stability	<ul style="list-style-type: none"> • neighboring countries which may require assistance to avert deeper political crises in the region

Figure 5: Key challenges to governance and stability

Further to the comments made on **Figure 4**, the key challenges for Brazil to overcome are those brought from inside the country, by those left to complain about the ineffectiveness of the state redistribution of (hard won) income taxes, mainly. With globalization comes (world) opening of views and eagerness to reach outside (one's realm), meaning converging forces looking for access and implementation of the most advanced practices and renew Brazil's paradigm.

- **Improvement Path?**

The International Property Rights Index 2014 shows Brazil 46th worldwide and 5th within the Latin American region⁹ improving (2010-2014) on two components (Legal and Political Environment, Intellectual Property Rights) while even on the third (Physical Property Rights), for an overall IPRI score increase of +1.4 percent. Brazil, member of the World Intellectual Property Organization (WIPO), since 1978, has signed several relevant WTO accords. Enforcement remains patchy though, which has drawn criticism from the country's main trading partners. Transparency International's Corruption Perceptions

⁹ Retrieved June 17th, 2015 from <http://internationalpropertyrightsindex.org/country?s=brazil>

Index (CPI), scores Brazil 43/100 making it number 69 out of 175 (studied) countries, yet with little enforcement¹⁰.

About dealing with corruption, President Dilma Rouseff signed Law No. 12.846 (Brazilian Clean Company Act¹¹), on August 1, 2013, imposing liability on business entities and individuals, including foreign companies and persons doing business in Brazil, for acts of corruption involving public administration. The law shares some characteristics with the U.S. Foreign Corrupt Practice Act (FCPA) and the U.K. Bribery Act, as it imposes successor liability in the event of mergers and incorporations. Alongside it, Brazil's Congress took another step against corruption when the Senate approved Bill No. 5900/13¹² that establishes corruption as a "heinous crime," a legal concept that allows for *"tougher punishments for corrupt practices, including travel and other restrictions that could seriously hamper the ability of executives and companies to carry out operations when facing charges for this category of crime"*. It would also apply to individuals and institutions who offer bribes to government officials.

Entering Brazil

- Starting ground?

Brazil emerged, in early days, as a confluence of three human streams: the Portuguese, the African, and the Indian. Brazilians are a blend of races, but the leaders in the process are the Portuguese, who had political control and formed the elite. As Brazil, like many other emerging countries became increasingly embedded into the world economy toward the end of last century, with a first surge of FDI (Foreign Direct Investment) from the 1990s on (in terms of market openness, Brazil is still a front runner in South America and a major recipient of foreign capital), and then an opening to ODI (Outward Direct Investment) in the decade ensuing economic stabilization, pressures rapidly built for Brazilian companies to adopt more advanced managerial practices. Companies *"successively implemented programs and projects based on ISO 9000, reengineering, and enterprise resource planning (ERP), among other managerial techniques, without always being able to adopt foreign models without further adaptation"* (Caldas, 2000), in what one could call a "reversed ethnocentrism". Yet, the negative outcomes of the "reengineering-meets-downsizing" fad became widely known and publicized in the Brazilian business environment.

The corporate world (of developed countries), well aware of the fact that doing business behind ones borders, either for foreigners or for locals, is a task of great complexity, yet accustomed to operating in highly institutionalized markets, with clear and stable rules, many corporations, whether Westerners

¹⁰ Retrieved June 17th, 2015 from http://www.transparency.org/country#BRA_DataResearch

¹¹ Retrieved June 17th, 2015 from <http://www.business-anti-corruption.com/about/about-corruption/brazilian-clean-company-act-2014.aspx>

¹² Brazil's clean company law: new risks for companies doing business in Brazil. August 2013. Retrieved June 17th, 2015 from <http://www.jonesday.com/files/Publication/3c9b0192-a812-4849-b9fb-96fc1e520f70/Presentation/PublicationAttachment/ec9bf444-80c0-4892-af4a-9731b3d3c57c/Brazil%20Clean%20Company%20Law.pdf>

or Asian, have a hard time assimilating local business "exotica". Even though, due to its (colonial) past, large heterogeneity (of people, business, sectors), Brazil is often met with an "ethnocentric attitude" borne by many (foreign) managers and executives, ill prepared for economic, social, and cultural differences. In fact, many of the institutions supporting business in industrialized countries do not exist, or operate under precarious conditions, within emerging countries. It is often the case of facing Brazil today, with its unique blend of "cutting-edge sectors, aligned with the most advanced practices, with industries that still preserve technology, production methods, and work organization more associated with those typical of the 19th century", as further stated by Wood and Caldas (2002). That is where it is worth remembering that when entering an emerging country, companies are entirely dependent on the accurate comprehension of local institutional, organizational and cultural circumstances (as in cross cultures). As such, it was (and still is, to these days) highly important to bear in mind that behind the Brazilian facade "lie institutions still under construction and a complex, hybrid, and ever changing business culture" (Wood and Caldas, 2002).

Figure 6 proposes a guideline gathering the ten main challenges for foreign entities to master when entering Brazil (adapted from Wood and Caldas, 2002).

Ten guidelines	
1	• one must respect local characteristics
2	• one must respect and understand local characteristics, essential to understanding the present and building the future
3	• one must be attentive to the rhythms and rituals. North and South, East and West, big cities and small towns present different business cultures
4	• one must bear in mind that the business environment in Brazil presents differences from the business environments of developed countries. Institutions are not at the same level of maturity, management models are sometimes ill-developed, and the work culture was formed through different paths
5	• one shall remember that Brazil is also a country full of social and economic contrasts. Some industries are still in the early phases of development, far from maturity
6	• one shall not take discourse for practice and appearances for reality
7	• one shall be aware that doing business in a different country is always a process of self-education and self-development
8	• one should use its competences by bringing knowledge, as it shall be both innovative and adequate to the local context
9	• one shall partner with local entrepreneurs, as it may be a particularly good way to enter the market and understand how it works
10	• one must also always be critical, as per the many management fads and fashions blended with good ideas unproductive for the firms applying them

Figure 6: Guideline for foreign entities to master when entering Brazil

This non exhaustive list shows three dimensions to master when entering a (any) foreign market. The first one is that rules apply, but not always the ones witnessed or written. Doing and abiding may differ grandly. The second is that what is perceived as a new culture, is only the tip of a long entrenched (in time) iceberg of subcultural traits, morphed into one, or several, contact persons and/or institutions. They do represent themselves, first and foremost, but may (or not) be part of the broader representation. Third, yet not least, is that travelling outside one's own borders takes some (cultural) baggage with it. One will travel with her/his own prism, which will act at the deciphering device to novelties and may, more often than not, biasedly translate what is confronted.

- Acculturation?

Analysis by Balbinot et al (2012), showed that the cultural dimensions “*Uncertainty Avoidance*” and “*Assertiveness*” did influence the practices of the managers studied in a negative sense as compared to the practices considered dominant and in favor of Brazilian cultural characteristics, even after managers become internationalized. Differently, “*Power Distance*”, “*Future Orientation*”, and “*Performance Orientation*” increase with internationalization and more closely approximate the characteristics referenced as being on the Euro-American axis. “*The local cultural characteristics Personalism and Formalism suffer influence from internationalization and are reflected in the managerial practices consolidating the Brazilian cultural traces. In addition, the managerial practices derived from Jeitinho diminish with increases in a manager’s international experience and relationships*”.

Conclusion

Doing business in Brazil, appears a bit like finding a match between confronting ideas. On the one side (inward looking) traditions and conformism, with on the other side (outward looking) a fast paced and modernist globalization. Decades of Foreign Direct Investment helped change (nature rich) Brazil, after decades of hyper inflationism, economical and political instability, to form what is today’s the world seventh¹³ (GDP), socially stable, economy. While concurrently hosting two of the world largest sporting events, at a tremendous costs (for its population, political stability and infrastructures), fighting to decrease (world notorious) social inequalities, with quite some success to some extent, Brazil is a faraway dream destination for entrepreneurs. In today’s world, (social) business dynamism, comes primarily from SMEs, of which about 50 percent of them in Brazil opt for the informal sector, as small companies do find it less cumbersome than “going formal”. Much needed infrastructures, and institution minds, still need changing to morphe the country into an entrepreneurial heaven. More well-developed institutions are still very much needed, indeed.

To summarize, what characterizes Brazil today, in a contradictory (if not schizophrenic) form so uniquely Brazilian, is the inconvenience of having fast iconic features (of the past) severely impairing the country’s move toward the future. While it prevents for the times to come, full-fledged business developments, the door to a broader world class integration goes ajar. Doing business in Brazil is a (demanding) work in progress, made to an art form, manufacturing the Brazil of tomorrow with reminiscent tools of the past, shaped by people eager to impose their difference on it, with renewed techniques and approaches, firmly believing that the still daunting overall task, is (still) worth the efforts.

Brazil is indeed still “not for beginners”!

¹³ GDP (current US\$). Retrieved June 10th, 2015, from http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?or-der=wbapi_data_value_2013+wbapi_data_value+wbapi_data_value-last&sort=desc

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