STRATEGIC MOVEMENTS OF FIRMS IN RESPONSE TO THE GLOBALIZATION OF THE AUTOPARTS INDUSTRY: TWO CASE STUDIES

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Abstract

The autoparts industry was strongly affected by the phenomenon of globalization, which forced certain firms to go multinational and others to disappear. This paper examines two cases of leading Brazilian companies that followed different strategic paths as they were forced to face the restructuring of their industry. One of the Brazilian companies studied was acquired by a German multinational, while the other Brazilian firm acquired a German components manufacturer. The paper discusses the strategic directions by which local companies may respond to the threats posed by globalization in their industries (key words: Globalization; autoparts industry; foreign investment; Brazil; Europe).

INTRODUCTION

Globalization is a complex phenomenon. Karl Marx preconized globalization, seeing national industries dislodged by multinationals, firms "whose products are consumed, not only at home, but in every quarter of the globe"; consumer desires and wants that could not be satisfied anymore by local production, "requiring for their satisfaction the products of distant lands and climes" (Marx, 1977, p. 224). Levitt (1983) claimed that globalization was a result of two major factors: the homogenization of consumer tastes, desires, and expectations around the world and the willingness of those consumers to sacrifice certain specific preferences for lower prices at high quality, which in turn permitted massive economies of scale. Dunning (1993) characterized globalization as the shift from resource-based investments to spatial optimization of production. It involves "social arrangements for the production, exchange, distribution and consumption of goods and services; social arrangements for the concentration and application of power"; and "social arrangements for the production, exchange and expression of symbols, that represent facts, affects, meanings, beliefs, preferences, tastes and values" (Waters, 1996, p.7-8).

Scientific studies of globalization as such probably started around the 70s, although the roots of globalization theories can be traced to much earlier. They distinguish themselves from the previous literature on internationalization by the fact that they take as a "primary unit of social analysis the entire globe" (Beyer, 1997), not an individual nation or culture. In the field of business administration, globalization theories evolved from the areas of international business and cross-cultural management.

A major target of multinational firms are emerging markets. These markets are seen as “the major growth opportunity in the evolving economic order” (Arnold and Quelch, 1998, p.7) and “one of the most attractive choices of location for FDI” (Choi, 1999, p.4). In fact, a 1995 study by Ernst & Young indicated that the major force behind globalization for 94 percent of the executives interviewed was the desire to have access to large growing markets and their potential for profitability (Emerging markets..., 1995). The reasons for such attractiveness are associated with high market growth rates, drastic deregulation of the economy, liberalization of financial and capital markets, as well as generous subsidies and incentives to attract foreign direct investment offered by host governments, compared to saturated and highly competitive markets in the developed countries. Arnold and Quelch (1998) point out that two recent developments have enhanced the attractiveness of emerging markets: on one side, the availability of a consumer market with growing levels of disposable income and awareness of foreign products and brands; on the other, the growth of the Internet as an alternative marketing channel for small and medium-sized companies to reach foreign customers.

Firms in emerging markets are typically family-owned, small or medium-sized (for global standards) and domestic. Psychological factors can play a role in paralyzing a local company in its reactions to foreign entrants. Bartlett and Ghoshal (2000) call those psychological limitations “liabilities of origin”, including a feeling of being locked into local inferior standards, unawareness or lack of confidence in the company’s ability to compete globally, and overconfidence and blindness to potential dangers. In light of these structural and perceptual limitations, how can local companies respond to the challenges of an increasingly global market? A new and growing body of literature and empirical research is attempting to provide answers to this question.

Solberg (1997) proposed nine strategic windows for local companies in globalizing markets, which include: 1.stay at home; 2. consolidate your export markets; 3. develop new business; 4. seek niches in international markets; 5. consider expansion in international markets; 6. prepare for globalization; 7. prepare for a buy-out; 8. seek global alliances; 9. strengthen your global position. These are not alternative strategies, since they consider different levels of preparedness for internationalization and industry globalization. Only the three last strategies are applicable to markets that have already turned global.

Dawar and Frost (2000) indicate four basic strategies to be followed by domestic firms threatened by new and powerful entrants. The first is a *dodger strategy*, which consists in focusing on a local link in the value chain, enter a joint-venture or sell out to a MNC; the second is a *defender strategy*, in which the focus is on leveraging local assets in market segments where the new entrant is weak; a *contender strategy* considers upgrading capabilities and resources to match the new entrants at a global level; and finally, an *extender strategy* focuses on expanding to similar markets using competitive advantages developed in the domestic market. Bartlett and Ghoshal (2000) suggest that local firms should exploit late-mover advantages, either by benchmarking established competitors and then exploiting overlooked niches, or by capitalizing on the inflexibilities of multinational corporations and their business models.

Defensive strategies by competitors already established in a market can be directed towards dissuading new entrants or towards strengthening the company's position in the market in order to be better prepared to face the new competition. Kotler et alii (1986) suggest six possible defensive strategies: defense of the existing position without changing the present strategy; diversification to new product-markets; investment to reinforce competitive advantages of the firm in existing product-markets; counterattack; fortification of flanks; and exit from certain product-markets.

Although often local companies are easily defeated by multinational corporations entering their domestic market, this is not inevitably the case. The entry in foreign markets may be much more demanding for MNCs than competing in their home markets. A new entrant in a foreign market may face strong opposition from established companies. It may have to deal with unfamiliar conditions, such as lack of basic marketing infrastructure and marketing information, frequent changes in business regulations, and the need to deal with often complex networks of firm relationships that may prevent or delay the access to channels of distribution (Arnold and Quelch, 1998). MNCs may not be well prepared also because of ethnocentrism, lack of vision or the desire to apply to these new markets the same principles that hold in developed countries. Prahalad and Lieberthal (1998) go as far as to say that to compete effectively in emerging markets MNCs have to "reconfigure their resource base, rethink their cost structure, redesign their product development process" and challenge their cultural assumptions.

THE AUTOMOBILE AND AUTOPARTS INDUSTRY

This paper deals with the impacts of globalization on the autoparts industry. By extension it also deals with the ways by which globalization changed the nature of the automotive industry itself, involving carmakers, suppliers, and their relationships (Snowdon, 1990). The car industry has been multinational since its inception, and has more recently gone global. In fact, Dunning (1993) considers the car industry as one true global industry.

In the automobile industry, globalization means car models - the 'world' cars - planned to be manufactured in specific sites based on a limited number of platforms according to a global marketing strategy. Second, it also means manufacturing in locations where most advantages can be obtained in terms of total cost and quality. Third, it supposes a global sourcing strategy, with supplier companies following their customers wherever around the globe they assemble their vehicles, through exports or, increasingly, local production. This last change has been precipitated by the fierce competition for market share among assemblers in major world markets, leading to a major drop in margins. Forced to reduce costs, assemblers increasingly turned to the adoption of Japanese-inspired lean production practices, which in turn implied changing the nature of their relationship with suppliers. Manufacturers from the United States, Europe, and Japan had to adapt their strategies to the requirements of globalization (Belis-Bergouignan et alii, 2000).

The changes in the world automobile industry can be regarded as the main factor to trigger the ongoing restructuring of the autoparts industry (Sadler, 1999). The expansion of global supply networks was undertaken initially by first-tier suppliers and then by small and medium-sized firms (Fitzgerald, 1996). The adoption of lean practices reduced the number of direct suppliers to assemblers as well as the number of firms supplying each component to a specific customer, increased the value offered to customers, and brought a long-term perspective into buyer-supplier relationships. As a result, some firms were pushed down to lower tiers, merged into stronger competitors or simply shut down. In fact, to meet the new requirements, an autoparts firm had to enhance its capabilities to become a system or value-added supplier, which in turn brought the need to rationalize resources and attain adequate scale.

A worldwide process of mergers and acquisitions was the result of such developments, leading to increased autoparts industry concentration and to the rise of a reduced number of major component producers - the industry's 'big players' - that incessantly search for promising investment opportunities overseas. Industry experts foresee that the number of suppliers for many important parts will be gradually reduced to only two or three, and that the worldwide number of supplier firms will be reduced to twenty or thirty by the next decade, a small fraction of their actual count. Bosch, Valeo, Dana, Tenneco, Johnson Controls, TRW, and Magna are among the big players that are also reshaping the structure of the Brazilian autoparts industry.

The European Autoparts Industry

European assemblers have shown a pattern of delayed globalization, when compared to American and Japanese firms, with most of their geographical presence in their region of origin, and their non European manufacturing and sales facilities concentrated mostly in Latin America. Attempts to enter the North American market were usually not successful. An exception to this situation are Mercedes and BMW who successfully established assembly operations in the US. The recent merger of Chrysler and Mercedes and the strategic transcontinental alliance between Renault and Nissan indicate new forms of restructuring within the European automobile industry (Belis-Bergouignan et alii, 2000). The GM-Fiat strategic alliance is another recent example of this trend.

According to Sadler (1999), the restructuring within the component industry was even more acute in Europe, with leading autoparts firms intensifying their internationalization process, in a more aggressive and versatile manner than European assemblers. In fact, by 1995, less than 30 percent of their sales came from their home markets and more than half of their workforce was located outside their country of origin, indicating a significant shift to international markets.

There was also a trend towards specialization, as assemblers adopted specific systems or technologies. The result of the changes discussed was increased industry concentration, with the total number of direct suppliers in Europe falling from 10,000 in the beginning of the 70s to around 3,000 in 1995, and an estimate of only 500 in 2000. Some companies, such as Bosch and Mahle of Germany and GKN of the UK have taken the leadership in their industry segments, aggressively pursuing acquisitions to gain market share and economies of scale.

The Brazilian Automotive Industry

The origins of the Brazilian car industry can be traced back to the 50s, when Volkswagen started its operations in Brazil, followed during the 60s by Ford and GM, while Fiat was a later entrant in the 70s. In order to supply these assemblers, hundreds of local components firms proliferated over the years. By the end of the 80s, the Brazilian autoparts industry had 2,000 firms, of which 500 of significant size. Local production of cars rapidly rose in the first decades, from 133,000 units in 1960 to 1,165,000 units in 1980. Due to the specific features of the local market, European models and technology have always predominated in the Brazilian industry, even in the case of US assemblers.

During the 70s and 80s the industry failed to keep pace with technological changes taking place worldwide in terms of both products and processes. High tariff barriers and even import bans kept away foreign competition. Assemblers did not feel a need to modernize, keeping in the market products that were considered obsolete by world standards. The local component industry followed the same pattern, and the general result was poor productivity and low quality levels, with the exception of a few major exporting firms. The recessive economic climate of the 80s was especially adverse for the industry; by 1990 car production remained stagnated at 900,000 units.

The opening of Brazilian markets to foreign competition, in the 90s, posed new challenges to the industry, initiating a process of competitive restructuring. Changes in the Brazilian economy were sudden and radical. After decades of market protection, the reduction of trade barriers, industry deregulation and privatization, in the early 90s, found Brazilian companies unprepared.

By 1994, a new stabilization plan reduced inflation from a four-digit to a one-digit level, opening the way to foreign investments. Existing assemblers increased capacity and aimed at attaining higher levels of productivity and quality. Although some efforts were registered in the early 90s, substantial changes were felt in the car market only when the government decided to grant tax incentives for the manufacturing of the so-called 'popular cars' (powered with 1,000 cc engines), in 1993. In addition, the changes in the economic and business environment after the 1994 stabilization plan had an impact on the ability of the industry to restructure. Production levels increased rapidly, reaching a record high of 2,067,000 cars in 1997. Investment of over US$ 20 billion in new capacity and modernization has been announced both by existing assemblers and several new entrants.

The new perspectives in the economy and Brazil's insertion in the Mercosur have been major reasons for the boost in investments in the automotive industry. In addition, because of the size and potential of its market the country became a main target for foreign direct investment by car manufacturers. Japanese companies, such as Honda and Toyota, and European companies, such as Renault and Peugeot, entered the market, building new plants in Brazil. Established companies were forced to modernize faster, to increase product reliability and to adopt new technologies to be able to effectively compete against new entrants. In order to expand production and enhance competitiveness assemblers started to restructure their supply chains, a process that had already been well under way in the main world markets since the 80s.

Faced with new requirements for productivity and reliability, Brazilian autoparts companies were also forced to restructure themselves. A great majority was acquired or merged into foreign companies, others simply have had to shut down because they were unable to cope with the new technical demands and margin squeezes. In 1996, for example, Brazil received almost US$ 10 billion in foreign investments of which 41percent went to the automotive industry (Alves, 1996). The autoparts industry received 11 percent of all Brazilian and Argentinean investments in each other (Yankee, 1997). From 1993 to 1997, 52 autoparts companies were merged into or bought by other companies; 40 international suppliers had established themselves or were in the process of coming to Brazil; and, indeed, half of the 60 largest international component manufacturing groups had operations in Brazil (Fiora, 1997). Just during the second semester of 1995, the industry had four mergers, twenty acquisitions, and five joint-ventures (Brandimarte and Luquet, 1997). In June 1996 Mahle from Germany acquired a majority stake in Brazilian producer Metal Leve. In August 1997, the Swedish group Trelleborg acquired PAV; in October of the same year Magnetti Marelli, a subsidiary of the Italian assembler Fiat, announced the acquisition of one of the largest local companies, Cofap; a week later the British-American group Lucas Varity announced the acquisition of Freios Varga; in 1999, the group, including the Brazilian operations, became part of US giant TRW. All these companies were well-known for their excellence in manufacturing and product reliability and were among the largest Brazilian companies in the industry. As a result, very few of the locally-controlled firms remained among those in the selective group of first-rate, first-tier suppliers to the Brazilian car assemblers.

THE RESEARCH QUESTION AND METHOD

The opening of Brazilian markets to foreign competition in the early 90s provides a valuable research site to investigate the response of firms to globalization. Brazil became a major target for global companies, driven by a large potential market and weak domestic competitors (Reid, 1999). To most observers, Brazilian companies were going to be decimated by foreign competition. Yet this was not necessarily the case, although many companies were forced into mergers or were acquired. Considering this scenario, our research question tried to investigate the strategic responses of autoparts firms to the globalization of the automotive industry. Specifically, we aimed at answering the following question: "Which strategic directions were chosen by Brazilian autoparts firms in response to the globalization of the automotive industry?"

This study uses the case study method of research (Yin, 1989). Two specific cases are examined where the impact of globalization of the automotive industry has led to different strategic moves and outcomes: on one side, to international expansion through foreign direct investment, first in Germany and then in other countries, and a possible future association with a global firm; on the other, to the acquisition of the Brazilian company by a German multinational corporation. The cases studied are JRM (a disguised name) and Metal Leve, respectively. Primary data were collected during personal interviews with company management, which were taped and transcribed. Secondary data were obtained from a variety of sources, including company sites, newspaper and business magazine articles, books, and interviews with industry analysts.

THE CASES

Case 1: The JRM Company

JRM is a totally Brazilian, family-controlled autoparts company. It is one of the last large-sized locally controlled autoparts firms in the first-tier of suppliers to the Brazilian automotive assembly industry. The company was started in 1952 by an East European immigrant and has conquered a significant share of the local market in its segments of activity. It has been a leader in all its three main lines of products - oil seals, gaskets, and hoses - around which, since 1991, it is organized into three strategic business units.

JRM has a quite flat organizational structure, and the three unit directors report directly to the board. The latter consists of the second generation of owners (three brothers) and one professional manager acting as interface between the board and the SBUs. Two representatives of the third generation of the owner family hold executive positions in the company. It is interesting to observe that, despite its structure, JRM is not a publicly held company; it is totally owned by family members. Top management consists of the second generation of owners (three brothers) and one professional manager. JRM's turnover in the Brazilian market is around \$150 million. The company exports approximately 30 percent of its sales, mainly to Germany, Japan, US, and Australia, and operates five plants abroad.

The company has about 2,300 employees in all its sites, of which 1,600 in the seven Mercosur region plants, six of which are located in the industrial center of the state of Sao Paulo. The balance is distributed among the plants JRM operates abroad: 40 percent in Germany, 10 percent in Hungary, and 5 percent in Austria.

The first international move of the company was in the mid-70s when it licensed its technology to a German company. The contract lasted five years and in retrospect was not regarded as a wise decision, since it was perceived as contributing to the strengthening of a competitor. This was however a very unusual move for a Brazilian firm at that point, regardless of the specific industry, since Brazil was not - and still is not - an exporter of technology.

Subsequently came the opportunity to serve a customer in Germany and Japan, thereby initiating exports to those markets. This relationship lasted for over twenty years, and JRM was named supplier of the year by this very client. JRM had the advantage of working close to its customers in Brazil and to manufacture the same products available in the European market. Nowadays, in contrast, due to the shortening of product life cycles, it would be difficult to have the same opportunity. More recently, exports started to the United States and Australia, where the company operated warehouses for just-in-time deliveries.

Two distinct stages can be identified in the insertion of the company in the new global scene of the automotive industry. First, the company turned multinational by the acquisition of an autoparts company in Germany, manufacturing the same product lines in three plants in that country and another in Austria; the acquisition of two companies in Argentina, subsequently merged into only one; the building of a plant in Hungary; and the opening of an office in Italy. By 1997 management realized that the firm also needed to have a presence in the Nafta region and in Asia. At this point, it was decided that some form of association with a larger company in the industry was necessary, and the search for a partner is still under way.

The decision to internationalize through foreign direct investment came with the realization of the need to be close to the decision centers in the automotive industry. Considering the projections that, in 2005, 74 percent of the regional vehicle production would be influenced by European designs and products, it was felt that the focus for internationalizing operations should be in Europe, mainly in Germany. The rationale behind this strategic move was that, at the same time as manufacturing would be increasingly decentralized and undertaken close to or where demand exists, the development of designs and technologies would follow a globalization strategy. It was felt to be imperative, therefore, to have a stronghold near the decision center. In this way, the company would be close to the original development of products that would later be brought to the Brazilian market. This difficulty to respond to the technological needs of the automotive industry is considered by the company's management to be a major reason for the failure and subsequent acquisition of Brazilian firms by multinational companies.

The opportunity for the first move, to Germany, appeared in 1993 as a result of actions by the German government. The company, which had already gained familiarity and established relationships in the German market, was studying the possibility of a greenfield investment when it was offered a deal on a long-established German firm going through serious financial problems at the time. A group of both German and Brazilian banks financed the operation, through which JRM bought 70 percent of the company. Later, JRM increased its participation to 83 percent, while the other 17 percent remained with the former owner. The German company held around 30 percent of the market in Germany and JRM had additional 8 or 9 percent through exports, thus becoming one of the market leaders in its product category.

The next move, to Hungary, came in 1996 with the need to serve a customer. The plant, a greenfield investment, began operations in April 1997. JRM received support from the local government, and funds for the project came from Brazilian banks. It was decided that the German operation would run the plant in Hungary, as well as in Austria. The German company also had a minority stake in a Japanese company, but JRM's top management expressed no interest in investing more in that market.

Finally, the investment in Argentina came with the need to have a presence in the other important country of Mercosur, besides Brazil. Contacts previously established in that market through direct export activity allowed JRM to identify the prospects for acquisition. The two acquired companies were merged and restructured.

Managers believed that the company had increased its commitment of resources to the markets where it operated, particularly Germany. The option at the time for acquisitions, instead of joint-ventures or alliances, was credited to a strong belief among top management in the company's capabilities to operate a business alone, as compared with an association.

As it turned international, JRM had to face a number of typical problems of a multinational corporation. JRM's executives became acutely aware of major differences between national cultures and their impact on management. Cultural differences were clearly behind the problems with the German operation. After the company was acquired by JRM, the former owner remained as the CEO, reporting hierarchically to the board and functionally to the unit directors. According to top management, at first the German employees resented being owned by a Brazilian firm, as they had a sense of superiority towards Third World countries. With time, however, they came to recognize JRM’s capabilities. Several visits of German personnel to Brazil, as well as the constant presence of Brazilian managers and technical experts in the German plants, helped to establish better relationships between the two companies. The German company's structure was perceived by Brazilian managers as lean, but slow and highly hierarchical, while the Brazilian structure was seen as faster and more informal. So as to overcome language barriers, JRM decided to turn English into the "official" language in the German, Austrian, and Hungarian operations. Although intended to facilitate communications between subsidiaries, this decision was not well received by German employees.

Other problems faced by JRM were personnel and control. International operations were under the responsibility of one of the company's executives, who was also a member of the board. His responsibilities were to oversee operations abroad and to interface with subsidiaries. In Germany, for example, there were no Brazilian resident managers; about two dozen people traveled constantly between headquarters and the subsidiary. In Argentina, at first, a Brazilian manager was in charge of the operation. However, this manager was not well accepted, and the company decided to hire a local executive, who was trained in Brazil.

The difficulties were no obstacle to internationalization, and the company continued to seek new opportunities abroad, "whenever and wherever its clients required it to do so", and mainly in the Nafta and Asian regions.

By the end of the 90s, JRM was a major supplier of European assemblers, including BMW, Volkswagen and Fiat. Its parts reached the European market with prices 5 to 15 percent lower than those of local and Asian suppliers. It also served major U.S. assemblers such as Ford and General Motors, both in the Brazilian and international markets.

Case 2: Metal Leve

Metal Leve was founded in 1950. A technology agreement made with the German manufacturer Mahle gave the new company access to state-of-the-art know-how. In 1961, Metal Leve became a public company. During the 60s, Metal Leve started its first exports of airplane components to the United States, with the approval of the Federal Aviation Administration. In 1976, the company established its own research center, so as to become more independent from international licensors.

The company soon became a major player in the Brazilian autoparts industry. It was well regarded for its technical competence and for the reliability of its products. Besides technology and quality excellence, Metal Leve was well known by its after sales services. The company's founder and chief executive, José Mindlin, became one of the most admired businessmen in the country, and the company was seen as a benchmark by other Brazilian firms. As a result of its accomplishment, Metal Leve became a major autoparts supplier to multinational assemblers established in Brazil. From a production in 1970 of 5,000 pistons in its main product line, the company evolved to 12,000 units by 1990.

Production abroad became feasible only when Metal Leve broke up its licensing contract with Mahle, since this was an impediment to Metal Leve's international operations. Mahle was at that point Metal Leve's major competitor in the global market, with headquarters in Stuttgart, Germany, 26 plants in 19 countries, and sales approaching US$ 2 billion. Despite its size in the global arena, Mahle only had a small plant in Brazil.

During the late 80s, Metal Leve started its internationalization process in the United States, acquiring a research and testing laboratory in Ann Arbor, Michigan, and a piston plant in Orangebourg, South Carolina, for US$ 14 million. In 1990, the company bought a second plant in Greensburg, Indiana, and a third plant in Sumter, Indiana. Metal Leve had 400 employees in the U.S., of which only ten were Brazilian. Mindlin declared at that time to *Forbes* that the U.S. operations would permit the company to “offer the just-in-time delivery customers want” (Millman, 1992). By 1992, the company had developed and tested a new piston in the Ann Arbor laboratories, made to meet the 1994 U.S. standards for diesel-emission levels, which became a very successful product. The company was selling to customers in more than 50 countries.

"We believed at that point," said Mindlin years later, "that we would have the conditions necessary to continue to grow in the future" (Brandimarte and Luquet, 1997). The internationalization through direct investment brought the company many lessons, including a better understanding of the U.S. market, access to the latest technology, modern equipment, and technical assistance. The company was operating in a just-in-time system and used manufacturing cells. To support manufacturing, Metal Leve established an R&D group in the United States (Brasil and Diegues, 1996).

The year of 1993 was not easy for Metal Leve. The company had to face a major drop in international prices, as Mahle, the world leader in pistons, lowered prices by 30 percent. Although Metal Leve followed the new market prices, it was clear that this situation could not last for long because of cost pressures, since the company was simultaneously facing an increase in costs. That same year, Metal Leve lost the second position in the Brazilian autoparts industry ranking to foreign-owned Albarus.

Top management was quite aware that Metal Leve's future was associated to how well the company would be able to deal with the pressures from globalization. A consulting firm was hired to examine the situation and propose actions. The solution envisaged was to promote a downsizing process in the company. As a result, six out of 13 top managers and 400 employees were fired. It was at this point, by the end of 1993, that Mindlin decided to leave the CEO position and to move to the Board of Directors. He felt that although the changes that were taking place were necessary he was not the right man for the job of downsizing, particularly because of his long-lasting relationships with his associates. Mindlin's son was promoted CEO. According to industry observers, however, Sergio Mindlin was not the right man either. As one executive put it, "he did not have the charisma or the legitimacy of his father to produce the turnaround that Metal Leve needed" (Vassalo, 1997).

By 1994, several meetings where held to discuss a strategy that could carry Metal Leve into the next century. One of the many possibilities considered was a strategic alliance with Cofap, the largest autoparts firm in Brazil and Latin America. This alliance was seen by both companies as a way of gaining the scale necessary to survive. The possibility was considered at that point of creating a holding company with the participation of Metal Leve and Cofap's shareholders, plus Bradesco, the largest private financial conglomerate in Brazil, which already had a 15.3 percent stake in Metal Leve, and an international player. Yet Metal Leve's shareholders believed that management styles and corporate cultures where too dissimilar to allow such an association to be successful. Moreover, Cofap itself was suffering at that point from a serious internal trauma, since a fight between the founder and his sons had led the latter to sell their shares to Bradesco, which became a major force in Cofap, with 40 percent of the voting capital.

Another consideration was the expansion of production capacity in order to achieve the necessary economies of scale. According to industry sources, Metal Leve's top management considered that to become competitive the company had to triple its capacity and reach US$ 1 billion in sales. Unfortunately, shareholders were neither interested nor capable of providing the funds necessary to the expansion and the company's results turned negative. Mindlin observed: "The situation became unbearable. We were being suffocated by competition and by the market." (Vassalo, 1997).

It became increasingly evident that the company was unable to move forward as pressures became more acute. There were rumors that the decision-making process was too slow, due to the interference of a powerful board with the management of the company. During board meetings, often strategic issues were put aside and operational problems discussed instead.

By December 1995, J.P. Morgan bank was hired to find buyers for Metal Leve. A number of companies showed interest in the acquisition such as Dana, the American autoparts conglomerate, which already owned a company in Brazil.

By the end of fiscal year 1995 Metal Leve had lost US$ 20 million. During the first quarter of 1996, despite a major effort to reduce overhead costs, the company lost other US$ 6.4 million and sales dropped 30.9 percent, compared to the first quarter of 1995. Productivity rates had declined during the last years, becoming one of the lowest in the industry. Sales per employee at Metal Leve were around US$ 70,000, at least 30 percent lower than that of other major companies in the industry, and the company was losing its market value at an accelerated pace: the price per 1,000 shares had dropped from $30.75 in December 1990 to $ 9.4 by June 1996.

At that point, Bradesco interfered to involve Cofap in the negotiations. Once Cofap's management was convinced of the synergies and economies of scale that could derive from the acquisition, Bradesco's executives helped Mahle of Germany, Metal Leve's most important competitor, to form a partnership with Cofap for the acquisition of Metal Leve. Bradesco had become a major player in the Brazilian autoparts industry with investments in several companies, partly as a strategic decision and partly as a way to guarantee the repayment of debts. Indeed, it came to be the leading banking intermediary of mergers and acquisitions in the autoparts industry. In June 1996, Mahle acquired 50.1 percent of the company's control; Cofap, with sales of US$761 million that year, acquired 33 percent. Bradesco kept 15.3 percent of the voting capital. According to the press release by Metal Leve shareholders, the motivation behind the decision was "to secure company growth in a globalized market, in which large investments and wide penetration in international markets are necessary."

A few days before the official announcement, in an interview to the business newspaper *Gazeta Mercantil*, Mindlin, 83 years old, observed that globalization "is an irreversible process; firms will have to face strong competition . . . The opening of the Brazilian market was done in such an abrupt way that companies were forced to react without any time to get prepared . . ." (França, 1997). In a later interview, he would add: "For many years, the idea of selling Metal Leve's control seemed absurd to us. What we wanted was an international partner with a minor share of the company. As time passed, we saw how naïve this expectation was." (Vassalo, 1997).

The new owner of Metal Leve, Mahle, was aggressively positioning itself in the new competitive scene by acquisitions, mergers, and greenfield investments (Murphy, 1999). By 1999, the company was the global market leader in pistons, accounting for 25 percent of world sales. It was also a major producer of filter and valve train systems. It had 41 plants in Europe, America and Asia, and four R&D centers, located in Germany, United States, Brazil, and Japan. The acquired company - Mahle Metal Leve - was still one of the leading autoparts manufacturers in Brazil, with annual sales of US$279 million and profits of $23 million. Mahle controlled 81 percent of the stock and Bradesco kept 17 percent. The company had less than 4,000 employees, compared to 6,000 in 1992.

DISCUSSION AND FINAL REMARKS

Globalization reached Brazilian companies at a time when most of them were unprepared to deal with such irresistible forces, as Metal Leve's founder José Mindlin observed. Operating in a highly protected market, with a low level of rivalry among domestic players and very limited exposure to international markets, most of these companies did not develop the necessary skills to face the fierce competition in the global arena. The autoparts industry was especially affected by globalization. The two cases here examined show in different ways the impacts of the global changes in the industry. What made the difference between the destiny of JRM and that of Metal Leve? Although it is not possible to reach conclusions from the examination of two cases, some indications can be extracted from these experiences.

The first one refers to the *timing and speed of the process*. Metal Leve reacted quite slowly to the changes in the environment. When problems were first detected, the company was not ready for action, because of the aging of the founder and charismatic leader and subsequent succession problems, the emotional attachment to the business, and the desire not to lose control. The inability to deal with the real issues made a difference, as routine problems were considered by top management instead of the strategic issues that had to be faced. It is possible that earlier preventive action might have allowed Metal Leve to accelerate its internationalization process enough to become competitive. JRM, on the other hand, soon realized that scale and global presence were prerequisites for survival in the autoparts industry of the 90s, and was quick to act accordingly.

The second one is associated with *management's commitment to internationalization*. JRM's management recognized the need to go international and engaged thoroughly in such a task. Rather than building their own subsidiary, they were ready to give up the controlled environment of greenfield investments and acquire a German company. They were also ready to investigate new opportunities and to give up control when necessary to move ahead fast. JRM's top management saw internationalization as an irreversible path. By contrast, Metal Leve internationalized to have access to new technology, to learn about the American market and to give better service to customers, but management did not perceive the company's future as an international or global firm.

Third, JRM's leadership, although not as charismatic as Metal Leve's, was characterized by a *"hands-on" approach to internationalization*. In fact, JRM's top management, when faced with the question of what would be their recommendations to colleagues in the Brazilian autoparts industry, gave the following advice: first, identify precisely what you want to be; second, focus on it, have faith in it, and look for the best alternatives in internationalizing; third, do it quickly. Bartlett and Ghoshal (2000) identified similar behavior in certain companies from emerging markets. They claim that often a "leap of faith" is necessary to move the company from the domestic to the international market.

A fourth consideration is associated with *management characteristics*. Although both companies were family-owned, JRM management was substantially more professional than Metal Leve's. Professional managers are often less attached to the past and less committed to remain in the same path than family managers, particularly when the latter were the original entrepreneurs who founded the business. Succession problems aggravated the situation, making change extremely difficult for Metal Leve. The old founder was unable to "let it go", continuing to interfere in the company's management. The new chief executive already started in a weaker position, exactly when the company most needed a strong leader with a new vision.

Fifth, the *lack of a vision* does differentiate the two firms. The initial vision Mindlin had for his company became obsolete due to environmental changes and a new vision was not formulated to give the company strategic direction. This was not the case with JRM, who had a clear strategy and knew exactly what they wanted to be. In fact, Bartlett and Ghoshal (2000) indicated that a clear strategy and leadership are necessary factors for a local company to successfully face global competitors.

Sixth, it is also possible that the *nature of competition* was associated with the outcome. Competition across the autoparts industry segments is not homogeneous. Metal Leve had to face a much more aggressive competitor - Mahle of Germany - than JRM. Therefore it is possible that JRM had in its favor more time and less competitive pressure than Metal Leve to implement its strategic moves.

Globalization poses substantial challenges to a local company, especially when it happens abruptly. In the autoparts industry choices were limited. As the market turned global, alternatives such as to remain local became possible only for very small companies, which could accept a position in the lower tiers of the supply chain. It was impossible to consolidate export markets as the automobile industry increasingly required its suppliers to follow assemblers worldwide. Entry into new businesses depended, of course, on opportunities and competencies. Since the automotive industry is mature, it would be hard to find new businesses within the industry that could remain protected from global competitors. Diversification out of the industry was also possible but often difficult. A niche strategy was not also viable in such an environment. Expansion into international markets was possible but difficult to achieve, at least in the scale necessary to survive. It required vision, resources and capabilities. JRM chose this path, prepared itself for globalization and recognized the importance of speeding this process, but the company still has to face many challenges before it becomes a truly global company. To be successful, JRM will have to move to another stage and strengthen its global position, most probably through a merger with an international competitor.

As companies were faced with the changes in the industry, company buy-out was often the only feasible alternative. Solberg (1997) indicated that many Scandinavian companies found themselves incapable of choosing any other alternative because of their lack of a market orientation as well as insufficient financial resources and lack of an international culture. This seems to be at least in part the case of certain large Brazilian companies in the autoparts industry. Many of these companies were founded in the post-war period by European immigrants and had a similar evolution in a protected environment. By the early 90s, many of them were confronted with succession problems and weak or incompetent heirs unable to face the challenges of deregulation, at the same time as powerful foreign competitors entered the market, leaving them with the choice between being bought-out or going bankrupt.

The cases here presented indicate that actual strategic moves under globalization pressures are essentially rich, multidimensional phonomena, which seldom fit into the existing theoretical frameworks. For example, Metal Leve could not be considered as immature in terms of preparedness for internationalization (Solberg, 1997), but nevertheless was left at the end with the alternative of a buy-out due to management problems and the slowness of reaction to the threats imposed by an increasingly globalized industry. JRM, on the other hand, would seem less mature, but was able to prepare for globalization while the market was still in a "potentially global" stage. The moves in the early 90s seem to have allowed it to face an actually global market by the end of the decade in a position strong enough to allow it to seek favorable alliances.

The few local survivors to the turmoil in the autoparts industry will have to face the continuous challenges of internationalization and globalization. This is not an impossible task, as multinationals from emerging markets have been shown to be able to effectively compete in global markets and build up competitive advantages. Further studies such as this one may help to identify new intervening factors that may contribute to the development of new theoretical frameworks to be used for explaining and guiding companies faced with the threats of globalization in their own industries.

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