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POLITICAL PERSPECTIVES OF RELATIONSHIP NETWORKS TO INTERNATIONALIZATION OF FIRMS IN AN EMERGING COUNTRY

ABSTRACT

The neo-institutional theory has been used to explain inter-organizational networks related phenomena from the economic and sociological perspectives. The political perspective has not been often used to explore studies of institutional contexts of networks. We aim to analyze the decision-making of the formal institutions in the internationalization process of firms located in an emerging country from a political bias. For the empirical field of study, we considered the Brazilian wine industry – specifically wineries located in the South of Brazil, the largest producer and exporter of Brazil. Starting from a case study with twenty-three interviews with representatives of wineries and entities of this industry, our paper furthers the understanding of how institutions influence the internationalization of firms in an emerging country. Based on the political perspective of the neo-institutional theory, our study describes how institutions, mainly the government, can influence an industry. Government cannot afford resources to benefit or protect all the industries, as well as cannot provide incentives to all firms, and those that are supported will lose competitiveness. For the firms, the choices are based on trying to achieve economic advantages through political influences. For the institutions, the choices are made based on political influences considering institutional strategies.

Keywords: relationship networks; neo-institutional theory; political perspective; internationalization; emerging countries.

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INTRODUCTION

Relationship networks was once a hot topic (Jarillo, 1988). Over the past decades, it has derived into several research focuses, such as alliances (Gulati, 2000), social networking (Granovetter, 1973; Burt, 1992), learning (Anand; Khanna, 2000), innovation (Pittaway et al., 2004), and governance (Provan; Kenis, 2007). However, there are very few theories related to decision-making, ethics, and motivation in the institutional context of inter-organizational networks (Cropper et al., 2008). In addition, there are few studies and discussion about how and why businesses are involved with politics (Grant et al., 2010). At the most, economic theories identify the impact of the decision in some industries, such as the neo-institutional theory, that indicates which industries have more influence on governments (Milner, 1997; Frieden, 1991). The neo-institutional theory with the economic (North, 1990) and sociological (Dimaggio; Powell, 1983; Scott, 2001) perspectives has explained the inter-organizational networks related phenomena. More recently, the neo-institutional theory has been used combined with the industry-based and the resource-based views. This combination is defined as the institution-based view (Peng, 2002; Peng; Khoury, 2008; Gao et al., 2010). This perspective has been directed, mainly, to understand how the institutional mechanisms of emerging countries work and influence the performance of the firms with the other counterparts. However, in none of these theoretical perspectives, there is a prevalence of the political perspective of the neo-institutional theory.

In this paper, we aim to analyze the decision-making of the formal institutions in the internationalization process of firms located in an emerging country under a political bias. For the empirical field of study, we considered the Brazilian wine industry – specifically the

wineries located in the South of Brazil, the largest producer and exporter of Brazilian wine. Nevertheless, in an emerging country, wineries do not represent traditional internationalized industry. Our thesis is that institutions, from a political perspective, can influence positively or negatively an industry through the government. In emerging countries, the government has a bigger influence on the market structure, due to market imperfections or ideologies and political strategies (Cazurra et al., 2014) through protectionist measures or providing resources to the firms. Firms that are not benefited from these measures will lose competitiveness. Firms must adjust to the development of multi-level systems of government, with political settings being one of the strongest influences on how firms develop their strategies. Winery firms have different sizes and experiences. In addition, wineries need formal institutional support to search for external markets, from the Brazilian Agency of Promotion of Exports and Investments (Apex-Brasil) and the Brazilian Wine Institute (Ibravin). Thus, this paper presents the guiding question: How do formal institutions make decisions to stimulate the internationalization of firms from an emerging country? We considered the network of firms as an analysis unit, in order to establish an interaction between the studies of network theory and neo-institutional theory from political and economic tendencies.

As the main contributions, our paper furthers the understanding of how institutions influence the internationalization of firms in an emerging country. Our study describes the background of the wine industry, by presenting the formal institutions in the political perspective of neo-institutional theory, whether they are representative entities from the industry or wineries, regardless their sizes and degree of internationalization. In this scope, our study is justified by the relevance of the industry. According to the representative of the Brazilian Agency of Promotion of Exports and Investments – Apex-Brasil –, it has grown because of the project Wines of Brasil, which is one of the most successful projects among the more than 80 ones fostered by this entity. Moreover, the visibility of this project has

furthered the socio-economic development of the region. In this paper, we address the theoretical assumptions supporting the neo-institutional theory from the economic and political power perspectives. Then, we describe the methodological aspects of the research design and detail the wine industry while contextualizing it in the international and domestic scene. Afterward, we identify wineries and entities that comprise the wine industry in Brazil. Next, we discuss the role of Wines of Brasil from a political bias. Finally, we present the conclusions of our research and indicate new issues to investigate.

THEORETICAL BACKGROUND

In this study, networks are analyzed as complex relationships between firms from a political perspective. From a strategic view, networks are a type of firm that can be used by managers or entrepreneurs to make their firms more competitive in the long run, aiming at earning or keeping a competitive advantage (Jarillo, 1988). Given the complexity of the topic at hand, we do not intend to offer an exhaustive theory about networks and analyze it in isolation. Our purpose is to integrate networks, considering them as power sources that can interfere with political and economic decisions. In the following, we present economic and political perspectives of the networks, by using institutions as background.

Networks from the economic perspective of the neo-institutional theory

Government policies are influential by providing economic incentives, creating protection mechanisms in the domestic market (Sheth, 2011), besides driving the internationalization process of firms (Ramamurti, 2008). Just as firms strategically exploit the institutions to extract benefits (Martin, 2014), institutions also generate restrictions on firms to reach their goals. These restrictions occur due to norms, requirements, and contractual mechanisms (Dunning; Lundan, 2008). This highly competitive environment motivates firms to enhance their performance, in order to ensure their survival or rewards (North, 1990).

Therefore, the institutions are more restrictive than inclusive. They impose control, limits, norms to the individuals and organizations. Those that do not comply with the institutions are no longer legitimized and consequently “are excluded from the game, because they are not willing to play by the rules of the house".

According to North (1990), institutions play a vital role in the economy of any nation as institutions reduce uncertainty and become a reference to individuals. When institutions are inefficient, or the property rights are not guaranteed, while generating high transaction costs, an unfavorable environment for the success of these countries is identified. This type of institutional framework is more visible in emerging countries due to political and economic institutions that discourage productive activity. The level of political instability, government effectiveness and bureaucracy, quality of the regulatory system, the legal system predictability, and control of corruption are examples of this scenery (Cuervo-Cazurra; Genc, 2008).

In emerging markets, several factors are susceptible to the influence of the institutions. Economic and financial institutional risks implicate high levels of economic instability, exchange rate volatility, inefficiency of the capital market, and high inflation rates. It reflects on the investment levels of the firm, as well as the market value and the compliance of the consumer market (Geczy et al., 1997; De Soto, 2000; Banerjee et al., 2006).

We evidenced also the institution relatedness, which is the degree of the institutional relationship established between a firm and the institutions of a country (Meyer; Peng, 2005). Typically, in emerging economies, relationships occur with great asymmetry of information, high costs of the transaction, based on political connections, reputations, and informal relationships, stimulating a diversification of products aiming to minimize risks. In developed countries, there are inverse characteristics that stimulate a reduction in the line of products of the firm, which in turn will base its source of competitiveness in the productive efficiency or through scope economies.

In this paper, we avoid using the orthodox conception of institution introduced by North (1990), by adding a political character also to the discussion. Therefore, institutions are a set of formal or informal norms (followed by actors, for material, cognitive, or normative reasons). Entities, as long-term firms, are formally recognized by their members, whose norms also contribute to the political and economic institutions. The government of coordinated market economies has gained advantages from these institutions, as business associations and trade firms, to solve difficulties, such as information asymmetry, high transaction costs, and conflicts of negotiation between firms. Once independent of the government and responsible for their members, these institutions, are in a better position to acquire trust, monitor relationships and transaction costs, impose sanctions, and coordinate agents (Hall; Soskice, 2001). However, the agents' compromise will be higher as they have influence to punish the government because of any deviation from established agreements (Wood, 1999).

Networks from a political perspective of the neo-institutional theory

The creation and implementation of policies result from the interaction between different interests, objectives, and strategies (Scharpf, 1978). Political networks involve not only actor’s participation in networks' decisions but also actors’ power and access to the decision-making process. Regardless of how they are aligned, considering the culture of the industry, policies of the industry, and interdependency between the actors of these networks is relevant (Klijn, 2008). Through systematic interactions, players build the rules defining the institutional environment and the new interactions of the network (Klijn, 2001). This relationship is analyzed from the perspective between the government and the market and from the level of the firm.

In a macro-level, from the perspective of government and market, the government determines the structure of the markets, mainly in emerging countries. Business results from

the policies and laws created by governments that define the inter-firm relationships (Grant et al., 2010). On the one hand, there is the risk of inefficient allocation of resources due to political interests (Grossman; Helpman, 1994), as well as information asymmetry motivated by power relationships. On the other hand, the information asymmetry can also reduce costs to obtain information, uncertainty, and risk sharing (Grant et al., 2010). The government accepts this background because need resources and profits generated by the firms. Therefore, it is necessary that the government attracts and retains business (Lindblom, 1977), mainly through leading firms that enhance the compromise of business networks (Werner; Wilson, 2008). Government plays a key role in fostering or inhibiting the global insertion of the firms. Governmental policies involve temporary protectionist measures through fees or entry restrictions (Lazzarini, 2015). It can also act directly on the market through state-owned multinational firms. In this case, regulations can be applied in favor of the government and at the expense of other shareholders (Cuervo-Cazurra et al., 2014).

In a micro-level, from the analysis of firms, business associations and representatives of the industry create conduct codes, guiding the government practices. These are attempts to fill the gaps left by the government, creating a self-regulation of the businesses through political influences (Dahan et al., 2013). At this point, dominant actors influence the rules and, consequently, the other participants of the organizational field, guiding the actions according to their interests (Fligstein, 1991). The nature of the institutions and their environment influences the institutional strategies. By its turn, institutional strategies redesign their competitive positions according to the social structures that legitimize or challenge them to the group. Consequently, institutional strategies generate institutional leadership inside the organizational field (Lawrence, 1999).

The concept of institutional leadership comes from applying an institutional strategy aiming to improve the competitive position of the firm through two different types of performance. First, as a network formation through the definition of institutional boundaries,

that is rules defining the inclusion or not of actors in this coalition (association rules). Second, as principles, norms, and prescriptions, indicating how to operate when inside the institutional arrangement (practice norms). On these two types of performance, there are three forms of constraints, normative, coercive and mimetic pressures. Normative pressures impose association rules. Coercive pressures impose political forces and search for legitimacy. Mimetic pressures impose search for standardization in the responses, aiming to deal with uncertainties and ambiguities (Lawrence, 1999). The institutional leadership originates from the power asymmetry between actors in the organizational field. The association of rules and practice norms provokes a dynamic relationship. This relationship generates rewards or sanctions between the parts, depending on how they act with each other. Four conditions influence the power of the institutional leadership. First, there is a higher control of the information made by one firm, in a way to influence the association rules. Second, there is little support for the association rules for social mechanisms and from situations taken for granted. Third, there is a higher capacity to influence practice norms due to the firm's technical, legal, political, and marketing knowledge and the perception of its leadership. Fourth, there is little support for the practice norms for social mechanisms and from situations taken for granted (Lawrence, 1999).

Therefore, we understand institutions as structures responsible for guiding or restricting the choices of agents, acting in a positive, negative, or even indifferent way, aiming to influence its strategic decisions. Institutions affect not only the firms' decision but also enable or hinder the process in itself. This relationship affects the industrial competitiveness, according to the proximity to formal institutions and firms of the industry. On the other hand, it is a recursive relationship. It can also meet the interests of the government, aiming to correct market imperfections, provide resources or protection to some given industries.

METHOD

From the qualitative bias, our research focuses on a single case study with multiple analysis units. We chose this technique, because it comprises a complex, context-dependent phenomenon (Eisenhardt, 1989), with the networks being an adequate unit to be analyzed following the neo-institutional theory. The case selected is the Brazilian wine industry, which is adequate because presents three aspects. First, it is still in the early stages of internationalization with fragmentation in many business associations and governmental institutions. Second, there is the influence of formal institutions for network formation. Third, there is a high level of heterogeneity between firms. Historically, the Brazilian wine industry is marked by aggressive strategies of competition in the domestic market. Recently, the increased competitiveness of Brazilian wines impelled the firms to foreign markets.

In order to analyze the decision-making process under a political bias, of formal institutions in the internationalization process of firms located in an emerging country, we divided formal institutions into wineries and institutional entities. We chose those wineries because they are members of Wines of Brasil, a project that aims to promote the Brazilian wine in the international market. We also considered representation aspects in terms of quality and production of the exported products, in addition to pioneering in the participation in the Wines of Brasil. We divided the wineries based on some criteria. First, we categorized by entry strategy in foreign markets, such as direct and indirect export, contractual modes, and foreign direct investment. Second, we classified by the stage of internationalization, as not internationalized wineries; some experienced in international markets, wineries with a history of foreign operations, compared to other project participants. In addition, we interviewed wineries managers who did not join the Wines of Brasil. Similarly, regarding institutional entities, we interviewed representatives presenting relevant information on the Wines of Brasil and the internationalization of wineries.

We applied twenty-three semi-structured interviews with supervisors, managers, and directors of export departments or winemakers of the wineries. From formal institutions, we interviewed managers, researchers, consultants, and industry executives, enabling data triangulation between different accounts of wineries and institutional entities. We recorded and transcribed all the interviews, generating a corpus of about 400 pages and 19 hours of recording of statements given by the respondents. We also collected secondary data from electronic sites of the institutions and wineries to complement and contrast information from interviews and bibliographical material. We associated the interviews with the secondary data, our observations, and notes, thus enabling the data triangulation. This strategy helps in the more comprehensive analysis since it takes into account more than one source of information (Flick, 2009). While dealing with both primary data and secondary data, we aimed with the data triangulation. Such procedures allowed obtaining more validity and reliability when collecting data at different times, from different sources or instruments in the study of one same phenomenon (Collis; Hussey, 2005; Stake, 1998).

Given the qualitative approach, we considered the validity and reliability of the method carefully. Thus, we based our interview script in three analysis categories. The first category is networks as a source of power. The second category is networks from an economic perspective. This category is networks from a political perspective of the neo-institutional theory (Table 1). We worked with these categories because we believed they were enough to describe the decision-making process adopted by wineries in the domestic market and, considering the support of formal institutions, furthered its internationalization.

We considered networks as relevant for sharing resources and results between the firms, providing opportunities and sources of influence and power. From the economic and political perspectives, we considered the influence of institutions, as the government, on the networks and on the firms. For data analysis purposes, we used the content analysis technique in order to infer knowledge through the generation or not of quantitative indicators (Bardin,

2011). We analyzed the data by preparing summaries, interviews recordings, in addition to the printed and digital materials. In order to systematize this entire material, we used NVivo software 10.0 to code and categorize the data. Then, we constantly compared the data (Strauss; Corbin, 1990) between theory and results, leading to a priori and a posteriori analysis of subcategories based on the reorganization of the evidence provided by NVivo. This process enabled to rename some subcategories and exclude others, causing the emergence of the institutional, political decisions as dominant for strengthening the networks. Finally, the results furthered the discussion of the institutional influences on the strategies of inter-firm networks, taking the Brazilian winery industry as a research field.

THE WINE INDUSTRY INTERNATIONALLY AND IN BRAZIL

Traditionally, the wine producing market is divided into two groups. Countries in the "Old World" are in the North Hemisphere, such as Germany, Spain, France, Italy, and Portugal, which are nations with tradition in producing and consuming wine. Such countries reduced their world market share in the last years. Countries in the "New World" are mostly in the South Hemisphere, such as South Africa, Argentine, Australia, Brazil, Chile, New Zealand, and Uruguay. United States is also in this group. These countries have stood out because of the variety of grapes cultivated, the technologies applied in the production of wine, and the relationship strategies they established between wineries. Consequently, they got a rise in their participation in the world market, both as in production and commercialization as on sale levels. Following the division of the wine international commerce, a systematic movement towards the reduction of the international commerce participation took place in five representatives of the "Old World" compared to the six countries of the "New World." In the 1980s, countries in the "Old World" had almost 80% of the wine international commerce. Currently, these countries have up to 60% of this activity. In the same period, countries in the

"New World," rose from 3% to 28.4% the world market share. Most of this fraction was taken from the countries in the "Old World," but also from countries in the Northwest of Africa and Center-East of Europe. Individually, there is still the superiority of countries in the Old World, with France, Italy, and Spain in the first three positions in wine production. Sequentially, countries in the New World have stood out, such as United States, Argentine, Australia, and South Africa (Organisation Internationale de la Vigne et du Vign [OIV], 2014) (Table 2).

Brazil is the 13th consumer of wine and the 15th wine producer in the world. Despite the industry's fragmentation, few firms concentrate most of the production and account for the internationalization of products that historically always competed based on leadership in the total cost. Only recently, through the creation and dissemination of an identity of Brazilian wine abroad, the industry begin competing based on differentiation of its products. In the last three years, exports increased 250.66% in liters. If, on the one hand, table wine declined almost 80%, on the other, fine wines increased over 520% in exports (Voltolini, 2013). However, obstacles remain to transform national wineries in internationally competitive firms, like macroeconomic, climate, and coordination difficulties. Macroeconomic difficulties referred to changes in macroeconomic policies, as well as an exchange rate. Climate difficulties affected the annual average growth of rain and high humidity. Coordination difficulties reflected the large industrial spray in small business and large number of representative institutions in the industry (Farias, 2011).

Wineries and entities represent formal institutions in the Brazilian wine industry. Only in the mid-XX century, with greater regulation of the industry, institutional entities of the wine industry are created to lay rules and regulations, typical of formal institutions. At the end of the last century, institutional entities are created, aiming mainly to encourage the internationalization of wine, based on product differentiation achieved with geographical indication and, recently, with the designation of origin. Thus, formal institutions play a

critical role in the evolution and consolidation of the wine industry in Brazil. Moreover, through the relationship strategies promoted by these entities, based on the participation of wineries, significant advances in the internationalization of the firms were made.

Wineries

Historically, a diversity of firms characterizes the wine industry in Brazil. From the interviews, we collected the testimonies of four largest wineries – Salton, Aurora, Casa Valduga, and Miolo – in order to have a richer context to explore. Most of the smaller wineries were created in the 1970s. In the 1980s with the expansion of the Brazilian table wine, grape cultivation in family enterprises started in similar times. However, the difference between currently relevant firms is transforming the family activity into a business initiative while seeking the internationalization of its products.

Dealing with this duality, between family tradition and productive and commercial professionalism, is the challenge of the wineries. The preservation of identity and family history differentiates the product, but qualifying the grape growing process, production and commercialization of wine also add value to the wine. The winery owner must have the perception that not only sells a product, but a brand, an image, and in that image appears the whole a story that adds value to the wine.

Institutional entities

The Brazilian wine industry stands out for the large amount of representative institutional entities consolidated over the years. Specific institutional entities were created or engaged to fill the gap in knowledge, techniques, regulations, legislation. Such entities encouraged the growth of the wine industry in the South of Brazil. The first to engage was the Brazilian Corporation for Agricultural Research (Embrapa). Embrapa provided skills and knowledge to the farmers. The second was the Federation of Industries of Rio Grande do Sul

state (Fiergs). Fiergs promoted the association of wineries in this industry. In 1998, the Brazilian Wine Institute (Ibravin) was founded. Ibravin goal was to promote a qualification work and promotion of the region, aimed at developing all production chain of grape and wine, providing an exponential evolution of the wine industry in Brazil.

Furthermore, in 2002, the Integrated Sector Project Wines of Brazil was established through an export consortium organized by Fiergs. At that moment, it was composed by six wineries, Casa Valduga, Aurora, Lovara, Salton, Miolo, and De Lantier. That export consortium aimed to start the internationalization through planning, market researching and developing initial experiences in exports. The consortium promoted international courses, meetings, fairs, and events. In 2004, supported by the Brazilian Trade and Investment Promotion Agency (Apex-Brasil), the export consortium became an integrated sector project. Such integration started through an agreement with Ibravin, aiming to promote the Brazilian wine in the international market.

Wines of Brazil supported 50 participating wineries in a range of aspects. Financially, Wines of Brazil supports by subsiding firm's exhibition on international events. On knowledge, Wines of Brazil developed studies about target markets. On learning, Wines of Brasil trained people to act in the international market by agreements with service providers to sample, to understand customs clearance standards, to purchase air tickets, among other activities related to the external market.

WINES OF BRASIL UNDER A POLITICAL-ECONOMIC BIAS

Like other industries in the global agribusiness, from 2000s global wine industry is characterized by increasing competition between economic blocs, especially business clusters based on intensive knowledge of technology and management. The participation of governmental actors is also crucial, fostering strategic relationships between national firms

and international markets, aimed at economic and social development of the wine-producing regions imperative (Protas, 2008).

Firstly, the relationships network formed in the internationalization process – in most cases, through industry entities – helps in shaping marketing strategies for larger Brazilian wineries. Unlike firms operating only in Brazil, internationalized wineries can reach new levels of learning, transposing them into their domestic operations. Regarding this issue, actors can have objectives and access to different sources of power while shaping the collaboration according to their interests, in order to influence the results (Lotia; Hardy, 2008). The presence of Brazilian wines in foreign markets generates various types of gain for the industry participants. Not only there are exchanges of experience, but also learning gains and expansion of the relationships network by contact with more experienced wineries and entities. In addition, this engagement between wineries and entities created strategic options, reducing the dependence on the domestic market. Another gain was the recognition by the Brazilian consumer as the national wine had prestige and international awards. Finally, the experience established new relationship strategies, highlighting the collaboration in foreign markets.

On the other hand, we noticed in the Brazilian wine industry a division into numerous institutional entities that represent conflicting or converging interests. Ibravin, being an aggregating entity of the industry, seeks a rapprochement with other formal institutions towards a common goal, the project Wines of Brasil. This entity assumed the role that until then was Fiergs', but dealt with limitations for managing projects in many industries of Rio Grande Sul. At times, Wines of Brasil is mistaken for the proponent entity, Ibravin, due to its organizational proximity. If, on one hand, this can be positive, since Ibravin has an institutional leadership inside the industry, on the other hand, management conflicts can occur, even though having similar or common objectives. The evidence is that the Brazilian Grape and Wine Union (Uvibra), in 2007, left the Deliberative Board of Ibravin, due to

disagreement with the decision taken, but returned in 2009, according to the Office of Uvibra. Nonetheless, Ibravin was mentioned unanimously both by wineries and other institutional entities as a formal institution with a positive influence on the internationalization process and within the project Wines of Brasil. Ibravin stands out in promoting a systematic and collective learning within the wine industry, through the systematic exchange of knowledge and experiences. For these results, it had to be legitimized among firms through a transition that was planned and conducted in a harmonious way. Hence, the entity would take over the management of Wines of Brasil, until then under the responsibility of Fiergs. Moreover, continuity and evolution of the results were essential for the institution to assume a leading position in this industry. These reports exposed institutional thickness in many senses. Firstly, there are strong and numerous entities. Secondly, there are high rates of interaction between entities and the region. Thirdly, there is evidence of the arising of dominant institutions and collective representatives by coalitions. Fourthly, there is evidence of the development of a mutual conscience (Amin; Thrift, 1994). In the interviews, the importance of Apex-Brasil is also emphasized, especially for the financial support provided. In some cases, technical studies and knowledge brought to the industry, in particular for the larger wineries, were mentioned. In many emerging economies, central and local governments are in line with the priorities of firms, providing financial subsidies and other media (Gammeltoft et al., 2010). The central feature acquired by wineries through the Wines of Brasil is the knowledge of the steps of the internationalization process, generating a learning that is widespread within the network. This strategic resource starts with the grape growth within the standards recommended by the international market and continues the winemaking process, product commercialization, and marketing and internationalization strategies.

Even not, internationalized wineries believe in Wines of Brazil, and the actions being implemented, generating visibility not only in the international but also in the domestic markets. Thus, while not participating in the Wines of Brasil, earnings are appropriated by

firms with less investment capacity resources in this project. However, these benefits are restricted due to limited interaction within the network, with little or no interaction with the other institutional entities and other wineries (Figure 1). However, firms have to deal with weak institutions in these markets, which are subject to protectionist mechanisms that incur higher transaction costs (Mesquita; Lazzarini, 2008).

Secondly, considering networks from the economic perspective, in the Brazilian context, internationalization is still considered by smaller Brazilian wineries as an option, due to resource constraints. However, its international expansion becomes an important factor to increase its competitiveness in the domestic market, considering the learning and the recognition that the consumer attaches to exported wine. It also decreases the dependence on the local market, creating strategic options and a more diversified customer basis.

A major problem is still the small-scale production of the Brazilian wine industry. Thus, there are opportunities for imported products, mainly for countries with an export vocation in this industry, like the ones that are neighboring with Brazil. The representative of Don Giovanni mentioned the case of Chile, which exports 80% of the wine it produces, assuming a prominent position on the world wine scene. It is a paradigm for Brazilian wineries, especially the smaller ones, which compose most of the domestic industry. They must strengthen their brand and the image of Brazil through internationalization while still fight for space in the local market. As an aggravating, there are bilateral agreements negotiated between countries. Such agreements are known as "basket of products" where tax exemption is offered for Brazilian imports. For instance, there is a reduction of aliquots on Chilean imports for Brazilian automobiles, pieces, machinery, electronic devices, and meat. By its turn, Chile got reduced aliquots to export wines, chemical products, and salmon to Brazil (Aladi, 2015). The interests of the government in political-economic, international negotiations are not always in accordance with the interests of the firms. In this case, we consider the comparative institutional advantages of their nation's economy. Governments

support initiatives that do not interfere with the competitive advantage their firms enjoy (Hall; Soskice, 2001).

A controversial issue, addressed during the interviews, was the safeguard clause. Yet questionable by wineries, safeguard clause is a legal protectionist bill, requested in March 2012 by Ibravin, Uvibra, the Federation of Wine Cooperatives (Fecovinho), the Wine Industry Union in the State of Rio Grande do Sul (Sindivinho), and the Trade Defense Department (Decom) of the Ministry of Development. They have withdrawn the safeguard request in October 2012, only after months of negotiation with the Brazilian Association of Exporters and Importers of Foods and Drinks (Abba), Brazilian Association of Beverages (Abrabe), and Brazilian Association of Supermarkets (Abras). In counterpart, entities agreed to collaborate on some goals. Firstly, to stimulate the current consumption per capita from 1.9 to 2.5 liters until 2016. Secondly, to enhance the current production of 18 to 27 million liters of wine in 2013 and 40 in 2016. Thirdly, to provide an occupation of 25% of the space in the shelves of supermarkets and 15% in other retail establishments with national wines (Barelli, 2012).

According to the interviewee from Salton, initially the safeguard clause should create a protection only against the import of Chilean wines. However, disclosing all countries the initiative caused a movement of the main importers against local wineries, as they felt under pressure they had to retreat. As an aggravating, the interviewee observed that Ibravin delayed in taking a position, generating more dissatisfaction and uncertainties on this subject. The consultant at Aprovale agrees that this clause has not been sufficiently explained to the market. However, the low scale production of the national wine industry could be compensated com a bigger offer of imported wines, as the interviewee emphasized. Consequently, it could stimulate the rise of the consumption per capita in Brazil. When withdrawing the safeguard application, the challenge is to redesign the relationship between producers and the retailer network, creating policies that can stimulate the marketing of

domestic wine. However, there will have to be a greater cooperation between wineries, aiming to contemplate the industry objectives, instead of specific negotiations.

As the last, considering the political perspective of networks, we identified three main discourses based on several reports. Firstly, according to the representative of Embrapa, Wines of Brasil is part of a society that is not entirely qualified, in terms of human, financial, and logistical resources. Even with all incentives and benefits, non-compliance of the wineries is due the interpretation as an elitist project that only favors the larger wineries. This perception increases the gap between the large wineries and lower production ones. According to Lawrence (1999), the nature of the institutions and their environment influences the institutional strategies. In its turn, there is a redesign of their competitive positions according to the social structures legitimizing or challenging them before the group. Collaboration also represents political movements of firms to protect their privileged positions, while excluding the interested parts that are weaker (Lotia; Hardy, 2008). It is evidenced by the fact that, even among smaller wineries, there are those that admit not having organizational resources enough to compromise with the project. Thus, they choose to work only in the local market, such as Dal Pizzol and Casa Venturini. Secondly, according to the managers of larger wineries, such as Casa Valduga, or even wineries as Basso and Don Giovanni — that already had exported —, there are specific programs for inserting smaller wineries in the internationalization process. Even with the restriction of resources, they face the challenges imposed by the internationalization process, but probably refute the practice norms and the political decisions in an institutional arrangement. Finally, a third vision, from a specialist in the wine industry, would place Wines of Brasil as a sort of incubator where larger wineries develop competencies. Through the development of sources of competitiveness, they would leave more resources to other firms. Nonetheless, through political decisions, it is important that Wines of Brasil has significant results biannually, so that the government renews their consortium and resources investment through Apex-Brasil.

This occurs through the participation of large firms, even if they are not the ones most in need of resources. The power perspective in a network aims to reach their goals, by helping to function effectively (Gulati et al., 2000), even if they have to replace one part in detriment of another to keep the stability (Child; Faulkner, 1998).

CONCLUSION

Based on our empirical study, we were able to analyze political influences in the decision-making by formal institutions in the internationalization process of firms located in an emerging country. In this context, we observed how the institutions play a role in the decision of the wineries regarding the internationalization process. This happens when they allow the participation in fairs abroad, empower wineries to the activities of foreign trade, or develop market research and business rounds. Thus, we developed some contributions from this study.

Firstly, wineries understand that even in a small proportion internationalization generates benefits to the industry as a whole. Internationalization brings visibility to the Brazilian wine, increasing the competitiveness of national firms, domestically and internationally. Dealing with competition with foreign wines, mainly South American wines, looks like to be the primary challenge. In the case of the wine industry, internationalization is induced by formal institutions that promote building relationships while leveraging learning within the network. Thus, firms acquire sources of competitiveness to compete in markets internationally. Nonmarket strategies, such as social, political, and legal arrangements, can be associated with the competitive forces in order to create opportunities for firms (Baron, 1995). Secondly, firms must adapt to the institutional changes in order to grow (Martin, 2014). One of these changes is how to obtain legitimacy in the domestic market and external market, moving from one to another (Kostova; Zaheer, 1999). In the case of Wines of Brasil, the

wineries seek to establish an image of Brazilian wine in the international market, adding legitimacy to the product also in the domestic market. Institutions, in turn, increase the competitiveness of their firms through subsidies, protectionist measures, financial incentives, or organizational restructuring. At this point, firms must carry out institutional arbitration with the support of institutions while avoiding structural deficiencies of the domestic environment and seeking advantages in the international market (Boisot; Meyer, 2008). Thirdly, as institutions, from a political perspective, can influence positively an industry, the opposite is also true. Government cannot afford resources to benefit or protect all the industries, as well as cannot provide incentives to all firms. Those that are supported by this will lose competitiveness. Firms must adjust to the development of multi-level systems of government, with political settings being one of the strongest influences on how firms develop their strategies (Grant et al., 2010).

Understanding the duality for institutions to choose between providing or not incentives for an industry is still a challenge for scholars. Some authors focus on the role of the home country institutions and in particular on the role of government in shaping the process of internationalization of domestic firms (Ramamurti, 2008). Our focus was on the motivations for formal institutions to foster the internationalization of firms in emerging countries. We analyzed the decision-making process as a previous step in the choices of the industries and motivations of the industries. For the firms, the choices are based on trying to achieve economic advantages through political influences. For the institutions, the choices are made based on political influences considering institutional strategies.

For future research, we suggest expanding the data collection in the industry being investigated. This study not including all entities and wineries involved in the institutional environment. Another line of research, to be developed, is to explore connections between actors of this industry through social capital, considering both structure and quality of the ties.

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Table 1: Analysis categories used for the interview script

Categories	Subcategories	References
Networks from an economic perspective	Protectionist, contractual mechanisms, economic incentives, information asymmetry, transaction costs	(Dunning; Lundan, 2008; North, 1990; Hall; Soskice, 2001)
Networks from a political perspective	Decision-making, power, political influence and interests, institutional strategies, institutional leadership	(Grant et al., 2010; Dahan et al., 2013; Fligstein, 1991; Lawrence, 1999)

Source: Developed by the authors.

Table 2: Wine production (excluding juice and musts) (1)

1000 hl	2010	2011	2012	2013 Provisional	2014 Forecast	2014/2013 Variation in volume	2014/2013 Variation in %	Ranking
France	44 381	50 757	41 548	42 004	46 151	4147	10%	1
Italy	48 525	42 772	45 616	52 429	44 424	-8005	-15%	2
Spain	35 353	33 397	31 123	45 650	37 000	-8650	-19%	3
United States (2)	20 890	19 140	21 740	23 500	*22 500*	-1000	-4%	4
Argentina	16 250	15 473	11 780	14 984	15 200	216	1%	5
Australia	11 420	11 180	12 260	12 310	12 560	250	2%	6
China (3)	13000	13200	13810	11780	*11780*	0	0%	7
South Africa	9 327	9 725	10 568	10 980	11 420	440	4%	8
Chile	8844	10464	12554	12 846	10 029	-2817	-22%	9
Germany	6 906	9 132	9 012	8 409	9 725	1316	16%	10
Portugal	7 148	5 622	6 327	6 238	5886	-352	-6%	11
Romania	3 287	4 058	3 311	5 113	4 093	-1020	-20%	12
New Zealand	1 900	2 350	1 940	2 480	3 200	720	29%	13
Greece	2 950	2 750	3 115	3 343	2 900	-443	-13%	14
Brazil	2 459	3 460	2 967	2 710	2810	100	4%	15
Hungary	1 762	2 750	1 776	2 666	2 734	68	3%	16
Austria	1 737	2 814	2 125	2 392	2 250	-142	-6%	17
Bulgaria	1 224	1 237	1 442	1 755	1 229	-526	-30%	18
Switzerland	1 030	1 120	1 000	840	900	60	7%	19
Croatia	1 433	1 409	1 293	1 249	874	-375	-30%	20
OIV World Total(4)	**264 372**	**267 243**	**256 222**	**287 600**	**270 864**	-16736	-6%	

(1): Countries for which information has been provided with a wine production of more than 1 mhl

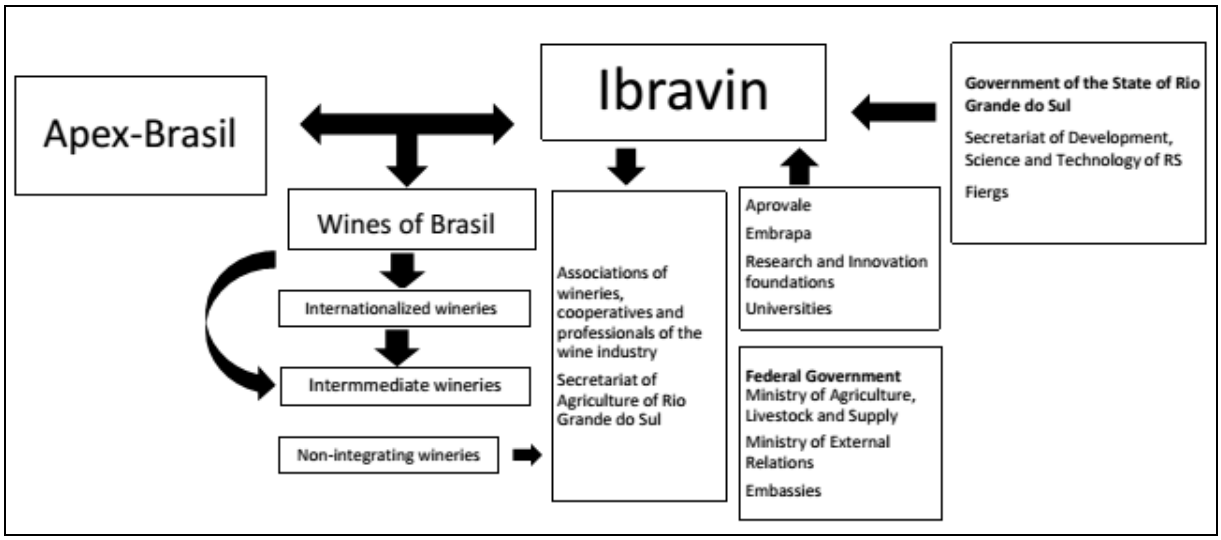
(2): OIV estimate (USDA basis)

(3): Report for the year 2013, 2014 figures not yet available

(4) Range used for 2014 world production: 266.2 mhl to 275.5 mhl

Source: OIV (2014).

Figure 1: Structure of the Wine Industry based on Wines of Brasil



Source: Developed by the authors.