Navigating small firms through Brazil’s Institutional Environment

Network Mechanisms and Internationalization

By Hellen Olena Kolisnychenko and Pascal Franke

05/09/2017

Special CBDS Working Paper Series,
Working Paper based on Excellent Student Thesis

Working Paper Nr. 3, 2017
Navigating small firms through Brazil’s Institutional Environment: Network Mechanisms and Internationalization

ABSTRACT

This research identifies challenges associated with internationalization when entering and operating in the Brazilian market as a Danish firm, and investigates how they can be overcome. A qualitative multiple-case study was undertaken, including interviews with small and medium sized firms (SMEs), and with Brazilian experts within the field of research.

The findings show that the Brazilian institutional environment, as a lingering result of colonization, poses challenges to SMEs resulting from the dysfunctions of the formal institutions: ‘red tape’ and lack of information; as well as challenges associated with the informal institutional environment: depersonalization and inefficiency. However, it is argued that these challenges can be overcome through social network mechanisms, where utilization of both formal and informal contacts are an effective tool to navigate through the Brazilian institutional environment. Concluding, it is argued that institutional challenges should not prevent any entrepreneur from entering the Brazilian market, as they can be successfully overcome.

Key Words: Brazil, Denmark, SMEs, internationalization, formal and informal institutional environment, red tape, bureaucracy, formalism, corruption, depersonalization, formal and informal social networks, despachante.
Table of Contents

**INTRODUCTION** ........................................................................................................................................... 2

**LITERATURE REVIEW** ................................................................................................................................. 3

**THEORY** ....................................................................................................................................................... 4

Institution-Based Variables ............................................................................................................................... 5

Social Network Variables .................................................................................................................................. 6

**METHODOLOGY** ............................................................................................................................................... 7

Data Collection .................................................................................................................................................. 7

Research Strategy and Analysis ......................................................................................................................... 8

Interview Process ............................................................................................................................................... 8

**RESULTS AND DISCUSSION** ...................................................................................................................... 9

Historical Evolution of the Brazilian Institutional Context ............................................................................. 9

Brazil’s Formal Institutions .................................................................................................................................. 9

Challenges associated with Formal Institutional Environment ......................................................................... 10

Red Tape ......................................................................................................................................................... 11

Lack of Information .......................................................................................................................................... 12

Informal Institutional Environment .................................................................................................................. 13

Challenges of Depersonalization and Inefficiency ......................................................................................... 13

Brazilian Cultural Distinctiveness: Jeitinho ....................................................................................................... 14

Overcoming Challenges through Informal Networks ...................................................................................... 15

Overcoming Challenges through Formal Networks ...................................................................................... 16

**CONCLUSION** ............................................................................................................................................ 18

**BIBLIOGRAPHY** ........................................................................................................................................... 20
INTRODUCTION

Despite vast opportunities, Brazil has been long characterized by corruption and bureaucracy, taking months to establish a company (Gluesing, 2013), where “nobody seems to understand the maze of laws and regulations” (Gluesing, 2013). Large, well-established multinationals –such as ZARA (Landim, 2013) and Wal-Mart (Blackman, 2010)– undergo difficulties establishing themselves in Brazil; and some even fail and retreat from the market, such as ThyssenKrupp (Henning & Hromadko, 2013). Although these companies understood business, they did not understand how to do business in Brazil – namely the ‘rules of the game’ (Ross, 2013; Perkins, 2013). This led us to question how small and medium sized (SMEs) Danish firms – constrained by limited resources and capabilities (Zhu et al, 2012)– can manage to survive the initial stages of internationalization into the Brazilian market.

Accordingly, Brazil is ranked 130 out of a total of 185 countries regarding the ease of doing business, which highlights Brazil’s complex and difficult business landscape (The World Bank, International Finance Corporation, 2013). Denmark, on the other hand, ranks number five worldwide (The World Bank, International Finance Corporation, 2013) and is therefore argued to have one of the strongest and well-functioning institutional frameworks within its geographic area, representing a large difference when contrasted against the Brazilian institutional environment. In fact, research showed that firms entering dissimilar institutional environments are six times more likely to fail than firms with similar institutional experience (Perkins, 2013).

From a theoretical perspective, an institution-based view was applied to analyse the Brazilian institutional environment, identifying ‘red tape’ as well as lack of information as the main challenges associated with formal institutions; and depersonalization and inefficiency associated with informal institutions. Nonetheless, in view of the Brazilian cultural distinctiveness, the strategic role of jeitinho and utilization of social networks appeared as an emerging variable in explaining how unforeseen challenges can be overcome; and therefore the social network theory was included in the scope of our research. Accordingly, this paper seeks to elaborate on the biggest challenges Danish SMEs face when entering Brazil, as well as explains how they can be overcome.

First, we review literature on institutions and social networks within the research field of internationalization into the Brazilian market. Thereafter we discuss the theories chosen, and present the theoretical framework applied to understand a relationship between formal and
informal institutions and social networks. A discussion of the methodological approach then follows. Subsequently, we proceed with our results and discussion, and conclude our paper with managerial and theoretical implications, as well as note some propositions for future research.

**LITERATURE REVIEW**

Having reviewed appropriate literature within the field of internationalization—the institutional and social network-based approaches— we sought to explore literature specifically concerning SMEs, and if possible Danish SMEs in the Brazilian context. This turned out to be problematic, as scientific research on small firm entrepreneurship and internationalization “as a unit of analysis in Latin America is still rare and scarce” (Rivera, 2007, p. 145), and “is in the embryonic phase” (Rivera, 2007, p.149).

With regards to literature concerning challenges firms face in Brazil, there are descriptive systematic reports, for example published by OECD, Central Intelligence Agency (CIA) and World Bank, as well as by consulting firms such as Ernst and Young (Ernst & Young Terco, 2011). Despite the growing importance of Brazil as an economic power, there has been limited research conducted regarding the underlying causes of the challenges institutions represent and how they influence Brazilian entrepreneurial practices. Although Brazil has been included in studies by Hofstede (1980) and GLOBE (House et al., 2004), they did not include a thorough analysis of Brazil’s distinctive institutional contextual factors, which comprise the way things get done in Brazil (Islam, 2012). Few studies have been integrated into existing management literature—namely how Brazil’s socio-cultural, institutional, and historical contexts influence the way business functions today (Duarte, 2006; Duarte, 2011; Islam, 2012), and none of the literature discussed above have applied this within the field of internationalization. Accordingly, our research seeks to investigate this aspect of the institutional environment, i.e. how the Brazilian distinctive institutional context poses challenges to Danish SME internationalization.

Concerning the network–based approach, there has also been limited research within the field of internationalization into the Brazilian market. Within the local Brazilian context, Duarte (2006) and Rosenn (1971) discuss the strategic role of ‘jeitinho’, the act which seeks to smoothen rigidities posed by the bureaucratic institutional context in Brazil, and is utilized within the social network interactions (Duarte, 2006). Concerning networks and internationalization in the Brazilian context, we came across one pre-existing study, carried out by John Child and Suzana Rodrigues in 2007. Their main focus was to study export processes, and discuss factors that triggered British
SMEs’ interest in Brazil (Child & Rodrigues, 2007). Their research emphasized the importance of networks and the difficulties associated with the institutional environment in Brazil (Child & Rodrigues, 2007); however, their study did not discuss thoroughly how institutional challenges may be overcome through the use of personal networks. In the context of internationalization, several scholars have studied the role of ‘guanxi’, which is the term for relationship management in China (Zhou et al, 2007; Björkman & Kock, 1997). It comes as a surprise, then, that there has not been conducted more research on the utilization of social networks and jeitinho in the context of internationalization in Brazil –especially since Brazilian culture is highly driven by social relationships (Duarte, 2006; Duarte, 2011; Ferreira et al., 2012; Islam, 2012; Child & Rodrigues, 2007). In view of this fact, our research seeks to thoroughly investigate how and which social networks can be utilized by Danish SMEs in order to overcome challenges resulting from the Brazilian institutional environment.

Additionally, earlier studies on social networks in internationalization literature have typically relied on questionnaire data (Björkman & Kock, 1997; Zhou et al., 2007), whereas our research seeks to gain a deeper understanding through an in-depth qualitative, case study research.

On the grounds of the above discussion, we conclude that there is limited research on small firm internationalization in Brazil; limited research regarding the underlying causes of the challenges Brazilian institutional environment per se imposes on SMEs, and how it impacts such firms; as well as no identified research which applies a thorough qualitative case-study approach in the context of internationalization. Ergo, the above-mentioned under-researched fields will be investigated and covered in our research.

**THEORY**

Figure 1 illustrates our theoretical framework, which epitomizes the theoretical foundation for our research and analysis. Named ‘Institutions and Social Networks’ (ISN), it illustrates a relationship between the institution-based and the social network theoretical approaches, which are discussed consecutively.
Institution-Based Variables

Within the scope of this paper, institutions are comprised of both formal and informal institutions, providing a context within which firms interact, and thus should be understood as the ‘rules of the game’ (Peng, 2009). The difference of formal and informal institutions is one of degree and can be imagined as a continuum, ranging from unwritten traditions and customs at one side, to written laws and constitutions at the other (North, 1990). Together these structures facilitate and reduce the costs of social interaction, especially under conditions of limited information (North, 1990).

*Formal institutions* include constitutions, statutes, common laws, specific bylaws, and individual contracts, which aim to facilitate economic exchange (North, 1990). Regulative processes have the aim of establishing rules, inspecting and reviewing their conformity, and if necessary issuing sanctions, such as punishments or rewards (Scott, 1995). The increasing complexity of today’s world makes the creation of a formal legal system essential to be able to handle interactions and disputes; however, the sheer existence of formal rules does not imply efficiency in any kind (North, 1990).

Consequently, *informal institutions* are to be understood as “socially sanctioned norms of behaviour [and] internally enforced standards of conduct” (North 1990, p.40). Informal institutions are culturally derived, and serve as a means to coordinate repeated human interaction (Peng, 2009). Compliance to these institutions mostly occurs because other forms of behaviour are simply inconceivable, and routines are followed because they are taken for granted, as ‘the way things have always been done’ (Scott, 1995). Within a business field, such ‘rules’ influence and guide behaviours of focal firms and individuals, bringing an obligatory dimension into social life (Peng, 2009).
In order to understand a country’s institutional framework—as it exists and functions in the present—it is essential not only to analyse its present formal and informal institutional environment, but also to trace back through its history. North (1990) highlights that “the present and the future are connected to the past by the continuity of a society’s institutions” (North, 1990, p.vii). Formal rules change but informal constraints do not; instead, informal constraints gradually evolve (North, 1990). Accordingly, path dependence explains how decisions that actors face today are limited by the decisions that have been made in the past. In this respect, in order to understand how both formal and informal institutions interact, and how they influence firms today, it is important to analyse the historical evolution of Brazilian institutions, thus providing an explanation of the underlying causes of the challenges they impose.

**Social Network Variables**

Within the boundaries of our research, social networks encompass interactions of actors, connected via both formal and informal ties, which are embedded in a specific institutional context; and explain how challenges associated with institutional environment can be overcome.

*Informal contacts* are characterized by the individuals who are linked through informal ties, such as family contacts, acquaintances, and friends, amongst others (Björkman & Kock, 1997). They act according to commonly accepted rules and norms (Björkman & Kock, 1997), conveying a history of past experiences in or out of a business setting, forming a foundation for trust (Aldrich & Zimmer, 1986). Informal ties are pivotal, as they secure favours in personal and organizational action (Zhou et al, 2007); and are often linked to a lack of social services, and have a great “motivation to be of assistance and are typically more easily available” (Granovetter, 1983, p.209).

*Formal means of networking* implies non-trading exchanges with officials that provide valuable information to the business (Björkman & Kock, 1997). Such contacts include venture capitalists, lawyers, government officials, and various specialists (Szarka, 1990). Formal networking is “composed of a set of formally specified relationships [...] among representatives of functionally differentiated groups who must interact to accomplish an organizationally defined task” (Ibarra, 1993, p. 58). These relationships are not “in the business of diagnosing needs, but rather of satisfying them by responding to specific requests” (Birley, 1985, p. 109). Thus, these relationships—tied through legally binding contracts—are illustrated through official and semi-
official information flows, where no regular trade takes place, although certain information and inputs are paid for (Szarka, 1990).

In light of the aforementioned, a social network, within the parameters of this paper is comprised of two components: the concrete contacts with specific individuals and the wider environmental dimension within which actors are embedded (Björkman & Kock, 1997). “Culturally induced values, attitudes and behaviours are of prime importance in explaining the nature of the relationships that are formed” (Szarka, 1990, p.12). Accordingly, an institutional context, discussed earlier, has an influence on the way individuals interact. Therefore, a social network shall be understood as: formal and informal structure of contacts embedded in an institutional space (Hitt et al., 2002 cited in Zhou et al., 2007), which support the firm “in terms of access to information, [and] finance, [amongst others]” (Bell et al., 2003, p.341).

**METHODOLOGY**

**Data Collection**

Using the ISN framework, three case companies and three experts were interviewed to construct a qualitative study. All companies were newly created in Brazil, and were chosen because they fitted the profile we wanted to investigate. Case Company 2 (CC2) and Case Company 3 (CC3) have Brazilian owners, who spent several years studying and working in Denmark prior to establishing their businesses in Brazil, thereby possessing knowledge of both cultures. Their views helped us understand the Brazilian institutional environment, and why it challenges foreign firms. Case Company 1 (CC1) is purely Danish with no previous cultural experience in Brazil – and was chosen to see whether the case findings could be replicated.

Additionally, three experts were selected in accordance with the challenges CCs encountered. The experts include: Brazilian lawyer and tax adviser, and a German director from the Chamber of Commerce. Provided that the majority of the interviewees requested to keep their identity confidential, we have named them as CC 1, 2, and 3; and Expert A, B, and C in order to comply with their wishes.

Given the fact that Brazil is culturally and geographically diverse, we narrowed our focus to the SãoPaulo and Rio de Janeiro areas – as they represent two important international business centres (Foreign Affairs and Trade, 2001).
Research Strategy and Analysis

The multiple case-design assured internal and external validity of our study (Yin, 2003). Given that statistical generalization is only valid for population studies, we applied analytical generalization strategy to analyse our findings (Yin, 2011). Consequently, three case studies were replicated through literal replication logic under the same independent variables; that is, institution-based variables set the conditions under which a particular phenomenon (such as social networks) was to be found each time a new case study was carried out (Yin, 2011). To ensure validity of our analysis, we followed an explanation building technique (Yin, 2003), matching our empirical findings against the discussed theories. Considering that all cases supported our theories, in the aggregate they strengthened validity of our research findings (Yin, 2003).

Interview Process

Three rounds of interviews were conducted with a founding member from each company who directly participated in managing the internationalization process. Through interviewing CCs, we intended to gain a practical understanding of how business in Brazil is done: i.e. to gather different stories about companies’ experiences in Brazil. The first two rounds were semi-structured, where the emerged themes during the first round were integrated as a guideline for the second round of interviews. The last round was constructed based on subject-specific questions to cover any emerging theme which arose during the writing process.

Two rounds of interviews were conducted with the experts. Semi-structured interviews were utilized in the first round, which focused on the specific institutions that challenges were identified in through CCs; and the last interview round was structured to cover any gaps.

All interviews were conducted in English and lasted between one to two hours, and were tape recorded to ensure accuracy and to provide reliable and unbiased data (Saunders et al., 2003). Interviews were carried out between May 2013 and November 2013, wherein one of them was conducted in person, and the rest were carried over Skype. Interviews were transcribed through a selective transcription process. Our theoretical variables have served us to categorise, process, and further explore the collected data. In each interview, various themes evolved, which were transcribed in their originally told form, and placed under the relevant theoretical category.
RESULTS AND DISCUSSION

Historical Evolution of the Brazilian Institutional Context

Starting in 1500, and lasting throughout three centuries, Portuguese colonialism played a fundamental role in the way Brazil functions today, becoming a “strong locus for Brazilian self-identity, and remains so to this day” (Ribeiro, 1995 cited in Islam, 2012, p.271). During the colonization period, no emphasis was put on the creation of new social norms, structures and laws; instead the entire system was inherited from Portugal (Holanda, 1973 cited in Ferreira et al., 2012), with the main goal of exploiting Brazil’s natural resources (Machado & Figueiroa, 2001).

Being small in size and distant, Portugal had difficulties controlling the sheer territory of Brazil (Islam, 2012). Therefore, a rigidly controlling bureaucratic system was imposed on the colony as a means of controlling every step of production and trade of resources to secure the King’s share (Naritomi et al., 2007). Taking an example of the gold mining cycle of early 1500, a strict chain of rules and regulations was set up (Boxer, 2000). At least twelve different rigid tax systems were put in place to assure that Portugal was profiting from the exploration of gold (Boxer, 2000). In some regions, workers had to provide a passport in order to enter or leave a mining area with the goal of preventing theft – this control system eventually collapsed due to its complexity (Boxer, 2000). Moreover, the distance between the countries turned decision-making into a lengthy process, sometimes taking up to several years, further delaying and constraining the efficiency of the governing mechanisms (Wheling, 1994).

The endless efforts by Portugal to impose strict legal order and systems in Brazil resulted in individuals searching for creative ways of subtly subverting formal constraints (Rosenn, 1971). “Secondary mediators arose in order to bridge the immense gap between law and civil society, leading to a flexible view of social regulations based on personalistic relationships and case by case exigencies” (Islam, 2012, p.272). The environment created was of an endless vicious cycle between the government and the people. The centralized power of the Portuguese King, as well as the authoritarian political regime attempting to remotely control the distant colony, gave rise to an unnecessarily complex, confused, and rigid legal system (Duarte, 2006).

Brazil’s Formal Institutions

Up until today, the Brazilian legal culture has been highly legalistic – placing great importance on all social relations being regulated by far-reaching legislations (Estrin & Prevezer, 2011). Brazilian lawmakers often do not employ general terms, but rather try to pre-regulate all
imaginable future happenings with very detailed and comprehensive – as well as sometimes incomprehensible – legislations (Rosenn, 1971). As a result, Brazil has a large body of laws and decrees regulating with great detail almost every aspect of Brazilian life (Rosenn, 1971). These extraordinarily specific formal laws are “approved without reference to its consistency with existing law” and hence, sometimes overlap and contradict each other (Stone et al., 1996, p.101). Due to the aforementioned, “a number of inconsistent laws may apply to an otherwise simple business transaction” (Stone et al., 1996, p.101). This leads to a legal environment of highly regulated organizations in Brazil (Estrin & Prevezer, 2011), where the strong adherence and conformity to rules originally regarded as a means, turned into an end-in-itself, leading to several formalistic and bureaucratic dysfunctions (Merton 1957, cited in Duarte, 2006).

**Challenges associated with Formal Institutional Environment**

A bureaucratic administrative regime is understood as a hierarchical top-down system, where the ones at the top are the chief decision-makers and those at the bottom carry out the routine activities and thus have little decision-making power (Morrison, 2002). Each actor in the hierarchy has a definite position, with lines of authority above and below, resulting in a heavily controlled administrative organization, leaving little room for flexibility (Morrison, 2002; Duarte, 2006). Formalism, on the other hand, is an excessive adherence to legal formalities imposed by the Brazilian legal system (Rosenn, 1971). As a result, bureaucracy and formalism reinforce each other’s effects. Provided that businesses in Brazil are dependent on procedural formalities organized by the bureaucratic public institutions, the outcome of the Brazilian formal institutional environment within this paper is regarded as inflexible and inefficient, which functions best in static rather than in rapidly changing competitive environments (Morrison, 2002).

Although attempts were made to fight the bureaucratic environment (Peng & Parente, 2012), “inefficiency and significant bureaucratic procedures are still a reality” in modern Brazil (Ernst & Young Terco, 2011, p. 9). According to a study conducted by the São Paulo Industry Federation, bureaucracy cost Brazil roughly BRL 46.3Bn (approx. EUR 15.4Bn) in 2010 (Gomes, 2012). On this note, our research has found that Brazilian bureaucracy and formalism have led to several dysfunctions within the formal institutional set up, wherein two aspects appeared to significantly challenge small Danish businesses: ‘red tape’ and lack of available information.
Red Tape

‘Red tape’ is a challenge associated with burdensome, administrative rules, excessive requirements for approvals, licenses and paperwork (Cavusgil et al., 2008). Consequently, a large concern for firms is the excessive and difficult legal requirements that they have to comply with, as explained by the entrepreneur from CC3:

“There are some legal parts that are very important but as well very difficult to deal with. [...] In Brazil, we had a lot of modifications to the constitutions and it is a lot of times [...] one law can overrule the other and then it is up to the judge to decide in what situation this can apply and so on. The consequence to this is, that while you have 3-4 pages in Denmark between partners and so on, in Brazil they are usually ten times that much, I mean I am not joking, it really is 40-50 pages and that is because you need to state: in case of xyz this is what applies, in case of abc... you need to cover all the things.”

Although a certain degree of formalistic behaviour is healthy, and inherent in every nation’s regulatory environment, the Brazilian concern regarding authenticity and verification is both impressive as well as oppressive (Rosenn, 1971). The entrepreneur of CC3 elaborates:

“Every signature, everything you do, needs to be registered and needs to be taken to the attorney. So if you rent an apartment in Denmark, you sign the contract, you give a copy of your passport and that is pretty much it. In Brazil, that is not worth anything. You need to sign it, go to the attorney, register your signature there, and then he will put a stamp, saying that this signature is actually yours and that your signature is registered at that house, in case someone needs to go there verify any other paper; and it goes like that for anything.”

Companies face such challenges also when attempting to register their businesses. In fact, it is not the process in itself that is extremely complex; but it is rather the requirements that make it challenging. According to the annual ‘Doing Business’ study, there are 13 separate procedures for opening a business that take an average of 119 days to complete – compared to 9 days in Mexico and 26 in Argentina (The World Bank, International Finance Corporation, 2013). Pierre Cornet-Vernet, a French entrepreneur, did not imagine that it would take him 11 months to open his confectionary store in Rio de Janeiro: “It’s like a game [...] You need a document. But to have that document, you need to hand in another seven documents. And to get each of these seven there’s a different demand” (Gomes, 2012). “It takes a long time”, confirms CC1, “it took longer than we expected.” Julia Santos, a business owner of three units of a childcare centre in Rio de Janeiro states: “I could have got my businesses running sooner if I didn't have to wait, at each time, for a new document, a new stamp” (Gomes, 2012). ‘Red tape’ is evident not only when seeking to start
business operations, but also when dealing with import licenses. CC2 elaborates on this finding: “I need to have a license if I want to be the importer, so I have to apply for one from the government and that takes forever because of all the bureaucratic and long procedures.”

Consequently, the above-mentioned lengthy procedures referred to as “a catalogue of bloody-minded obstructionism” (The Economist, 2013) result in very inefficient, time-consuming, and costly procedures, turning simple tasks into unnecessary complex procedures, challenging companies in their ability to react and to easily adjust to market demands, as well as the ability to execute organizational objectives.

Lack of Information

The second significant challenge found through our research was lack of necessary information available to entrepreneurs. CC2 describes it as a general issue prevalent in Brazil’s daily business life:

“There is no way you can go to a website and find out what you need to do, as simple as that. There is no nothing to inform you. And with what is out there you always miss something. There is always something else that you didn’t consider that will stop the process for some time.”

Accordingly, CC3 brings particular attention to this issue concerning importing, by elaborating that it is often unclear when and what import license is required:

“We had a problem once with importing cards from China. Our cards are made out of metal and then we engrave the names and the serial number here in Brazil. And then we had received 10,000, 15,000 cards from China and they were stuck because we didn’t know from advance... until I think 200 to 300 kilos or something like that we didn’t need a special license to import this good. But after this amount of weight we needed a special license [...] But this information is not available most of the time and anyway even if you go, let’s say to the place where you are supposed to get your goods at, the customs, they wont... they would just say: ‘OK you need paper called B’ and then it is not very clear how you get this B paper. No really!’”

When it comes to importing, taxation and different rules and regulations “it is always for sure a surprise. There is no book, and there is no clear guideline. It won’t be easy to find information on what to do when it comes to these [procedures]” (CC3). This, without a doubt, makes it rather challenging for firms to find necessary information to efficiently function and proceed with business operations, creating an environment of uncertainty.
Informal Institutional Environment

Challenges of Depersonalization and Inefficiency

As can be seen in the previous discussion, Brazilian administration falls under the category of “a classical large bureaucracy characterized by a heavy hierarchical structure, authoritarian managerial style, and ‘high distance’ between lower level employees and senior bureaucrats” (Wood and Caldas 1998, cited in Duarte, 2006, p.523). From the perspective of informal institutional environment, pressure to conform to fixed regulations in order to accomplish work objectives has led bureaucratic authorities to become rigid and unresponsive to individual and entrepreneurial needs and concerns (Duarte, 2006). Such a structure created depersonalization of relationships, wherein procedures are heavily standardized, and the particularities of individual cases end up being ignored (Merton, 1952, cited in Duarte, 2006). Characteristic of depersonalization engenders a perception among actors that senior bureaucrats are indifferent to peoples’ needs (Duarte, 2006). One of the experts we interviewed – a renowned, well-respected lawyer and professor – B, exemplifies such depersonalization through her private experience with a customs brokerage when importing a dog:

“The dog was already more than 40 hours on the airplane and it came to Brazil at 6pm. So I was already at the airport, I had all the documents already prepared, because it was the seventh dog I was importing. I rushed to the department and I came to the guy from the tax authorities. It was 40 minutes before his final working hour and he told me that that day he had a lot of things to do and he would not help me that day. And so I had to stay until the next morning, and I was only able to go out of the airport at 2 pm, because he decided he would not help me the day before. Just like that”.

Although this anecdotal episode is not directly linked to a business interaction, it demonstrates how such governmental authorities function. In fact, it can be argued that depersonalization of relationships in the public offices is aggravated by the current public labour law, which is set up in a way that defines and protects workers rights (O’Keefe & O’Keefe, 2004). On the positive end, it is good to have employees protected; however, on the negative end it appears that the system gives no incentives to Brazilian public authorities to strive for better efficiency. CC3 explains that:

“[Public employees] work really slow, they do the minimum work most of the times [...] It is not that they are full with work and that is why things are getting done slowest but because there is not a clear incentive for them to actually do things faster because they can’t get fired at any possibility. [...] Also, they can’t improve their salary much, so you know it’s a perfect situation for not doing things very fast.”
Some argue that depersonalization of relationships led Brazilians to seek for more intimate ways of dealing with restrictive situations (DaMatta, 1986, cited in Ferreira et al., 2012). This resulted in Brazilian preference for personalistic, individualized attention, rather than standardized treatment (Ferreira et al., 2012), dissociating authoritarian rigidities from social practices (Zimmermann, 2009). This leads our discussion to the concept of ‘Jeitinho’—an informal cultural practice which seeks to smoothen rigidities posed by the bureaucratic institutional context in Brazil (Duarte, 2006).

**Brazilian Cultural Distinctiveness: Jeitinho**

Translated into English, jeitinho means ‘a little way’ (Duarte, 2011), and is a practice involving seducing for the purpose of achieving intended outcomes (Duarte, 2011). Utilized by all Brazilians—from the poorest to the richest (Duarte, 2006)—jeitinho conceptualizes a ‘para-legal institution’ (Campos 1966, cited in Duarte, 2006) or an ‘institutional by-pass’ as a means to overcome overly bureaucratized contexts (Rosenn, 1971). Jeitinho is a short-term solution, and entails a conscious bending of formal rules in order to deal with unforeseen, forbidding, and difficult situations, and therefore is understood as a useful informal mechanism to ‘get things done’ (Duarte, 2006). The term has a different meaning than a favour, as it does not require a direct reciprocity between two actors, but rather a broad reciprocity among the people (Ferreira et al., 2012). As the Brazilian saying goes “hoje é a vez dele; amanhã será a minha’ [‘today it’s his turn, tomorrow it could be mine’]” (Barbosa, 1992, p. 34, cited in Duarte, 2006, p.511). Often people explicitly ask for jeitinho by using a phrase “da um jeitinho pra mim’- give me a jeitinho]” (Duarte, 2006, p.512). On this note, jeitinho works best between people who know each other, and who are part of the same network (Duarte, 2006), which highlights the importance of building social relationships in the Brazilian context. For example, CC3 refers to the usability of jeitinho when in need of a license or approval from a public authority, where “by having [a contact] who can give you a hand inside you will most of the times get things done or done faster”.

Offering someone a jeitinho is embedded in a generalized exchange mechanism, “whereby one would expect that, when the need arises, members of the community would be willing to bend the rules for one’s own sake” (Barbosa, 1992, cited in Islam, 2012, p.276). The effectiveness of jeitinho is dependent on the person’s ability to establish sympathy with the person from whom he or she is wishing to request a jeitinho from (Duarte, 2006; Duarte, 2011). As personal loyalty is consolidated in organizations and amongst people within the social circle, informal networks flourish spreading through routinely granted jeitinhos amongst people (Barbosa, 1992, cited in...
Motta and Alcadipani (1999, cited in Ferreira et al., 2012) highlight that jeitinho does not intend to harm anyone nor does it entail material gain – unlike bribery and corruption. Therefore, in Brazil, such flexible arrangements, making the impossible possible, are regarded as a positive norm (Rosenn, 1971; Duarte, 2006; Islam, 2012), although in Western countries some may question its ethics (Soysa & Jütting, 2006). Nonetheless, Brazilians pride themselves for their ability to deal with their daily life, leaving “many foreign observers puzzled and frustrated”, distinguishing Brazil from other Western nations (Ferreira et al., 2012).

In view of the above discussion, jeitinho can be regarded as a response to bureaucratic dysfunctions. It highlights the importance of a person’s ability to network or to have a viable network in order to deal with restrictive situations. Accordingly, this informal practice leads to the following discussion of utilizing network mechanisms when internationalizing into the Brazilian market.

**Overcoming Challenges through Informal Networks**

In order to overcome challenges related to ‘red tape’ and lack of available information, informal networks can be of great help. This is particularly true because, as explained earlier, informal relationships are based on trust (Björkman & Kock, 1997). Grounded in past experiences and shared values, trust-based relations (Barney & Hansen, 1994 cited in Hitt et al., 2002) can play the role of ‘governance mechanisms’, a term which is rooted in the belief in the other actor’s reliability regarding obligation in an exchange process (Antoncic & Hoang, 2003). This means that sometimes entrepreneurs can rely on implicit and open-ended contracts, as opposed to coordinating or organizing through bureaucratic means (Brass, 1984 cited in Antoncic & Hoang, 2003). The latter, however, can only work if the trust-based contacts are relevant to the specific issue the entrepreneur is facing (Björkman & Kock, 1997).

This was certainly the case of the co-founder of CC3, where the entrepreneur’s close Brazilian friend has trusted to invest money into CC3, prior to the firm being set up, in terms of registration or opening a Brazilian bank account:

“We were quite lucky. [...] It was our first meeting with an angel investor [...] and this guy I know from a long time ago, and he is one of my oldest friends, and he happens to be very wealthy and very nice as well, and he decided to give us about 600.000 DKK, and that enabled us to start hiring people, and to make a first move in setting up our operations here. [The friend] had [to] deposit the money to our personal accounts, so things [could be] running, you
know... We paid people completely illegal, [as] we didn’t have a company but we had to get things done. So we [decided to] just like go, we will fix this later! We’ll see what we have to do later but we can’t wait for five months to start things.”

Had the entrepreneur not had a trustworthy informal contact, CC3 would not be able to start operations fast, or perhaps not even be able to start them at all, taking into consideration today’s fast paced competitive environment.

As in the example above, CC3’s lawyer also helped the company overcome the negative effects of ‘red tape’ through jeitinho in the Rio de Janeiro registry:

“We had to change our social contract after we got the new investor on board, [as] we needed to include him in the contract of the company; [...] it was necessary for many things. And things were not moving fast at the registration institution in Rio, where this paper is registered. And our lawyer [...] knew someone inside: ‘OK maybe I can help you with that and then speed up things’ and he did, and that is very common, especially when you are dealing with bureaucracy. You don’t necessarily need to bribe, it was not the case, but it is just by knowing someone’.

Furthermore, to overcome challenges associated with lack of information, the entrepreneur from CC3 elaborates that he had to rely on his contacts when unsure of which licenses were needed or where to get them to import a product:

“In order to acquire this special license we went to the [...] people that we know [through our lawyer’s brother’s friend], [who] put us in contact with some guys, experts, who had been doing that for a long time and they were like: ‘no guys, [...] I know the way... Do this, this and that and then that way you can get the registration, these are the people you need and therefore you going to get your goods in x amounts of days. [...] You need someone who can help you with that, [which] it makes things a lot easier for sure.”

Accordingly, the ability to mitigate setbacks, resultant from formal institutional challenges, have appeared to be dependent upon informal network support. This played a particularly important role for CC3 to successfully internationalize and operate their firm in Brazil: “It is always faster to do business when you do not have to take everything that needs a signature to an attorney and so on. That is definitely an incentive that I believe makes networking important in Brazil”.

**Overcoming Challenges through Formal Networks**

Not all entrepreneurs have well-established, necessary informal contacts in Brazil, as in the example of CC3. However, in light of our findings, we argue that formal network, – though more costly – can substitute the supporting effects of relevant informal ties to overcome institutional
challenges. These include: lawyers, tax advisers, accountants and despachantes through legally bound contracts. Such agents are extremely useful, as they often smoothen and accelerate bureaucratic procedures, playing the role of facilitators. Although the first three agents can play a vital role in facilitating complex processes in Brazil, this paper will solely focus on the despachantes, provided their unique role.

The word ‘despachante’ translates as a dispatcher, which refers to agents whose job it is to obtain government permits and authorizations on behalf of clients (Stone et al., 1996). Such intermediaries facilitate and enable businesses “to proceed somewhat logically in a formal environment hostile to efficiency” (Stone et al., 1996, p. 101), who help deal with the challenges brought up in this paper. Formally, their expertise is rooted in their detailed knowledge of the legal requirements as well as various administrative procedures, allowing them to obtain required permits or licenses (Stone et al., 1996). For example, CC1 elaborates:

“Now we are sending a container [from Denmark] with different items, and [our despachante] looks through the list and then he says ‘this needs an import license, and this needs an import license’, and then he does all the work […]. That would be something we couldn’t handle ourselves.”

Informally, despachantes also possess the necessary knowledge regarding which authorities to persuade in order to bend rules and regulations, where much of the persuasion occurs through the use of jeitinho (Stone et al., 1996).

“They know everyone and they know how things work, how each one thinks and then [they] facilitate the approval because [they] have rights to go in and out of the customs for instance, which normal people don’t have, so they help out by using their personal influence and their knowledge” (Expert B).

On this note, provided that much of “peculiarities of individual cases are often ignored” on behalf of public authorities (Duarte, 2006, p.523), a despachante can help entrepreneurs overcome depersonalization challenges:

“You may know the rules, but you may come to the airport or to the port on the wrong day when there is lots of things going on and then the person is not in that good mood and then he creates some new conditions for you to follow and then it is difficult. And […] if you don’t know the people then you can go to the last priority, [where] the despachante will always help you being prioritized, [as well] with last minute demands” (Expert B).

Despachantes are utilized not only by firms and individuals, but also by accountants and lawyers,
“who regard them as distasteful but necessary agents for doing their dirty work while keeping their own hands clean” (Stone et al., 1996, p.101). Although this profession has an authorized title, the question of whether the means through which despachantes complete their tasks are corrupt is debatable and not easily answered. Expert B suggests that in some instances, despachantes have to “pay the bribe [...] but this is illegal and not all of them do illegal things”. In spite of the aforementioned, companies are usually not confronted with how they solve problems, as “a lot happens behind the closed doors” (CC1). Regardless of whether despachantes involve themselves in corrupt activities or not, their role is an official one and approved by the government, and taking into consideration the way the Brazilian formal institutional environment is set up, it could be argued that not having such a profession would leave many firms unable to attain their goals and to adjust readily to unforeseeable situations. In view of this fact, Expert B states that firms “either walk the worst path and have more complications, [which] takes longer [time]; or contract someone, like an expert”.

CONCLUSION

Throughout this research paper we first argued that the influence of the Portuguese in the colonisation era gave rise to a formal institutional environment heavily characterized by an excessive bureaucratic, legalistic, and formalistic administrative regime. In this respect, the challenges, which entrepreneurs regularly encounter, were identified as ‘red tape’ and lack of information. The latter were found to reinforce and collectively exacerbate the dysfunctions of Brazil’s formal institutional environment, challenging firms in their endeavours to enter and operate in Brazil. Consequently, the challenges associated with the informal institutions were identified as depersonalization and inefficiency, which were linked to the dysfunctions of the formal institutions. Accordingly, it was argued that the informal practices evolved as a result of the dysfunctions, where reliance upon jeitinho and social networks could be used as powerful and effective tools to navigate through the Brazilian institutional environment. Thusly, it was emphasized that companies which already have well-established contacts in Brazil can rely on the support of informal ties, while companies that do not have such an advantage can acquire formal networks, as these can substitute the supporting effect of essential informal ties.

In application of the above discussion, the findings of the research indicate that the challenges can be successfully overcome. With this evidence, it can be argued that SMEs should not disregard Brazil as a potential business market.
This research has contributed to the field of study three-fold. The first contribution can be found on a methodological level, the second contribution is found on a theoretical level, and the third contribution is the development of a theoretical model, ISN.

From a methodological perspective we conducted an in-depth qualitative case-study approach, which has not been previously applied within the studies of social networks and internationalization in the Brazilian context. From a theoretical perspective, we covered three under-researched gaps: one with regards to the underlying causes of the challenges institutions represent to SMEs, as well as to how such challenges affect them; the second one with regards to utilizing social networks –as well as jeitinho, particularly within the boundaries of personal networks– in order to overcome challenges in the Brazilian context, and the third one is concerned with a general under-researched field of small firms in the Brazilian market.

Accordingly, it can be argued that a company which wants to enter a relationship-driven, unfamiliar emerging market, can apply the ISN model in order to analyse a country’s institutional environment in order to identify potential challenges or barriers to internationalization, and to evaluate whether the challenges can be managed and overcome through social network mechanisms.

Additionally, given the fact that there is a space limit to this paper, it would be interesting to further explore how and whether public corruption influences firms in their business endeavours; and whether local firms would seek to illegitimately ‘wipe out’ foreign SMEs and thus represent a challenge on the inter-firm level to entering and operating in the Brazilian market. Furthermore, one could further look into the language barriers as well as communication differences, to investigate to which extent they can represent barriers to foreign firms when internationalizing.
BIBLIOGRAPHY


