A Case Study of Barriers to Entry that Swedish companies face in the Brazilian market

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ABSTRACT

Background: Through globalization, the world has changed a lot the latest decades and given people more freedom. Free trade is part of globalization and spreads prosperity and wealth. Sweden is a small and international economy and Brazil is a large and growing economy. More establishments of Swedish companies in the Brazilian market would benefit both Brazil and Sweden in many ways.

Purpose: The purpose of this study is to create an understanding of the barriers to entry that Swedish companies can face when they choose to establish themselves in the Brazilian market.

Method: This case study is deductive with a qualitative approach. We have conducted interviews on site in Brazil, with representatives from Swedish companies and organizations. The data from these interviews form the basis of our analysis. We chose to supplement the analysis with secondary data in the form of reports from the Swedish Embassy and Swedish organizations.

Results: In our case study we have found that the biggest barriers to entry the Brazilian market for Swedish companies are high import duties, bureaucracy, expensive labor force, criminality, high tax burden, lack of knowledge in the English language, a complex tax system, and basic cultural differences.

Key words: Brazilian market, Swedish companies, barriers to entry, cultural differences
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Thank you.
1. INTRODUCTION ........................................................................................................ 1
  1.1 BACKGROUND ..................................................................................................... 1
  1.2 PROBLEM DISCUSSION ....................................................................................... 2
  1.3 RESEARCH QUESTION ........................................................................................ 4
  1.4 PURPOSE ............................................................................................................... 4
2. THEORETICAL FRAMEWORK .................................................................................... 5
  2.2 BARRIERS TO WORLD TRADE ........................................................................... 5
  2.3 PORTER'S SEVEN BARRIERS TO ENTRY ......................................................... 7
  2.3 HOFSTEDE'S FRAMEWORK FOR ASSESSING CULTURE ............................... 9
  2.4 THEORETICAL SYNTHESIS ............................................................................... 12
3. REPORTS ON THE SUBJECT ..................................................................................... 13
4. METHODOLOGY ........................................................................................................ 15
  4.1 TYPE OF STUDY .................................................................................................. 15
  4.2 STUDY APPROACH ............................................................................................ 16
  4.3 DATA SOURCES .................................................................................................. 17
  4.4 SELECTION .......................................................................................................... 17
  4.5 DATA COLLECTION METHOD ............................................................................ 18
  4.6 ANALYSIS MODEL ............................................................................................. 21
  4.7 SOURCE CRITICISM ......................................................................................... 21
  4.8 VALIDITY AND RELIABILITY .............................................................................. 22
5. RESULTS ..................................................................................................................... 24
  5.1 COMPANIES ....................................................................................................... 24
    5.1.1 Barriers to World Trade .............................................................................. 25
    5.1.2 Porter's Seven Barriers to Entry ................................................................. 26
    5.1.3 Hofstede's Framework for Assessing Culture ............................................ 30
  5.2 ORGANIZATIONS ................................................................................................ 31
    5.2.1 Barriers to World Trade .............................................................................. 32
1. INTRODUCTION

In this chapter we will describe the background of our study and our problem discussion. The chapter also includes our research question and the purpose of this study.

1.1 BACKGROUND

Today's globalization is unique, it affects everyone and it is a big reason why the world looks different today than it did 100, 50 or 10 years ago. The world countries have never been so closely linked as they are today (www.ekonomifakta.se). Globalization is described as a change process by which states and societies around the world are linked together in mutual interdependence (www.ne.se). National economies integrate with each other, consumption patterns and cultural is being homogenized and political decision-making moves up from the national to the between- or supra-national level.

Globalization brings many advantages. People around the world can buy more and cheaper products, more people have the possibility to travel and companies can sell their products worldwide. The recent years of growth, particularly in emerging markets, is in large a result of globalization. Other benefits that globalization has contributed to is the improvement of fast information transfer like Internet and mobile communication. Another benefit is also the overthrow of political system as military and communist dictatorships in the 1980s- and '90s, so that people now have freedom to seek information, travel more freely and participate in a global market. But, globalization makes the world face new challenges. More foreign companies compete with their counterparts. Workers from all countries and goods produced in every country compete with each other. This forces companies from around the world to become better and more efficient to remain competitive in the global market (www.ekonomifakta.se).

Free trade is part of globalization, and is described as an international trade that is free from regulatory intervention such as subsidies, quota regulations, tariffs, export restrictions and other measures that discriminate between domestic and foreign goods and services (www.ne.se).
Free trade has many advantages. It gives every individual the right to choose what he or she wants to buy without subjection to monopolies or governmental directives. It allows companies, regions and countries to specialize and only produce what they do best and to thereby increase the overall production. It creates competition and ensures that goods and services are of highest possible quality to lowest possible price. It creates exchange of ideas and ensures that countries are open to the best technologies and ideas. In that way, lessons can be drawn from other companies and countries on how production can be done better. Meanwhile, people in undemocratic countries get inspiration and ideas that undermine repression. It also makes corruption more difficult because all the companies have to act under the same conditions. But, free trade has also disadvantages, in particular two that are prominent. The first disadvantage is that it is not considered fair when the rich countries and big companies have the upper hand and take advantage of poorer countries that leads to undermined democracy. The second disadvantage is that jobs in the industrialized countries are threatened because they cannot compete with developing countries low wages (www.svensktnaringsliv.se).

Sweden is one of the most internationalized economies in the world. The main explanation for this is Sweden's small domestic market, its limited possibilities of self-production and also that Sweden has a long tradition of international trade. In order to maintain constant growth, it is common for Swedish companies to continually look for new emerging markets to establish themselves in (Ekdahl, 2003).

Brazil has in the past two decades undergone a major development and is today one of world's main emerging markets. The prudent macroeconomic policy together with the floating exchange rate is considered a major factor in Brazil's positive economic development in recent years. The growth for 2011 is expected at 5% and new trade liberalization has been implemented to stimulate trade with foreign companies (Embassy of Sweden, 2011). Therefore are, Swedish and other foreign companies establishments in the Brazilian market, an important component of Brazil’s continued positive growth of prosperity.

1.2 PROBLEM DISCUSSION

In many areas, trade in the world is far from free. In some cases, the trade barriers are so extensive that the trade is greatly reduced or completely absent, that makes it extra difficult
for companies to establish themselves in foreign markets (www.svensktnaringsliv.se). The most common barriers are tariff and non-tariff barriers. Tariff barriers are charges imposed on imports and direct taxes. Non-tariff barriers are barriers such as bureaucracy, quotas and financial controls (Doole & Lowe, 2008). To increase the understanding of what is important for companies to keep in mind to cope with the emerging competition in a foreign market, it is important to highlight the specific trade barriers.

When companies decide to establish themselves in a specific market, they can experience a variety of barriers to entry. It can be met by strong action from established companies with substantial resources who feel that the new company is a threat to their businesses. The incumbents might have had time to gain some advantages such as economies of scale, access to technology, or access to favorable distribution channels (Porter, 1980). Porter's seven barriers to entry are very clear and can be used to identify problems for entrants.

Culture is also an aspect that should be considered. Although globalization and free trade in the world has increased the understanding of culture between nations, there are still important differences that must be taken into account (Granell, 2000). Swedish and Brazilian culture differs strongly already at the surface and the profitable reason for this is that the countries are far apart geographically and have a completely different history. Therefore it is particularly important to highlight the cultural aspects in the form of language, time perception and organizational culture. Hofstede's Framework for Assessing Culture highlights the fundamental differences between different cultures and is also therefore very useful to identify cultural barriers (Hofstede & Hofstede, 2005).

Brazil's market is large and fast growing with big opportunities, but the trade barriers are many. Despite the extensive bureaucracy required to establish a foreign company in Brazil, there are over 200 Swedish companies established in Brazil today, with more than 50 000 employees (Embassy of Sweden, 2011). Many of the Swedish companies in Brazil are very successful and profitable. If public awareness about the opportunities in the Brazilian market and the barriers to entry that characterize it were bigger, more Swedish companies would probably be able to deal with barriers to entry in the right way and establish themselves in the Brazilian market. That would be of great benefit to both Brazil’s and Sweden’s economy. To establish a Swedish company in the Brazilian market is a complex process. In order to
succeed, careful planning and proper and accurate analysis has to be done (www.internetworld.idg.se).

1.3 RESEARCH QUESTION

What barriers arose when Swedish companies entered the Brazilian market?

1.4 PURPOSE

The purpose of this study is to create an understanding of the barriers to entry that Swedish companies can face when they choose to establish themselves in the Brazilian market.
2. THEORETICAL FRAMEWORK

In this chapter we present the theories that we think are relevant to our study. The theories we have chosen as the base for our study begins with the theory Barriers to World Trade followed by Porter's Seven Barriers to Entry, and ends with Hofstede's Framework for Assessing Culture. Barriers to World Trade are the most common form of trade barriers that exist in any market (www.svensktnaringsliv.se). There are therefore also very likely to exist in the Brazilian market and therefore very relevant to our study. Porter's Seven Barriers to Entry is relevant because it makes it possible to compare the trade barriers that newly established companies encounter in a foreign market with the specific trade barriers that Swedish companies face in the Brazilian market. And last, Hofstede's Framework for Assessing Culture is relevant to our study because it highlights the main and fundamental differences between Sweden’s and Brazil’s culture which may constitute trade barriers.

2.2 BARRIERS TO WORLD TRADE

Through free trade between nations, companies can increase their production when they not only need to act on its home market. There are a number of different reasons why countries would want to trade with each other, for example, companies can obtain economies of scale by increasing their production. Despite this, the countries decide to take measures to prevent free trade between nations. International trade is different from the domestic, mainly due to the various policy rules that prevail in the country. Although most nations control their foreign trade, the degree of control differs. As international trade has increased, trade barriers have increased. According to Doole and Lowe (2008), there are two types of trade barriers, tariff and non-tariff barriers.

**Tariffs**

Tariffs are charges imposed on imports and direct taxes. Overall it is simple, straightforward and easy for states to administer. They are mainly used by poorer countries to obtain revenue to the state and protect their domestic industries. According to Doole and Lowe (2008), the most common tariffs are as follows;
• Specific - charges on certain specific products, either by weight or volume. They are often measured in local currency.

• Ad valorem - this fee is a straight percentage of the price.

• Discriminatory - charges on goods coming from a particular country. This is either because there is an imbalance in the balance of trade or for political purposes.

Non-Tariff Barriers
The tariff barriers, in the form of duties, have declined in most developed countries. Meanwhile, the non-tariff barriers have increased substantially. Non-tariff barriers are much harder to reach and can more easily be camouflaged. The effect can be more devastating because they are difficult to calculate and is much more unpredictable. According to Doole and Lowe (2008), the most common non-tariff barriers are as follows;

• The state participation - is used by countries to obtain competitive advantages.

• Bureaucracy - is based on protectionism. These barriers consist of safety regulations, administrative delays in the form of product inspections, and different technical standard requirements.

• Quotas - is another barrier to trade based on limiting the quantity of a commodity. The state set limits in terms of, amount or weight of a certain product, which may enter the country or leave the country.

• Financial controls - can be used in countries with high inflation and shortages of hard currency. This calls for stringent monetary control and it gives the state a monopoly over all foreign exchange transactions. This barrier means that a domestic firm that earns foreign exchange from exporting, have to sell it to the national bank. However, if foreign goods need to be purchased, the company must apply for foreign currency.

Strengths and Criticism of the theory
According to Ekdahl (2003), non-tariff barriers have received more attention as duties in developed counties has been reduced. Slow processes, corruption and cumbersome
certification procedures and rules are concrete examples of non-tariff barriers that may impede economic development. Therefore is collaboration between all countries considered to be important to remove of non-tariff barriers and good for economic development. Ekdahl (2003) also mentions that the absence of these trade barriers does not solve all economic problems and that not all political regulations are superfluous.

2.3 **PORTER'S SEVEN BARRIERS TO ENTRY**

Companies that try to penetrate a new market may experience a variety of barriers to entry. New entrants may face powerful responses from established companies that feel threatened and therefore would prevent the establishment. The severity of establish a company will depend on how great benefits that competitors had acquire and how high the barriers of entry are. The more established companies on the market the more difficult it becomes for the new company to establish themselves. According to Porter (1980), there are seven major sources of barriers to entry.

*Product Differentiation*

Product differentiation is a way to distinguish the product from its competitors by physical or psychological differences. The incumbents have through product differentiation created brand recognition and customer loyalties. This creates a barrier to entry the market and forces the entrants to spend many resources to overcome existing customer loyalties. Entrants will likely face greater initial losses and it often takes a long time to overcome such a barrier.

*Economies of Scale*

Economies of scale imply a decrease in unit cost of a product while the total volume increases. With economies of scale deter new establishment when they either have to start in large scale and be prepared for powerful responses from competitors or starting on a small scale with the cost disadvantages that entails. Economies of scale can occur in almost all the functions of a business, including manufacturing, purchasing, research and development, marketing, and distribution. Economies of scale may be related to a functional area as a whole, for example, distribution, or they may stem from particular operations or activities within a functional area. Units within the company with diverse operations may reap something similar to economies of scale, if they can share operations or functions subject to
economies of scale with other units within the company. The benefits of sharing is particular important if there are joint costs.

**Switching Costs**
Switching costs may arise when a customer changes supplier of a product, and this presence creates obstacles to enter a particular market. Switching costs may include employee retraining costs, cost of new ancillary equipment or new product designs. When these switching costs are high, does it become an obstacle to the entrants that need to offer substantial improvements or better performance than the incumbents to attract customers.

**Capital Requirements**
This obstacle to the establishment is created when it requires significant capital resources to enter the market. Capital may be necessary, not only for product manufacturing, but also for customer credit, inventories, or to cover initial losses. Some large companies in the world has the financial resources needed to establish themselves in capital intensive market while other prospective entrants lack this access and this cause barriers to entry. Although the capital on capital markets is available, there are risks to lend this capital for establishment. The risk is reflected in the risk premiums that the entrants have to pay to obtain capital. These risk premiums are advantages for already established companies.

**Cost Disadvantages Independent of Scale**
The incumbents may possess cost advantages that new firms cannot copy no matter what their size and attained economies of scales are. Two possible obstacles for entrants may be that incumbents has favorable access to raw materials and may have occupied favorable business locations. Other barriers to entry could be that already well-established companies have knowledge in product know-how and received government subsidies. Learning or experience curve can also be a barrier to entry a market, when unit costs are likely to decrease when experience with a product or process is increasing. The costs can be reduced if employees improve their methods, increase their efficiency, and equipment and processes are more specialized.

**Government Policy**
The state can, through licensing and limit the access to raw materials restrict or prevent the establishment of certain industries. Examples of restrictions may be controls about air and
water pollution standards, product safety and product suitability. These regulations can increase the capital needed for entry, and that existing firms are informed about the upcoming establishment. This means that the incumbents can formulate retaliatory strategies in time for the establishment of competitors.

**Access to Distribution Channels**

A distribution channel needs to be identified for the entrants’ products, which may create barrier to entry. The new entrants need to convince existing distribution channels to distribute their products by offering price breaks or cooperative advertising allowances etc. The incumbents may have ties with logical distribution channels based on long-term relationship, high-quality service or exclusive contracts, which means that the new players must create their own distribution channels. The more limited and occupied the existing distribution channels are, obviously the tougher entry into the industry will be.

**Strengths and Criticism of the theory**

Porter's Competitive Strategy (1980) is confirmed and proves its ability to analyze new establishments as it is used in Watson’s (2000) article, where Porter’s barriers to entry is used to analyze problems and identify opportunities for private investment in higher education in UK. In Speed's article (1989), he highlights some of the criticisms that have been made against Porter's Competitive Strategy (1980). The criticisms are particularly about the competitive forces and the lack of guidance for operational application. But the article also mentions that Porters model offers a simple and rapidly developed analysis of the competitive situation.

2.3 **HOFSTEDE'S FRAMEWORK FOR ASSESSING CULTURE**

According to Hofstede and Hofstede (2005) for an individual to get the right understanding of a new culture, it could be sufficient to familiarize himself with the basic differences between the cultures. The basic differences are in form of core values, which are expressed in people’s behavior. Hofstede's theory, Hofstede's Framework for Assessing Culture, identify these core values by using four dimensions. Each dimension could be described as a merger of a number of phenomena in a society.
**Avoidance of Uncertainty**

Uncertainty avoidance is defined as the degree to which people in a culture feel threatened by ambiguous or unknown situations and means in practice, risk avoidance or fear of new things. In cultures with high uncertainty avoidance, people tend to avoid innovative ideas and deviant behaviour. In companies, employees trust that the company's historical practices and ways of solving problems is something that can be applied in future situations. Traditions are very important in these cultures and cooperation in groups can be problematic because people are afraid of shared responsibility and leadership.

However, in cultures with low uncertainty avoidance, people tend to seek innovative ideas and deviant behaviour. In companies, employees are encouraged to take own initiatives and propose alternative solutions. Compromise is a common way of decision-making and traditions are less important. People believe that future conduct is not foreseeable because the future belongs to the unknown, improvising solutions for situations that arise are therefore common.

**Power of Distance**

The degree of power distance refers to the degree of inequality in decision-making between people in a culture. People in a culture with a high degree of power distance expect more unequal distribution of power in which there are a few senior people who make all decisions. Cultures with high power distance are more tolerant of authoritarian. People in these countries are therefore in greater need of their heads and demand a clear order from them about how work will be performed. The gaps between high and low wages are also high.

In contrast, people in cultures of low degree of power distance expect relations that are more consultative and democratic. People see each another more as equals regardless of formal positions. Individuals strive to be involved in making decisions and also question the decisions of others if there is something they do not agree on. As a result, the gaps between high and low wages are lower in cultures of lower degree of power distance.

**Individualism**

Individualism is defined as the degree of how independent people within a culture are and how much they tend to act as individuals rather than act as group members. In individualistic societies the ties between individuals are loose and everyone is expected primarily to take
care of themselves and their family. People have little or no need to rely on other people and work, even when they are in a managerial position, toward their individual goals rather than toward the goals of the group.

In collectivist societies the ties between individuals are strong and people tend to act as group members rather than individuals. People are already from childhood integrated into strong and cohesive communities where loyalty to the group is strong. People within the group are constantly dependent on each other and they are constantly working towards consensus and balance with other people. In companies, the relationship between manager and employee is similarly defined as a family relationship.

**Masculinity**

Masculinity is defined as the degree of "masculine" values that are preferred over "feminine" values. Masculine values are defined by the concepts of competition, money, performance and achievement. In masculine societies is constant achievement the ideal, fair fights solve conflicts and “survival of the fittest” is a commonly accepted rule. Results are valued higher than the building of long-term relationships and there are distinct roles within the organizational culture for men and women and a difference in career opportunities.

Feminine values are defined by the concepts of service, quality of life, the maintenance of good relations and solidarity. In feminine societies is the welfare state the ideal and weak individuals should be helped. Conflicts are solved through negotiation and compromises. People in feminine societies are also more reserved and less depended of the time.

**Strengths and Criticism of Hofstede’s theory**

Hofstede’s theory of culture differences based on four different dimensions is based on research conducted from the 70th century, it therefore have been a subject to criticisms that the result is outdated and obsolete. However, studies made from the seventies to today have obtained very similar results, which gives Hofstede’s theory strength and proves its ability to remain progressive and to adapt (Minkov & Hofstede, 2011) (Migliore, 2011).
2.4 THEORETICAL SYNTHESIS

Our study question is; what barriers arose when Swedish companies entered the Brazilian market? To answer it we have chose Barriers to World Trade, which deals with tariff barriers in the form of customs duties and direct taxes and non-tariff barriers such as cumbersome bureaucracy, quotas and financial controls that may exist between different markets. Porter's Seven Barriers to Entry which highlights what the barriers are that companies may encounter when they entry a new market. Hofstede's Framework for Assessing Culture, which is a cultural theory and shows the cultural differences between countries and the values that lies under
3. REPORTS ON THE SUBJECT

Free trade is international trade of goods and services between countries that are free from government intervention. Through trade barriers, states may restrict free trade and thereby impede free international movement of goods and services. A variety of reports on trade between Brazil and Sweden have been written out of Swedish authorities and interest groups.

The report (Markovic, 2010) discussed the Brazilian trade policy and its role in the establishment of Swedish companies in Brazil. It describes how Brazil's politicians argue for protection of the domestic industry by government involvement and active government industrial policy. It stresses the importance of reducing consumption of imported goods, this caused by the highly rated Brazilian currency, Real. The Swedish investments in Brazil have been large, although quite a few have been enforced because of high trade barriers. It also describes how President Luiz Inacio "Lula" da Silva failed to reform the complex tax system and extensive labor laws. The Brazilian productivity is described as low compared to Western productivity in business and labor is much cheaper than it is in Sweden. The report also mentions a number of measures that Brazil should take to improve their competitiveness. It is about improving the infrastructure, education and quality of government spending. Furthermore, it is about fighting corruption and unnecessary bureaucracy and to increase efficiency and predictability of the overloaded legal system.

The report (Jennische, 2010) mentioned that the Brazilian government has imposed a tax on direct foreign investment. This is to reduce the risk of a future credit bubble. The rose from 2 % to 4 % to 6 % in October 2010. The same report described Brazil's high tax burden, about 37 %. This is high compared to other emerging economies. Finally, the report mentions the significant increase in imports, and how this has led to increased protectionism in Brazil against other countries. The Brazilian government is debating what action should be taken to protect the domestic industry.

In a report produced by Teknikföretagen (Tenselius, 2009) describes some of the barriers that Swedish technology companies face when they choose to establish themselves in Brazil. First, the tax system is a barrier to entry the Brazilian market. It creates more work, with detailed
regulations and taxes on local and federal level. World Bank estimates that a company in Brazil, use on average 2600 man-hours a year in tax issues. A second obstacle that Swedish technology companies are experiencing is crime. You need to spend significant resources on security. The families of foreign workers experience a large risk for violence and robbery, which makes it difficult to recruit foreign employees. The cumbersome bureaucracy and corruption are also mentioned as barriers. The various processes to get through various licensing agreements takes a long time and requires a lot of administrative work. Mention is also made in the report that the Brazilian school system needs improvement and that the country's infrastructure is poor. According to the report, 68% of the Brazilian people are functionally illiterate.
4. METHODOLOGY

The purpose of this study is to create an understanding of the barriers to entry that Swedish companies can face when they choose to establish themselves in the Brazilian market. The information included laws, regulations, restrictions, cultural differences and other obstacles that may be good knowledge for Swedish companies that are looking to establish themselves in this market. To achieve this, we used the characteristics that are peculiar to our theoretical synthesis when we designed our interview questions. Below we present and explain our methodology, our interview questions and the theory from which they originate. This is important to highlight our study problems.

4.1 TYPE OF STUDY

Empirical research means testing a solution by linking empirical- and theoretical facts. To make conclusions about individual phenomena based on commonly accepted principals and existing theories is called deduction. A negative aspect of deduction is that it is not determined whether the premises that the conclusions are based on are true or false, only that they can be linked to conclusions. When conclusions instead are being built up on empirical observations, it is called induction (Svensson & Starring, 1996).

Our study is deductive. We have tested our data collected from interviews and written sources by comparing them to the theories in the field that we have selected. We have with the data that we have collected analyzed the theories about the barriers to entry and determined which of them that can be verified.

There are four categories of purposes: descriptive, explanatory, exploratory and evaluative (Backman, 1998). Our purpose is descriptive because we will do a case study based on interviews. We will describe the barriers to entry that Swedish companies encounter in Brazil.

There are two approaching ways to collect data and disseminate knowledge, namely qualitative and quantitative. The quantitative approach often contains collection of facts, which is then analyzed using statistical methods, and the data is expressed in quantities,
variables and numbers. Qualitative approaches often contain interviews and participant observations and the data is expressed in words, text and images. The qualitative approach seeks not primarily statistical and quantifiable results, it is instead trying to find the essence and quality in that it intends to investigate. Positive is also that the data material is detailed and comprehensive and, because the method is based on interpretations, there is possibility for alternative explanations. A disadvantage may be the limited representativity that interviews give. Therefore, the answers may be difficult to apply in a more general frame. The results can also in principle never be repeated and the plausibility cannot be verified (Denscombe 2000). Because the character of our study and from the reasons above, a qualitative study has been conducted.

A case study is a study of qualitative character in which a small number of units are carefully studied, either at a specific moment or over time, and based on both qualitative and quantitative secondary and primary data. Case study approach is particularly suitable to study complex social processes and penetrates below the surface in order to gain an greater understanding. It is necessary that the strategy of the study is adapted to the investigated cases to capture the complexity of the case. There are no firm rules for how a case study should be done and that may be perceived as a disadvantage. The advantage is however that the case study can generate insightful and relevant results (Christensen et al, 2010). Because the character of our study and from the reasons above, a case study has been conducted.

4.2 STUDY APPROACH

According Denscombe (2000), there are five different approaches that you can use to conduct research. These are case studies, experiments, action research, and ethnography.

We have chosen to do a case study of a few Swedish companies to look at the obstacles they faced in establishing themselves in the Brazilian market. The goal of a case study is to study the individual and then draw general conclusions. It focuses on a few cases rather than study a wide range of different cases. One of the advantages of this approach is that we have been able to penetrate into the barriers to entry that Swedish companies experience in Brazil, an opportunity to study details that would have been difficult to obtain at a large study of the Swedish companies. This creates opportunities for us to understand specific barriers to entry.
that arises. Other advantage of the case study is how it encourages the use of multiple sources and a number of different types of data. In our study we have been collected data through literature studies and interviews with people in Swedish companies and individuals from Swedish Non-governmental organizations. Further, Denscombe (2000) mention how a case study is well suited for research that examines existing theories in the field. This fits well with our study, when we test our theories about the barriers to entry and theories of cultural differences against the empiric data we have been collected. There are also some disadvantages of case studies, for example, that the researcher's presence affects how natural situations occur. The studied or interviewed people can change the way they act or respond. Another disadvantage that is built into the case study's goal is the difficulty to convince and to prevent suspicion on the result's generalizability. You need to be careful with interpretation and transmitting of the results of case study to other cases. We have been well aware of that and it is with great caution we interpret and transfer our results to other Swedish companies' expansion into the Brazilian market. A final difficulty is how to identify boundaries to your study. If you cannot set any limits, it becomes difficult to distinguish the case and determine your study. We limited our study to three Swedish companies established in the Brazilian market.

4.3 DATA SOURCES

According to Denscombe (2000) there are two types of data, primary- and secondary data. Primary data is information that has not been collected or published before. Secondary data is information that is already published. Our primary data is data that we have collected by ourselves and consists of interviews made with representatives of Swedish companies and trade organizations in Brazil. Our secondary data has been collected by somebody else and consists of written information in the form of reports from the Embassy of Sweden and Swedish organizations.

4.4 SELECTION

We chose to do a case study on a limited number of Swedish companies in the Brazilian market with the aim of the study's results would be transferable to other Swedish companies that are not investigated in this study. We are aware of the difficulty of generalizing a case
study results. Therefore, we chose three Swedish companies, Elekta, Trelleborg and Scania. Out of pure convenience, we chose these companies. It was these companies that we had a correspondence with. These companies operate in three different sectors namely medical equipment, advanced polymer technology and the automotive industry with a focus on trucks. To further enhance the credibility of generalizations of our results, we chose to interview the Swedish Trade Council, the consulting firm Brazilian Business Partners and Swedchem Brasil operating in São Paulo. We are aware, that the result's credibility can be inadequate in a convenience selection. According to Christensen et al. (2010), the convenience selection can affects a result's representation.

The samples of firms were deliberately based on the parameters of interest and convenience. The choice of interview subjects, we did, given that we wanted specific data on our study problem, barriers to entry that Swedish companies might face when they choose to establish themselves in the Brazilian market. We received suggestions for different people to interview from the Swedish Embassy in Brasilia. We wanted to interview a person in a senior position with experience in establishing a business within the Brazilian market. In the case of Elekta, we received the advice to interview their CEO, Antonio Carlos Ponce, since he master the English language very well and he was one of the leading figures in Elekta's establishment in Brazil. In the case of Trelleborg, we got the advice to interview Nils-Olof Nöjd. He speaks Swedish, and had experience of having started the Trelleborg Wheel Systems business in Brazil. In the case of Scania, we received the advice to interview Ferike Pasthy who speaks Swedish and have good experience in establishing financial services for Scania around the world, particularly in Brazil.

4.5 DATA COLLECTION METHOD

*Interviews*

According Denscombe (2000), there are four different methods of data collection. These are questionnaires, interviews, observation and written sources.

In this study, we used interviews and written sources. Denscombe (2000) mentions the interviews as an appropriate data collection method if you want to receive in-depth and detailed explanations, in our case, it is about understanding why barriers to entry arise when
Swedish companies establish themselves in the Brazilian market. From the time we had available and the study's cost budget interviews felt as a feasible and appropriate data collection method.

Denscombe (2000) describes three different types of interviews. These are structured interviews, semi structured interviews and unstructured interviews. In this study, we used structured interviews where we had a list of questions to be answered, with a clear sequence. The respondents in our interviews fall into two categories; Swedish companies in Brazil and Swedish trade- and industry associations in Brazil. They all have experiences of Swedish business in Brazil, but in a different way. We therefore angled the questions differently depending on whom we interviewed. The difference we did was that when we interviewed the companies, we asked more specific questions about the obstacles they encounter and their work in Brazil. When we interviewed the trade organizations, we asked them about the Swedish company's situation in general in Brazil. The questions were still very similar.

We began our interview guide with the question if the respondent wants to remain anonymous. This is because some people might otherwise withhold some information for reason of fear of their employers or competitors or other causes unless they can remain anonymous. We thereafter asked simple and concrete factual questions about the respondent's position in the company / organization, tasks and activities.

Thereafter we started asking the specific questions to our study. The first question was about what the most obvious trade barriers are that the Swedish company / Swedish companies encountered / encounter when establishing. This is to avoid leading questions and to give the respondent “free space” to reflect on the issue, without leading them into any specific barriers.

The following questions were about more specific areas related to our theories. The three subsequent questions concerned the competitors and the management of suppliers. These questions have been created according to Porter's Seven Barriers to Entry. The fifth and sixth questions was about the Swedish company / Swedish companies production and imports, and the cooperation with authorities in Brazil. The questions were based on the theory of Barriers to World Trade, which describes the tariff and non-tariff barriers. In that case we were interested in information about tariffs, import restrictions and other potential barriers that may be a problem for the Swedish company / Swedish companies.
Thereafter we specified different barriers to entry that we have been identified in different investigating reports about the Brazilian market. We asked respondents to describe their perceptions of the identified problems.

The second part of the Interview Guide concerns culture and cultural barriers. It begins with an open question about what the respondent believes is characteristic of the business culture in Brazil. Again, we want the respondent to have a chance to make a spontaneous comment on what cultural characteristic Brazil. The ninth question concerns the business relationships and has been created according to Hofstede's Framework for Assessing Culture. The question is important because it highlights how cultural differences actually are. The interview ends with a collection question where the respondent is given the chance to add any information about entry barriers and cultural differences.

We used sound recordings during the interview and supplemented by notes. Audio recordings gave us a full documentation in the case of what was said during the interviews. It provides an objective recording of the interviews and is easy to check for others. The disadvantage is that it fails to capture relevant information about the interviews. For example, how the atmosphere and the climate was during the interview. We therefore chose to supplement with notes. A drawback of notes is that the interviewees could be argued that we "misinterpreted" the answers. In those cases, we have our sound recordings available.

Interviews can suffer from something called interview effect. This means that the interviewees are affected by our personnel identity, commitment, and how we choose to present ourselves. We have tried to minimize our impact on the end result as we have had a neutral stance during all interviews. However, there is a risk that the interviewees may have been influenced by our identity and thus failed to respond honestly, leaving a polished version of reality.

**Written Sources**

We chose to supplement our interviews with written sources such as literature and Internet sites. We believe that the literature written in the area and used in the study is reliable and trustworthy. Partly because the books have been produced in several editions, partly because the authors have a long and solid background in the subjects they write about. The purpose of
the written sources has been to obtain background information about the study problem, to improve understanding of previous research conducted in the area. But they have also served as data sources, in addition to the interviews. One of the clearest advantages of the written sources have been their availability, it was easy to get access to them. This has been done at low cost. The disadvantage is that the credibility of the written sources can vary, a careful scrutiny of the sources is needed, and that the secondary data is usually produced for purposes other than the current study.

4.6 ANALYSIS MODEL

In our analysis, the issues that are related to our theory and the information we have collected have been highlighted. We chose to analyze the Barriers to World Trade and Porter's Seven Barriers to Entry from the barriers to entry that were described most frequently by respondents. By noting how often a barrier to entry mentioned, a compilation could be made after the interviews were conducted. Of the previously identified barriers to entry, we chose to analyze those confirmed by the respondents and that there would be a connection with our theory. We chose to analyze any of the previously identified barriers to entry that two respondents have confirmed. This makes the analysis more reliable and generalizable. To further enhance the credibility and generalizability, we chose to fill out our analysis with secondary data. The secondary data has served as a complement to the respondents' descriptions. We chose to analyze Hofstede’s Framework for Assessing Culture by comparing secondary data about Brazilian and Swedish culture and the information about culture differences that we find in our interview answers with the theory Hofstede’s Framework for Assessing Culture. We hope to present the analysis in an instructive and easily comprehensible way to the reader.

4.7 SOURCE CRITICISM

After some research and comparison of various method books, we choisded Backman (1998) and Densombe (2000), because they were the books that described the methodology in the best way. The books structure was easily understood and applicable. In the case Backman (1998) and Denscombe (2000) did not gave us sufficient guidance, we used Christensen et al (2010), and Svensson and Starring (1996). In our secondary data, we chose the information
form reports from the Embassy of Sweden and Swedish organizations. The information from reports might be subjective, and we have therefore been very careful in our choice and only used respected sources to eliminate possible errors.

4.8 VALIDITY AND RELIABILITY

Two important concepts for this study is its validity and reliability. The study’s method should theoretically be such that anyone can follow it and get the same result. Therefore, we discuss the degree of validity and reliability below.

Validity is about how valid a study's conduct is and whether its results should be applicable to other studies. Validity has two components, the study's internal validity and external validity. The internal validity means that the study is considered credible when the interviewees’ answer and the study's results are consistent with reality. To obtain a good internal validity of the study, it is important to use different data collection techniques based on a theoretical framework and openly display the collection process (Christensen et al, 2010). In this study, interview questions have been written on the basis of the study's theoretical framework. This is to obtain good internal validity in the study.

According to Christensen et al. (2010), the external validity is about whether the study's results can be generalized and applied to other cases. The study respondents of a qualitative study consists of selected individuals and thus are their answers more a hypothesis for the overall population than a generalized truth. By interviewing people who represent Swedish companies in different industries, we obtain responses from a broader perspective. This increases the credibility to be able to generalize the study's results on the entire population, Swedish companies establishing themselves in the Brazilian market. We are aware however, that this must be done with extreme caution.

According to Christensen et al. (2010), the reliability measures how trustworthy the study is. It is about minimizing bias, systematic errors, in the study. A study with good reliability means that another researcher that conducts the same study, using the same procedure, will obtain the same conclusions. During the study implementation, we have thought about this
and as clearly as possible, tried to explain all the steps in this study. This increases the chances that another researcher can conduct the same study and obtain the same conclusions.
5. RESULTS

5.1 COMPANIES

In this chapter we present the information about the companies and the results of the interviews with Antonio Carlos Ponce from Elekta, Nils-Olof Nöjd from Trelleborg (Trelleborg Wheel Systems) and Ferike Pasthy from Scania (Scania Financial Services).

- Elekta - is a Swedish company that produces radiation tools for treatment of brain tumors. Elekta has been established in the Brazilian market for three years and has 38 employees in whole Latin America (www.elekta.com).

- Trelleborg - is a Swedish company that develops and manufactures solutions that seal, damp and protect in demanding industrial environments. Trelleborg has over 1000 employees in Brazil, mostly in the manufacturing of automotive components. The company has been established in Brazil since 1993.

  Trelleborg Wheel Systems manufactures complete wheel systems for agricultural machines and forklifts. The company has 32 employees in Brazil (www.trelleborg.com).

- Scania - is a Swedish company that produces trucks and buses. Since 1957, Scania has been established in Brazil and has a truck factory outside São Paulo. Brazil is Scania's single largest market for marine engines and chassis for buses. Approximately 3200 people work for Scania in Brazil.

  Scania Financial Services has been based in Brazil for three years and has 34 employees. The company offers financing and insurance opportunities for big companies in Brazil (www.scania.com).
5.1.1 Barriers to World Trade

**Import or production**
According to Ponce is only 10% of Elekta's production in Brazil, while the remaining 90% are imported from Europe. Imports are mainly from United Kingdom, Sweden, Germany and Italy.

Trelleborg Wheel Systems, which is represented by Nöjd, says that they are importing all the material. The only thing that is purchased locally in the Brazilian market is the rims to the tires.

Pasthy says that Scania Financial Services do not have any production within Brazil since their business idea is not based on producing goods. However, they produce their financial services in Brazil.

**Brazilian authorities**
Ponce chose to describe the contact with the Brazilian government as tedious. More specifically, it is about, in Elekta's case, to obtain special permission from the Radiation Protection Authority and the Central Bank. Ponce mentions different lead times as bureaucratic barriers. It can take up to two weeks to get the products approved by the Radiation Protection Authority. The time to import products varies in time depending on whether the buyer is a private operator or a public. Imports to a private operator takes approximately 60 days, while imports to a public operator takes 60 days plus the need to prove that the imports are made to a philanthropic institution or to a university.

Nöjd also confirms the different lead times as bureaucratic barriers. "It takes a long time when you are dealing with the Brazilian state". He describes the import duties as high and problematic. It means that sea freight, import duties and other charges together will end up at around 40 percent of the goods.

In Scania Financial Services cases, Pasthy says that they were not affected by import duties or custom regulations but admit the bureaucracy as a problem. He mentions that you can solve things with a phone call or email in Sweden. This does not work in Brazil. You must visit
each person or authority, in Scania Financial Services case the Central Bank, in order to get things done.

5.1.2 Porter's Seven Barriers to Entry

Most obvious barriers to entry

Ponce thinks it is time and bureaucracy that poses the greatest barriers to entry. He explains that the time required to implement a company in Brazil is too long, it takes between 3-6 months before all permits are approved by specific agencies. Before operations can begin, there are several different documents to be prepared and the Brazilian state need to visit your company for approval. According to Ponce, Brazil is the most difficult country to establish a business in.

Nöjd also thinks the time is one of the biggest barrier to entry. It takes time to obtain the proper licenses, in Trelleborg Wheel Systems case, import licenses. He argues that Brazil has a long way to go if you compare to Sweden.

Pasthy thinks that Brazil has a heavy regulatory framework that is both time consuming and resource consuming for companies to administer. In addition, he mentions the bureaucracy in the form of Catch-22, "you need to have a specific paper to go forward in the establishment process, but to obtain that paper, you need to have another paper". Furthermore, he says that the time is a barrier to entry, in Scania Financial Services case, it took 1.5 year before operations could begin. Pasthy believe that any company looking to establish themselves in the Brazilian market should hire a consultant. Scania Financial Services used two people from the Brazilian Central Bank that has already worked a lot with the banking establishment.

Competitors

When Elekta was established in Brazil there were two competitors, Varian from the United States of America and Siemens from Germany. Ponce says that the industry had more players in the past, such as Philips from Netherlands, Mitsubishi from Japan, and General Electric

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1 Definition of Catch-22: “A situation in which a desired outcome or solution is impossible to attain because of a set of inherently illogical rules or conditions” (www.answers.com).
from the United States of America. The former giants in the field have acquired the latter operators activities in the industry.

Nöjd says Trelleborg Wheel Systems did not really have any competitors when they chose to establish their business in Brazil. Still Pirelli, Goodyear, and Firestoone were three manufacturers of tires already established in the Brazilian tire market, but Trelleborg Wheel Systems came in with a totally new concept. They launched a wider tire that had never been designed earlier.

Pasthy says that Scania Financial Services was among the last players that established their business in the Brazilian market. Competitors such as Volvo, Mercedes, and Fiat had already established their business with financial and insurance solutions. Moreover, the major Brazilian banks, Santander, Bradesco and Banco do Brasil, were already well established with similar services.

**Competitors' responses**

According to Ponce, it was only the American Varian that respond to Elekta’s establishment. Elekta’s establishment in Brazil affected Siemens, but they did not do anything to stop them. Ponce says that Radiation Therapy is not a market where Siemens put attention. Siemens chose instead to focus on other markets. Varian respond by lower their prices, offering some special upgrades deals for their existing machine’s installed base.

In response to Trelleborg Wheel Systems establishment and launch of the wide tires, Goodyear also chose to start producing these wide tires. Eventually, they even moved their manufacturing of the tire from France to Brazil. Nöjd also tells us that the other competitor Pirelli just started their production of these special tires.

Pasthy says that none of the established competitors chose to respond to Scania Financial Services establishment.

**Domestic suppliers**

Ponce says that Elekta has collaboration with domestic suppliers. Mainly in the case of some special devices / accessories of the machines. This is because the local market, in this case the Brazilian market, has several technical requirements that must be met in the design of Elekta
machines, such as a device for power supply and air condition systems. Furthermore, Ponce says that there have been no problems with getting or having contact with the suppliers.

Trelleborg Wheel Systems also uses domestic suppliers. In their case, it is for wheels purchased in Brazil for the Brazilian market. The relationship between Trelleborg Wheel Systems and its suppliers work well, according to Nöjd.

Scania Financial Services do not have any collaboration with domestic suppliers.

**Previous barriers to entry**

Ponce says that the tax system, expensive labor force, bureaucracy, high tax burden, high import duties, and skills in the English language complicate establishment in the Brazilian market. He explains that the tax system and the high tax burden harms Elekta and many other companies that want to establish themselves in Brazil. Elekta has now begun to feel the high wage level. Furthermore, he says that high import duties is a major obstacle, however, some states have chosen to remove their state taxes. In the case of language, Ponce explains that it is a small obstacle for Elekta. Most people understand English and can deal with the language inside the company.

Ponce says that low productivity, criminality, corruption, poor education, over valued (strong) currency, and poor infrastructure not have been a barrier to establish Elekta in Brazil. He explains that Elekta has good and local employees that understand the situation and are productive. Ponce has not noticed any corruption in Elekta, but he has noticed that in a previous company where he was working. He also adds that Elekta is not affected by poor education when most of the staff consists of engineers, biologists and lawyers.

Nöjd mentions the tax system, expensive labor force, bureaucracy, high tax burden, corruption, high import duties, and poor infrastructure as barriers to entry the Brazilian market. He explains that the tax system is very complex with many different taxes, that it is difficult to orient oneself in it. What further complicates the system is that states have different tax levels. He argues that the expensive labor is caused primarily by payroll taxes. Furthermore, Nöjd says that false billing causes corruption, companies make up the extra payments under the table. This occurs to a greater extent in the public sector. He comments that the poor infrastructure needs to greatly improve if Brazil is to grow.
Nöjd says that low productivity, criminality, poor education, over valued (strong) currency, and skills in the English language do not constitute any barriers to entry. He explains that criminality is significant and that it is increasing all the time, but it does not cause any barriers to entry the Brazilian market. English skills have improved a lot and more and more people learn English even if it does not need to use it in their daily work. Furthermore, Nöjd says that poor education does not concern Trelleborg Wheel Systems since most employees are trained within the company. For those who shall import, it is encouraging that the Brazilian currency is strong, while there is an obstacle for those who choose to export their goods or services. In Trelleborg Wheel Systems case, it has been an advantage.

Pasthy says that expensive labor force, bureaucracy, criminality, and skills in the English language complicates establishment in the Brazilian market. He explains that the labor unions have caused large wage increases, around 10-11 percent in financial labor unions. This has driven up the total wage bill. In Scania Financial Services case, it means that all the paper from the Central Bank is extensive and administratively burdensome, Brazilian bureaucracy. Furthermore, Pasthy says that crime can make it difficult to "attract" expats to Brazil. All Swedes who may have the opportunity to work in Brazil will not say yes, because of the rumor of crime. The lack of skilled staff that speaks English creates significant barriers to entry. None or no effort is made to learn English.

Pasthy says that the tax system, low productivity, high tax burden, corruption, high import duties, poor education, over valued (strong) currency, and poor infrastructure did not pose any barriers to the establishment of Scania Financial Services. He explains that the low productivity do not constitute barriers to entry, but the information ways between the employees tend to be ineffective by the needless repetition. People are wary to take a decision, they need to have total consensus before they dare to do it. High tax burden and corruption is not something that Scania Financial Services has experienced. Pasthy argued that high import duties posed no barriers to entry, but served instead as an incentive to the establishment in Brazil. In the case of poor education, he means that those with money can acquire the proper educations.
5.1.3 Hofstede's Framework for Assessing Culture

Cultural differences

Ponce mentions that there are differences in how you define "the spoken word". For instance, in Sweden, United Kingdom and Germany, the spoken word means what people says while in Brazil it does not always mean what they say. Ponce explains with the following quote, "In these countries, you can trust a person when he order three machines, that he also wants to have three machines". Further, Ponce says that the cultural language differs a lot between Brazil and Sweden. He argues that Brazilians have a tendency to take shortcuts and make use of their own good, without thinking that it can cause problems for other people.

According to Nöjd, the cultural and social side is much more important and decisive in business dealings with Brazilians than with Swedes. You often discuss football, a subject that is very important in Brazil. He also believes that there are more similarities between Brazil and Europe than between Brazil and the United States of America. He explains this by the number of Europeans, that over a long time, chose to emigrate to Brazil. The Brazilian business culture is also much more hierarchical than the Swedish. There are a few people that make most decisions, the employees expect and prefer an unequal distribution of power and they feel in need of their manager. In Sweden, the situation is the opposite and the hierarchical structure is much flatter according to Nöjd.

According Pasthy, age and title have a much more significant role in the Brazilian business deals than in Swedish. He stresses the importance of sending out the right people when to do business. Brazilians also want to always "have their backs free" and therefore avoid situations that may generate uncertainty. Pasthy cite as examples the Brazilians often send copies of email to many colleagues, even though the mail in question did not concern this colleagues, for making sure nothing goes wrong. In addition, reliance is placed within the corporate culture often to former ways of solving problems than to try something new and innovative, the business culture is overall conservative.

Relationships with other Brazilian companies

According to Ponce, Elekta has good relations with everything from their customers, support units to the carriers they hire.
Trelleborg Wheel Systems has good relationships with their counterparts in Brazil.

Pasthy says that Scania Financial Services has good business relations with Brazilian companies.

**Further thoughts about barriers to entry and cultural differences**

Ponce argues that Swedes generally have a greater understanding of international business, especially if you compare to Americans. He says that Swedes are analyzing the situation and try to understand it, this is a strength for Sweden.

Nöjd means that a lot depends on what kind of manager you have. When an establishment is going on, problems will probably arise, then you need to have a manager who believes in you.

Pasthy mentions that if you do not have production in Brazil the duties will be high. In addition, you lose the possibility of cheap finance.

**5.2 ORGANIZATIONS**

In this chapter we present the information about the trade organizations and the results of interviews with Per Persson from Swedish Trade Council, Jonas Lindström from Swedcham Brasil and Johan Fager from Brazilian Business Partners.

- **Swedish Trade Council** - in Swedish called Exportrådet, is a Swedish organization that helps Swedish companies to establish themselves in foreign markets and grow internationally. The Swedish government and the Swedish industry own the organization jointly. Swedish Trade Council has been established in Brazil since 1977 and has office in São Paulo with nine employees. From the São Paulo office, they also covers the markets in the Dominican Republic, Suriname, Venezuela, Guyana, Aruba, Grenada, Barbados, Haiti, Jamaica, St. Lucia, St. Christoffer, St. Vincent, the Grenadines, Antigua, and Barbuda (www.swedishtrade.se)

- **Swedcham Brasil** - also known as Sweden-Brazilian Chamber of Commerce, is a Swedish trade organization that promotes and develops bilateral links between Brazil
and Sweden. The organization has existed since 1953 in Brazil and has its office in São Paulo with seven employees (www.swedcham.com.br).

- Brazilian Business Partners - is a consulting company that helps foreign companies to establish in Brazil. The company was established in 2008 and has two employees in São Paulo (www.bbpartners.com.br).

5.2.1 Barriers to World Trade

**Import or production**

According to Persson, there are both variants. The large companies have more production within Brazil in order to avoid the high tariff costs. But, it depends a lot on how the competition is and in what industry the company is. In general, Swedish companies avoid locating their production within Brazil because of the expensive labor force, but because of the high import duties, it is many times more profitable to locate the production within Brazil. In other words, Swedish companies locate their production within Brazil only in cases where they really have to do it.

Lindström says that companies both import goods and have production within Brazil. However, he sees the trend that more companies choose to locate production within Brazil because the high import duties.

Fager says also that Swedish companies both import to- and produce within Brazil. Companies that are established in Brazil since a long time are more likely to also have production within Brazil. All Swedish companies move their production to Brazil in the end.

**Brazilian authorities**

Persson choose to describe the relation to the Brazilian government as lengthy. Everything takes a long time. By comparison, permits that in Sweden takes one week to get, take in Brazil usually three months. The whole system works very slowly. You have to have a good agent and a good cooperation with that person to help you with the import duties. Taxes are also, like everywhere else, important to pay on time. Sometimes there are some requirements to which companies must cooperate in order to avoid the business not be disrupted.
example of this is "Buy Brazilian Act", which says that companies must produce their goods within Brazil to be able to sell their goods through a particular vendor.

Lindström also confirms that the whole process is complicated and that it is difficult to get clear answers from the authorities. Everything is very bureaucratic.

Fager says that it is only during the company's registration process that it has to do with the Brazilian authorities. Legislation in Brazil is heavy, the tax system is complicated and legal processes are difficult and time consuming.

5.2.2 Porter's Seven Barriers to Entry

**Most obvious barriers to entry**

According to Persson, there are three major barriers. Import duties - which is a high cost to companies and a part of Brazil's protectionist market. Besides this, there are no free trade agreements between Brazil and Sweden that the companies can use. Regulatory sectors (regulatory barriers) - they exist in different industries and means that companies must have some special permission for their activities, to get this permission takes usually 1-2 years. Technical standards - some products must maintain a specified standard. Many times it is easier if the EU has already approved the standard.

Lindström mentions instead the high import duties and the extensive tax system as the two biggest barriers.

Fager thinks that the biggest barrier is the companies by themselves, that it takes to long for them to “open up their eyes to Brazil”. Companies often expand their business like rings on water, they have their home market as reference and expand from there first to the neighboring countries (markets).

**Competitors' responses**

According to Persson, most companies are responding not at all. We must be aware that Sweden is not among the ten largest investor countries in Brazil, therefore, Swedish companies have a small impact on the market. However, there are some niche areas where Swedish companies are strong and have a market impact. Usually it is the Swedish companies that may panic when competitors establish themselves in the market.
Lindström says that many companies probably make use of lobbying to prevent new competitors from entering the market. He also says that if you are not in good contact with the government in Brasilia, it may be difficult to establish a new business for you.

Fager responds that there is no significant difference between Swedish and Brazilian competitors. All companies are worried about competitors, regardless of where they come from. But in some cases, competitors might be afraid of Swedish companies for their technical superiority.

**Domestic suppliers**

Persson says, yes, that Swedish companies have a lot of domestic subcontractors. In some cases, the Swedish Trade Council has contact with them. For instance in the aviation industry, they have contact with SAAB. However, it is common that Swedish companies themselves are in contact with its suppliers.

In addition, Lindström says, that Brazilian law favors companies that buy locally. It is therefore difficult to only have an import business in Brazil.

Fager thinks that Swedish companies with production in Brazil have lots of domestic suppliers and that the relationship between them works well. But, Swedish companies may feel that they do not get the same quality and support in their relations with the Brazilians as they do in Sweden.

**Previous barriers to entry**

Persson says that the tax system, bureaucracy, low productivity, high import duties, poor infrastructure, and skills in the English language complicates establishment in the Brazilian market. He explains that the tax system is complex and time consuming. It constitutes an obstacle in the sense that it is administratively burdensome and that companies need to add a lot of resources. Bureaucracy is an inefficient system in the sense that it is burdensome to obtain work permits and export contracts. In addition, the states have different levels of VAT, between 14-18 percent. Further, Persson mentions that the future of Brazil is to increase their productivity. They usually postpone investments because it is expensive to import more productive machines. He sees the explanation in that Brazil has had historically low labor
costs and therefore, they prefer to employ 10 people with a task than to replace them with a machine. When the Brazilian industry begins to be exposed to international competition, they are not competitive, except in certain industries where they are world leaders. He sees the high import duties as the greatest barrier to entry the Brazilian market for Swedish companies. He exemplifies it with that if Brazil were subjected to a "China shock", Brazil would be de-industrialized within two years. Persson proposes a solution where you gradually are letting more international companies enter the Brazilian market through the gradual reduction of duties, so that Brazilian companies gradually can increase their productivity and become more competitive. The lack of knowledge of the English language means that companies have to increase their expenses.

Persson says that expensive labor force, criminality, high tax burden, corruption, poor education, and over valued (strong) currency do not constitute any barriers to entry. He explains that expensive labor force does not constitute barriers to entry. But, that you may be surprised by the level of senior management salaries, and it may seem a little deterrent. According to Persson, it will be a problem when the workforce decreases. People start to change jobs frequently to get higher pay. This will stop companies to invest in employee training because they might lose them. For the system, this is "suboptimal", nobody dares to invest further. He says that Swedish companies are already accustomed to high tax burden from Sweden and corruption occurs primarily in the public sector, mainly relating to various building permits contracts. In the case of poor education there are no barriers to entry, but for Brazil as a country, it is important to overcome it. Mainly to sustain its growth.

Lindström mentions the tax system, expensive labor force, bureaucracy, high tax burden, high import duties, and poor infrastructure as barriers to entry the Brazilian market. He explains that the tax system is complex and difficult to grasp. Federal laws must be run in conjunction with state laws. Expensive labor force is an obstacle, but not the greatest. It is expensive when you compare to Asia, but cheap compared with Europe. It is expensive to hire in São Paulo region, while in northern Brazil, it may be cheaper due to various state laws. The bureaucracy is created by the old system where you administer a lot through paper instead of electronically. Brazil is a country with many government functionaries. Lindström mentions that the high import duties constitute barriers to entry since it is difficult to grasp as a product can have several different import duties depending on what it will be used and what material it is made of.
Lindström says that low productivity, criminality, corruption, poor education, over valued (strong) currency, and skills in the English language do not constitute any barriers to entry. In the case of low productivity, Lindström explains that to many of the Swedish companies' most prolific producers are located within Brazil. People are willing to work and have discipline in Brazil. The crime rate might discourage and make it difficult to attract foreign workers. Furthermore, Lindström says that corruption is not a decisive obstacle to the establishment. It is probably worse in other countries, such as Russia. Systems are upgrading all the time, which makes it harder to require extra money under the table. He says that over valued (strong) currency is a disadvantage for those who export and an advantage for those who import. Uncertainty is a major barrier, not knowing if and when the currency will fall or not.

Fager says that the tax system, bureaucracy, criminality, high tax burden, high import duties, over valued (strong) currency, and poor infrastructure complicates establishment in the Brazilian market. He explains that crime is an obstacle to the establishment of the companies that want to bring in expats. It raises additional costs in terms of safety. Moreover, Fager says that over valued (strong) currency may constitute a barrier to entry when the investment becomes too expensive. Telecommunications and the Internet working well, but the basic infrastructure needs improvement.

Fager says, that expensive labor force, low productivity, corruption, poor education, and skills in the English language do not constitute any barriers to entry. He explains that the labor force has become expensive in the last 3-4 years, and now is the wage cost as high as the real wage. At management level, it is even more expensive than in Europe. Fager believes that Brazil has a modern industrial park and do not suffer from low productivity. Corruption is a problem in the public sector but not in the business-to-business sector. When it comes to English speaking, middle management and up are good at English. Poor education is not an obstacle at the management level, while workers at lower levels are much lower educated than Swedes.
5.2.3 Hofstede's Framework for Assessing Culture

Cultural differences
Persson answer that the social aspect is very important in the Brazilian culture. Brazilians have "to like you as a person". People must first build a trustful relationship and have a little bit fun together before they can do business together. Swedish people have a tendency to behave a little bit to “technical” and ignore the social aspect of the relationship. Swedes must understand that business in Brazil is done between individuals and not between companies.

Lindstrom agree with the above and adds that, it is important to always be able to chat a bit with Brazilians before start talking about important things. Topics that are important to be curious about and to be able to talk about is family, football and politics. If you don’t do this, it is easy to do a unpleasant impression and miss out on important business contracts.

Fager says that people behave differently in every country. Brazilians are more "latin" while the Swedes are more "procedural" in their behavior. In Brazil everything is more hierarchical and it is difficult as a manager to delegate responsibility.

Relationships with other Brazilian companies
According to Persson it usually works very well when the social aspect is in place.

Lindström agrees that the relationship works fine. Swedish companies in Brazil are often represented by Brazilians who knows and understand the culture well.

Fager says also that it works just fine. Everything is on “the personal level”.

Further thoughts about barriers to entry and cultural differences
Persson says that patience is important and that you must be personally present in Brazil to be able to do business. It is pointless trying to make something from Sweden to a Brazilian company. It is also important to call instead of emailing. Brazilians like to chat on the phone and rarely answer emails.
According to Lindström Brazil is the easiest of the four BRIC countries in terms of cultural barriers. Brazilians appreciate Scandinavians in general, and Swedes in particular. There is a shared football history from World Cup 1958 in Sweden. Queen Silvia is also popular in Brazil.
6. ANALYSIS

In this chapter we will analyze the responses from our interviews with our theoretical framework as reference.

6.1 BARRIERS TO WORLD TRADE

Barriers to World Trade consist of tariff barriers and non-tariff barriers. Tariff barriers are charges imposed on imports and direct taxes. Non-tariff barriers are other trade barriers as state participation, bureaucracy, quotas and financial controls.

**Tariff Barriers**

According to the theory, some countries apply tariffs to collect capital to their government and to protect their industry from foreign competition. According to Nöjd, high import duties together with ocean freight and other charges represents approximately 40% surcharge on the goods in Brazil a large barrier to entry. That is a tariff barrier. Brazil's high import duties are also discriminatory because they do not include the Mercosur countries\(^2\). According to Lindström, the high import duties has resulted in establishment of many Swedish companies, they find it more profitable to locate their production within Brazil. We have found strong connection between tariffs in our study and our theory.

**Non-Tariff Barriers**

Bureaucracy is a non-tariff barrier and a form of protectionism. When we mentioned barriers to entry from earlier research, all representatives from the companies and the organizations said that bureaucracy is an obstacle to the establishment. All contacts with the Brazilian authorities takes a very long time. Persson explained that the bureaucracy's biggest drawback is its inefficiency, a system where it is cumbersome to obtain work permits and export contracts. Persson also mentioned that a certain permission that in Sweden usually takes one week to obtain, takes in comparison in Brazil, three months to obtain. Additional bureaucratic barriers are standards, some products require special technical standards. It would have been

\(^2\) Mercosur is an economic and political agreement between Argentina, Brazil, Paraguay and Uruguay (www.ne.se).
easier if the standards already was approved by the EU. Further, Persson mentioned a protectionist law, known as "Buy Brazilian Act", which says that the goods must be produced within Brazil to be able to be sold through a particular vendor. We have found strong connection between bureaucracy in our study and our theory, but we have not found any connection to non-tariff barriers as state participation, quotas or financial control in the Brazilian market.

6.2 PORTER'S SEVEN BARRIERS TO ENTRY

Porter's seven barriers to entry consists of product differentiation, economies of scale, switching costs, capital requirements, cost disadvantages independent of scale, government policy and access to distribution channels.

We have found strong connection between capital requirements and government policy in our study and our theory, but we have not found any connection to economies of scale, product differentiation, switching costs, access to distribution channels or cost disadvantages independent of scale.

**Capital Requirements**

Porter describes capital requirements as a barrier to entry. If capital cannot be obtained, the establishment may be canceled. Ponce, Nöjd, Pasthy, and Lindström said that expensive labor force is an obstacle to the establishment. The increased costs for labor is explained as higher payroll taxes and that labor unions drive up wages. Depending on various state laws, the wages vary within the country. When we mentioned barriers to entry from earlier research, Pasthy and Fager said that criminality is a barrier to entry the Brazilian market. This creates higher costs for security, and additional capital is needed in the beginning. According to Ponce, Nöjd, Lindström, and Fager is high tax burden a barrier to entry. Also this barrier results in an increased need for larger capital base for expansion into the Brazilian market. The large companies in the world today, has probably the financial resources to overcome these costs. As with Porter's description of the capital requirements, there may be difficulties for smaller companies to find financing. Potential entrants are therefore limited in their opportunities to establish their business in Brazil. An additional barrier that will increase
expenses in the beginning are lack of knowledge in the English language. It will require time and money to train the Brazilian labor force in understanding the English language.

**Government Policy**

Government policy affects Swedish companies in the form of high import duties and a complex tax system. As mentioned above, Nöjd said that high import duties along with ocean freight and other charges is a major barrier to entry. Persson and Lindström also mentioned high import duties as one of the largest barriers to entry. According to Persson, import duties are part of a deliberate protectionism from the Brazilian state. Lindström said that it is difficult to grasp as a product can have several different import duties depending on what it will be used to and what material it is made of. When we mentioned barriers to entry from earlier research, Ponce, Nöjd, Persson, Lindström, and Fager said that high import duties are an obstacle to the establishment. As we mentioned above, these import duties works as protective tariffs. A type of protectionism to protect domestic companies from competition. It is further proof that the Brazilian government protects and promotes the domestic industry.

All respondents from the companies and the organizations except Pasthy, mentioned the tax system as a barrier to entry the Brazilian market. They said that the tax system is very complex, administratively burdensome, and time consuming with many different taxes. What further complicates the system is that states have different tax levels and federal laws must be run in conjunction with state laws. According to Porter (1980), this requires additional capital in the beginning.

### 6.3 Hofstede's Framework for Assessing Culture

According to Hofstede's theory (Hofstede & Hofstede, 2005), the fundamental differences between different countries cultures have been identified. The theory consists of the dimensions of power of distance, uncertainty avoidance, masculinity and individualism.

**Avoidance of Uncertainty**

According to Hofstede’s theory (Hofstede & Hofstede, 2005), Brazil has the score 76/100 in rating of avoidance of uncertainty, as a comparison with Sweden that only has 29/100. Score
closer to 0 means less avoidance of uncertainty in the culture, score closer to 100 means more avoidance of uncertainty.

According to Pasthy, Brazilians always want to "have their backs free" and therefore avoid situations that may generate uncertainty. Pasthy mentioned for instance that Brazilians often send copies of e-mail to many colleagues, even though the e-mail in question do not concern this colleagues, for making sure nothing goes wrong. In addition, companies often rely on former ways of solving problems instead of trying out something new and innovative. Nöjd also said that corporate culture is very hierarchical and that the employees also prefer it that way instead of shared responsibility.

**Power of Distance**
According to Hofstede’s theory (Hofstede & Hofstede, 2005), Brazil has the score 69/100 in rating of power of distance, as a comparison with Sweden that only has 31/100. Score closer to 0 means less power of distance in the culture, score closer to 100 means more power of distance.

According to Nöjd, the Brazilian business culture is much more hierarchical than the Swedish one, that there is usually one or a few people who make most decisions within the company - the employees expect an unequal distribution of responsibilities and feel therefore in greater need of their manager. In Sweden the situation is the opposite according to Nöjd. In Sweden, the responsibility is evenly distributed between the employees, they can make more decisions on their own and work more independently. Overall, the hierarchical structure in Sweden is much more flat. According to Persson, there is also a very large gap between workers- and managers salaries.

**Individualism**
According to Hofstede’s theory (Hofstede & Hofstede, 2005), Brazil has the score 38/100 in rating of individualism, as a comparison with Sweden that has 71/100. Score closer to 0 means less individualism in the culture, score closer to 100 means more individualism.

In Brazil, adult children usually live at home with their parents until they are married and acquire their own family. The family is highly valued and cohesion within the family is important. Brazilians rely on and are being helped by their families in times of crisis rather
than helped by the society. According to the Brazilian culture, right contacts and support from the family is required to achieve success. The group membership is very important to Brazilians because it provides identity and status (Utrikespolitiska Institutet, 2009).

**Masculinity**
According to Hofstede’s theory (Hofstede & Hofstede, 2005), Brazil has the score 49/100 in rating of masculinity, as a comparison with Sweden that only has 5/100. Score closer to 0 means less masculinity in the culture, score closer to 100 means more masculinity.

Brazil is, unlike Sweden, strongly marked by machismo, a culture that values masculine characteristics, such as strength and competition, higher than the female characteristics. The gender roles in Brazil are also quite defined, men are the breadwinner and women responsible for the household (Utrikespolitiska Institutet, 2009).
7. CONCLUSIONS

In this chapter, we present our conclusions and answer our purpose. The purpose of this study is to create an understanding of the barriers to entry that Swedish companies can face when they choose to establish themselves in the Brazilian market.

7.1 BARRIERS TO WORLD TRADE

**Tariff Barriers**

Tariff barriers in the Brazilian market are expensive and a barrier to entry the market for Swedish companies. Brazil uses primarily tariff barriers to protect its domestic market from competition from foreign companies. If Brazil would lower its import duties and reduce the tariff barriers, would it lead to increased competition in the Brazilian market. This could lead to exclusion of Brazilian companies, but in the end, always benefit the Brazilian consumers with cheaper products. A reduction of tariff barriers would also benefit Swedish companies to export to the Brazilian market.

**Non-Tariff Barriers**

Bureaucracy is a barrier to entry for Swedish companies in the Brazilian market. The bureaucracy in the Brazilian market is very expensive, time consuming and administratively burdensome for Swedish and Brazilian companies. If the bureaucracy were reduced, would companies in a larger extent be able to focus on their core business and improve profitability. It would also lead to a better business climate and to cheaper products for the Brazilian consumers.

7.2 PORTER'S SEVEN BARRIERS TO ENTRY

**Capital Requirements**

Expensive labor force, criminality, high tax burden, and lack of knowledge in the English language are four barriers to entry. These four barriers to entry means that you must calculate with additional establishment costs, which in turn can lead to unprofitable establishment, that
the investment fails. Therefore, we conclude that an establishment of Swedish companies in Brazil can require additional capital to cover these additional expenses.

**Government Policy**
An establishment in Brazil is complicated by state policy, that is high import duties and a complex tax system. High import duties are a form of protective tariffs that impedes free trade and effective establishment. The complex tax system is part of the extensive Brazilian bureaucracy.

7.3 **HOFSTEDE'S FRAMEWORK FOR ASSESSING CULTURE**

We have identified fundamental cultural differences between Swedish and Brazilian culture. About cultural differences, it is always important to keep in mind that there are several ways of looking at life and the environment when meeting people from other cultures. The cultural differences are based on differences in values. The differences can be the cause of culture clashes and misunderstandings between Swedish and Brazilian people.

**Avoidance of Uncertainty**
Brazil is a country with a higher incidence of avoidance of uncertainty than Sweden. To avoid uncertainty and ambiguity, most things of the Brazilian society are controlled by strict laws, policies and regulations to keep people on the right track. For a Swede, who is in generally familiar with a bureaucracy that is characterized by trust, flexibility and efficiency, the Brazilian model of bureaucracy can be perceived as very complicated and circum. For Brazilians, the Swedish system with minimal bureaucracy can create a sense of insecurity.

**Power of Distance**
Brazil is a country with a higher incidence of power of distance than Sweden. The high incidence of power of distance manifests itself in the strict hierarchy in Brazilian organizations. The hierarchy difference can cause a culture shock for Swedes, who in general are accustomed to a flat structure and open relationship between the different levels of it. While Brazilians can be very confused if Swedish organizational culture begins to applies at their workplace.
**Individualism**

The Brazilian culture is more collectivist and less individualistic, in contrast to Swedish culture. In Brazil, it is considered that no one can reach success without the support of family, friends and contacts. This makes the Brazilians put great emphasis on relationship building when doing business. A Swede can experience the Brazilian relationship building as ineffective and irrelevant in a business context. For Brazilians, can a Swede who in general is accustomed to just stick to the factual substance of the topic in business situations, be perceived as very rigid, technical and impersonal, and thereby prevent a possible deal.

**Masculinity**

The Brazilian culture values the masculine values higher than the feminine. Brazil is clearly a masculine culture in contrast to Swedish culture. In a masculine culture, conflicts at the workplace are resolved by letting those who are strongest win, it means in practice that it is always the boss who wins. For a Swede, who in general is accustomed to democratic solutions with logic and compromise at the workplace, might experience the Brazilian way unfair. For Brazilians, who end up at a work place of Swedish character, the manager can be perceived as weak and indecisive when involving employees in decision-making.
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9. INTERVIEWS


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Persson, Per. Exportrådet. 11 April 2011. São Paulo

Ponce, Antonio Carlos. Elekta. 13 April. São Paulo
10. APPENDIX

10.1 APPENDIX 1

Interview Guides for Companies

Introductory Questions

Do you want to be anonymous?

Name?

Position in company?

How long has your employment been at the company?

What are your primary assignments?

How long has your company been established in Brazil?

What is the size of the labor force?

What kind of production does the company involve itself in?

Barriers to entry

What was the most obvious barrier to entry when ------ was established in Brazil?

Were there many well-established companies in the market in the same industry when ------ was established in Brazil?

How did the competitors respond to the establishment of ------ in Brazil?
Do ------ have any domestic suppliers, if yes, how was the experience getting in contact with them?

Are ------ importing products or do you have production within Brazil?

How was it to work with the Brazilian government during the establishment of the business, relating to:

- Restrictions on imports and customs regulations?
- Other bureaucratic issues?

Barriers to entry the Brazilian market according to Swedish companies.

From previous research in this area the following barriers to entry the Brazilian market been identified. What is your thoughts about these according to ------?

The tax system
Expensive labor force
Bureaucracy
Low productivity
Criminality
High tax burden
Corruption
High import duties
English Skills (languages)
Poor education
Over Valued (strong) currency
Poor infrastructure
Cultural differences

When ----- established on the Brazilian market, was there something special in the Brazilian culture that you should consider when doing business with Brazilians?

What is the business relationships of ---- with other Brazilian companies like?

Finally, is there anything you would like to add about barriers to entry or cultural differences?

10.2 APPENDIX 2

Interview Guides for Institutions/Organizations

Introductory Questions

Do you want to be anonymous?

Name?

Position at ------?

How long has your employment been at ------?

What are your primary assignments?

Barriers to entry

What use to be the most obvious barrier to entry when Swedish companies establish their business in Brazil?

How use the competitors respond to the establishment of Swedish companies in Brazil?
Do Swedish companies have any domestic suppliers, if yes, how was the experience getting in contact with them?

Are Swedish companies importing products or do they have production within Brazil?

How is it to work with the Brazilian government during the establishment of a business, relating to:

- Restrictions on imports and customs regulations?
- Other bureaucratic issues?

Barriers to entry the Brazilian market according to Swedish companies.

From previous research in this area the following barriers to entry the Brazilian market been identified. What is your thoughts about these according to Swedish companies?

The tax system
Expensive labor force
Bureaucracy
Low productivity
Criminality
High tax burden
Corruption
High import duties
English Skills (languages)
Poor education
Over Valued (strong) currency
Poor infrastructure
Cultural differences

When Swedish companies establish in the Brazilian market, is it something special in the Brazilian culture that they should consider when doing business with the Brazilians?

What is the business relationships of Swedish companies with other Brazilian companies like?

Finally, is there anything you would like to add about barriers to entry or cultural differences?