



The Internationalization Process of Companies in Wine Clusters: A study in Brazil and France

Aurora Carneiro Zen

Pontificia Universidade Católica do Rio Grande do Sul, Brazil
(aurorazen@gmail.com)

Jaime Evaldo Fensterseifer

Universidade de Caxias do Sul, Brazil
(jaime.ef@terra.com.br)

Abstract

Purpose - *The purpose of this paper is to analyze the role of firm- and cluster-level resources in the internationalization process of clustered companies in the wine sector. The basic premise is that insertion in clusters provides access to resources that influence the internationalization process of firms and hence their export performance.*

Design/methodology/approach - *In order to carry out the proposed analysis a framework was developed that considers the following dimensions of the internationalization process: motivation, foreign market entry mode, international experience, markets, and export performance. A survey with exporting wine companies was conducted in Brazil and in France. In Brazil, due to the small number of exporting firms, a census was carried out in the Serra Gaúcha cluster. In France, the sample covered 130 firms located in four different clusters.*

Findings - *The results point to significant differences in motivation, international experience and export performance dimensions in the internationalization strategies in the two countries. Similarities were identified in the foreign market entry mode and main markets located in East Europe. The results indicate as well that location in different clusters can lead to differences in export performance.*

Practical implications - *Our research provides useful insights on how firms' resources, both internal and externally accessible, can contribute to taking advantage of territorial (cluster) resources and how they can be exploited in their internationalization strategies.*

Key words: Internationalization, Wine Clusters, Resources, Brazil, France.

1. INTRODUCTION

The global wine market has become highly competitive. This fact can be partly explained by the gradual and persistent reduction in consumption in the traditional producing countries and an intensification of export efforts on the part of practically all producing countries. The wineries from the old and new wine worlds have sought to enter the international markets as an alternative strategy for growth, if not for survival. Of particular interest in this study, concerning this internationalization process, are the advantages derived from the geographical agglomeration of wine companies in the individual companies' internationalization strategies.

The objective of this paper is thus to analyze the internationalization process of clustered companies in the wine industry and to identify the importance of firm- and cluster-level resources in this process. Few studies have investigated the relationship between internationalization process and industrial clusters (Zhao and Zou, 2002). This theme is especially relevant for industries that are organized in territorial agglomerations (regional clusters), as is the case of the wine industry.

In this analysis, the Resource-Based View (RBV) approach to strategy offers a useful perspective to identify and analyze competitive advantages derived by clustered firms (Molina-Morales, 2001; Wilk and Fensterseifer, 2003; Fensterseifer, 2007). Besides RBV, this paper also draws on the relational view and the cluster perspective to analyse the role of firm's resources as a central element for understanding the internationalization process within clusters.

A survey with exporting wine companies was conducted in Brazil and in France. The aim was to compare the internationalization strategies of clustered companies from two countries with distinct models of production and marketing in the wine industry – Old and New World. According to data from the International Organization of Vine and Wine (OIV), in 2009 France had vineyards spread over an area of approximately 840,000 hectares, yielding about 45 million hectolitres of wine, and a consumption of 29.9 million hectolitres. Brazil had vineyards in an area of approximately 92,000 hectares, yielding 2.9 million hectolitres of wine, and a consumption of 3.2 million hectolitres. Although with much lower production volume, Brazil has been trying to increase its exports, while France tries to maintain its important share in the world wine market.

2. INTERNATIONALIZATION PROCESS OF CLUSTERED COMPANIES

The analysis of cluster resources in the internationalization process of companies is based on the assumption that cluster resources are accessed by clustered companies and have an impact on their internationalization strategy development and market performance. The dynamics of business networks within a cluster, in turn, influences firms' internationalization behaviour. The cluster can facilitate both access to and development of the necessary resources for their internationalization process (Meyer and Skak, 2002; Chetty and Wilson, 2003; Gellynck et al., 2007). In the cluster context, access to resources available in the agglomeration influences the strategy formation of intra-cluster companies and hence their competitive performance (Meyer and Skak, 2002; Hervas-Oliver and Albors-Garrigós, 2007).

Within the cluster, resources can be accessed by means of "spillovers" and once used by a clustered company becomes a source of competitive advantage. Cluster resources may also display, as firm-level resources do (Barney, 1991), causal ambiguity, path dependency and social complexity, which create barriers to imitation (Molina-Morales, 2001), thus contributing to the sustainability of competitive advantage over time. A clustered company accesses and combines cluster resources with its internal (company-specific or singular)

resources, resulting from its idiosyncratic features, in the development of its internationalization strategy (Tallman et al., 2004; Hervas-Oliver and Albors-Garrigós, 2007). The degree of influence of the cluster resources will depend, however, on the adopted strategy by individual companies.

Appendix 1 shows the framework developed to analyze the process of internationalization of clustered companies. This framework considers five interdependent elements. The first element refers to the **motivation** of companies to access the foreign markets (Czinkota et al., 1996; Honório and Rodrigues, 2006; Hitt, Ireland and Hoskisson, 2008). The second considers the foreign international **entry mode** adopted by companies, ranging from occasional exports to the establishment of subsidiaries of overseas production (Deresky, 2000, Hitt, Ireland and Hoskisson, 2008). The third element in the analysis of the internationalization process is the **markets** where the companies will operate, i.e., where it will market its products (Dib and Carneiro, 2006). The fourth element refers to **time** of operation in foreign markets, which allows for the accumulation of knowledge and international experience (Chetty and Wilson, 2003; Ruzzier, Antoncic and Hisrich, 2007). The fifth element deals with the **export performance** of firms in this process (Katsikeas, Leonidou and Morgan, 2000). In the context of the clustered companies, it is considered that two other factors may influence the process of internationalization of these companies: **firm resources**, the exclusive property of a company, and the **cluster resources**, generated and shared by companies within the cluster.

3. METHOD

Data collection encompasses several phases, including questionnaire designing and pre-testing. The questionnaire comprised three blocks of questions: general information about the company; process of internationalization and firm performance on this process, and firm- and cluster-level resources perceived by firms as the most important in their internationalization effort. Given the specificities of the wine sector and our research objectives, an extensive literature survey was carried out, followed by in-depth interviews with experts in order to identify and classify cluster-level resources. This resulted in the classification shown in Appendix 2, which was then used in the questionnaire.

After this design phase, two pre-tests were conducted prior to the field survey. The first pre-test focused on academic and professional experts from the wine sector, while the second focused on a few wine producing firms; they provided the opportunity to modify some questions in order to get better and unbiased responses in the survey.

This study was carried out with wine exporting companies with less than 250 employees in France and in Brazil. In France, the sample covered 130 firms located in four different clusters, all of them in southern France. In Brazil, due to the early stage of development of the wine sector, a census was carried out with the exporting wineries of the Serra Gaúcha region, a cluster responsible for 80% of the country's wine production; 18 responses were obtained, covering 90% of the population of Brazilian wine exporting firms.

4. RESULTS AND DISCUSSION

4.1 The Internationalization Process

The empirical results show that 10 Brazilian companies (out of 18 respondents) have international operations for six years or less, and sold their wines in at most three countries. The two most important motivations to internationalization were: sales growth and public

policies to foster internationalization. The foreign international entry mode most frequently used was export. The geographical region most important to exports of Brazilian companies was Western Europe, followed by North America. The export intensity can be considered low, with an average of 6% of total wine commercialized.

Regarding the internationalization process of French companies, the foreign international entry mode most used was export, as in the Brazilian case. The average of internationalization time was 14.8 years, with an average number of foreign markets of 7.8 countries. The main geographical region of international operation of French companies was Western Europe, followed by North America, but with an important presence in Asia and Oceania. The most important motivation was to increase sales, a growth strategy through diversification into international markets. But, contrasting to the Brazilian case, public policies to foster internationalization was considered the least important motivation. The average export intensity of French wine companies was 32.2%, also in sharp contrast with the Brazilian case (only 6%).

A factor analysis was conducted with respondents' perception of the items included in the questionnaire related to motivation to enter the international market (the KMO measures the sampling adequacy was 0.587). The results presented three factors: reactive, proactive and external stimulus. The motivation of the Brazilian wineries were found to be more related to the factor "external stimulus", whereas in France it was more related to the "proactive" factor (in order to increase sales and profitability). According to Dana and Winstone (2008), in the initial phase of internationalization of the wine industry, governmental actions, through policies and programs to encourage internationalization, are more important, justifying the higher importance attributed to this motivation for Brazilian companies and with the "external stimulus" factor.

The satisfaction of companies within export performance was evaluated by four items: profit from exports, total export volume, evolution of exports and export volume in relation to volume exported by competitors. We evaluated four items using a five point scale, being assigned (1) to "dissatisfied" and (5) to "completely satisfied". The highest satisfaction of French companies with exports in the last three years was profit from exports (3.24), followed by total export volume (2.89), while to Brazilian companies was evolution of export volume (2.61), followed by total export volume (2.44). France, being a traditional producer, commands a higher value for its wine in the international market. This result also provides evidence of the importance of country of origin to obtain a competitive advantage in the global wine industry; it also provides evidence that the country's reputation can support the internationalization strategy of companies in this sector.

4.2 Resources and Internationalization

The evaluation of resources was based on respondents' perception of the items related to firm- and cluster-level resources, as listed in Appendix 2. At the firm level, the classification included 23 resources; at the cluster level 16 resources were considered. A five-point scale of importance was used for the evaluation, ranging from: (1) "not important" to (5) "very important".

The firm-level resources identified as the three most important in the internationalization process of Brazilian companies were: technical knowledge in viticulture (4.61); availability of financial capital for investment (4.50); and equipment and machinery used in the production process (4.41). For the French sample, the firm-level the three resources considered the most important to support the internationalization efforts were: technical knowledge in viticulture (4.25); qualified human resources in the commercial area

(4.18); and commercial management (4.18). Technical knowledge in viticulture was perceived in both countries as the most important firm-level resource to support the internationalization of the company.

Regarding cluster-level resources, the three most important ones for the internationalization of Brazilian companies were: *terroir* (4.41), reputation of specific *terroir* (4.35), and infrastructure related to tourism (4.33). For the French companies they were: region's reputation (4.43), reputation of a specific *terroir* (4.40), and *terroir* (4.36). Comparing the three most important cluster-level resources to internationalization in Brazil and France, "reputation" and "*terroir*" were considered highly important for both countries, although in differing degrees. As expected, reputation of the region was considered a most valuable cluster (collective) resource in France than in Brazil in their internationalization efforts.

4.3 Resources and Export Performance

Using Kruskal-Wallis statistic test in the French sample, we identified that companies located in different clusters presented a significant difference in export performance. In this way, some clusters can have a more significant positive impact on export performance than others. This finding extends the results of previous studies (Becchetti and Rossi, 2000; Belso-Martinez, 2006; Becchetti, Panizza and Oropallo, 2007) about the relationship between localization in cluster and export performance. In this research, we identified that the geographical location, although important for the businesses, should also be accompanied by the development of firm-level resources, as can be seen through the relative importance of the firm effect.

A factor analysis was conducted on respondents' perception of the items related to firm- and cluster-level resources listed in Appendix 2. At the firm level, the 23 resources were grouped by principal component analysis in seven factors, namely: Production, Legal, Financial, Commercial, Information Systems, Supply Chain Expertise, Know-how and Relational. At the cluster level, the 16 resources were grouped in four factors, namely: Infrastructure, Relations and Information, Institutions and *Terroir*, and Reputation.

Regarding the perceived importance of the cluster resources to the internationalization of wine, we identified a significant difference in the factor '*terroir* and institutions'. This result indicates that the French companies belonging to different clusters perceive differently the importance of cluster resources related to 'institutions and *terroir*'. We also found that companies with superior export performance considered the 'commercial' factor as being more important than for low-performance clustered companies.

5. CONCLUSION

This paper investigated the internationalization process of wine companies in Brazil and France and analyzed the perceived impact of resources, both firm- and cluster-level, in this process. The results clearly show that the insertion in clusters provides access to resources that positively influence the internationalization process of the clustered firms. In analysing the influence of resources, both firm- and cluster-level, the following dimensions of the internationalisation process were used: motivation, foreign market entry mode, international experience, markets and export performance; the main conclusions and contributions of the analysis are synthetically highlighted below.

The internationalization of Brazilian wine companies was motivated mainly by sales growth and public policies to foster internationalization. For the French companies the main

motivation was to increase sales, a growth strategy through diversification into international markets. In both countries the main foreign market entry mode used is export and the most important geographical region is Western Europe. The export performance of companies from Brazil and France differed significantly. The average export intensity of French wine companies was 32.2%, also in sharp contrast to the Brazilian case (only 6%).

At the cluster level, *terroir* and reputation were perceived as the most important shared resources to support internationalization efforts. At the firm level, Brazilian and French companies alike highlighted the importance of technical knowledge in viticulture. This result reinforces the role of knowledge to produce wine for the international market. The results also indicate that the location of different clusters can lead to different levels of export performance.

Some scholars showed that the country reputation may enable a competitive advantage in the process of internationalization, and this effect is most relevant in industry such as wine (Dana and Winston, 2008). The results of this research indicate that managers should also consider the cluster (regional) reputation in the development of international strategy of companies. An implication for public policy-makers within geographical agglomeration refers to the role of cluster governance to build cluster-level reputation and to develop collective international strategies.

Concerning implications for individual firms, our analysis provided useful insights on how firms' resources, both internal and externally accessible, can contribute to taking advantage of territorial (cluster) resources and how they can be exploited in their internationalization strategies. One finding particularly relevant to the internationalization of companies, albeit expected, is the importance of firms' resources linked to the commercial factor and their influence on export performance.

Technical and commercial knowledge were considered central elements in the export performance of the surveyed firms of both countries. A managerial implication of this result on the internationalization of companies is the need for the development of commercial resources, such as commercial management and knowledge about foreign markets. Accordingly, the international market orientation may also improve the export performance of wine companies.

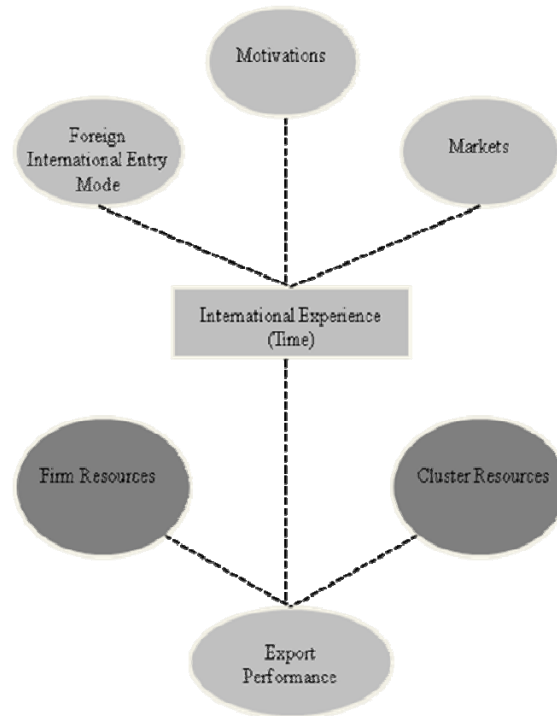
Further research should hence focus on the role of knowledge resources in the internationalization of companies and their impact on export performance. Specifically in the wine industry, new research should also investigate the influence of country's resources, besides firm's and cluster's, on this process, such as reputation and technological institutions.

REFERENCES

- Barney, J.B. (1991), "Firm Resources and Sustained Competitive Advantage", *Journal of Management*, Vol.17, pp. 99-120.
- Becchetti, L., Panizza, A. and Oropallo, F. (2007), "Role of industrial district externalities in export and value-added performance: evidence from the population of Italian firms", *Regional Studies*, Vol. 41 No. 5, pp. 601-621.
- Becchetti, L. and Rossi, S. P. (2000), "The positive effect of industrial district on export performance of Italian firms", *Review of Industrial Organization*, Vol. 16 No. 1, pp. 53-68.
- Belso-Martines, J. A. (2006), "Why are some Spanish firms internationalizing rapidly? The role of business and institutional international networks", *Entrepreneurship & Regional Development*, Vol. 18, pp. 207-226.

- Chetty, S.K. and Wilson, H.I.M. (2003), “Collaborating with competitors to acquire resources”, *International Business Review*, Vol. 12, pp. 61-81.
- Czinkota, M.R.; Ronkainen, I.A. and Moffett, M.H. (1996), *International Business*, The Dryden Press, Orlando, FL.
- Dana, L.P. and Winston, K.E. (2008), “Wine Cluster Formation in New Zealand: Operation, Evolution and Impact”, *International Journal of Food Science and Technology*, Vol. 43 No. 12, pp. 2177–2190.
- Deresky, H. (1994), *International Management*, Prentice Hall, New Jersey.
- Fensterseifer, J.E. (2007), “The emerging Brazilian wine industry: challenges and prospects for the Serra Gaúcha wine cluster”, *International Journal of Wine Business Research*, Vol. 19 No.3, pp. 187-206.
- Ferreira, F.C.M., Goldszmidt, R.G.B. and Csillag, J.M. (2010), “The Regional Concentration of Industries and the Performance of Firms: a Multilevel Approach”, *Brazilian Administration Review*, Curitiba, Vol. 7 No. 4, pp. 345-361.
- Gellynck, X., Vermeire, B. and Viaene, J. (2007), “Innovation in food firms: contribution of regional networks within the international business context”, *Entrepreneurship & Regional Development*, Vol. 19 No. 3, pp. 209-226.
- Hervás-Oliver, J.L. and Albors-Garrigós, J. (2007), “Do clusters capabilities matter? An empirical application of the resource-based view in clusters”, *Entrepreneurship & Regional Development*, Vol. 19 No. 2, pp. 113-136.
- Hitt, M.A., Ireland, R.D. and Hoskisson, R.E. (2008), *Administração Estratégica: competitividade e globalização*, (2nd ed.), Thompson, São Paulo.
- Honório, L. and Rodrigues, S.B. (2006), “Aspectos Motivacionais e Estratégicos na Internacionalização das Empresas Brasileiras”, *Revista de Administração Contemporânea*, Vol. 46, pp. 86–98.
- Katsikeas, C., Leonidou, L. and Morgan, N. (2000), “Firm-level export performance assessment: review, evaluation and development”, *Academy of Marketing Science*, Vol. 28 No. 4, pp. 493-511.
- Meyer, K. and Skak, A. (2002), “Networks, Serendipity and SME Entry into Eastern Europe”, *European Management Journal*, Vol. 20 No. 2, pp. 179–188.
- Molina-Morales, F.X. (2001), “European industrial districts: Influence of geographic concentration on performance of the firm”, *Journal of International Management*, Vol. 7, pp. 277-294.
- OIV (2010), International Organisation of Vine and Wine, Note on the World Situation March 2010, available at: <http://www.oiv.int> (accessed 30 April 2010).
- Ruzzier, M., Antoncic, B. and Hisrich, R.D. (2007), “The internationalization of SMEs: developing and testing a multi-dimensional measure on Slovenian firms”, *Entrepreneurship & Regional Development*, Vol. 19, pp. 161–183.
- Tallman, S., Jenkins, M., Henry, N. and Pinch, S. (2004), “Knowledge, clusters, and competitive advantage”, *Academy of Management Review*, Vol. 29 No. 2, pp. 258-271.
- Wilk, E. O. and Fensterseifer, J.E. (2003), “Use the Resourced-based View in Industrial Cluster Strategic Analysis”, *International Journal of Operations & Production Management*, Vol. 23 No.9, pp. 995-1009.
- Zhao, H. and Zou, S. (2002), “The impact of industry concentration and firm location on export propensity and intensity: an empirical analysis of Chinese manufacturing firms”, *Journal of International Marketing*, Vol. 10 No.1, pp. 52-71.

APPENDIX 1 – Framework of the Process of Internationalization of Clustered Companies



APPENDIX 2 – Firm- and cluster-level resources in the wine industry

Firm-level resources	Cluster-level resources
<p>Winery facilities Equipment and machinery used in the production process Access to inputs (fertilizer, bottles, corks, labels, etc.) and raw-material (grapes) Production management and quality control Technical structure to develop new products Technical knowledge in viticulture Availability of financial capital to invest Access to credit (easy to request and receive) Intellectual Property (protection for brand and industry secrets) Agreements and licensing (to use technology and brand or explore markets) Contracts with raw material suppliers Customer data-base Company’s information system (internal and external data exchange with suppliers and customers) Organizational culture (the company’s values and the way it operates in the market) Winegrowing reputation in the domestic market Knowledge of external markets Commercial management (sales management and customer relations) Qualified human resources in the technical area Qualified human resources in the commercial area Network for distribution in hypermarkets and supermarkets Network for distribution in wine stores Network for distribution in restaurants and bars Cooperative relations with different agents (sector associations, teaching and research institutes, unions, suppliers, competitors, customers)</p>	<p><i>Terroir</i> (grape variety, specific characteristics of soil and climate, viticulture and oenological practices) Presence of technological research institutions Presence of professional institutions linked to grape-growing and wine-making activities Presence of public and private institutions linked to grape-growing and wine-making activities Tourism-related Infrastructure Logistics infrastructure Access to technical assistance (for grape growing and wine making) Access to credit (credit specifically aimed at producers and wineries established in the area) Access to qualified human resources (education and training with specific knowledge of the region) Region’s reputation (value of “region of origin”) Reputation of a specific <i>terroir</i> (value of a delimited <i>terroir</i>, such as a geographical indication – registered or in the process of registration) Region’s culture Access to economic information pertaining to external market Access to legal information pertaining to external market Horizontal cooperative relations among the region’s wineries Vertical cooperative relations in the region</p>