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Task 1

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Contents

Introduction	3
Brief of the developing country	3
Theories of Business Environment	3
PESTEL analysis:.....	4
Porter's Diamond.....	6
Value Network Analysis	6
Porters Five Forces	7
Hofstede Analysis:.....	9
Opportunities, Challenges and management strategy	10
Obstacles of foreign business in Brazil	11
Strategies to succeed in foreign business in Brazil	13
Conclusion	14
Reference list	15

List of Figures

Figure 1: GDP Growth Rate (Statista, 2022)	4
Figure 2: Brazil's Poverty Rate (The World Bank, 2022)	5
Figure 3: Porter's Diamond Model (Abhishek, 2022)	6
Figure 4: Figure: Porter Five Forces (Abhishek, 2022)	7
Figure 5: Hofstede Analysis of Brazil (Hofstede Insights, 2022)	9
Figure 6: Obstacles of foreign business in Brazil (da Motta and Gomes, 2021)	11

Introduction

International Business is a buzzword in the globalised era. International business involves the transnational trade of goods, services, or resources (David, 2015). It is the international exchange of goods and services. Unilever, a UK company, operates in multiple countries. In international business, nations exchange money for physical products, people, intellectual property, and contractual assets (Hubbard, Rice and Galvin, 2019). The international business environment is critical for an organization's success because country environments vary (Brooks, Weatherston and Wilkinson, 2011). A UK-based company moves production to a developing country in this report. The two countries' different environments affect production and trade. This report analyses the country's business environment and organisational strategy using PESTEL, Value network, Porter's diamond, Hofstede, and Porter's five forces model. Evaluate corporate governance, business strategy, and cultural opportunities and threats. The report concludes with recommendations to help the UK company in the developing country.

Brief of the developing country

Brazil is a developing country in this report and the 5th largest country which occupies 50% of South America (Heinrichs, 2014). Most of its people live on the east coast, but its capital is far inland, and more are moving to the countryside. Brazil's Amazon lowlands are its most famous feature. It's the world's 9th largest economy and Latin America's largest (Wall and Minocha, 2015). It has the world's fifth-largest population and a growing consumer market. In the previous decade, strict credit restrictions, extensive bureaucracy, political chaos, and severe corruption scandals hampered Brazil's economic expansion and decreased investor confidence, but the newly elected government was optimistic. It aims to cut administrative barriers, minimise corruption, expose Brazil to foreign investment, and reduce government interference in local markets. Natural resources and the government's positive intervention in international business create the highest possibilities in the global market, attracting the most reputable firms (Ali, 2019).

Theories of Business Environment

To simplify the complex and dynamic business process, several ideas, techniques, and methods for environmental evaluation have been developed (Brooks, Weatherston and Wilkinson, 2011). Environmental uncertainty can be happened to a lack of appropriate analysis of environmental issues, especially for international business which affects the overall business performance. Here discuss several theories of the business environment in Brazil (the developing country).

PESTEL analysis:

PESTEL analysis aims to investigate several factors such as political, economic, social, technological, environmental, and legal factors (Hubbard, Rice and Galvin, 2019). Here discuss all the factors based on Brazil.

i) Political Factor: Brazil is a powerful federal republic in South America (Martinez and Ferreira, 2019). Additionally, it is regarded as a middle power with moderate implications in global affairs. Most politicians think that Brazil has become the superpower county in the world. It gets the membership of several international organizations such as IMF, UN, WTO, World Bank, BRICS, and Mercosur (Heinrichs, 2014). The UK can run its operation in Brazil because the new government in Brazil is stable and responsive so there is no political instability.

ii) Economic Factors: According to the world's nominal GDP, Brazil ranked in the 8th position (Statista, 2022). Its potential growth is extremely high than other South American countries. The gap between rich and poor is declining which affects the economy. Labour costs are relatively cheaper, and International and domestic companies are equally treated which is good for UK companies. Even FDI is also available in this country. Though economic crisis, decreasing consumer demand, and tax and tariff barriers, there are numerous opportunities for the infrastructure, health, IT, education, and tourism sector (Mallin, 2019).

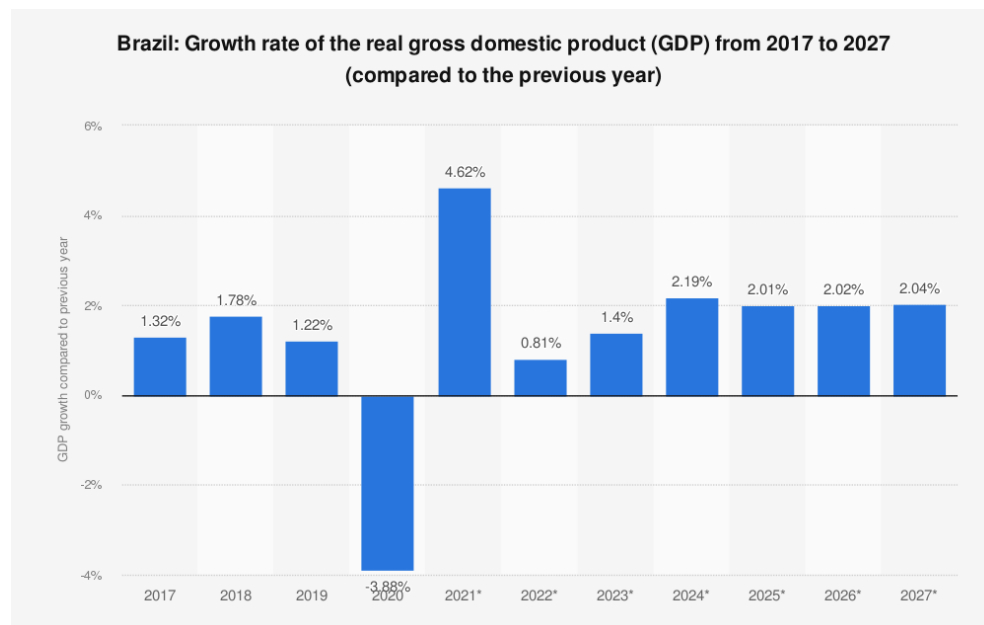


Figure 1: GDP Growth Rate (Statista, 2022)

iii) Social Factors: Brazil is one of the world's most diversified nations. Approximately 13% of the population lives below the poverty line which indicates that there is an economic disparity in the society though it has significant progress in the economy in the last few times (The World Bank, 2022).

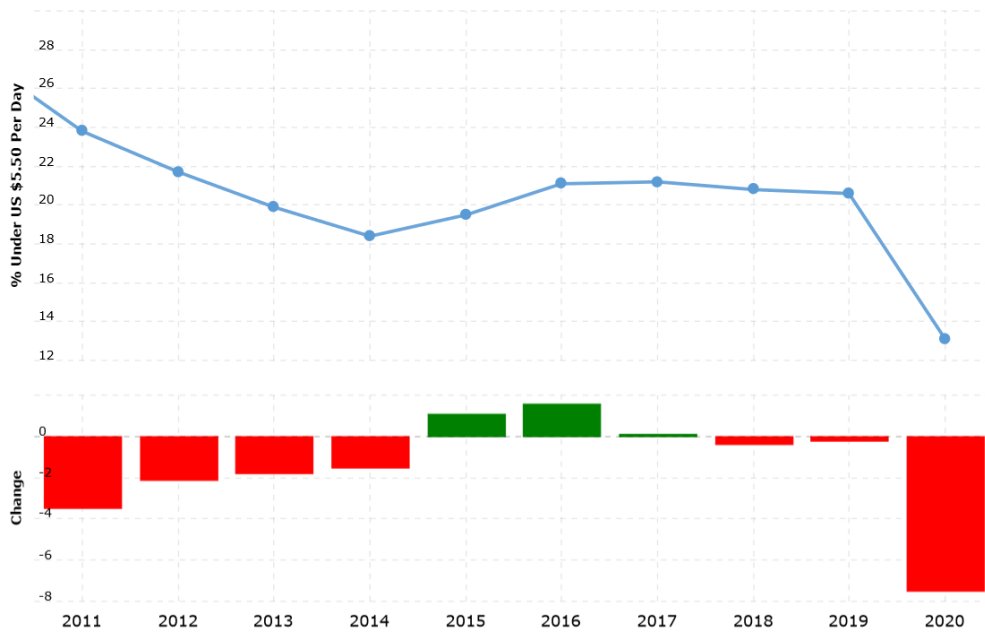


Figure 2: Brazil's Poverty Rate (The World Bank, 2022)

Criminal violence is another significant issue for the nation. In addition, the COVID-19 epidemic has caused significant unemployment and severe poverty. Nowadays Brazilians are regarded as modern and up-to-date in the fashion industry since they are familiar with major brands and willing to purchase costly and luxurious goods.

iv) Technological Factors: Compared to developed countries Brazil's technology infrastructure is less developed (Martinez and Ferreira, 2019). However, there are initiatives undertaken to promote the creation of the technology sector around the nation. In recent years, Sao Paulo has experienced a technological boom. Hopefully, UK based company can cope with this country.

v) Legal Factors: Although an employment contract is not legally required in Brazil, it is a standard practice for firms to write and sign it. The government generally encourages foreign investment in a variety of industries which is useful for the UK company (Costa, Pagotto and Mustafa, 2018).

vi) Environmental factors: Brazil is struggling with environmental problems such as oil spills, deforestation, water pollution, air pollution, illegal hunting, and wildlife export (Mataveli et al., 2022). The government has launched several programs to tackle environmental issues.

Porter's Diamond

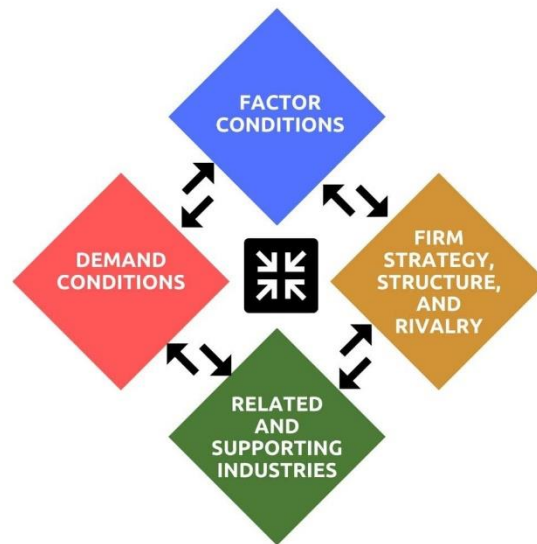


Figure 3: Porter's Diamond Model (Abhishek, 2022)

Porter's diamond emphasizes the resource endowment of a country or the number of resources that a country has available for production (Costa, Pagotto and Mustafa, 2018). Brazil's primary advantage is its affluence of natural resources but they misuse its comparative advantage. Additionally, Brazil has a workforce of about 100 million people, but its labour practices aren't flexible (Martinez and Ferreira, 2019). Their strict hiring/firing procedures, labour laws, and labour requirements all act as constraints that affect productivity. Starting a business in Brazil is a challenging and ineffective task when compared to national standards while examining. But the newly elected government take several steps to overcome the situation. They aim to cut excessive administrative barriers, minimize governmental corruption, expose Brazil to foreign investment, and reduce government interference in the local market.

Value Network Analysis

Brazil's involvement in global value chains is quite unusual. The nation imports high-tech products in general while early deindustrialization occurred and the country's exports were mainly composed of basic goods (Wall and Minocha, 2015). Brazil has been trying to acquire a more technologically advanced position in the value network (Martinez and Ferreira, 2019). In the past few years, many sectors have transformed from nationalized to global read networks and global

suppliers spread their operations across several counties which is helpful for the UK-based company.

Porters Five Forces

According to porter whatever the industry, the principle of profitability is the same (Hubbard, Rice and Galvin, 2019). Porter established 5 factors that are used to determine if new goods, services, or enterprises have the opportunity to succeed (Michaux, Cadiat and Probert, 2016). Here discuss 5 factors-



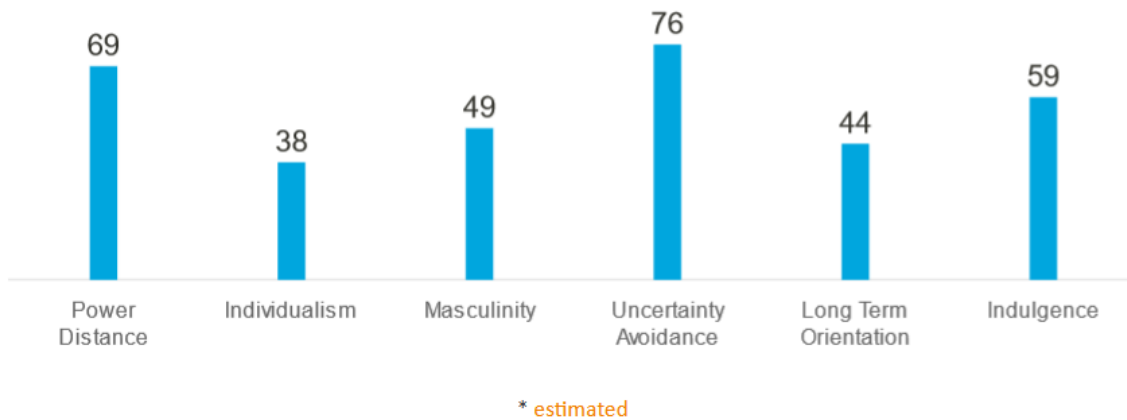
Figure 4: Figure: Porter Five Forces (Abhishek, 2022)

- i) The threat of new entrants:** In Brazil, the industry is quite large to the country's placement (Martinez and Ferreira, 2019). So the threat of new entrants is so high.
- ii) The intensity of Rivalry Among Competitors:** In any industry, there are several competitors in Brazil. Because there is less demand for the goods, consumers are less likely to be brand loyal. As a result, the level of rivalry among competitors will be considered moderate.
- iii) Bargaining Power of Suppliers:** Due to the abundance of raw materials in Brazil, the suppliers will have high bargaining power. They also have a lot of raw materials in their nation.
- iv) Bargaining Power of Buyers:** There are around 170,000,000 people in Brazil, and they consume a huge number of products. The production is not moderate to their demand. So the bargaining power of buyers is high.

v) The threat of Substitute Products: In recent years' foreign investment and trade have risen for every industry developed which invents several products and even substitute everything (Martinez and Ferreira, 2019). Therefore, the threat of substitute products is high.

Hofstede's Cultural Dimension Analysis:

In the 1970s Dr Greet Hofstede created his model of cultural aspects based on a decade of research (Deardorff, 2019). The model consists of six dimensions such as-



Brazil

Figure 5: Hofstede Analysis of Brazil (Hofstede Insights, 2022)

i) Power Distance Index (PDI): Although there are inequities among Brazilians, the country's society maintains a hierarchy (Martinez and Ferreira, 2019).

ii) Individualism vs Collectivism (IDV): Brazil's society is collectivist and often formed into powerful, lasting organizations which maintain to protect its members in exchange for dedication (Hofstede Insights, 2022).

iii) Masculinity vs Feminine: Brazil thinks that they should respect people based on seniority, regardless of gender, and that there should be equality between men and women.

iv) Uncertainty Avoidance Index (UAI): The majority of Brazilian society is based on absolute truth, which determines everything (Martinez and Ferreira, 2019).

v) Long-term vs short-term orientation: Brazil lacks the dedication to think about the future of the country.

iv) Indulgence vs Restraint: Brazilians typically show an ability to act on their emotions and wishes when it relates to having fun and living life (Hofstede Insights, 2022).

Opportunities, Challenges and management strategy

To run an international business, every company finds some opportunities and difficulties which may create barriers to business operations (Hubbard, Rice and Galvin, 2019). In Brazil, there are also some **opportunities and challenges**.

Opportunities

- Brazil's market is huge to invest in and earned profit easily.
- A regulated market helps a company to maintain legal law and solve a problem under the regulations.
- Brazil has many opportunities sector to establish businesses like agriculture, banks, oil, gas, etc. (Mataveli et al., 2022).

Challenges

- The interest rate in Brazil's capital market is comparatively high which is one of the challenges for new business (de Oliveira et al., 2022).
- Brazil's labour market is also highly regulated by the law and regulations in Brazil than in other countries (Mataveli et al., 2022).
- Brazil's culture is different from other countries that may not know the foreign business company.
- Brazil's political influence is high rather to other countries which creates threats to the business.

Management strategy under the aspects of corporate governance, different business strategy, and cultural sensitivity is given following-

Corporate governance: Brazilian Corporation Law has established corporate governance of Brazil's listed companies (de Oliveira et al., 2022). Brazil's corporate governance has some rules which provide facilities for foreign business. The foreign company can be established under LLC (Limited Liability Company) Brazilian subsidiary, the country will provide a lower cost to the foreign business company.

Business Strategy: - Business strategy in Brazil is different from other countries because of the environment. The challenges can be controlled by a different strategy. For example- the foreign company before hiring any labour should make a contract with the labour.

Cultural Sensitivity: - Culture is a sensitive issue for all nations and Brazilian culture also creates some difficulties (Mallin, 2019). To minimize the cultural sensitivity problem, foreign businesses have to be aware of the culture. Brazilians believe that business relations are made out of trust and knowing the partners not only professionally but also personally. So, a foreign business owner should know cultural variants before starting a business.

Obstacles of foreign business in Brazil

Much foreign business has started in Brazil in recent decades but not all businesses can do well in the country because of some barriers in Brazil (Wall and Minocha, 2015). These barriers create huge difficulties for foreign businesses and many companies shut down their operations.

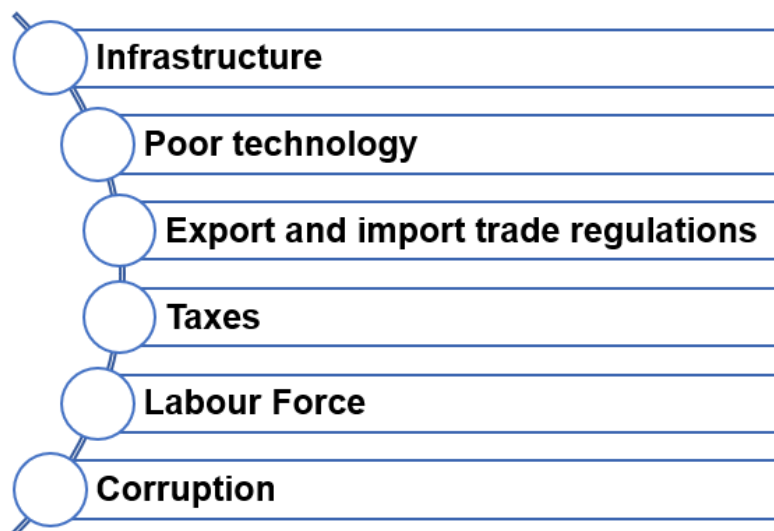


Figure 6: Obstacles of foreign business in Brazil (da Motta and Gomes, 2021)

These obstacles are discussed below-

- ❖ **Infrastructure-** Brazil's poor infrastructure limits production and distribution (de Oliveira et al., 2022). Due to poor infrastructure, many companies cannot produce or sell enough to make a profit (Deardorff, 2019). In Brazil, narrow roads make it difficult for foreign businesses to distribute products and collect raw materials on time.
- ❖ **Poor technology** – The technology position in Brazil is poor which hampered business operations (de Oliveira et al., 2022). As most of the business is technology based in recent years, Brazil cannot provide the technical facilities to this business. For example, the

technology-based company cannot go through the Brazilian market as its low facilities before Microsoft invested in Brazil.

- ❖ **Export and import trade regulations-** The export and import regulations in Brazil create difficulties for foreign businesses (de Oliveira et al., 2022). Export and import are important parts of a foreign business, but Brazil cannot provide the right place for the foreign investor and many businesses did not get encouraged for starting a business in Brazil (Costa, Pagotto and Mustafa, 2018). Brazil imported goods take time for proceeding to the port which may high the charge.
- ❖ **Taxes-** Brazil's government has charged around 90 taxes and different duties which make costs high for foreign business (Heinrichs, 2014). High tax charges can increase the cost of the business operations and the business may not make the product on a budget. The Brazilian government charge different government taxes like federal tax, municipal tax, and state tax for an individual company which may increase the cost for foreign business.
- ❖ **Labour Force-** Brazil's local labour force has a great influence on foreign business as Brazil has strong labour laws and many people engage the labour market for labour facilities (Mataveli et al., 2022). In Brazil, there are many labour Unions and labour wages are comparatively high in the country. This labour force is one of the concerned areas for foreign business investors in Brazil. Brazil has 900 articles on labour law which is critical to navigating. If foreign businesses do not know the law briefly that may cost high for the company to pay a high fine.
- ❖ **Corruption-** Brazil has known for its corruption incident in the world nations. High corruption and bribery in Brazil pose a business risk (de Oliveira et al., 2022). Hence, Corruption makes doing business in Brazil difficult for foreigners. Many Brazilian Government agencies have found corruption that affects foreign business.

Strategies and other recommendations to succeed in foreign business in Brazil

To run a foreign business in Brazil, there must maintain some strategy as the country is different from others in culture and business structure (Ali, 2019). This strategy should be taken based on the Brazilian business market and the challenges related to foreign business. Some strategies and recommendations for foreign business that can be taken to succeed in Brazil given following-

- ❖ Brazil's legal system is very critical, and every entity should maintain the system (de Oliveira et al., 2022). To successfully do business in Brazil, the first strategy should be to know the legal system and law related to the business or it can create trouble for the business. As the legal environment is important for any business, it should consider more wisely.
- ❖ In hiring local employees, the foreign business owner should know the labour law or it may charge higher compensation to the company. Labour law is strict in the nation and many companies have to provide high compensation to the labour because of their law.
- ❖ Brazil's business market should be understood by the foreign business investor and analysis of the prospects of the business. Valuation is important to analyse the business market. Investors can evaluate the Brazilian market to know the future market scope.
- ❖ Technology-based companies may not do well in Brazil as their technology environment is poor. So, this kind of company should avoid or find out the alternative way to solve the problem.

Conclusion

Developing an international business and running the business successfully in a developing nation is difficult for a company which is originated in a developed country. Many factors related to the developing country can create problems or barriers to business. A company must know the business environment of the developing country and analysis of the different scopes of the business which may help the business to be successful in developing nations like Brazil. From other developing countries, Brazil is different as the economy of Brazil is growing more than the other nation. For this, many businesses want to set up their operation in Brazil for low-cost facilities and high returns.

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