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Purpose: The economic realignment in Latin America has created two clusters, one stagnant in the north and the other growth-bound in the south. This study focuses on Brazil, the key player in the growth-bound southern cluster and addresses three fundamental questions: how Brazilian executives in four B2B sectors (telecommunications, business equipment, steel, and transportation) viewed the internal competitive developments, how they strategically responded to these developments, and what were the marketing and financial outcomes of these strategies.

Design/methodology: Data was obtained by interviewing top decision makers such as president, chief executive officer, and director of the companies.

Findings: Findings show that the intensity of competitive pressures due to globalization varied by sector and so did strategic responses of firms. Marketing and financial performance outcomes also varied by sectors.

Originality/value: The study adds to the growing literature on competitive market developments, strategic responses and performance outcomes of firms in Brazil, an important emerging economy and the key player in the southern Latin America cluster.

Keywords:

Economic polarization
Emerging economies
Competitive strategies
Performance outcomes

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Several market-related and economic factors have pushed forward the growing involvement of multinational firms in emerging economies. Reduced tariff barriers, high growth rates, favorable trade and investment policies, and increasing purchasing power of consumers have transformed emerging economies into attractive destinations for products and services from developed as well as emerging economies. The growing attractiveness of domestic markets has attracted not only resource seeking but also market seeking multinationals (Yunyun, 2010). The entry of multinationals of different size and origin has bolstered the integration of emerging economies into the global economy and changed the competitive environment internally. Although both effects of globalization are being addressed in business journals, the latter issue of how the local competitive environment changes due to the entry of foreign firms has moved to the forefront because of its role in understanding internal market developments in emerging economies. Linked to this issue are also other concerns that relate to the impact these changes have on local firms' strategies and marketing and financial performance. As Robles (2012) notes, there is a need to understand how Latin American firms reconfigured their competencies and skills to respond to competitive developments.

Recent studies on the impact of globalization on markets and firms in emerging economies reveal a rather complex picture. Garrett (2004), for example, notes that increasing openness of emerging economies has not been beneficial to their firms because these firms cannot compete against products from less developed countries that have the cost advantage and against products from developed economies that have the quality advantage. Daniels (2000), on the other hand, contends that as emerging economies open their markets due to globalization, some of the protected firms and industries might not survive, but others may grow and internationalize. Kotabe et al (2000) also note that economic liberalization has increased competitive pressure on Latin America's firms and many of them have been unable to compete while others have engaged in strategic alliances to improve their market positions. Furthermore, Robles (2012, p.15) notes that "the improvement in competitiveness in more mainstream manufacturing may not be enough to compete with formidable Asian economies."

Case studies of firms also provide mixed evidence of detrimental and beneficial consequences of globalization in the emerging economies. For example, local firms that managed to close the technology and talent gaps and were flexible in strategic approaches seemed to have fared comparatively better in dealing with the competitive effects of globalization in their domestic markets (Bhattacharya & Michael, 2008; Dawar & Frost, 1999). In India, for example, Das (1997) examined the responses of Indian firms to globalization and noted that firms were strategically ready to achieve greater competitiveness in critical areas such as cost, quality, customer service, and branding. However, in Brazil, Barretto and da Rocha, (2001) found that local firms experienced an increase in price and margin pressures when international firms entered the domestic markets.

Although existing studies have examined the effects of globalization in different emerging economies, several substantive gaps remain to be filled. First, there is a paucity of scholarly research on Latin America, even though scholars recognize the growing significance of this region. This state of affair has been succinctly captured in a recent article entitled, "Why is so little marketing research on Latin America published in high quality journals and what can we do about it" (Fastoso and Whitelock, 2011). Second, existing studies on globalization and emerging economies have mostly focused on the B2C sectors, not the B2B sectors. This gap needs to be filled because the B2B sectors are different in terms of competitive structure, customer behavior, and degree of protection accorded by the government. Third, as the issue of strategic behavior and performance of firms in emerging economies is beginning to receive greater scholarly attention, there is a need to take an in-depth view of the competitive challenges of globalization for local firms in Brazil, the largest economy in Latin America and the key player in the southern cluster of countries in Latin America.

The paper attempts to fill the above mentioned gaps by addressing the following research questions: how top executives in four major B2B sectors in Brazil (telecommunications, business equipment, steel, and transportation) perceived the changes in the domestic competitive environments due to globalization, how they strategically responded to these competitive challenges, and what effects these strategies had on marketing and financial performance of their firms. As globalization and economic polarization continue to introduce competitive challenges in Brazil, findings from the four major B2B sectors will provide strategic insights to executives in other sectors not covered in this study and to firms in other countries in the southern Brazil led cluster.

The paper is divided into four sections. The first section briefly discusses developments related to globalization and economic polarization, and describes the four B2B sectors studied in the paper. The second covers the conceptual frameworks that guided the approach taken in this study to address the research questions. The third section provides information on sampling, data collection, and findings. The fourth section discusses managerial and public policy implications and provides suggestions for future research.

Globalization

One of the recurrent themes in the discourse on globalization is that market opportunities and threats have arisen due to the removal of trade barriers, privatization of industries in emerging economies, advances in telecommunication and transportation technologies, formation of global accounts and customers, development of relationship management, and growth of network organizations (Sheth & Parvatiyar, 2001; Segal-Horn, 2002). The process of globalization has not only extended the geographical scope of firms, but also integrated diverse functional business activities and brought about qualitative and structural changes in the organization of economic activities (Dicken, 2003). These changes due to globalization are occurring not only in developed economies but also in emerging economies where local firms now face a new form of competition as a result of the greater openness of the economy that has attracted new players and products to the market. The changes due to globalization have also given rise to increased competitive intensity and competitive pressures and created higher uncertainty and complexity for local firms (D'Aveni, 1994; Daniels, 2000; Hafsi, 2002). In particular, local firms in emerging economies find themselves confronting a new competitive reality with strategic and performance implications.

Globalization and Brazil's Four B2B Sectors

Brazil, the largest and the key economy in the polarized Latin America, has to deal with the forces of globalization as it transitions from a semi-closed to an open economy. The country initially followed a policy of self-sufficiency that promoted the development of what was then considered strategic industries. It formulated the Import Substituting Industrialization (ISI) policies to guide economic strategic thinking from the 1930s to the early 1960s. During these four decades, the country embarked on industrializing its economy and building the automotive and steel sectors (Cardoso, 2009). These industries were given protection by according them the most favored status and erecting high tariff barriers. In 1987, for example, the effective tariffs rate in the transportation equipment (automobile, trucks, and buses) industry was 308 percent and in the business equipment industry around 55 percent (Abreu, 2004). However, in the late 1980s and onward, Brazil embarked on a trade liberalization phase and reduced trade restrictions in three stages: (1) during 1988-89, the average nominal tariff was reduced from 57.5 percent to 32.1 percent, (2) during 1991-93, the tariff was further brought down to 13.5 percent and all-important non-tariff barriers to imports were significantly reduced, and (3) in 1994 the tariff was further reduced to 11.2 percent (Abreu, 2004).

The trade liberalization policies accompanied with privatization initiatives were part of a comprehensive set of economic reforms that resulted in the privatization of the steel industry and then the whole telecommunications sector, which was a government monopoly since the 1960s (Abreu, 2004). Since the 1990s, Brazil expedited the integration of its economy with the global economy by taking the following policy actions: (1) unilateral liberalization, reducing tariff rates from an average of 51 percent to about 12 percent, (2) multilateral agreements, participating in the Uruguay Round with substantial commitments to reduce import barriers, and (3) regional integration, entering into intra and extra-regional preferential trade agreements (Cardoso, 2009).

The integration of Brazil's economy, as a result of the liberalization policies, has occurred at two levels, inter-regional and intra-regional. For example, Brazil's inter-regional involvement in Asia, reflected by imports and exports, has seen a remarkable deepening. China is now Brazil's largest bilateral trading partner. Imports from China increased from $1.2 billion in 2000 to $32 billion in 2011. These imports, consisting mostly of finished products, have exerted strong competitive pressure on Brazilian firms in different sectors. Along with increasing imports, the inflow of foreign direct investments (FDI) from China has also increased significantly. Total inflow of FDI from China to Brazil increased from $9.7 million in 2001 to $38.4 million in 2010 (www.ipea.gov.br).

Brazil's liberalization policies also had an impact on intra-regional economic integration and development. Being the largest economy in the region, Brazil acts as the nucleus in the cluster of countries which include the regular Mercosur members, associate member countries, and Trinidad & Tobago. The growth-bound Brazil led southern cluster has performed better than the stagnant cluster in the north, where Mexico plays a key role and whose members include Central American countries. These intra-regional developments have best been captured in a recent study on the polarized Latin American region (Izquierdo and Talvi, 2011).

Together, inter-regional and intra-regional developments have created structural changes in the business environment inside Brazil. Reduction in trade and investment barriers, in particular, has made entry of foreign firms into Brazilian markets cost effective, allowing them to increase their involvement and establish business relationships. These competitive changes have created avenues of growth and pockets of threats for Brazilian firms. Thus, for local firms, the new competitive environment has increased the saliency of two strategic questions, how to view these developments and how to strategically respond to them. These two issues are critical to local firms because of their impact on marketing and financial performance.

Conceptual Frameworks

The structure-conduct-performance (SCP) paradigm from the industrial organization literature (Bain, 1956; Porter, 1986) and the strategic fit concept from the strategic management literature (Andrews, 1980; Schwartz & Davis, 1981) were used as theoretical bases to answer the three research questions: how executives perceived the structural changes in the competitive environment due to globalization, how they responded strategically to these developments, and how these strategic responses in turn affected marketing and financial performance of the firm. The SCP framework considers the role of public policies in changing market structures within a country (Panagiotou, 2005). When governments lift international trade and investment barriers, foreign firms enter the market and change the supply and demand conditions. In the SCP paradigm, firms are viewed as responding strategically to these competitive developments and these responses, in turn, are seen as determining their performance in the marketplace. The strategic fit concept also focuses on competitive developments and strategic responses but argues that performance is contingent upon the efficiency with which firms are able to align their capabilities with market conditions and upon the effectiveness with which they implement strategies.

The SCP paradigm and strategic fit concept can be viewed as complementary, as the former explains the behavior and development of firms and the latter focuses on strategic interactions and competitive behavior (Panagiotou, 2006). Furthermore, the two are also conceptually linked as the SCP paradigm argues that performance is the outcome of competitive structure and conduct, and the strategic fit concept argues that performance is the outcome of the fit between the competitive environment and strategies (Hoffer, 1975). The SCP and the strategic fit concept have previously been applied to the study of competitive behavior, strategic change, competitive positioning, marketing strategies, and performance (Feigenbaum & Thomas, 1990; Feigenbaum & Thomas, 1995; Smith et al., 1997; Xu et al., 2006) and are considered theoretically relevant for the present study because it focuses on examining executives' perception of competitive developments, their strategic responses, and performance outcomes.

Method

Sampling

A serious problem that business researchers face in conducting a qualitative interview-based study is obtaining access to decision makers. This is especially true in Latin America where top executives are generally reluctant to grant interviews to academic researchers. Recognizing this difficult situation, we contacted the president of the Federation of Industries of the State of Rio Grande do Sul (FIERGS) and explained to him that two universities (one in Brazil and the other in the U.S.) were collaborating on a joint research project to study the effects of globalization on strategic responses and performance of Brazilian firms. FIERGS agreed to support the research and prepared a letter of introduction for its members. The technical-research department of FIERGS identified 25 firms that were the most representative of their industries and mailed the letter to these firms explaining the purpose of the study and its importance. Six top executives from four major B2B sectors (telecommunications, business equipment, steel, and transportation) agreed to be interviewed. These sectors represent a significant share of the Brazilian economy and contribute extensively to gross domestic product, employment, and tax revenues.

Interview

A systematic process of data collection through in-depth interviews was followed (Alam, 2005). An interview protocol was developed to maintain consistency in data collection and improve reliability (Yin, 1994; McCracken, 1988). Top decision makers such as the president, chief executive officer, and director were interviewed on the premise that individual perceptions and beliefs affect strategic decisions and that these decisions, in turn, affect market outcomes (Weick, 1995). The "elite interview" approach (King, 1994) was adopted to elicit data from top executives who were personally involved in decision making. Therefore, the approach provides for a deeper understanding of competitive developments, strategies, and performance.

Before starting the interview, a brief introduction about the research project and researchers and their affiliations was made. The executives were informed that the research was conducted jointly at two universities, one in Brazil and the other in the U.S. and that the purpose of the study was to understand the effects of globalization on the competitive environment in Brazil, the strategic responses of local firms to these developments and the consequent performance. Following this introduction, the interview was conducted. The in-depth interview used a semi-structured format that provided details about the questions, if needed, and also sought clarifications on responses. In such a semistructured environment the interviewer is able to manage the interview process more effectively and obtain more information (Thomas, 1995). This qualitative approach is also recommended during the early stage of studying a social phenomenon because of its potential to provide theoretical and strategic insights. Each interview lasted close to ninety minutes.

Data

The SCP paradigm and the strategic fit concept guided the formulation of questions for data collection on the perceived effects of globalization, strategic responses of firms, and performance outcomes. Questions related to perception of structural changes in the market due to globalization covered the following: competitive intensity and pressure, industry structure, and uncertainty in the environment (Courtney, 2001; Oxelheim & Wihlborg, 1991). Furthermore, effects of globalization with respect to changes in the industry structure focused on rivalry, entry barriers, power of suppliers, power of buyers, and market growth potential (Porter, 1980); and effects of globalization with respect to uncertainty in the marketplace focused on changes in the level of economic, regulatory, technological, customers, and competitive uncertainty (Miller, 1993).

Following the examination of the perception of changes in the competitive environment, information on strategic responses was obtained. Executives indicated how they responded to competitive developments by discussing different strategic options including cost leadership, differentiation, and focus (niche marketing). Executives also provided information on strategies such as segmentation, targeting, positioning, market penetration, market development, product development, and diversification.

To examine the effects of strategies on marketing and financial outcomes, the following metrics were obtained from existing works (Chakravarthy, 1986; Venkatraman & Ramanujam, 1986; Hult et al., 2007) and presented to executives for response. For marketing performance, the metrics included market share, customer satisfaction, and total revenue. For financial performance, the metrics included return on investments, cash flow, and profitability.

It is important to note that we had promised to keep the responses anonymous to receive the cooperation of executives and encourage openness. Thus, in the following discussions, the firms are given an alphabetic designation. Two executives in the telecommunications, two in the business equipment, one in the steel, and one in the transportation sectors were interviewed.

We report next the findings of the study in the following order: perceived effects of globalization on the competitive environment, strategic responses of firms, and consequent marketing and financial performance outcomes.

Business to Business (B2B) Sectors

Telecommunications

Firm A. For this firm, globalization increased both competitive intensity and competitive pressure domestically. In particular, the entry of "technologically and financially powerful" firms applied pressure on "cost, innovation, and branding." Chinese firms had entered the market and the perception was that they were dumping products in the Brazilian markets, and the government's position that China was a market economy was not very helpful. Globalization had also created market uncertainty because of the trend in mergers and acquisitions. Market uncertainty had also increased because it was becoming difficult for the firm to sell new products unless they had other competing products in the marketplace. Technological uncertainty had increased because of the speed of innovation and the difficulty of predicting what new products would be introduced in the market. As it was becoming difficult to predict whether investments in research and development would pay off, a strategic problem the executive faced was whether it was worthwhile to become an innovator or remain a follower. Supplier and buyer power had also increased due to increasing concentration in the market. On the positive side, however, globalization had increased market growth potential.

In response to the above developments, the firm focused on strengthening production competency and increasing R&D expenditures to develop new products and markets. It segmented customers and targeted niche markets, positioned the products on low price (penetration pricing strategy) and intensified (intensive) distribution. The firm also focused on increasing customer satisfaction through better service and withdrawing from markets that were not profitable. It initiated a search for partners to develop non-equity alliances and outsourced to reduce cost and become more competitive. The firm also pursued customer acquisition internationally.

With respect to marketing performance, the firm increased its market share and customer satisfaction, but not total revenue. The financial metrics were all positive. Return on investments, cash flow, and profitability improved.

Firm B. For this firm, competitive intensity and competitive pressure increased significantly due to globalization. The pressures mostly came from new products introduced in the market and the “rapidly declining prices” of existing products which were quickly becoming a “commodity.” The executive also found that the adoption of new standards for products was creating high uncertainty in its market positions. The main source of competition was China whose firms enjoyed the advantage of large domestic markets and economies of scale. Israeli firms were also becoming major competitors. Although competitive pressures had increased, regulations affecting product specification and rules of operations provided relief to the firm. However, the executive did not see the government's assertion that China was a "market economy" as being very helpful to the local industry. Globalization had also created "ferocious rivalry" among firms. This executive, in contrast to the above executive, felt that globalization had decreased the market growth potential. Concentration of suppliers and buyers had increased their power, and threats from substitutes had also increased due to globalization.

The firm responded to the above developments by enhancing competency in production and exploring avenues for non-equity collaboration in technology development. Outsourcing was also considered a possible option. The strategic emphasis was on product development, followed by market development and market penetration. The firm targeted niche markets to improve market positions. A major strategic change involved the shift from a price focus to a differentiation focus, thus, acknowledging the increasing importance of strategic marketing.

The strategic initiatives yielded favorable results. Market share, customer satisfaction, and total revenue increased for the firm. Its financial outcomes were also positive. Return on investments, cash flow, and profitability improved.

Business Equipment

Firm A. For this firm, globalization increased both competitive intensity and competitive pressure. As some of the firms had increased production capacity in the sector, it resulted in intensifying rivalry. Concentration of suppliers and buyers had also increased and uncertainty related to customers and competitors had also increased. The executive felt that the government was "penalizing" the industry with its tax policies. On the positive side, however, globalization had increased market growth potential and economies of scale created entry barriers.

In response to the above competitive developments, the firm focused on production competencies and technology improvements to remain a low cost producer. It emphasized internal development of technology by increasing R&D expenditures and began to outsource some of the non-strategic components. On the marketing side, it emphasized product development and market penetration and targeted financial institutions for its products. It employed niche strategies and developed programs for customer retention. Although it positioned itself as a price leader, it began moving towards brand differentiation.

Marketing outcomes of the above strategies were positive. Market share, customer satisfaction, and total revenue increased. On the financial side, return on investments and cash flow improved, but profitability did not improve.

Firm B. For this firm, both competitive intensity and competitive pressure increased due to globalization. The executive saw "declining margins" and "easy access to new technologies" as the "two hands of globalization." Globalization had also created a "trend towards consolidation," creating further specialization in products. Increased capacity followed by cost differences and market concentration, resulted in increased rivalry among firms. Customer uncertainty had increased due to customers becoming "more agile" and switching from one product to another quickly. Price pressure due to globalization had also increased as customers could buy products overseas. The government provided some protection to the industry through its regulatory policies. A positive effect of globalization was the increased growth potential of the industry.

In response to the above competitive developments, the firm focused on building technology and improving its marketing competencies. It integrated backward and formed non-equity alliances for product development. And to become cost competitive, it began outsourcing. The strategic emphasis was on market penetration, followed by product development and market development. It employed penetration pricing strategy along with brand differentiation based on product quality and service. For some products, it went after niche markets.

The firm was able to increase customer satisfaction and total revenue, but not market share. Financially, the firm did not do well. Return on investments and profitability did not improve and cash flow declined.

Steel

Firm A. For this firm, globalization had no impact on competitive intensity during the "last twenty years," but competitive pressure on price had increased due to developments in "technology" and improvements in "efficiency." The industry growth potential was moving from "stable to a small growth." Globalization increased market concentration and rivalry among firms and also had a significant effect on customers' behavior as they were increasingly demanding high "service quality" at a low price.

Although customer and competitor uncertainty did not change significantly, regulatory uncertainty was high because of governmental bureaucracy and tax burden.

In response to the above competitive developments and especially price pressure, the firm increased its focus on sourcing and production. It launched a program of integration, involving forward, backward, and horizontal integration. It began both outsourcing and offshoring. On the market side, it focused on market penetration and market development with the goal of "being strong" and "able to influence price." It produced specialized products for niche markets and instituted customer retention program. It also initiated a program to expand internationally to markets where it could become a market leader.

The above strategies had a positive impact on performance. Market share, customer satisfaction, and total revenue increased. In the financial areas, return on investments, cash flow, and profitability all improved significantly.

Transportation

Firm A. For this firm, neither competitive intensity nor competitive pressure had changed due to globalization. The firm was in a "stable" road equipment, specialty vehicles, automotive parts and components market. Globalization also did not impact uncertainty, as customer, regulatory, and technological uncertainties had not changed significantly. However, major changes took place both on the supply and demand side. On the supply side, supplier concentration had increased. On the demand side, "small buyers" were "disappearing." Furthermore, rivalry between firms had increased due to increased production capacity. On the positive side, globalization improved the market growth potential of the sector.

In response to the above developments, the firm formed joint ventures with global market leaders to “upgrade technology” and “access international markets” and outsourced to “reduce cost.” The major strategic emphasis was on improving product quality and customer service and establishing brand positioning by emphasizing “image” and “quality.” It focused on market penetration, followed by product development and market development. As a supplier of quality products, it continued to use premium pricing strategy. On the customer side, it implemented programs for acquisition and retention.

Marketing outcomes resulting from the above strategies were positive. Market share, customer satisfaction, and total revenue increased. On the financial side, cash flow increased, but profitability and return on its investments did not improve.

Conclusions

Findings of this study, as suggested by the SCP framework, support the hypothesis that public policy initiatives have an impact on industry structure. The liberalization policies and the entry of foreign firms changed the supply and demand conditions in the different B2B sectors in Brazil. Furthermore, strategies implemented by local firms had an impact not only on their performance but also on their industry’s structure. Findings also suggest that strategic responses to changing market conditions varied depending on the markets the firms were in. Panagiotou (2006) has also noted that although firms may exist in an industry, they compete in selected segments of the industry and not at the industry level.

With the entry of international firms in the market, the variety of offerings available to customers increased. One of the major differences between firms from the emerging markets and those from the developed markets is that the former usually enter a foreign market with a focus on price. These firms use their cost advantage to compete on price. The entry of these firms increases the impetus for local firms to differentiate their products. There develops also a greater incentive for local firms to form alliances, both upstream and downstream, and leverage local market knowledge to protect market positions.

Findings of the study also illustrate the linkages proposed by the strategic fit concept. The executives made an effort to align their strategic responses with market developments. As international competitors had entered the market at the lower price points and with a cost advantage, local firms attempted to align their strategic responses with the new environment by shifting towards greater use of strategic marketing. In this endeavor, they did not follow a single strategy, but took a multi-pronged approach to achieve a good fit with the changing market environment. However, as they implemented multiple strategies and as performance was measured by multiple indicators, a one-on-one strategy-performance link could not be established. What, however, was clear was that the decisions that executives took reflected their perception of the market, which supports Weick's (1995) contention that strategies are influenced by perception of the environment. Below we discuss findings by sectors.

Structural changes in the B2B competitive environments resulted from the opening of markets due to globalization, changes in regulatory policies, and firms' and customers' behaviors. In the telecommunication sector, although trade regulations provided some relief, globalization increased competitive intensity and pressure. The entry of Chinese and Israeli firms increased price pressure and uncertainty in the market.

In terms of strategic response to competitive developments, the two firms adopted different postures, one focused on price and the other on differentiation. Globalization also had a positive effect in this sector. For one of the firms, it increased market growth potential. In the business equipment sector, while globalization increased competitive pressure and intensity and rivalry among firms due to the decision by firms to increase capacity, it also increased market growth potential for both firms. In the steel sector, globalization resulted in increased cost pressures, due to improved technology, and higher customer expectations for quality products, due to increased options. Customers demanded both better products and reliable service at a low price. In the transportation sector, while globalization did not affect competitive developments much, it improved the market growth potential.

Strategic responses to achieve a good fit with competitive challenges varied due to differences in market situations and firms'competencies and experiences. The executives understood the complexity of competitive developments and the challenges of how best to respond to these developments. Their responses indicated a general shift towards the greater use of strategic marketing to improve market positions, which supports findings from other recent studies that show the growing reliance on marketing by firms in emerging economies. The executives also focused on strengthening manufacturing competencies and forming alliances, locally and internationally, to fill gaps in production competencies. Strategic responses also showed that cost pressures due to globalization were instrumental in motivating executives to outsource.

Performance on marketing indicators showed less variation than on financial indicators. All firms were able to increase consumer satisfaction. All firms, except for one in the business equipment sector, increased market share. Furthermore, all firms, except for one in the telecommunication sector, increased total revenue. In contrast to marketing performance, financial performance showed more variations. In the telecommunications sector, both firms improved profitability, but in the business equipment sector the two firms did not improve profitability. In the steel sector, the firm improved profitability, but the firm in the transport sector did not. Of the four different B2B sectors, the outcome on the critical metric of profitability shows that firms in telecommunications and steel sectors were able to improve profitability, whereas two firms in the business equipment sector and one firm in the transportation sector could not.

Managerial Implications

Regional polarization and globalization have introduced structural changes in the market and created a new competitive environment that is forcing Brazilian firms to compete not only against established multinationals from developed economies, but also against the newly internationalized firms from other emerging economies such as China. In this new business environment, Brazilian firms confront competition at both ends of the price line. At the low end are products from other emerging economies that have the cost advantage, and at the high end are products from developed economies that enjoy the brand equity advantage.

As Brazil occupies the key position in the southern cluster of countries, international firms would want to enter the large, growing market and exploit the opportunities. Already, in the telecom sector, U.S. and European firms have applied pressure on Anatel, the Brazilian regulator, to revise the rules affecting mergers and acquisitions that were set before privatization began. In the steel sector, Brazilian firms are facing the Chinese challenge both internationally and domestically. Brazilian firms fear that Chinese firms, having invested heavily in expanding steel production, will soon become a major global exporter and increase competitive pressures on Brazilian exporters in international markets. Furthermore, domestically, as Chinese firms have increased the exports of steel to Brazil, Brazilian firms are facing stiffer competition in protecting their domestic market positions.

Chinese businesses have employed the same expansion strategy in Brazil as they did elsewhere, enter the market at the low end of the price point and capture market share. Brazilian executives share the view that as Chinese firms gain market experience and invest in research and development, they will soon begin their forays in the high end of the market. This will further increase competitive pressures in different segments along the different price points, posing a strategic challenge to Brazilian firms. This competitive pressure is also felt in the B2C sectors in Brazil (Akhter & Barcellos, 2011).

For Brazilian firms in the B2B sectors, several developments such as mergers and acquisitions, technological developments, capacity management, and customer expectations resulting from polarization and globalization are assuming greater significance in creating both market opportunities and threats. To take advantage of these developments, Brazilian executives recognize that a more proactive approach that calls for leveraging the existing advantages in strategy making is needed. Brazilian firms enjoy the advantage of being closer to the market which they can leverage to strengthen their position. Furthermore, they can maintain their competitive advantages by exploiting their historical relationships with the different intermediaries in the value chain.

The market development and strategic fit hypothesis suggest that as markets become more competitive, firms begin to shift their attention from production orientation to market orientation by focusing their attention on meeting the needs of their customers rather than merely achieving efficiency in production. A positive effect of increasing competitive pressures resulting from the entry of foreign firms in the B2B sectors was that it motivated executives to reevaluate their strategies and judge the fit of organizational competencies and product offerings with market developments. While Brazilian firms have taken steps to become more customer oriented, they also need to extend the time horizon of meeting customer needs, that is, what they will need in the future. And as these firms become more customer and future oriented, they will improve the likelihood of achieving superior performance. The relentless competitive pressure makes the goal of aligning strategies with organizational capabilities and product offerings with customer needs critical. It also highlights the importance of collaboration for achieving success.

Public Policy Implications

For public policy makers, the issue of opening the markets for international firms involves the balancing of external pressures with local expectations. On the one hand, Brazil has to consider responding to the several bilateral and multilateral agreements it has entered into that require the relaxation of international trade restrictions. On the other hand, Brazil is also committed to creating market conditions that help local firms achieve marketing and financial goals. Given these demands, how then should policy makers move forward? This is a question that addresses both the speed (how quickly should the government open the market) and depth (how many sectors should they open and to what extent should they open them) of globalization.

Findings from this study show that the entry of international firms affected the four B2B sectors both positively and negatively. With respect to the performance metric of profitability, firms that were adversely affected were in the business equipment and transportation sectors. This outcome might pose a challenge for public policy makers who find themselves in an unenviable position of balancing external pressures to open the economy and internal demands to protect domestic markets.

Das (1997) suggests that governments, in today's globally competitive environment, should provide the required support to business, given that the wealth of a nation is synonymous with the wealth of its corporations. Public policy makers therefore need to proceed cautiously and give domestic firms time to adjust to the challenges of the changing competitive scenario. The focus, however, should not be on protecting noncompetitive industries but on giving time to industries that are building their capabilities to compete. Public policy makers also need to look into offering incentives that would promote private investments into new industries. In this study, one of the major concerns of the executives was that the current tax structure had increased costs significantly and made local firms noncompetitive. Policy makers can see what changes need to be made to reduce the burden and incentivize business growth.

Research Directions

Several substantive questions can be addressed to add to the body of literature on emerging markets and the B2B sectors. First, future research can explore how local B2B firms create entry barriers for new comers into emerging markets and exploit these barriers to fend off competitive attacks. Second, as some of the executives mentioned that they expect to see an increase in mergers and acquisitions (M&A), research can explore the characteristics of firms in emerging markets that make them attractive targets for M&A and the effects such M&A have on the marketing mix decisions and performance outcomes. Third, data shows that firms in emerging economies use exporting as the most popular mode for expanding their business internationally. However, in recent years these firms have also begun to employ other modes of international expansions. As firms from emerging markets expand their operations in other emerging markets using different modes, research can address how cost, quality, and competency advantage influence the choice of different modes. Furthermore, research can also address the issue of how different modes affect strategy and performance. Fourth, research can explore how economic polarization affects trade among countries within a cluster and how does this trade affect specialization of production and business activities.

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