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WINERIES AND THE LIABILITY OF OUTSIDERSHIP: CASES FROM BRAZIL AND CHILE

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ABSTRACT

This qualitative research was developed in light of behavioral theories regarding company internationalization. Its objective was to study the internationalization process of two wine exporters, one Chilean and one Brazilian, while focusing on the liability of outsidership. Data were collected from primary and secondary sources, mostly from semi-structured interviews with parties responsible for exportation. The data was treated with content analysis as grounded in current literature. The Undurraga winery (Chile) overcame the liability of outsidership by employing a market penetration strategy consisting of stages, with progression to each consecutive stage depending upon success in the current one. When the company enters into a new market, it identifies the liability and develops a strategy to deal with it. Even though the Brazilian winery, Salton, is over a century old, it has only attempted to internationalize recently. It showed characteristics of liabilities of foreignness and outsidership in practically every period analyzed, and has yet to resolve these problems.

1 Introduction

Reinforced by recently industrialized countries' successful companies, emerging economies are changing their growth policies to focus abroad. They seek growth through exports instead of through import substitution policies (Kovacs, *et al*, 2007). Consequently, emerging countries are increasingly participating in the global economy, searching for opportunities on the international market, in order to gain and maintain competitive advantages (Aulakh, Kotabe, Teegen, 2000).

Given this context, Brazil and Chile are competing with the more established countries in the international market. Their natural resources offer inherent competitive advantages that can help diminish market barriers. This is especially true for agriculture, a strategic market protected by more developed countries' domestic incentive and subsidy policies.

Similar to other agricultural sectors, the wine industry experienced growing competition between economic blocks between 2000-2010 (Protas, 2008). This sector increasingly depends upon management efforts and technological investments to help companies connect with consumer markets, especially those abroad (Johanson & Vahlne 1977). In addition to product and process quality and differentiation, competing globally in the wine sector demands capability in strategic coordination, up-to-date technology, and an efficient support infrastructure (Sato & Angelo, 2007).

Wine is a highly commercialized international agricultural product with high aggregated value. Successful production depends upon climatic conditions and sales are very dependent upon marketing efforts, with product differentiation primarily accomplished through price. In these regards, Chile has been quite successful, positioning itself among the top ten international players. On the other hand, Brazil has not had much success, despite having some historical similarities, equally good climatic conditions, and similar product quality. To understand this divergence, it is important to analyze the history behind the companies, describing their internationalization processes from the beginning, as well as understanding the industrial contexts where they operate. Therefore, this research seeks to know how occurred the internationalization process of two wine exporters, one from Chile and another one from Brazil, especially as concerns the liability of outsidership.

Internationalization doesn't just mean to move production abroad, but also includes developing potential relationships across borders. Thus, a company's international success requires it to be well positioned in one or more relationship networks (Johanson & Vahlne, 2009). Through these networks, companies learn and build trust and commitment, elements essential to the internationalization process. In this context, insidership is a necessary but insufficient condition to guarantee success in business development. If a company intends to enter a foreign market where it doesn't have any existing position within relationship networks, it suffers from liability of outsidership. Furthermore, its condition of being a foreign company probably complicates the process of becoming an insider. Outsidership makes it impossible to develop business deals and also to initiate the internationalization process (Johanson & Vahlne, 2006).

In order to understand the dynamics of this process in the wine industry, this research focuses on the internationalization process of two wine exporters, one from Chile and one from Brazil, especially as concerns the liability of outsidership.

2 Liability of Foreignness and Liability of Outsidership

The theoretical framework composed by According to Johanson and Vahlne (2009), the premises for the 1977 Uppsala model were uncertainty and limited rationality. Furthermore, they defined two change mechanisms. In the first, companies changed through learning while operating in foreign markets. In the second, companies change based upon commitment decisions, in order to strengthen their position in foreign markets. These commitments are investments in the target country which progressively lead a company to further commitment in the local market. As a company acquires market experience, its body of knowledge influences the level of commitment to activities increasing its participation in that particular market. This engenders a new level of commitment that results in more experience, invoking a dynamic model.

However, the model doesn't specify in which way commitment will occur. A company's market participation can even decline or cease to exist depending upon market performance. As such, the internationalization process normally advances when expectations and results are favorable. According to this approach, learning and commitment take time to develop. Thus, movement towards markets with higher psychic distance and higher risk, even with the promise of higher returns, tend to be incremental (Johanson & Vahlne, 2009).

Keeping in mind the intra-organizational (unilateral) perspective of the process, international expansion ends up being restricted to availability and use of a firm's internal resources (Zancan & Ribeiro, 2010). The model also doesn't consider such aspects as cooperation networks, product innovation, processes, or accelerated internationalization (Johanson & Vahlne, 2009; Mathews & Zander, 2007). The role governments have in promoting internationalization activities as part of socioeconomic development was also ignored in the original Uppsala model (Sato & Angelo, 2007).

Such considerations bring Johanson and Mattsson (1987), along with Welch and Welch (1996), Johanson and Vahlne (2003; 2006), and others, to conceive of the internationalization process from a multilateral perspective. Part of this view includes the possible influence of external agents on organizations' internationalization processes. This change in thinking concerning the organizational internationalization process was formalized in the Relationship Networks model (Johanson & Vahlne, 2009).

The Relationship Networks model was considered to be an evolutionary product of the Nordic School of International Business (Björkman & Forsgren, 2000). The researchers from the Uppsala University played a fundamental role in the development of the perspective of industrial relationship networks, which focuses on the relationships that exist between industrial markets and firms (Zancan & Ribeiro, 2010). Johanson and Mattsson (1987) asserted that the competitive factors and forces in highly internationalized industries establish a heterogeneous standard for entry opportunities. This heterogeneity motivates organizations to choose markets and entry strategies that can be quite different than those predicted by the traditional Uppsala model, which was solely based on intra-organizational development, because other agents might be involved that affect resource availability. However, this is only made possible by establishing relationship networks in new markets. Additionally, both business and personal relationships can be used to facilitate entry into other networks (Zancan & Ribeiro, 2010).

Welch and Welch (1996) observed that the use of external relationship networks can be related to the learning process that permeates the entire internationalization process. Due to frequent non-deliberate formation of relationship networks, companies have difficulties incorporating new relationship networks into their internationalization strategy. Relationship networks influence the internationalization process in both intentional and unintentional ways, and act as an important element in international operations.

Due to its importance as a factor in the internationalization process, the Relationship Networks Theory also influenced the evolution of the Uppsala model. The concept of relationship-specific knowledge from the idea of business networks was aggregated into the Uppsala model. This type of knowledge is developed via interactions between two or more partners, including knowledge of heterogeneous resources and each other’s capabilities (Johanson & Vahlne, 2009).

Research based upon this premise generally study how relationship networks influence internationalization processes without considering how they were formed nor how they are structured in the countries companies enter. The focus has generally been on business relationship networks as a market structure into which the company that is internationalizing is incorporated, and corresponding businesses within the relationship structure in the foreign market (Johanson & Vahlne, 2009).

The current viewpoint of the Uppsala model holds that the success of an internationalization process requires reciprocal commitment between a company and its counterpart in the foreign market. This process takes time and management efforts to create a working relationship, and many attempts fail (Johanson & Vahlne, 1990, 2003). Thus, a work relationship is the result of considerable investment and is an important company resource (Johanson & Vahlne, 2009).

Companies develop new knowledge through information exchange within interconnected relationship networks. This knowledge is the results of confrontation between the producer's and user's knowledge. It doesn't just come from a company's activities, but also from partners' activities, and partners' partners' activities. This offers a broad knowledge base for a company within the network (Kogut, 2000).

In this sense Johanson and Vahlne (2009) recognize that for an international company to be successful, it must be well position in one or more relationship networks. Everything that happens occurs within the context of relationship networks, and a company that is well positioned within such a network is considered an insider. Companies learn, establish trust and build commitment through these networks, all of which is vital to the internationalization process. A company that doesn't have a consistent position within a network is considered an outsider. If a company intends to enter a foreign market where it doesn't have a relevant position within a relationship network, it is considered to suffer from the liability of outsidership.

There are three activities that simultaneously occur with business development and internationalization: knowledge and learning, establishing trust and building commitment, and opportunity development (Johanson & Vahlne, 2009).

2.1 Knowledge of and learning about market players

The original Uppsala model was based on the assumption that knowledge development is fundamental to a company's internationalization process. While the lack of knowledge about the institutional market - that is, the language, laws and rules - are related to psychic distance and the liability of foreignness, the lack of knowledge about the business environment is linked to business relationships and the knowledge business partners possess. The lack of specific business and market knowledge together constitute the liability of outsidership.

2.2 Establishing trust and building commitment

The original Uppsala model didn't explicitly include any affective or emotional dimension for relationships, because they are implicitly present in the concept of knowledge (Johanson & Vahlne, 2009). In revising the model, these dimensions came to be more explicit in function of the importance of social capital, trust, and similar concepts that encompass the affective and cognitive side of research. Furthermore, it has been empirically observed that the affective dimension is important for understanding the relationships that are critical components of the current model. Another reason refers to the fact that trust is considered to be an important part of research into the development of relationships and business networks (Johanson & Mattsson, 1987).

A feeling of trust implies the capacity to predict another's behavior. Hence trust is a prerequisite for commitment. If commitment further enhances trust, this implies the existence of a desire to continue in a relationship, including the sharing of information (Johanson & Vahlne, 2009).

2.3 Opportunity development

In the original model, Johanson and Vahlne (1977) assumed that market commitment and initial market knowledge affect the perception of opportunities and risks, which in turn influence decisions related to commitment and ongoing activities. However, Johanson and Vahlne (2009) perceived that market knowledge coming from networks and business partners includes privileged information. Knowledge that comes from such business activities helps in the recognition of opportunities. Thus, one company's knowledge and resources are partially available to the others within a relationship network (Johanson & Vahlne, 2009).

In summary, the evolution of the Uppsala model has resulted in the recognition of relationship networks as a central element in the internationalization process. The absence of such networks creates a barrier to internationalization, the liability of outsidership. Overcoming this liability is key to international development, which characterizes the objective of this present research into Brazilian and Chilean wineries.

3 Methodology

This research used a qualitative approach in order to understand the nature of the behavioral aspects of the phenomenon under study (Richardson, 1999).

Companies were chosen based upon several criteria. The first was that they must be producers of fine wine. The second required them to be involved in international activities for at least 5 years. The third related to the possibility for collecting data in the company. The last called for them to be representative of the sector in their country of origin.

Data collection occurred in two stages. The first involved secondary research and the second consisted of semi-structured interviews. The secondary data that supported the study came from academic resources, company documents, industry associations, and agencies that monitor and research the international markets in Brazil and Chile. The four interviews with managers and ex-managers of wine exports were accomplished through the use of Skype, which allowed visual and verbal interaction with the subjects. The interviews were recorded. The average duration of each interview was approximately 30 minutes. The interviews were transcribed in their entireties and the interviews conducted in Spanish were translated into Portuguese.

Semantic Content Analysis (CA) (Navarro & Diaz, 1994) was used to treat the data. This consisted of discerning the meanings of textual expressions. The strategy chosen was intensive, meaning that all elements present in the text were integrated in to the CA in order to systematically reconstruct the relationships. The objective was to integrate and relate all elements in the data to further analyze the liability of outsidership in the selected companies' internationalization processes.

The intensive CA strategy is divided into intertextual and extratextual (Navarro & Diaz, 1994). This research made us of intertextual, which seeks to determine the virtual meaning of a text based upon its relationships with other texts. This can take two paths: the aggregative or the discriminative. The discriminative method, used in this study, converts each text into different analytical domains, with the goal of making comparisons between them.

The analysis phase begins with establishment of the basic units of meaning that the researcher proposes to extract from the body. These units, labeled recording units (Navarro & Diaz, 1994) consisted of information about the companies' internationalization processes that were chosen based on reflection in literature review. However, the mere generic identification of recording units would result in very poor information about what is considered to be a relevant meaning (Navarro & Diaz, 1994). It was therefore necessary to not only detect the recording units, but to also locate them through context units (a higher order recording unit) which delineate how the recording units can be defined based upon two criteria: textual or extratextual (Navarro & Diaz, 1994). We used textual criteria, which consists of defining context units by some characteristic of each recording unit. Once the context and recording units were determined, the data was coded. All of the recording units encountered were linked to their respective context units. This allowed for all recording units to be counted and associated (Navarro & Diaz, 1994).

The next step in the CA process is called categorization. This consists of classifying the previously coded and interpreted recording units into their corresponding context units according to the similarities and differences, based upon certain criteria. These classification criteria can be syntactic, semantic, or pragmatic (Navarro & Diaz, 1994). We used the semantic criteria. This allows for the definition of sub-categories, reducing text complexity. The primary category used in this research was the liability of outsidership. The subcategories and their properties are described in Table 1.

Table 1 **Category: liability of outsidership**

Subcategories	**Category properties**
Presence or lack of knowledge of market actors.	Access to information.
	People to process and absorb information.
	Trust-based relationships with market actors.
Presence or lack of established trust-based relationships.	Desire to continue a relationship.
	Information sharing.
Presence or lack of structures for opportunity recognition and development.	Existence of ongoing business.
	Being included in a network.

Note. Source: Adapted from Johanson and Vahlne (2009).

Properties that represent each subcategory were defined as identified in the collected material, and as interpreted and related to the literature review.

The methods section provides the information by which a study's validity is evaluated. It requires a clear and precise description of how an experiment had been developed, and describe why specific experimental procedures were chosen. The methods section describes what was done to answer the research question, justifying the experimental design, and explaining how the results were analyzed. Scientific writing is direct and orderly. Therefore, the methods section still describes how the materials were used, depicts the research protocol, explains how measurements were made, what calculations were performed, and finally, states which statistical tests were done to analyze the data.

4 The companies Studied

4.1 Undurraga Winery

Undurraga is one of the oldest and most prestigious wineries in Chile. It was founded by in 1885 by one of the Chilean pioneers of viniculture. Under the supervision of French wine master M. Pressac, Undurraga brought vines from France and Germany to establish the first vineyards at Hacienda Santa Ana, named after his wife, Mrs. Ana Fernandez Iñiguez. The winery first began shipping to the USA in 1903, and today is present in over 75 countries on 5 continents.

The company has over 200 full-time employees, with over 1,000 workers during harvest seasons. 45% of the controlling interest in the company is held by Chileans, with the other 55% in foreign hands. Its 2011 revenue totaled US$45 million. Undurraga has 1854 hectares in various regions of Chile, as selected by wine masters. This variety of plantations allows the winery to offer a wide selection of wines.

The Santa Ana location, in Talagante, Chile, uses modern production facilities with the capacity for producing 20 million liters annually. It has cutting age technology for fermentation, processing, aging, and bottling wines and sparkling wines. In addition, this location has old underground caves that date to its foundation in the 19th century, which make the environment even more appropriate for aging wines.

Domestic sales count for only 28% of production, with foreign markets totaling 72%. These sales are spread across Asia, Africa, Europe, North America (including the Caribbean), and South America. There is at least one commercial officer and export director for each of these regions.

4.2 Analysis of Undurraga's Internationalization

Undurraga was Chile's fifth largest wine producer in 2011. It exported over a million boxes of wine, with the primary markets being Europe (630,000), Latin America (350,000), the USA (130,000) and Canada (68,000).

Undurraga's internationalization began in 1903 with initial exports to the USA. The company was the first to export wine from Chile. However, until 1980 the company still focused primarily on the domestic market and did little to document incidental exports. For this reason, the last 30 years are of more interest to this research project.

Changes in macroeconomic policies during the 1980's, increasing globalization, and important changes in the domestic and international wine markets led the company to focus more intently upon its internationalization process. For analysis, we have separated Undurraga's internationalization process into five periods, as shown in Table 2.

Table 2 **Undurraga's internationalization periods.**

Period	Characteristics
1980 to 2000 Focus on internationalization and presence in primary markets	The company expanded internationally, encouraged by changes in domestic and foreign political and economic environments.
2000 to 2005 Opened a commercial office in the USA	The company opened its first foreign office, with the objective of become closer to the market and improving relationships with its stakeholders.
2006 to 2009 Change in management and a new strategic growth plan	The company became publicly traded, experienced management changes and redirected its international investment.
2010 to 2011 Established a holding company	The company began strategic brand management.
2012 Opened an office in China	The company redirected its efforts towards more rentable markets, and sought to develop better relationships with clients and commercial partners in Asia and South America.

Note. Source: Elaborated by the authors

4.3 1980-2000: Focus on internationalization and presence in primary markets

There was a serious crisis in the Chilean wine industry during the 1980's due to severe exchange rate fluctuations. At the time, many Chilean companies were strongly leveraged in debt in US dollars. With a small domestic market and weak conditions for sustaining the national economy, Chile began to focus abroad to stimulate growth. Various export incentives were established, such as reduction or elimination of taxes and promotion of the country and its products in foreign countries. These conditions made exporting an attractive alternative.

The wine industry was also active in this movement, experiencing a significant increase in exports. Even small companies ventured abroad, considering they needed to export 80-90% of their production to stay rentable. Undurraga changed its focus to internationalization and entered most of the world's primary wine markets. They stopped selling just bulk wine (to be bottled at the destination) and began selling their own bottled products abroad under the Undurraga brand. As with most other wineries at the time, they didn't have experience in exporting high-quality products. Instead, they entered foreign markets by selling varietals, such as the Undurraga Varietal line of wines, which are considered the most basic and lowest quality type of Chilean wine, with little aggregated value.

Exports to the USA in this period were made through an intermediary (agent) responsible for all of North America, Central America, and the Caribbean. This person had connections with the importers in each of these regions, who in turn knew the distributors, wholesalers and retail outlets (such as supermarkets). Thus, their contact with the market was minimal and indirect. The company's business structure included a manager responsible for these markets who made frequent business trips to each.

The 1990's brought a new stage of development. This stage was characterized by higher exports of "reserve" wines that held higher aggregated value. These products were the result of investment in new vineyards with certified plants, modern winemaking equipment, increased technical support, as guided by technicians, oenologists and producers who decided to invest in Chile.

This stage also saw increased development of the US market. The company acquired market knowledge, including who the main players were, during its business ventures in the 1980's. With this expertise, it reorganized its activities in the USA. It bypassed the intermediary agents to establish direct relationships with US importers. It did the same with Central America and the Caribbean islands. A new front was opened in the Netherlands during these years when the company began a relationship with a Dutch supermarket chain.

In addition to these markets, by the end of the 1990's Undurraga was also exporting to the most important markets of South America, including Brazil, Peru, Colombia, and Venezuela, as well as England in Europe.

However, throughout the 1980's and 1990's, Undurraga and other Chilean wineries were mostly exporting entry level wines, with low aggregated value. This was the stage when the company first began to gain enough expertise in internationalization to overcome its liabilities. Its entry strategies into primary markets shifted towards contracting agents and local distributors for each respective market. These people were familiar with each market in terms of dynamics, regulations and internal relationships. This networking helped Undurraga overcome its liability of foreignness. Still, the company suffered from liability of outsidership, since the agents and distributors in each market, not Undurraga, maintained the relationships within the networks.

To remedy this shortcoming, the company began sending employees on regular trips to key markets, in order to establish stronger ties with agents and enhance relationships with market players. Starting in 1990, with knowledge coming from ongoing ventures, the company established structures for identifying and developing opportunities. This led to the realization that markets were ripe for wines with higher aggregated value. Furthermore, based on knowledge of market players, the company began direct relationships with importers, distributors, and supermarket chains. This structure helped them overcome their liability of outsidership.

4.4 2000-2005: Opening a commercial office in the USA

Starting in the 2000's, Undurraga started exporting iconic wines, following a strategy of aggregating more value to its products. The intent was to help its brand become associated with higher quality wines. As part of this effort, the company launched top shelf wines, such as Undurraga Altazor, which became renowned as a Chilean wine icon.

In addition to maintaining its presence in Europe, South America, and North America, especially the USA, the company decided to increase its direct participation in these markets. It did so by setting up offices in strategic markets, expanding its networks, and establishing reciprocal trust relationships with market actors. Its first foreign office was in the USA, its oldest international market. Undurraga's strategy for market penetration and relationship development became more consolidated, following sequential and gradual stages. The first stage involved research, market prospects, and identification of the best agents. The second stage consisted of contacting agents and signing distribution contracts. The third stage included choosing a "brand ambassador" (wine experts engaged in each market), with the objective of developing a set of marketing and promotion activities in order to bring the company closer to market actors and enhance client relationships. The last stage, particular to the more developed markets experiencing the best results, involved founding regional offices in the foreign countries, enlarging related work teams, and expanding relationship networks.

This strategy of opening regional offices began to overcome the liability of outsidership by furthering knowledge of market actors, enabling trust-based relationships, and initiating structures to help recognize and develop opportunities. Due to this period's success, Undurraga truly became an internationalized company dedicated to increasing its relevance on the international scene.

4.5 2006-2009: Change in management and a new strategic growth plan

In 2006, Undurraga sold stock to magnate José Jurasec. He developed a new strategic management plan to increase export volume from 600,000 boxes to 1,000,000 per year and raise the average selling price per box from $24 to $32. This plan was intended to increase the company's rentability and its market relevance.

Strategic pillars included improving the company's wines and creating new brands to exploit products with higher aggregated value. This would inevitably raise the average export price. Investment targeted the markets with greatest potential for selling such wines, including the USA, England, China, and Brazil.

To accomplish this objective, the company doubled its land under direct production from 600 to 1200 hectares. This gave it greater control over production and quality, necessary for developing the higher category of wines the company was launching. Undurraga invested in hiring renowned wine masters and the most modern wine equipment, such as a $10 million bottling facility to ensure that wine quality wasn't harmed during the production process.

Concerning management changes, the company enlarged the export team to consist of 10 managers, intensifying trips abroad, and growing respective market shares. The wine masters and sommeliers were also engaged with the business team, and participated in wine presentations around the world where the company had market presence. Beyond this, the company continued to establish offices in markets with the greatest potential. As a result, the average price of exports to the USA, England, and China rose to $35 per box by 2008.

By this time, Undurraga was considered a highly internationalized company, focused on increasing and improving its rentability. It definitely showed evidence of overcoming its liability of outsidership, through existence of structures for identifying and developing opportunities, such as targeting higher quality wines at specific markets. This structure was so well consolidated it resulted in an investment plan costing of millions of dollars, which showed positive results in its first years after implementation.

4.6 2010-2011: Establishing a holding company

As a result of the strategy to aggregate value to its wines, Undurraga needed to reorganize its brand structure. Previously it had both iconic wines of high quality and lower value table wines under the same brand label. In order to manage a more diversified wine portfolio the company established the holding company "Grupo Vinos Del Pacífico" (GVP - Pacific Wine Group), with the objective of independently managing separate companies with different wine brands. The GVP umbrella includes three main companies. Undurraga is the most traditional brand of the group and owner of the label with the same name. Talagate International Brands (TIB) has various brands developed for specific clients and projects, such as wines bottled under client labels, such as resorts and supermarkets. Bodega Volcanes de Chile, a boutique winery, was founded to produce low production runs of iconic wines with refined characteristics and exclusive marketing.

This strategy resulted in a competitive advantage, as operational activities were shared, technological knowledge was diffused throughout the structure, production scale was increased, and the business team gained flexibility. During this period, these advantages helped the company extend into Africa, primarily South Africa, by contracting a regional agent who held relationships in the target market.

This period showed further evidence of overcoming the liability of outsidership, in which the company identified and developed business opportunities stemming from interaction in relationship networks. An example of this was the identification of market space for wines and brands for specific clients and the production of more exclusive wines, all managed by businesses under the GVP holding company. We also identified consistency in the company's defined market penetration strategy, typified by the company contracting an agent in Africa that already had established relationship networks. This facilitated overcoming the liability of foreignness and began the process of overcoming the liability of outsidership. The company's strategy maintained its efficiency and success in overcoming its liabilities.

4.7 2012: Opening an office in China

As the result of increased sector competitiveness, and aligning with its strategy of aggregating more value to its products to sell them at higher prices, Undurraga began targeting Asia. It started this by opening an office in China. The company's strategy for this office is, beyond the essential task of developing personal relationships with Chinese clients, to serve as a headquarters for expanding throughout Asia.

This period reinforces the idea that Undurraga is a fully internationalized company today. Its strategy is grounded in sequential stages where each stage increases market investment and market commitment. The company gradually overcomes its liability of foreignness by contracting local agents, which helps it overcome disadvantages of not being local. It also surmounts liability of outsidership by acquiring knowledge of market actors, establishing trust-based relationships, and creating structures for recognizing and developing opportunities.

Table 3 displays an analysis of Undurraga's periods and how the company deals with liability of outsidership and its structures.

Table 3 **Analysis of Undurraga's periods and behavior in each period**

Premises of liability of outsidership	Premise structure	1980 to 2000 Focus on internationalization and presence in primary markets	2000 to 2005 Opened a commercial office in the USA	2006 to 2009 Change in management and a new strategic growth plan	2010 to 2011 Established a holding company	2012 Opened an office in China
Presence or lack of knowledge about market players.	Access to information	Present via agents	Present via agents, importers and company employees.	Present via networks.	Present and enhanced with new companies.	Present and enhanced with the new Asian structure.
	Personnel for processing and absorbing information	Present via managers	Present via managers.	Present and enhanced, with most people involved in internationalization.	Present via international team.	Present and enhanced via the Asian office.
	Trust-based relationships with market players	In development	Present in relationship networks.	Present in relationship networks.	Present in relationship networks.	Present in relationship networks.
Presence or lack of trust-based relationships	Desire to continue a relationship	Present for both company and agents	Present in relationship networks.	Present in relationship networks.	Present in relationship networks.	Present in relationship networks.
	Sharing information	Apparently present	Present via networks.	Present via networks.	Present via networks and holding company structure.	Enhanced via the Asian office.
Presence or lack of structures for recognizing and developing opportunities	Existence of ongoing business	New business ventures and expansion in existing markets.	Ventures in over 50 countries.	Ventures in over 60 countries.	Ventures in over 70 countries.	Ventures in 76 countries.
	Included in the network	The beginning of network development.	Development of various connected networks.	Extension of existing networks through new ventures.	Extension of networks through new businesses under the holding company.	Extension of networks through Asian office.

Note. Source: Elaborated by the authors.

4.8 Salton Winery

Salton was formally founded in 1910 in the Serra Gaúcha mountain range in Rio Grande do Sul (RS), the most southern state of Brazil. It was originally named Paulo Salton & Irmãos (Paulo Salton & Brothers). One century later, Salton is known as one of Brazil's most important wineries. It is a family-owned company, now in its third generation of family managers.

The company considers June 2004 to be an important milestone. That was when it opened a new headquarters in Bento Gonçalves, RS. This change was aligned with a family aspiration of changing the region and Salton itself into a tourist destination in the Serra Gaúcha.

Salton has both short-term (2014) and long-term (2020) strategic plans. The first states the company wants "to be a reference in terms of quality, technological capability, and human resource excellence within the wine industry". The second is "to be recognized as the best and most respected Brazilian winery". Its mission is to "Develop high quality wine, sparkling wines and juices that surpass expectations while promoting sustainable corporate development.

The company relies upon 400 full-time employees and its 2011 revenue totaled approximately R$125 million (about US$62,500,000). It has two production facilities, one in the Tuiuty district (Bento Gonçalves, RS), which produces wine, sparkling wines and grape juice, and the other in São Paulo, which produces cognac.

Salton is present throughout the domestic Brazilian market. Part of the management team is located in the São Paulo subsidiary, including the Chief Commercial Officer. The company has been the Brazilian sales leader in sparkling wines for four consecutive years.

4.9 Analysis of Salton's Internationalization

Salton's internationalization only began after the year 2000. This coincided with an internationalization surge among other Brazilian wineries, including Miolo, Valduga, Peterlongo, and Aurora, some of which actually began exporting in the 1990's. Salton's motivations for expanding abroad were mostly related to domestic impacts of internationalization. These impacts included improved brand image and competitiveness. Foreign market penetration and sales numbers were only of secondary concern.

There were four primary periods to Salton's internationalization process, as shown in Table 4.

Table 4 **Salton's Internationalization Process**

Period	**Characteristics**
2002 to 2005 Passive exporter	The formation of *Wines from Brazil*. The company engaged in passive exports through Brazilian agents or contacts mediated by business associates. No individual was responsible for the internationalization process.
2006 to mid-2008 First active exports	Salton contracted a professional specifically for internationalization. Participation in trade fairs and events and prospecting trips abroad increased.
Late-2008 to 2009 Internationalization paralyzed	The company lost focus in terms of internationalization, when the person responsible for the process left the company. This resulted in an interruption in active internationalization..
2010 to 2012 Professionalization of the internationalization process	Internationalization was inserted into the company's strategic plan. This involved creating an export department and a return to investing in existing markets abroad and exploration of new markets.

Note. Source: Developed by the authors.

4.10 2002 to 2005: passive exporter

Salton's internationalization process began in 2002 when the company, together with five other Brazilian wineries (Aurora, Miolo, Peterlongo, Lovara, and Valduga) formed the Export Consortium *Wines from Brazil* with support of the Industrial Federation of Rio Grande do Sul (FIERGS-RS). The primary objective of this initiative was to promote Brazilian wines abroad by participating in trade fairs, events and wine-tastings in target markets. This approach was similar to those used by other Latin American countries, such as *Wines of Argentina* and *Wines of Chile.*

At this time Salton still didn't have an export department, nor any individual responsible for this area. The internationalization was the responsibility of executives, who took turns participating in meetings, prospecting trips, and events organized by *Wines from Brazil*. These people integrated these activities into their other business responsibilities. Another important aspect was that none of these individuals spoke English or Spanish, which made communication and direct contact with possible clients and wine critics from other countries very difficult.

Stemming from *Wines from Brazil* promotion and prospecting initiatives in 2003, Salton achieved their first export shipment to the Czech Republic. This sale was made to the Cosmopolitan East Europe company, but through the intermediary Cosmopolitan Brazil trading company, which had a long-standing relationship with the Czech company. Cosmopolitan East Europe had previously only imported Brazilian shoes, also with the help of the Cosmopolitan Brazil trading company. This trading company did most of the work, including finding and contacting prospective suppliers, organizing the production runs, and also consolidating and shipping the products.

In 2004 *Wines from Brazil*, previously an export consortium, was changed to an Integrated Sector Project (PSI), but still with the same name. This was to integrate it with programs similar to those in the Brazilian Agency for Promotion of Exports and Investments (APEX Brazil). With the support of IBRAVIN (Brazilian Institute of Grapes and Wine) and significant financial investment promoting internationalization efforts, *Wines from Brazil* entered a new phase (Zancan & Ribeiro, 2010). During this period, the program organized a series of ventures to promote Brazilian wines. These included participating in wine fairs in Miami, USA (*Miami International Wine Fair*), Prague, Czech Rep. (*Wine and Spirits*), Düsseldorf, Germany (*Prowein*), and Cologne, Germany (*Sial*). This last food trade fair is one of the world's largest. Salton also participated in some of these fairs.

During this period, the company began exporting to Germany, beginning with a contact made during the *Prowein* fair in Düsseldorf. Salton's wine master represented the company at this fair and became acquainted with a traditional German importer, Höfferle, that held a prestigious international wine portfolio, including Trapiche from Argentina. Höfferle started by importing Salton's entry level wines, which had lower prices and less aggregated value.

During this same period, Salton exported to Norway. The alcoholic beverage market in Norway is peculiar in that it is controlled by a state-owned monopoly, *Vinmonopolet*. Agents from this institution are responsible for seeking out and helping exporters from around the world apply for registration and purchase orders. The monopoly's purchase order was coordinated by a Norwegian agent who initiated contact with Salton and registered the company. Salton's "Classic Merlot" was the wine chosen for purchase, and a single shipment of a few pallets of wine was sent, without any contract for future purchases.

This period was defined by the company's passive participation in the internationalization process. Most export opportunities came from foreigner's requests, often as a result of *Wines from Brazil* promotion efforts, such as the Norwegian and Czech contacts. One active effort on the part of Salton was the relationship started when one of Salton's executives pursued import companies at the *Prowein* fair. Salton clearly benefited from *Wines from Brazil* initiatives, as they were one of Brazil's more recognized wineries and were of interest to importers, agents, and critics.

Salton's internationalization efforts started in channels of low psychic distance, by Brazilian agents who acted as intermediaries, clients initiating contact, or business associates trusted by the company. There was definitely the existence of a liability of foreignness, since the company lacked knowledge of foreign institutional markets, including languages, laws, and rules. These aspects are related to both psychic distance and liability of foreignness. However, the company didn't show any evidence of overcoming such liabilities during this period, since it neither increased its market knowledge nor overcame the language barriers.

This period was also characterized by a lack of knowledge of market actors, buyers, suppliers, logistics companies, critics, and trade journals, which impeded exporting and wine promotion in target countries. They also didn't establish any lasting ties with foreign companies. This lack of knowledge about the business environments, from the relationship network point of view, specifically consists of not knowing who to do business with, as well as not being familiar with the relationships between market players. Such a lack of business and market knowledge defines the liability of outsidership. Salton didn't overcome this liability during this period, but did make initial efforts to this end, such as participating in international trade fairs.

4.11 2005 to mid-2008: First active exports

In 2005 Salton hired an international business expert to manage internationalization initiatives. The company perceived that it wasn't making progress in internationalization with the status quo, without focus and someone specifically responsible for the activity. The individual also needed to be fluent in English and have experience in international business. This effort marked the beginning of a new period of the company's internationalization process.

In this period, the company intensified its efforts at promoting Brazilian wine together with *Wines from Brazil*, participating in trade fairs in the USA, Canada, Czech Republic, Germany, England, France, The Netherlands, Singapore, and China. Salton was also active in projects designed to engage with buyers and enhance its corporate image, where *Wines from Brazil* invited groups of wine critics and journalists to visit Brazilian wineries and become familiar with the Brazilian wine regions, in order to develop ambassadors and positive press for Brazilian wine abroad.

With these coordinated efforts, Salton started to develop a business network and establish closer relationships with markets. This period also saw exports commence to Switzerland, Belgium, Poland, and the USA. The German and Czech markets were also further developed. The export processes for Switzerland, Belgium, Poland, and the USA began with the assistance of agents from these markets that Salton encountered at international trade fairs.

This period also saw changes in the export process to Germany. Höfferle was focused on wines with less aggregated value for Salton, and didn't import the higher aggregated lines nor sparkling wines. These higher cost wines would have been more profitable for Salton, and the relationship with Höfferle had low rentability. Therefore, Salton sought out Weinbrazilian, which already had experience with other Brazilian wineries, since it also worked with Miolo and Valduga. This importer focused on Brazilian wines with higher aggregated value, and also undertook significant investments in promotion and brand management. By the end of this period, Höfferle was losing interest in the business relationship and at the end of 2008 practically didn't import more Salton wines. This left Weinbrazilian with Salton's entire portfolio.

This period also included more intensified exports to the Czech Republic, via the importer Cosmopolitan East Europe owned by Roman Vanek. Salton took part in promotion activities produced by Vanek, who also developed a close personal relationship with Salton's export manager. This helped Salton achieve premier status among Brazilian wines in the Czech market. Cosmopolitan East Europe was highly dedicated to promoting Brazilian wines, and cooperated closely with Czech wine industry critics and press, bringing many to visit Brazil to become acquainted with the wineries and increase their knowledge of both the wines and the country. This resulted in increased commitment to Brazilian brands.

There was a definite evolution in Salton's internationalization process during this period. The company rose from the 5th position in Brazilian wine exports in 2005 to 3rd place in 2008. Only Miolo and Aurora, the biggest exporters of Brazilian wine, were higher. This period also showed evidence of Salton's first efforts at overcoming its liability of foreignness, and attempts at learning more about the foreign markets. This was the case in Germany, where Salton understood the need for a change in importers. It was also evident in the Czech Republic, where a close, even personal relationship was developed with the importer that helped boost Salton to market leader in Brazilian wines in that market. Salton also started undertaking independent trips, including the Chief Commercial Officer traveling together with the Export Manager, to the USA to gain knowledge about the market and about possible agents.

The close relationship with Cosmopolitan East Europe and its manager also helped overcome the liability of outsidership. This relationship bypassed the Brazilian agent and connected directly with the foreign company, which delivered better results and performance as compared to other companies.

4.12 Late 2008-2009: Internationalization paralyzed

Despite the hiring of the export manager, internationalization still wasn't a part of Salton's strategic plan, and wasn't even considered to be one of its priorities. As a consequence of this, alongside an appreciation of the Brazilian real (R$) against the US dollar, this period experienced a contraction in exports and reassignment of the export manager to more domestic oriented responsibilities. According the export manager of that period, the company's interest in the internationalization process waxed and waned with oscillations in the exchange rate. When the rate was unfavorable for exports, Salton lost interest and reduced investments in internationalization. This situation, together with a lack of executive management and export incentives, provoked changes in 2008. The export manager left the company because he was offered a more challenging proposal and Salton's internationalization activities became paralyzed.

Without the export manager, the company halted active research into new markets and ended up leaving the US and Czech markets. In the case of the USA, there was a problem with the importer and agent hired to operate the market, causing the importer's disinterest in continuing with the operation. In the case of rep. Czech, the market has been lost due to the loss in the relationship between the parties, as well as the importer redirect efforts to another economic activity. It did keep exporting to Germany, Switzerland, Belgium, and Poland, but did not support promotion efforts in these countries. Operations in Germany shifted exclusively to Weinbrazilian, cutting out Höfferle completely. The agent representing Weinbrazilian was also responsible for the Swiss and Belgian markets, which also stayed relatively the same.

All efforts at market research and entry ceased during this period, along with marketing, promotion and brand management abroad. Without anyone from Salton directly supporting the importers, exports were sustained simply by inertia, with the same clients and markets in existence and relative stability. Concerning the US market, a lack of a close and working relationship with intermediaries resulted in quotidian problems, such as finalizing a contract. Consequently, Salton left the US market.

Salton showed a regression during this period in terms of being able to overcome the liability of outsidership, due to the lack of anyone capable of maintaining rapport with foreign markets, perform market research, and develop new relationships.

Even though Salton maintained some internationalization with existing stable markets, it stopped building structures for recognizing opportunities and dynamics with importers lost energy.

4.13 2010 to 2012: Professionalization of the internationalization process

Internationalization returned to gain momentum at the beginning of 2010. Salton created an export department with a dedicated manager and operational assistant. A decline in performance and returns during the previous period of paralyzation, as well as perception of the indirect benefits of the internationalization process, motivated the company to insert internationalization in its strategic planning. The current export manager asserts the company created a position for "one person to take 100% responsibility for the international aspects [...] it established an export department and we started little by little to implement a more exporter philosophy in the company, which until then it lacked [...]". However, this manager also stresses that the primary objective of internationalization is to capitalize on the benefits it brings in regards to the domestic market. He was convinced that because they are exporting to other countries, in Brazil its image would be positively affected. The importation of wine from Salton and acceptance in foreign markets would serve as an endorsement of the quality of products supplied in countries where the wine culture is more advanced

Salton started investing more in existing markets, including Germany, Switzerland, and Belgium. This included more support for the importer, such as a more constant market presence and participation in trade fairs, events, and promotions.

In terms of prospecting new markets, Salton started focusing efforts on target markets, defined according to consumption and market potential. These markets included the United Kingdom, Denmark, USA, China, Japan, and Hong Kong. This resulted in exports to China, Australia, Canada, and Finland, as well as a return to the US and Czech markets.

This period demonstrated the secondary role exporting took for Salton, since it considered foreign markets to be supportive of domestic market efforts. The company clearly perceived the presence of its liability of foreignness, as shown in the export manager's comments. When questioned as to what makes a good international partner, he remarked: "the importer has to understand that it can be an optimal investment for them, that they can really gain a lot from this (*importing Brazilian wines*)". This corroborates the research by Hymer (1976) and Zaheer (1995), as cited by Johanson and Vahlne (2009), which explained that a foreign investor needs to have a specific advantage to compensate for the liability of foreignness when entering a market.

This perception was also apparent when the company realized that its best internationalization results came from the markets developed the longest time (Belgium and Germany). In these markets the relationships were stronger, trust levels were higher and better established, and partners were focused on managing and developing Salton's brand images. On the other hand, Salton still didn't make significant or conscious efforts at overcoming the liability of foreignness. This is given by the fact that the company targets new markets having large psychic distances, such as China and Japan, in search of transactional relationships, without a clear strategy for developing deeper relationships with clients. The evidence for this are few reports of the actions and work carried out in China and Japan for the development of the brand. Especially when compared to the strategy of Undurraga, who set up offices in priority markets, especially in Asia, seeking to overcome the psychic distance. This did not occur with Salton.

These facts reveal that there was little evidence of inter-organizational relationships between Salton and foreign competitors and suppliers. Contractual relationships notwithstanding, Salton's product insertion strategy depends upon foreign partners. Thus, its internationalization process has the possibility of changing depending upon each foreign agent. This is a definite lack of concrete strategy for dealing with the liability of outsidership in terms of developing trust-based relationships and structures for recognizing and developing opportunities.

Table 5 displays an analysis of Salton's periods and behavior in each period.

Table 5 **Analysis of Salton's periods and behavior in each period.**

Premises of liability of outsidership	Premise structure	2002 to 2005: Passive exporter.	2006 to mid-2008: First active exports.	Late- 2008 to 2009: Internationalization paralyzed.	2010 a 2012: Professionalization of the internationalization process.
Presence or lack of knowledge about market players.	**Access to information**	Little access to information and interaction with clients. Language barrier. First foreign market trips.	Increase in access to information due to interaction between the export manager and market actors. Surpassed the language barrier.	Reduction in interaction with markets, maintaining only existing clients. Cessation of prospecting trips.	Presence of market information access through documental research and market presence
	Personnel for processing and absorbing information	Process informally controlled by executives,	Presence of a professional responsible for managing the process.	Nonexistent, with the exiting of the international business professional.	Hiring of an international department team.
	Trust-based relationships with market players	Still not established. Existing business the result of intermediaries.	Developed the first trust-based relationships with market actors.	Break in continuity undermines trust with new clients, terminating the process.	Reestablishment of relationships with clients and opinion shapers.
Presence or lack of trust-based relationships	**Desire to continue a relationship**	Still unidentified, as the process is very recent.	Evidence of transactions lasting over 5 years.	Doubt regarding the future of internationalization .	Desire to maintain relationships with existing clients is explicit.
	Sharing information	Very little.	Present in some more developed markets, like the Czech Republic.	Impeded due to the lack of dialogue.	No evidence.
Presence or lack of structures for recognizing and developing opportunities	**Existence of ongoing business**	Beginning of export activities.	Expansion of new and current business.	Maintained four clients.	Extension of existing business and prospecting for new business.
	Included in the network	No evidence of inclusion in networks.	Evidence of initial inclusion in some networks, such as *Wines from Brazil.*	Network development paralyzed.	Restarting network development.

Note. Source: Developed by the authors.

In general, Salton winery only started making efforts at internationalization recently, despite being over 100 years old. The company still shows characteristics of liabilities of foreignness and outsidership in virtually every period analyzed, without showing evidence of overcoming either.

Table 5 presents an analysis of these periods and how Salton behaved in each regarding the liability of outsidership and its structures.

5 Results and Discussions

To investigate the internationalization process in these two wine exporters from Brazil and Chile, from an analytical perspective of the liability of outsidership, three basic premises were established. The lack of a premise identified a failure to overcome a liability and the presence of a premise identified success in overcoming a liability. We identified different properties for each premise to facilitate its identification.

Concerning Undurraga winery from Chile, we identified the presence of liability during the beginning of its internationalization process, between 1980-2000. During this period, the company still hadn't established relationship networks, and relationships with agents and importers were still quite recent. We identified the creation of a market penetration strategy, based on sequential stages, which helped overcome the liability of outsidership. When the company entered a new market, it identified its liability and implemented a strategy for overcoming it. Thus, Undurraga today is a highly internationalized country, with a successful strategy for opening and developing markets for its wines, and ability in overcoming liabilities.

On the other hand, Salton winery from Brazil clearly showed internationalization as a secondary goal that is considered to support domestic market activities. We identified the liability of foreignness to the extent that a foreign investor, in this case an agent or importer, must have a specific advantage to compensate for this liability before entering a market. There are still few importers that deal with Brazilian wines in general, and Salton wines in particular. We didn't identify a clear and conscious effort by the company to overcome its liabilities, except for those developed by *Wines from Brazil* in promoting Brazilian wines.

The company still has few inter-organizational relationships with foreign suppliers and competitors. Despite contractual relationships with foreign market intermediaries, its product insertion strategy is completely dependent upon foreign partners. Hence, the internationalization process is capable of changing with each foreign agent.

The brief comparative analysis between the two wineries displayed in Table 6 reveals that two factors interfere in overcoming liabilities: corporate strategy and national context.

Table 6 **Comparison of the two companies**

Premises of liability of outsidership	**Premise structure**	**Salton**	**Undurraga**
Presence or lack of knowledge about market players.	**Access to information**	Present through documental research and market presence.	Present via various established networks.
	Personnel for processing and absorbing information	Present during some periods, most evident recently.	Extensive team of professionals directly and indirectly involved in the internationalization process.
	Trust-based relationships with market players	Few and little developed, still under construction.	Present with various actors connected in relationship networks.
Presence or lack of trust-based relationships	**Desire to continue a relationship**	Present during most periods, but with little emphasis.	Present and evident during long-established relationships.
	Sharing information	Not evident during the study.	Evident via networks.
Presence or lack of structures for recognizing and developing opportunities	**Existence of ongoing business**	Presence in four countries for over 5 years.	Presence in over 70 countries for over 5 years.
	Included in the network	Few developed networks, with no evidence of structures for recognizing and developing opportunities.	Extensive development of relationship networks, with the presence of structures for recognizing and developing opportunities.

Note. Source: Developed by the authors.

The Brazilian context, which includes an opening of the domestic market since the 1990's, is characterized by intensified domestic competition. This has generated negative repercussions in various sectors of the Brazilian economy that were previously protected from foreign competition by import-substitution policies. One of the most affected sectors was the national wine industry. Salton itself still aims all of its commercial efforts at the domestic market.

The Chilean government, on the other hand, enacted systematic strategic planning to bring the country international success (Protas, 2008). Furthermore, Undurraga's strategy led the company abroad and helped it overcome its liabilities of foreignness and outsidership.

The cases studies corroborate Johanson & Vahlne (2009), Welch & Welcj (1996) and others showing that the international success depends on one or more social networks.

The Undurraga process, for example, showed that company changed through learning while operating in foreign markets and based upon commitment decisions, in order to strengthen their position in foreign markets. As the company acquired market experience, its body of knowledge influenced the level of commitment to activities increasing its participation in the foreign market. This engendered a new level of commitment that resulted in more experience as showed Johanson & Vahlne (2009).

6 Conclusions

Its objective was to investigate the internationalization process in two wine exporters from Brazil and Chile, from an analytical perspective of the liability of outsidership. This research was developed with the intent of contributing to scientific research with a focus on how companies internationalize in light of behavioral theories, specifically from the Uppsala school.

The research revealed that there is a very important distinction between Brazil and Chile that may explain the differences between the two companies. The Brazil domestic market context is highly relevant. Brazil having such a large domestic market that is a direct explanation for Salton focusing on the domestic market, while Undurraga was forced to go abroad for growth maybe because of the size of the market.

This article contributes to research into overcoming liabilities in the wine industry, which has still been a rarely studied topic in the academic world. Indeed, it is the first of its kind in Brazil.

The study also contributes to both the scientific community and for business managers to understand how domestic market and structural and institutional conditions of the country interfere recursively in the way the decision makers they see threats and opportunities available.

Finally the paper contributes to literature demonstrating the different conditions for the internationalization in emerging countries, revealing the impossibility of the same hypothesis for different countries.

A possible limitation is the methodological approach and failure to identify network formation processes within and outside of the companies, as well as how personal relationships influence the speed and efficiency in developing these networks. These aspects could be used as topics for future research in the area.

The article points to future research that could study the wine industry in other countries of South America in order to understand the relationship between the conditions of those countries and the industry's internationalization process analysis from various theoretical perspectives.

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