FUNDAÇÃO GETULIO VARGAS
ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

JOHNNY DIWAN

SURVIVAL OF THE FITTEST:
HOW SMALL AND MEDIUM COMPANIES HARNESS RESOURCES TO SUCCEED IN THE BRAZILIAN IMPORTS MARKET

SÃO PAULO
2018

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Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: Internacionalização de empresas.

Advisor: Prof. Dr. Carlos Eduardo Lourenço.

SÃO PAULO

2018

Diwan, Johnny.
Survival of the fittest: how small and medium companies harness resources to succeed in the Brazilian imports market / Johnny Diwan. - 2018.
46 f.

Orientador: Carlos Eduardo Lourenço.
Dissertação (MPGI) - Escola de Administração de Empresas de São Paulo.

1. Planejamento estratégico. 2. Pequenas e médias empresas - Brasil. 3. Comércio exterior. 4. Concorrência. I. Lourenço, Carlos Eduardo. II. Dissertação (MPGI) - Escola de Administração de Empresas de São Paulo. III. Título.

CDU 334.746.3/.4(81)

Ficha catalográfica elaborada por: Raphael Figueiredo Xavier CRB SP-009987/O
Biblioteca Karl A. Boedecker da Fundação Getulio Vargas - SP

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Approval Date

21/ 09/ 2018

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ACKNOWLEDGMENTS

Gd, for the strength and health that enabled me to get to this day.

To my parents Jaky and Lina for the love, affection, encouragement and unconditional support, always present and willing to help me in the moments that I needed and did not need. For the opportunity to attend a Professional Master's Degree, to my parents all my thanks.

To my supervisor Prof. Dr. Carlos Eduardo for all the attention, patience and dedication to the development of this work.

To Prof. Dr. Luiz Tadeu, part of my academic graduation with excellence, and respectfully accepted my invitation to participate in the evaluation of this work.

To the entire faculty of Fundação Getúlio Vargas - FGV / EAESP, ESADE – Barcelona and to the organizers of the CEMS Program, especially Eliene Soares da Silva, always ready to help.

To my colleagues Philipe Fajer and Giovana Flores, who played a key role in our endeavor and were very important to me.

To my longtime companion, Camila Cohab, for her constant support.

Last, but not least, to my longtime friend, Zack Douer, indispensable in carrying out the present study, always willing to help and especially patient to discuss the issues raised.

ABSTRACT

This present study analyses, under the *resource-based view* (RBV) and the *transaction cost theory* (TCT) approach, small and medium import companies operating in the non-durable consumer goods sector in Brazil. The RBV theory focuses on the internal resources owned or accessed by a company that could lead the firm to obtain a sustainable competitive advantage, while the TCT covers the dichotomy of ownership and flexibility of activities and dealing with uncertainty.

After gathering information about the macro-environmental context in which the companies are, and the inherent complexities involved, such as exchange rate fluctuation, port infrastructure, freight cost, legislations and bureaucracy, a qualitative phenomenological research was conducted with executives in the sector in order to evaluate their perception of the business and to identify the internal resources each company has at its disposal. Those resources are subject to evaluation using the VRIO framework, which intends to check whether a resource is valuable, rare and easy to imitate. Therefore, it can be classified – or not – as a source of sustainable competitive advantage.

Results show that, among small and medium sized companies, there aren't too many sources of competitive advantage, with few exceptions. The way companies deal with adversities and challenges are similar and, therefore, pricing plays an important role as an important variable while in this business.

Keywords: companies internationalization; international trade; strategic management; competitive advantage; phenomenological research; resource-based view; transaction costs.

RESUMO

O presente estudo analisa, sob a ótica da *visão baseada em recursos* (RBV) e a teoria de *custo de transação* (TCT), pequenas e médias empresas de importação que atuam no setor de bens de consumo não duráveis no Brasil. A teoria do RBV concentra-se nos recursos internos de propriedade da empresa ou acessados por ela que poderia levar a firma a obter uma vantagem competitiva sustentável, enquanto a TCT cobre a dicotomia entre a internalização de atividades ou flexibilidade de terceirização sob um cenário de incerteza.

Após a coleta de informações sobre o contexto macroeconômico no qual as empresas estão inseridas e as complexidades inerentes envolvidas, como flutuação cambial, infraestrutura portuária, custo de frete, legislações e burocracia, foi realizada uma pesquisa fenomenológica qualitativa com executivos do setor para avaliar sua percepção do negócio e identificar os recursos internos de que cada empresa dispõe. Esses recursos estão sujeitos a avaliação usando o framework VRIO, que pretende verificar se um recurso é valioso, raro e fácil de imitar. Portanto, pode ser classificado – ou não – como fonte de vantagem competitiva sustentável.

Os resultados mostram que, entre pequenas e médias empresas, não há fontes de vantagem competitiva significativas, com poucas exceções. A forma como as empresas lidam com as adversidades e os desafios é semelhante e, portanto, o preço desempenha um papel importante como variável importante neste negócio.

Palavras-chave: internacionalização de empresas; comércio internacional; gestão estratégica; vantagem competitiva; pesquisa fenomenológica; visão baseada em recursos; custos de transação.

SUMMARY

INTRODUCTION

The present study aims to directly address the scenario of small and medium sized companies operating in the import market of non-durable consumer goods, having Brazil as a macro-environmental context, through the adoption of both the *resource based-view* (RBV) theory, which focuses on the analysis of a company internal resources as a way of obtaining sustainable competitive advantage; and the *transaction cost theory* (TCT), which is basically addressing outsourcing or internalizing activities, as well as market adaptations and vertical integration. The purpose of this study is to explore the issue of the import market in Brazil, its barriers, complexity and, more specifically, to answer the question on "*how do small and medium firms operating in the Brazilian import market of non-durable consumer goods perceive and deal with the complexities of the sector?"*. Namely, what are the small and medium-sized company perceptions of the market and how does the firm take advantage of its internal resources – be they technological, human or organizational – in order to deal with adversities of such a complex business environment.

The main focus is to analyze the perception of small and medium entrepreneurs operating in the non-durable market, excluding from this context large corporations and sectors. The main reason for narrowing down the study target is because it constitutes a more homogeneous market at an international level. Non-durable goods, such as garments, textile and toys, tend to be a more homogeneous segment that doesn't count on major subsidies and tax incentives by governments, such as the automotive industry, oil and gas or agribusiness, considered worldwide as "strategic sectors". These markets rely on several particularities and specificities that are not part of this study´s scope.

Brazil's current international trade scenario relies on an overprotective policy regarding the national industry over the import market. According to the World Bank (2017), the current ratio of international trade in relation to GDP – an index commonly used to measure how significant is foreign trade in the generation of a country's wealth – Brazil is the second economy least dependent on exchanges with the foreign market, which accounted for 24.12% of the GDP in 2017, only ahead of Sudan, with 21.5%. The most prominent topic of debate that we find present today in international trade relations refers to the unprecedented *trade war* carried out by the two economic powers of the current world order, represented by the United States of America and the People's

Republic of China. *Trade wars* are basically related to import taxes imposed on various products that has one major intrinsic goal: protecting the domestic industry.

As a way of contextualizing the country's current situation, several data are presented on Brazilian protectionist policy, the complexity and taxes involved that has an impact in the final product. Additionally, Brazil's current situation regarding the World Trade Organization (WTO), which is the *"only global international organization dealing with the rules of trade between nations"*, and whose objective is to *"ensure that trade flows smoothly, predictably and **freely** as possible*" (WTO, 2018).

In order to present a factual basis for this line of research, a qualitative phenomenological research – which is the analysis of a certain phenomenon based on the lived experience of the interviewee – is carried out with entrepreneurs from the import market of the most varied sectors in order to evaluate their perception of the business environment and how challenges are handled in such a complex reality. As a result of those interviews, the complexity of importing goods in Brazil is also explored, evidencing the challenges related to tax regimes, port infrastructure and time-consuming processes that, in the end, result in less efficiency and loss of competitiveness. However, the interviews' main objective is to identify valuable internal resources that can help the company overcome the inherent challenges related to its core activity.

At the end, final considerations are made along with the analysis of the data collected during the interviews. The main objective of this section is to gather all information presented, cross with key findings raised by the qualitative research and present a final conclusion to the research question presented.

GENERAL OBJECTIVE

The main objective of this study is to identify, based on the *resource based-view* theory, which are the internal resources – be they technological, human or organizational – owned or accessed by a small or medium sized import company in order to deal with the complexities of the import market in Brazil, as well as applying the *transaction cost* theory in order to understand capabilities, decision-making on "*make or buy*" products and the ability to adapt in an environment of uncertainty.

SPECIFIC OBJECTIVES

Based on the research question and in the general objective of this study, there are some specific objectives that will lead to the conclusion of the proposed research topic. This study aims to understand, from an executive's perception, the main existing challenges related to the import activity in Brazil, such as the impact of the exchange rate in the business, the influence of port infrastructure, dealing with a complex and expensive tax regime and the existing bureaucracy regarding imported goods.

Additionally, understand how a small or medium size company harness all its internal resources and organize them favorably in order to overcome every one of those challenges naturally imposed by the macro-environmental context.

RESEARCH JUSTIFICATION

Several studies have been dealing with the import market and international trade in a Brazilian perspective (see for example, Batista, 2008; Braga & Willmore, 1991; and Júnior, 1988). However, none of the studies have as a target the perspective of a small or medium sized company, which differs completely from a macro analysis of the import market and its companies as a whole. The present study proposes a detailed, more specific analysis on how the companies perceive the market and how to deal with the existing adversities.

Additionally, although the RBV approach has been widely used in the literature, and also linked to international business (see Westhead et al., 2001; Guillen, 2000; and Peng, 2001), the environmental context of an emerging economy, such as Brazil, has been poorly explored. This study proposes a mix of the RBV theory, along with an economic context and further qualitative interviews.

LITERATURE REVIEW

The present study aims to evaluate how small and medium firms perceive and deal with the import market complexity. In order to operate in the business, those firms rely on internal resources – be they technological, human or organizational – so they can succeed in such an unpredictable and complicated sector. Those resources can provide a sustainable, long-term competitive advantage for the company, or simply be a source of a temporary competitive advantage. This will depend mostly on the analysis of the internal resources, based on the *resource based-view* theory and the VRIO business framework, which will basically classify those resources in terms of *Value*, *Rarity*, *Imitability* and *Organization.*

The use of the RBV approach will enable to evaluate how does the firm manage its internal resources in order to gain competitive advantage and succeed in the business. Based on the idea of resources, the aim is to understand what differentiate one strategy from another and what a certain company does that is unique compared to its competitors.

Additionally, the TCT approach is also explored based on Coase (1937) very first articles on the subject and further improvements by Williamson (1975), which addresses the outsourcing or internalizing dichotomy, as well as vertical integrations and market adaptations based on transaction costs.

RESOURCE-BASED VIEW

Understanding and recognizing sources of competitive advantage in a company and addressing how this advantage could be used in a firm's favor has been a topic of major discussions in the field of strategic management, especially by Porter (1985) and Rumelt (1984) (BARNEY, 1991). According to Porter (1985), a sustainable competitive advantage (SCA) is related to above-average performance in the long run, which could be achieved pursuing two basic types of competitive advantage: (i) low cost or (ii) differentiation. Still according to Porter (1985), the strategy of cost leadership is to obtain a competitive advantage by offering products at a lower cost than competitors, while the differentiation strategy is mainly related to the firm seeking to be unique in its industry. According to this approach proposed by the author, the strategy depends on an *external* environment context, related to the industry players, environment specificities and market

analysis. Therefore, the *internal* specificity of a company stays in the background, while the *external* environment remains the predominant when developing new strategies, be they for low cost or differentiation.

On the other hand, despite Michael Porter's notorious researches and publications, the field of strategy was first conceived by Andrews (1971) framework, which defined strategy as the match between what a company can do (organizations strengths and weaknesses) within the universe of what it might do (environmental opportunities and threats). In the same way, there has been an increasing amount of empirical research on the subject of sustainable competitive advantage (SCA), mainly by authors recognized as reference for the study of SCA, for instance, Wernerfelt (1984), Barney (1986), Dierickx and Cool (1989), Amit and Schoemaker (1993) and Peteraf (1993) (GOMES & ROMÃO, 2017).

However, those authors address the SCA theory centered on a *resource-based view* (RBV) of the firm, in which the concept of *firm resources* can be defined as *"all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies"* (BARNEY, 1991, p.101). Multiple authors have brought several firms attributes and resources that enable firms to implement strategies. More specifically, those attributes could be gathered into three major categories: (i) *physical capital resources*, which correspond to physical technology adopted in a company, equipment ownership, location, the firm's plant; (ii) *human capital resources,* which account for individual capabilities, training, working experience, intelligence and building professional relationships; and (iii) *organizational capital resources*, regarding the existing organizational structure ruling in a firm, which includes reporting structure, hierarchy, controlling and coordinating, relationship between different teams and working environment (WILLIAMSON, 1975; BECKER, 1964; TOMER, 1987; BARNEY, 1991).

The resource-based view of the firm has been widely covered by different authors, mainly led by Barney (1991), which goes against Porter's (1990) approach on competitive advantage, which – according to Barney (1991) – relies on two simplifying assumptions regarding competitiveness.

> *"First, these environmental models of competitive advantage have assumed that firms within an industry (or firms within a strategic group) are*

> *identical in terms of strategically relevant resources they control and the strategies they pursue. Second, these models assume that should resource heterogeneity develop in an industry or group (perhaps though new entry), that this heterogeneity will be very short lived because the resources that firms use to implement their strategies are highly mobile.* (BARNEY, 1991, p.100).

On the contrary, the RBV model assumes that (i) resources are distributed heterogeneously across firms and that (ii) those resources cannot be transferred from one firm to another without any related cost. Essentially, these assumptions are the axioms of the RBV (PRIEM & BUTLER, 2001).

According to the RBV approach, companies are unique since each one of them has its own experiences, assets and skills (COLLIS & MONTGOMERY, 1995). The main objective of this study is to understand how companies converge all its resources, which are unique, to deal with market complexities.

> *"The RBV sees companies as very different collections of physical and intangible assets and capabilities. No two companies are alike because no two companies have had the same set of experiences, acquired the same assets and skills, or built the same organizational cultures"* (COLLIS & MONTGOMERY, 1995, p.120).

Still according to Collis and Montgomery (1995), those assets and capabilities are the aspects that should determine how efficiently a company will perform its activities. Following this logic, a company will be more likely to succeed depending on the stock of resources owned for its business strategy. Relating to this study's research question, the main idea is to identify the resources within import companies and how they are converged to leverage business strategy and competitive advantage.

VRIO FRAMEWORK

Furthermore, as a complement of the RBV approach and as a way of evaluating resources in terms of competitive advantage, Barney (1995) introduces the VRIO (Value, Rareness, Imitability and Organization) framework, which must address four questions about internal attributes of a firm: (i) "*Do a firm's resources and capabilities add value by enabling it to exploit opportunities and/or neutralize threats?";* (ii) *"How many competing firms already possess these valuable resources and capabilities?";* (iii) *"Do firms without a resource or capability face a cost disadvantage in obtaining it compared to firms that already possess it?";* and (iv) *"Is a firm organized to exploit the full competitive potential of its resources and capabilities?"* (BARNEY, 1995).

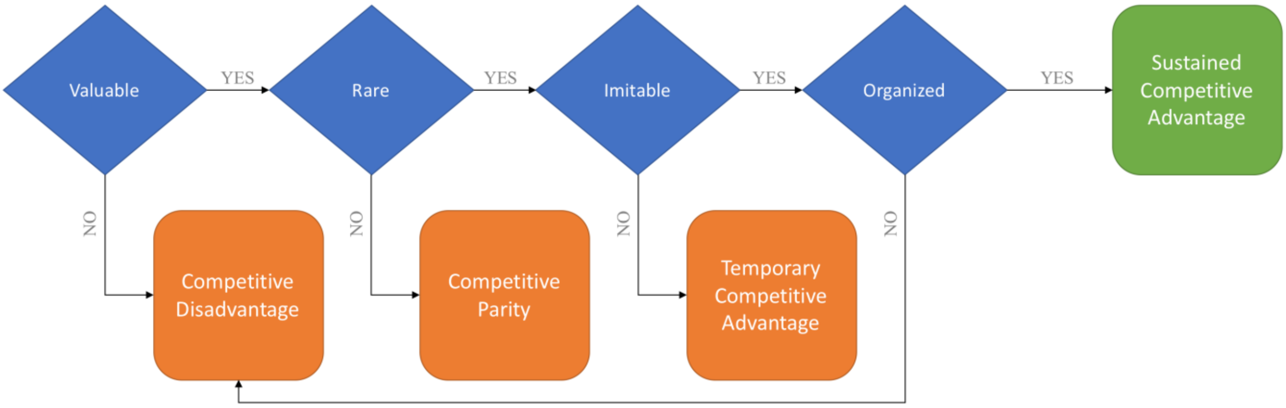
Resources and capabilities are *valuable* in terms of enabling a company to improve its competitive position by exploiting opportunities or anticipating threats. After understanding the value of a resource in a firm, it is possible to address its rarity. Once a resource or capability is controlled by many competitors, then such a resource will hardly be a source of competitive advantage for any of them. Instead, valuable but common (ie, not rare) resources and capabilities are sources of competitive parity. Only when a resource is not controlled by numerous competitors will it tend to become a source of competitive advantage (BARNEY, 1995; BARNEY & WRIGHT, 2000).

In terms of imitability, the company should reflect on whether its resources are hard to imitate or not. If a certain resource can be directly duplicated, or if there is any existing substitute resource, then competitors will not have a high cost imitating it and the company's advantage will only be temporary.

Last but not least, the organizational aspect is crucial to the development of competitive advantage. If a firm is not prepared organizationally to exploit and leverage all of its resources, then it is not possible that the firm sustain a competitive advantage. Indeed, all of the existing resources will likely to be nothing more than a source of competitive disadvantage (Table I).

In the present study, during the conducted qualitative interviews, all kind of resources were identified. However, the VRIO framework has a crucial role on understanding whether a certain resource can be a source of competitive advantage or not. Those questions imposed by the framework are answered based on the deep qualitative interviews and also comparing resources among the companies presented in this study in order to better assess its real value in terms of competitiveness.

TABLE I: THE VRIO FRAMEWORK



Source: Author's elaboration based on Barney (1995).

TRANSACTION COST THEORY (TCT)

The very first approach and notion regarding transaction costs goes back to Coase (1937), in his classic paper entitled "*The Nature of the Firm*", which addresses the result of his effort to integrate institutional elements of the capitalist economy into traditional economic theory. His study of the creation and expansion of firms and the organization of markets was motivated by a fundamental questioning not answered by neoclassical theory: the reasons why a company internalizes activities that could obtain at a lower cost in the market, assuming the existence of efficiency gains from labor division. Coase's analysis would define his study as a milestone for later research on firm theory, like the perception that the relations between the economic agents given in the market would involve concrete costs, referred to costs of collecting information, negotiating and making contracts (SARTO & ALMEIDA, 2015).

The New Institutional Economics[1] (NIE) is one of the most well-structured research chains of the institutionalist approach, which is fundamentally concerned with microeconomic aspects and whose emphasis is on firm theory. The Transaction Cost Theory (TCT) represents the main contribution of this school, whose hypotheses can be summarized in three fundamental points: (i) the transactions and associated costs define different institutional modes of organization of economic activities; (ii) technology, although important aspect of the organization of the firm, is not determinant; and (iii)

market failures are central to the analysis, which gives importance to institutional forms (WILLIAMSON, 1991; SARTO & ALMEIDA, 2015).

According to Williamson (1985), a "*transaction*" could be defined as the event that occurs when a good or service is transferred through a technologically separable interface, being a contractual relationship, in that it involves commitments among its participants. Transaction costs are nothing more than the expenditure of economic resources to plan, adapt, and monitor agent interactions, ensuring that compliance with contractual terms is made satisfactorily to the parties involved and consistent with its economic functionality (PONDÉ, FAGUNDES & POSSAS, 1997).

The TCT is also a well-known field on vertical integration strategies, since it is directly related to the "*make or buy*" dichotomy. In his analysis of the determinants of vertical integration, Williamson (1985) postulates that, in many cases, transaction cost savings are a strong reason for expanding firms along their productive chains, resulting in a more efficient organization of productive activities. In the classical case of the decision to buy or manufacture a particular input, Williamson (1985) states that if specific assets are involved in the manufacture of this input and its production is subject to economies of scale and scope, two types of basic costs would guide the firm's decision: (i) those related to economies of a technological nature (scale and scope) and (ii) those whose origin rests on the existence of transaction costs associated with the use of the market. Therefore, there is a *trade-off* between two distinct organizational forms, and the most efficient option will depend on the level of specificity of the assets (PONDÉ, FAGUNDES & POSSAS, 1997). In scenarios of uncertainty, Williamson (1979) suggests that ownership should be avoided due to possible market shifts. Remaining flexible is key in order to mitigate this risk.

In the context of the present study, the transaction cost theory imposes the need of decision-making processes in order to address the dilemma of internalization or outsourcing business activities. As this study aims at import companies in Brazil, there is an imminent factor, which is the fact that all those companies decided that buying from a third-party firm – that is, outsourcing production – is more profitable than trying to produce locally by its own. All other activities related to transaction costs are further analyzed when interviews results are presented.

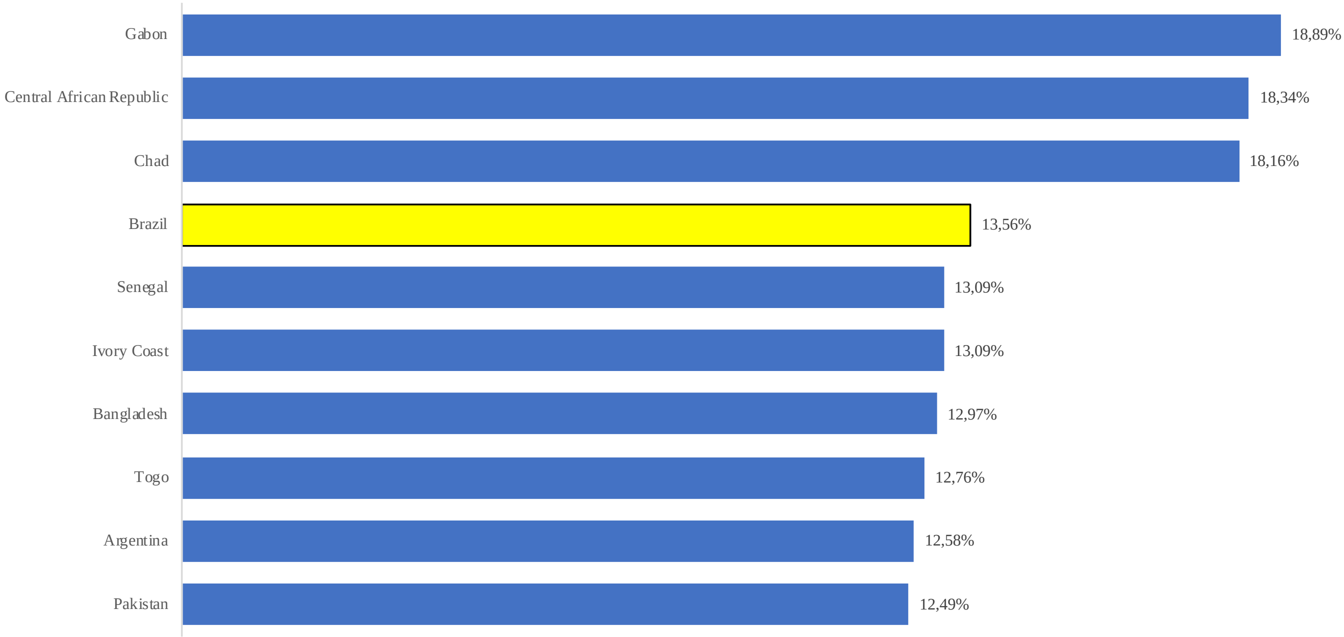
MACRO-ENVIRONMENTAL ANALYSIS

A well-known and established framework exists for analyzing the environment from a firm's perspective (PORTER, 1980). However, there aren´t so many frameworks available for a broader analysis of the general environment. Narayanan and Fahey (2001) outlined elements regarding a macro-environment faced by a firm, which can be divided into four categories: political, economic, social and technological. This framework is also known by the PEST acronym (or STEP), and is present in many strategy studies (see for example, Dale, 2000; Frost, 2003; Nunes, 2007; Coghill, 2008).

Deriving from this approach, several variations were proposed by authors. Ortiz (2010), for instance, proposed an additional category, adding the *legal* element to the PEST framework, thus adopting the SLEPT acronym (GOPINATH, 2012). For the purpose of this study, the SLEPT framework is used in order to assess the global environment of firms operating in the import market in Brazil. Therefore, after identifying the macro-environmental factors in the country´s perspective, it is possible to address how companies perceive and deal with them, and how their resources are explored to overcome the reality perceived.

As of international trade, Brazil can be currently perceived as a commercial island. Regarding trading and exchanging of goods and services with other nations worldwide, the country does not adopt a friendly business environment. Having an economy based on the protectionism of the local industry and a series of trade barriers, Brazilian production loses competitiveness and the local consumer pays dearly for foreign products. While the United States and the European Union have average tariffs of 2.8% and 1.9%, respectively, Brazil imposes an average tariff of 13.56% for imported goods (WORLD BANK, 2016). Still according to the World Bank data, Brazil is among the countries with the highest average import tariffs in the world, side by side with African countries and other undeveloped economies (Table II).

TABLE II: COUNTRIES WITH THE HIGHEST AVERAGE IMPORT TARIFFS IN THE WORLD

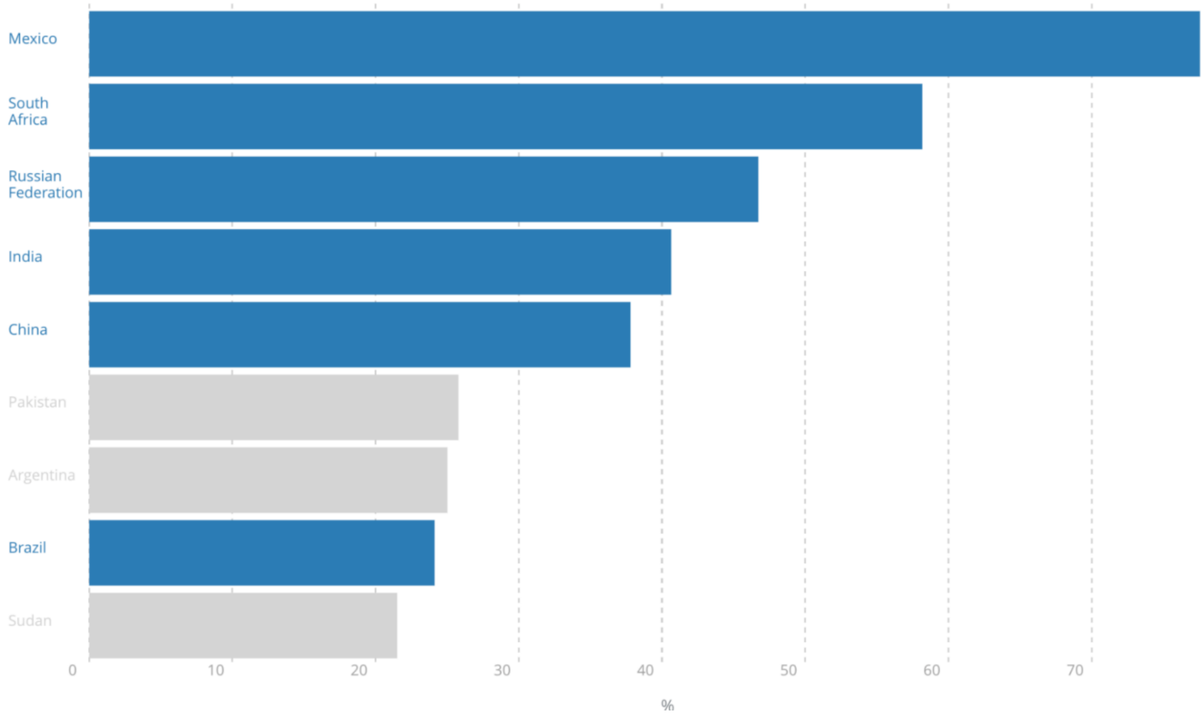


Source: Author's elaboration with data from The World Bank (2016).

This isolation is an attempt to attract large companies to the national territory and protect local products and people's employment. On the other hand, protectionism makes some businesses unviable in Brazil and uncompetitive outside of it.

Considering the current ratio of trade in relation to GDP – already mentioned before – Brazil is among the countries that least depends on exchanges with the foreign market (Table III). According to data from The World Bank, Brazilian foreign trade accounted for 24.1% of GDP in 2017. When comparing to other emerging economies, such as the BRICS[2], the difference is evident. In Russia and India, for instance, the index was above 40%. Trade flows from South Africa almost achieved 60% of the GDP, and even China, a country that has opened itself for the world relatively recently, had a more significant index than Brazil, at 37.8%. This is a clear example of Brazilian isolation, with a closed economy for international trade and that relies on an overprotective economic agenda.

TABLE III: INTERNATIONAL TRADE (% OF GDP)



Source: Author’s elaboration with data from The World Bank (2017).

The situation faced by the Brazilian economy, among many other variables, can be related to a systematic policy of several years that tries to preserve the national industry and to foment the consumption of goods produced internally. In order to force this, Brazil has abused of anti-dumping[3] actions, which has been a matter of discussion in international forums, such as the prominent World Trade Organization[4] (WTO). According to the WTO, “*Brazil remains a significant user of trade remedies, particularly anti-dumping (AD) measures. During the period under review, 123 new AD investigations were initiated, and at 31 December 2016, 163 definitive AD measures were in place, covering a wide range of sectors”.* Besides using AD measures at a significant rate, there is also evidence of abusive practice.

> *“Considering the […] profile of the Brazilian domestic industry, we can conclude that in Brazil it is possible that such an instrument is misused since, as seen above, it is not illegal for a company to use an antidumping measure for import competition. Anti-dumping functions as a real barrier to entry into the Brazilian market,*

> *diverging from its purpose to protect the domestic industry from 'unfair competition'"* (CRUZ, 2015, p.63. Author's translation.)

Brazil is a WTO member since its establishment, in 1995. Since then, Brazil has been involved in 16 dispute cases as a respondent[5]. That is, when a complainant requests a panel of investigation in order to evaluate some trade policy Brazil has implemented. The last dispute involving Brazil (DS497), for instance, had Japan as a complainant, accusing the Brazilian government concerning "*taxation and charges in the automotive sector, the electronics and technology industry, and tax advantages for exporters*" (WTO, 2018).

COMPLEXITY OF IMPORTING GOODS IN BRAZIL

Importing in Brazil has been one business activity that demands time, effort and resources in order to have it as a successful and profitable activity. The World Bank releases reports and rankings on "Ease of Doing Business", comparing the business environment in every country and then assigning points to every economy. Especially in importing merchandise, Brazil has shown how complex the activity can be for entrepreneurs and companies adventuring themselves in the sector. According to the World Bank (2017), it is estimated that *"importing merchandise into Brazil requires 63 hours and US$970 for 'border compliance', and 120 hours and US$107 for 'documentary compliance'".* Still according to the report, the "*average customs clearance time across all Brazilian customs posts was 40.32 hours in 2013, 39.35 hours in 2014, 35.29 hours in 2015, and 34.16 hours in 2016"* (TRADE POLICY REVIEW – WTO, 2017, p. 43). Despite a relative improvement YoY (year-over-year), still processes are slow and inefficient.

Regarding the Brazilian internal taxation regime, it remains overly complex to handle, including in imported merchandise. There are currently federal taxes and state taxes, which could be summarized to: Tax on Industrial Products[6] (IPI); Import Tax[7] (II), Tax on the Circulation of Goods and Services[8] (ICMS); contributions to the social integration program[9] (PIS) and to finance social security[10] (COFINS); and Tax on

Services[11] (ISS). It is important to mention that aliquots can vary depending on the product classification, state authority and the importer’s tax regime status.

In this scenario of several taxes involved and the complexities brought with them, it is interesting to mention how Chile has been dealing with international trade, being recognized as one of the countries that signed the most Free Trade Agreements worldwide. Free Trade Agreements (FTAs) are trade agreements between countries, whose main attribution is the elimination of import tariffs and quotas on the export and import of goods and services (BAIER & BERGSTRAND, 2005).

FTAs have been the main instrument of Chile's trade strategy since the 1990s, and the culture of adopting a more liberal approach is based on an objective determined by the economic organization, which established in the country the neoliberal reforms of the 1980s, recognizing that the international market was the main force of the Chilean economy. Thus, trade policy was based on the premise that increased exports and imports would lead to an increase growth and development (DINGEMANS, 2016).

Hence, efforts by Chilean negotiators have been made over the last few years in order to open the doors of the Chilean market to the world, which soon made a good impression on the international community, partly interested in sitting down to negotiate. According to Dingemans (2016), the Chilean negotiators soon achieved international recognition for their technical capacity and professionalism, and in general the work of the Direcon (General Directorate of International Economic Relations) was evaluated very positively.

> *“In terms of FTAs, Chile is exemplary, having signed 22 trade agreements with 60 countries, covering about 90% of its foreign trade, including hard-to-reach markets such as the Japanese and American. This result confirms the ability of the trading teams”* (Dingemans, 2016, p.157. Author’s translation.).

The perception, including in Brazil, is that these kinds of agreements are hard to reach and demand a lot of time, effort and resources, which can make it very hard to accomplish. Indeed, signing an FTA demands a lot of time, effort and resources. However, looking at Chile as an example once again, negotiations were successful. For

instance, the FTA signed between Chile and China was a quick and effective negotiation[12]. In June 2002, China proposed to Chile to begin talks on a trade agreement and the launching of negotiations took place at the APEC13 Leaders' Summit, held in Santiago, Chile, in November 2004. Negotiations took place in Beijing in January of 2005 and, after five rounds, culminated in November of the same year. Since the entry into force of the FTA on October 1, 2006, China has increased its presence in Chile's domestic trade until it became Chile's first trading partner in 2015, receiving 28.48% of total Chilean exports (MINISTRY OF FOREIGN AFFAIRS, 2017).

It is worth noting that Chile is a country open to this type of treaty signed with China, and it is enough to observe the agreements to which the country is signatory to conclude that FTAs are a fundamental part of Chile's international trade policy (Appendix I), something that is not observed often in Brazil. The Chinese government has recently expressed its desire to initiate talks with Uruguay and Argentina to establish an FTA. However, since these countries are part of Mercosur, the individual membership of each of these countries would depend on prior authorization from the bloc, which is unlikely for the time being. However, there is already a move regarding initiatives in order to implement FTA's for Mercosur as a block in a long-term perspective. Regarding this proposal, Brazilian Foreign Minister Aloysio Nunes stated that "Mercosur has remained for many years with a deeply timid foreign agenda", which shows that politicians are willing – even if gradually – to implement changes to leverage international trade14.

Furthermore, related to the complexities of importing in Brazil, port infrastructure is a determinant factor influencing international trade. Approximately 80% of international trade involves maritime services (UNCTAD, 2016), giving to port infrastructure a "*crucial role to improve international connectivity and propensity to international trade for a given region*" (BOTASSO et al., 2017). With Dilma Rousseff's rise to power in 2011, the government agenda has been markedly steered by increased investments in infrastructure, one of the main flags of the president's first term. Along this, the diagnoses were made to identify the causes of high Brazilian Cost – also known as "*Custo Brasil*[15]" – and possible measures to combat them. One of the main causes of the high price of Brazilian logistics was port's inefficiency, which had extremely high movement-time and cost compared to the rest of the world (FONSECA, 2017).

The investment forecast in the port sector was increased through the prioritization of more resources under the PAC[16] program, which was entering its second phase. The allocations foreseen more than double between 2008 and 2012, going from

R$ 613 million to R$ 1.43 billion. Development, however, continued to run up against its old efficiency and management problems, underscored by the institutional incapacity to execute the budget, which managed to invest only 27% of the resources intended for 2012 (GUIMARÃES, 2014). Therefore, port infrastructure remains one challenge for firms operating in international trade, be they exporting or importing goods.

Additionally, possibly the most impactful variable while importing – and this applies to every country in the world – is the exchange rate for foreign currency. As importing is related to buying merchandise from abroad to sell in the national market, all payments to suppliers are made mostly in USD, even buying from a Chinese manufacturer. Therefore, foreign exchange policies are highly relevant to *players* in the market and are determinant in final price and cost calculations.

The exchange rate in emerging countries, such as Brazil, is characteristically volatile, as it is subject to change over short periods of time. The reasons lie in the general context of the position that these countries occupy in the international monetary and financial system, where their currencies are assets with lower liquidity and, therefore, are less demanded when there is greater preference for liquidity. In moments of greater spirit and reduction of uncertainty, the demand for them increases, due to the higher returns that they offer to their holders and investors (ARAÚJO & TERRA, 2016).

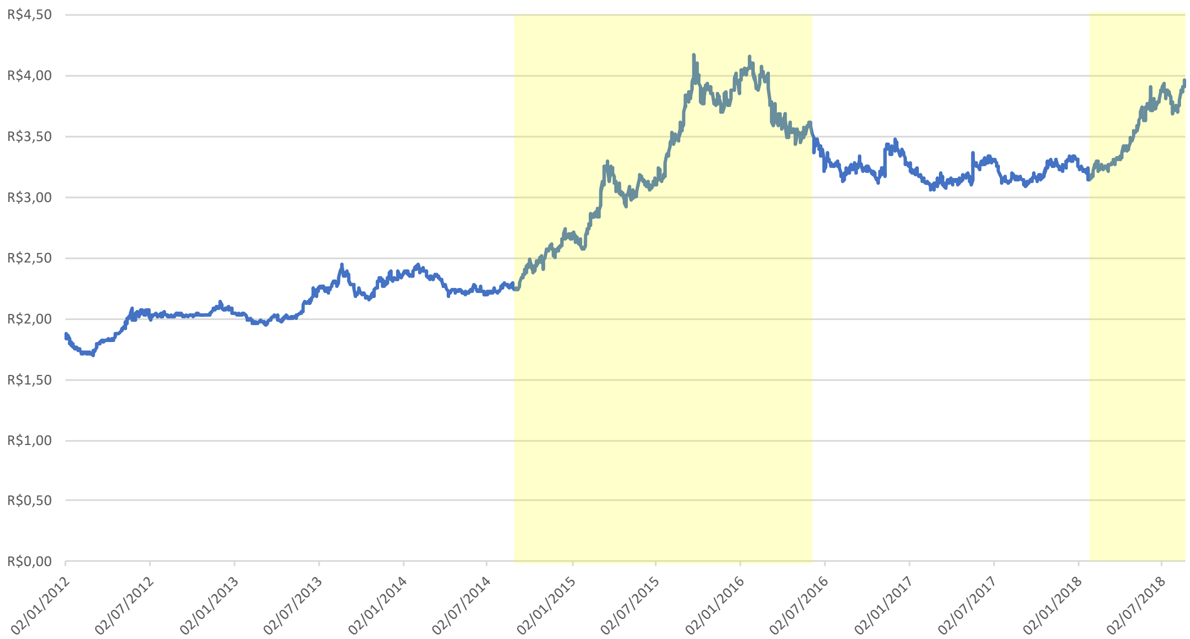
Since 1999, Brazil has been adopting a floating exchange rate regime, in line with the predominant trend among the main emerging economies. Under a floating exchange rate regime, interventions in the foreign exchange market should not theoretically occur, since the market should determine the nominal equilibrium rate, based on movements in supply and demand for foreign currency (OLIVEIRA & PLAGA, 2011). However, although most emerging countries adopt this regime, the respective monetary authorities – in the Brazilian case, the Brazilian Central Bank (BCB) – seek to stop the movements of their exchange rate through active interventions in the foreign exchange markets. In other words, the predominant exchange rate regime is, in fact, the "*dirty*" flotation regime with differentiated degrees of intervention, in which the presence of central banks is the rule, not the exception (PRATES, CUNHA & LÉLIS, 2017). Those interventions are not made in order to avoid exchange rate to increase, but to avoid high volatility and fluctuation.

> "[…] *Central banks intervene in the foreign exchange market to correct trends, reduce*

> *exchange rate volatility and calm markets in times of crisis"* (OLIVEIRA & PLAGA, 2011, p.72)

During periods of uncertainty – economic or political – exchange rates tend to fluctuate (Graphic I). As shown in the graphic, after the election of President Dilma Rousseff for her second term, there was a high level of uncertainty in the country regarding the need of fiscal adjustment measures, the unprecedent corruption scandals that was being investigated at a federal level – the so called "Car Wash Operation[17]" – and the economic agenda that was being implemented by the government. After the President's Impeachment, in August 2016, the exchange rate began to retreat before a new period of uncertainty came, which corresponds to the current presidential elections to take place mid-October 2018. Both of these periods are highlighted in the graphic.

GRAPHIC I: EXCHANGE RATE FLUCTUATION (2012 – 2018)



Source: Author's elaboration with data retrieved from the Brazilian Central Bank.

In order to better illustrate the complexities and costs involved in the process of importing as a whole, one of the top executives of one of the companies interviewed for this study shared a real information regarding the process of importing goods (Appendix II). The name of the client remains under anonymity due to non-disclosure agreement.

In the example shown, the cost of the merchandise is USD 127,118.80 + International Shipping (USD 2,700) + Insurance (USD 234.18), equaling the amount of

USD 130,052.98. With the FX Rate at the time of the import process, the total cost in Brazilian reais would be R$ 440,918.62. However, due to taxes involved, operational expenses related to port operation, protection charges, terminal services, etc. the cost ends up at R$ 609,781.99, a 40% *premium* from the original cost. Furthermore, it is relevant to state that this merchandise Import Tax (II) rate is 18%, but it could go up to 55% depending on product category, making it even more expensive at the end of all calculations.

It is important to note that the merchandise analyzed refers to zippers, cursors and buttons imported to be sold to national garments manufacturers. Therefore, the national industry also suffers with the existing protectionism, since their inputs for producing the final product commonly come from abroad. At the end, the consumer is the one who has to pay more.

For companies that are the study object of this research – that is, small and medium firms – those complexities are harder to handle. In multinationals and big corporations, normally there is a favorable organizational structure in order to deal with all the bureaucracy and complexity involved. In small and medium companies, resources are scarcer. In the qualitative research conducted for this study, top executives and managers talk about how to converge all existing internal resources to *survive* – in their own words – in the business.

METHODOLOGY

The research approach implemented in this study is the *qualitative research*, which can be defined as "*an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem*" (CRESWELL, 2013). The so-called qualitative studies have as a fundamental concern the study and analysis of the empirical world in its natural environment. This approach emphasizes the direct and prolonged contact of the researcher with the environment and the situation being studied.

More specifically, the analysis adopted in this study is related to the phenomenological research. The term "phenomenology" can comprehend both a philosophical movement as well as a range of research approaches (NARAYAN, 2011). Husserl (1859 – 1938) is considered to be the father of descriptive phenomenology, which is basically a research where the essential characteristic is to focus on the description of

a participant's individual experiences to understand the phenomenon (CRESWELL, 2007), which is also referred by some researchers as the *lived experience* (MAYOH & ONWUEGBUZIE, 2015). This individual perception of a phenomenon is what it seeks to extract. As an example, it can be said that the import market in Brazil does not present itself objectively, with its principles and precepts, to all firms operating in the sector equally. On the contrary, each one of the companies and executives have their own perception and evaluation of the environment in which they are. Everyone perceives it as a phenomenon of their consciousness and participates in it with different motivations, according to their trajectory and experience, while it does not prevent from having intersubjective similarities and regularities (MESQUITA & BAUER, 2008).

Apart from Husserl, his disciple Heidegger (1962) expanded the idea of phenomenology, adding to it an interpretative approach rather than only a descriptive one, presupposing an engagement by the researcher with the phenomenon. Therefore, this approach puts emphasis on the researcher's interpretations of a lived and individual experience (VAN MANEN, 1990). In this study's purpose, the individual experiences of executives working in the import market will be the key on understanding how they perceive the market in which they are and how do they deal with those naturally imposed challenges.

Creswell (2007) talks about the significance of choosing appropriate candidates for interviews, which will lead to the most credible answers for data analysis. Therefore, it is important to select someone who has a vast knowledge on the research topic, so the contribution can be relevant to the study. Consequently, for this qualitative research, interviewees are people working for at least 3 years in the sector and with a minimum of a manager job position, so the research can reach decision makers in a firm.

Given the limited resources, the large number of companies that operate in the import market of non-durable goods and the difficulties in obtaining commercial information for reasons of confidentiality, the interviews were selected for convenience and through the technique of *snowball sampling*[18] method which is the most recommended one when researching on hard-to-reach sectors (GOODMAN, 1961).

Therefore, contact was made through close people and relatives, as well as by information provided by social network, seeking to interview top executives, directors and managers of companies that operate in the market for at least 3 years – which is, according to the conducted interviews, the average time a company need to develop the

demanding *know-how* of the business – and with annual revenues above USD 1,000,000 and below USD 30,000,000.

At the end, there were 16 attempts of interviews, using channels like e-mails, telephone calls and third-party intermediations. It was possible to effectively carry out 9 semi-structured interviews with audio recording totalizing 7.5 hours, which were partially transcribed with the intention of enabling the qualitative analysis and the citation of exact excerpts. The interviews were conducted in Portuguese language; therefore, citations are presented after the author's translation, always preserving the original context and idea. Out of the 9 interviewees, 66% of them authorized the full quotation of extracts. As a result of the Confidentiality Agreement, none of these interviews can be disclosed in full and, therefore, will not be displayed in the present study.

Regarding interviewees profile, it was possible to count on the participation of:

	POSITION	**SECTOR**	**LOC**
1	**Owner/ Partner**	Garment	SP
2		Garment accessories/ tailoring materials	SP
3		Textile	SP
4		Garment	SP
5		Garment accessories/ tailoring materials	SP
6	**Director**	Toys	SP
7	**Sales Manager**	Domestic Utility	SP
8		Textile	SP
9	**Commercial Manager**	Garment	SP

The interviews reached 8 different companies. Although all interviews were conducted in Sao Paulo, some of the companies have their operations concentrated in other regions, normally next to big port hubs, like Vitória (Espírito Santo – ES) and Itajaí (Santa Catarina – SC). However, all of them have physical offices in Sao Paulo and also *showrooms* in order to meet clients and work on the sale side of the business.

Only one of the companies shared documents regarding its operation, which are available in the present study, showing all the cost-related process of importing goods, already analyzed above.

RESEARCH ANALYSIS

Despite all interviewees work on different sectors, they all share a macro-environment in common, which is the import market and its complexities. Therefore, many of the observations and challenges faced by one executive is also mentioned by the other. After completing all qualitative interviews, a topic-map (Table IV) was created in order to observe whether a certain subject is constantly brought to light – making it a more relevant one – and which one of them are less considered, which will make it as secondary matters.

TABLE IV: QUALITATIVE RESEARCH INTERVIEW TOPIC-MAP

INTERVIEW	TOPIC	Exchange Rate (USD/BRL)	Working Capital	Minimum Price	Freight	Bureaucracy and Taxes	Ports Infrastructure	Lead Time
Garment	E1	X			X	X	X	X
Garment accessories/ tailoring materials	E2	X		X		X		
Textile	E3	X	X	X		X	X	
Garment	E4	X		X		X	X	
Garment accessories/ tailoring materials	E5	X		X		X	X	X
Toys	E6	X		X	X	X	X	X
Domestic Utility	E7	X				X		
Textile	E8	X		X		X	X	
Garment	E9	X	X			X	X	

The way each one of the companies deal with those subjects is also a matter of study, incorporated by an RBV standpoint. The objective is to observe how the company converge its internal resources in order to deal with each one of those complexities raised in the interviews.

The main topic, which is present in all 9 interviews with significant emphasis, is the USD/BRL exchange rate, which is inherent to the import activity. As already mentioned in this study, exchange rate in Brazil, as well as in other emerging countries, can be highly volatile and unpredictable. This has a direct impact on imports, since all suppliers' payments are made in foreign exchange, thus making it more expensive in Brazilian Reais when the currency suffers a devaluation.

> *"It is a hard matter. Imagine that you have your expenses calculated in US dollars, while your revenues are 100% national currency, the Brazilian Reais. During periods of uncertainty*

> *your liabilities grow, while your revenues stay the same. Not always is possible to adjust prices accordingly"* (E9).

Regarding adjusting prices, the issue is more complicated. In the month of August 2018, the exchange rate went from approximately 3.70 to 4.21. That is more than a 10% premium in such a short-term period.

> *"How are you going to explain to several clients, who often do not even know what the US dollar is, that yesterday he paid 10 reais and today it's 11 reais? It is more than my margin and more than my clients' margin. The importer suffers a lot and ends up having to absorb a lot of this exchange variation"* (E3).

That is one challenge that is hard to address while in the import market. Executives from the textile sector stated that products are pretty much the same all over the year. *"Of course, you have new tendencies and new prints, but they don't differ a lot"* and therefore is harder to explain to a client that the same product he use to buy is now up to 20% more expensive. "*Sometimes you just lose money, because your product becomes uncompetitive in pricing*". In order to address pricing strategy, one of the executives shared that the company has a yearly budget dedicated to supplier's prospection. This policy helps the company not to rely in a small number of manufacturers, but to expand their bunch of options. It was due to this prospection that the company found new suppliers in Bangladesh that could produce similar products to the Chinese ones, but at lower prices. This is a clear example of an organizational culture focused on progress and innovation, which can be rare to observe in small and medium sized companies. Under the RBV approach, this is an intangible organizational resource that could lead the firm to obtain a *temporary competitive advantage,* since it is valuable, rare, but not necessarily hard for competitors to imitate.

Apart from pricing strategy, some executives expressed their deep disappointment and frustration regarding the government exports agenda priority. Since a devalued exchange rate favors the export market, which will "earn more Reais" for each

international transaction, this scenario is in the government best interests, since major exports of commodities to China, for instance, benefit from this situation.

In order to work around the exchange rate volatility there is the possibility of the currency hedge, which is a type of financial operation put into practice by investors, importers and exporters, whose purpose is to protect any and all investments abroad (BLACK, 1989). There are many instruments of hedging, which will not be detailed in the present study, but that could protect firms from unexpected variations. However, this practice is likely uncommon to happen in an environment of small and medium sized companies. Of all interviewed companies, only one of them carry some type of hedge, but in rare situations, not having it as a common practice. Others justify why not to use it:

> *"In relation to hedge, it varies greatly from sector to sector. In the food sector, for instance, which exports millions and billions of merchandise value per year, competitors in this sector are likely to carry out some type of hedge. In the textile sector I do not believe that companies hedge, because when the dollar increases, everyone starts to readjust prices upwards. If they had hedged, they would be able to hold prices a little bit. So, I cannot do the hedge alone, because in an eventual fall of the dollar I will be harming myself alone while everyone has lower prices. You have to take this into account"* (E8).

Another executive goes in line with the previous statement: "*it is necessary for each company to evaluate its sector, whether it is worth it or not, against its competitors. In my sector nobody does, so we do not do it either*". Apart from this lack of interest, there is also the complexity of taking this financial operation to practice, which is not part of the firm's core business. Considering the VRIO framework proposed before, it is possible to state that none of the researched companies have internal resources dedicated to mitigating this risk, and they are all in the same level of competitiveness.

Still in the matter of foreign currency, during the deep interviews carried for this study, it was possible to clearly identify two types of executives' behavior. One of them is the one constantly struggling to get the best rate, and therefore is always trying to guess whether the USD is going up or down. Sometimes they can get it right, but many times they just take a bad shot: "*Last week I was supposed to send $ 296,000 to China, when the exchange rate was at $ 3.94. I was holding the operation for a week, postponing the most the supplier payment, expecting the rate to go down. At the end I had to pay $ 4.1465"*. That is a clear example of speculating in business, which could mislead executives. The second behavior is the one who doesn't think much. If there is a payment to be made, there is no postponing trying to guess the future. "*If I need to pay, I pay. There is no speculating in my business. We don't play the smart guy"*.

An interesting information is that, of the 9 interviewees for this study, it was possible to identify the first behavior in four of them. Out of these four executives, three turned out to be among the less experienced in the business. Therefore, dealing with such a sensitive aspect of the business might be related, somehow, to working experience. If the most experienced executives agree not to make predictions, they probably realized during their working experience that there might be some gains in the short-term, but it doesn't worth do it in the long-term. From this analysis it is possible to conclude that intangible internal resources, such as level of experience, can be a source of competitive advantage. Working experience is valuable, in such a pulverized market can be considered rare, but it is not hard to imitate, it only takes some time. Therefore, can be considered a *temporary competitive advantage*.

Another issue that was relevant and common in interviews is the complexity, taxes and bureaucracy of dealing with all the processes involved in the import activity. Out of the 8 companies interviewed, 7 of them outsource the activity to what is called "*trading companies*". A trading company takes care of all the processes involved in the import activity. They are usually located in cities near big ports, like Vitória (ES), Itajaí (SC) and Santos (SP). The advantages of having this kind of services, according to the executives, is to "*avoid having to employ experienced people in the matter to take care of it internally*" and to "*not worry about having to hire/fire people according to seasonality*". Another relevant aspect of this kind of business is the physical proximity that those trading companies have with the ports. They are in loco and can be much more agile when necessary.

> *"We have been working with a trading for at least 10 years. It helps us in a way that we don't need to hire experienced people in the import processes, which can be hard to find, and is also a business model flexible in times of seasonality"* (E9).

Since the firm does not have any direct employee, in case of high or low demand, there is no need to expand or reduce the team in order to meet the needs. Of course, there is a cost for the service, otherwise trading companies wouldn't exist. Charging models can vary, ranging from a fixed price per process, a percentage of the FOB value or even a mixed – fixed and variable – calculation. The only firm in the present study that doesn't rely on outsourcing the activity states that, in such a price-oriented market, every process is important in order not to dear the product.

> *"We find it a bit cheaper to have this process inside the company itself, because wanting or not a trading company will want to put the margin on you. It's a service, and he also has to profit. Because we operate in a market that has a high volume and low margin, we prefer to take care of that part than letting another person do that and charge for it"* (E3).

Although processes may be a little cheaper, there are also costs related to seasonality. Nowadays, the firm operates with five employees in the import area, but this number is constantly changing: "*In times of seasonality we end up firing or hiring people to keep up with this seasonality, and indeed it does have an extra cost related to that*". It is interesting to note that, from the sample taken for this research, only one company has this policy of taking care of it internally. In a market that is so much price-oriented, this kind of mindset can save operational costs, which will reflect on product prices. Taking the RBV into account, the company that does all the process internally clearly has a *valuable* resource, which is *rare* and also hard to *imitate*, constituting a competitive advantage against its competitors. Of course, the company is always

monitoring this operation cost, and in any case, it is easy for the firm to switch its model to an outsourced one, but the opposite move – migrating from outsourcing to insourcing – is much more complex. In this case, the dichotomy of outsourcing or owning a certain activity, in terms of the TCT, is clear. One of the companies sees as a strategical move to have it in-house, while all of the other opt for flexibility and not having to absorb this cost.

Regarding taxes issue, the RBV clearly plays a role when analyzing a certain company. From the interviews undertaken in this study, 6 out of 8 companies established their operations in states with tax incentives, usually next to ports. For instance, one of the companies established its operations in Espírito Santo (ES) due to an ICMS (see page 18) rate of 4% against a 18% in the state of São Paulo. That is a huge difference that has a direct impact on the company's results. However, talking with executives of those firms, it is a common sense among them that those tax incentives are valuable, but *not rare*. The majority of the companies have their strategy on the issue, and the ones that doesn't have any are the ones in competitive disadvantage. Therefore, this physical resource of having logistical operations in a tax incentive state constitutes a *competitive parity* rather than a competitive advantage.

Apart from bureaucracies and taxes, all of the import – and also the export market – depends a lot on maritime transportation and, therefore, ports infrastructure corresponds to a primordial role in the current business model. As already discussed briefly in this study, port infrastructure in Brazil still needs major improvements, and the current situation is easily perceived by firms operating in the market. Almost all of the interviewees had some bad experience regarding operating ports, which ends up causing losses in daily activities.

> *"Last year, in May, the Itapoá and Itajaí dam closed because the sea level was very high, so the port was closed for a month.* […] *the ships all came to Santa Catarina, jumped to Paraná, Buenos Aires, Montevideo, Santos... they went up, they came back... it was a chaos. The containers all delayed one month, one and a half months, because the dam was very poorly made. All cargoes were stopped, without berthing or*

anything" (E3).

Of course, it is inevitable the financial loss incurred due to this kind of unexpected event. As stated by one of the executives, "*the client doesn't care about what happened at the port, all he wants to know is about the merchandise that was expected to be delivered at certain date, and that will come with 30, 40 days delay*". Another executive also exteriorized his disappointment with infrastructure.

> *"The other day the port system collapsed. It lasted for 7, 10, 15 days without being able to unload anything. Arriving ships, and nothing coming out. The port was overcrowded and took about 1 month, 40 days to normalize the situation.... So, it's very bad the port structure, and there is nowhere to run"* (E6).

This delay can represent a client not having enough products in critical dates over the year, like Christmas, Children's Day, Valentine's Day, Mother's Day, etc. It represents a loss in every step of the chain. Also, apart from having a lot of room for improvements, ports are also expensive, according to executives: *"usually due to some documentation problem, the container has to stay in the port with high daily rates, which ends up making the whole operation more expensive as well".*

In order to ease processes at the port, three of the interviewees said that they have trusted people inside the port that they could count on in case of extreme need. The legality or not of this relationship isn't part of this study's scope judgement, but it is inevitable that this could correspond to a valuable resource for the company. According to Mill, Platts, Bourne and Richards (2002), many resources lie within a firm's ownership, however many others are not essentially *owned*, but can be accessed. Therefore, having a facilitator at the port can constitute a competitive advantage. It is a valuable resource, depending on the sector it can be rare and is also hard to imitate.

The last, but not least important aspect that came up from the executives, is the legislation regarding to what is known as the "*minimum price*" practice. Having the national industry to be protected from very low prices in Asian markets, such as China, as an objective, there are constantly minimum prices for imported merchandise. Those

prices are usually stipulated based on weight. Therefore, for a certain NCM[19], there may be a minimum price per kilogram. For instance, for the NCM 6006.34.20 – which corresponds to "*other fabrics, knitted, of synthetic fibers, stamped - of polyester*" – the minimum price is $ 5.05/kg. Consequently, even if an importer finds this product at a cheapest price, taxes will be calculated considering the minimum price.

> *"In a way there is a protectionism that does not make much sense, since there are certain articles that doesn't have national industry producing, and still there is a minimum price. It is a protectionism that does not make much sense to me"* (E8).

Hence, there are some products that becomes impracticable to import. "*Regarding products with national industry, there is a high protectionism on the imported one, with constant minimum prices*". Even more with a high exchange rate, it ends up being unfeasible. Another disadvantage, besides the price, is the agility of the national product: "*While our product takes months to arrive, a local manufacture can deliver it in a shorter period"*, admitted one of the interviewees.

Apart from those major topics that came up during the interviews, there is one aspect that comprehends all decision-making processes in those companies, which is the pricing strategy. During all interviews it was possible to identify how price-sensitive is the market in which those companies operate and how there isn't strong loyalty between seller and buyer. If one client has been working for years buying from one importer, suddenly he can change to another due to some better price offering or payment schedule, no matter how long his professional relationship with the previous supplier is. Therefore, companies are always struggling and reinventing themselves in order to reduce operational costs and be more efficient, converging their resources to achieve that objective.

For instance, two of the companies interviewed invested financial resources to implement a software responsible for optimizing freights. According to one executive, initial investment was relatively high, but the payback came in 8 months. They managed to improve logistic efficiency, transportation planning process for freight forwarding considering restriction parameters per customer and type of vehicles, and automatization

in the freight and invoice checking, occurrence management and delivery tracking to eliminate rework. After the implementation, the average cost of transportation went from an average 5% of the merchandise value to an average of 3%. That is an operational efficiency that has a direct impact on prices, since the company can charge less for products and still keep its margin. Taking the RBV approach into consideration, this internal resource can be considered a source of *temporary competitive advantage*, since its valuable, rare, but not that hard to imitate. According to one executive, "*it is a matter of time for other companies to realize how much money they are losing due to inefficiencies in transportation*".

Of course, there are companies trying to sell products with more added value in order to avoid always struggling on some kind of pricing war. For instance, one of the interviewed companies, operating in the toy sector, put a lot of effort on licensed products, like Spider Man (Marvel) and Frozen (Disney). Therefore, they are the only company able to sell those products in Brazil, which enable them to put a premium on the selling price. This is a clear example of an intangible resource – which are patents and licenses – that offers a sustainable competitive advantage. It is undoubtedly a valuable resource, also rare and hard to imitate due to its exclusiveness.

CONCLUSIONS

After gathering all information during the interviews related to the import market and its complexities, as well as each executives' phenomenological perception of the sector, it is possible to see how much those companies are in a price war environment rather than in a differentiation one, with few exceptions. The table below shows how there is not much differentiation in terms of competitiveness, with few companies outstanding others.

TABLE V: IDENTIFIED RESOURCES DURING THE STUDY

RESOURCE / FRAMEWORK	V	R	I	O	COMPETITIVE PERFORMANCE
Budget dedicated to supplier's prospection	YES	YES	NO	-	TEMPORARY COMPETITIVE ADVANTAGE
Hedging to mitigate FX rate risk	-	-	-	-	-
Level of working experience in the sector	YES	YES	NO	-	TEMPORARY COMPETITIVE ADVANTAGE
Outsourcing import activity to a trading company	YES	NO	-	-	COMPETITIVE PARITY
Internalizing import activity	YES	YES	YES	YES	COMPETITIVE ADVANTAGE
Tax incentives due to physical location	YES	NO	-	-	COMPETITIVE PARITY
Facilitator at the port in order to address issues	YES	YES	YES	YES	COMPETITIVE ADVANTAGE
Software for freight and logistic optimization	YES	YES	NO	-	TEMPORARY COMPETITIVE ADVANTAGE
Patents and licenses	YES	YES	YES	YES	COMPETITIVE ADVANTAGE

The transaction cost theory brought to this analysis can be applied to the scenario of uncertainty faced by the companies, already discussed previously. In order to address uncertainty, the transaction cost theory suggests that ownership should be avoided, so that flexibility can take place.

> *"External uncertainty is the volatility (unpredictability) of the firm's environment. Williamson (1979) hypothesizes that firms should react to volatility by avoiding ownership, since it commits them to one operation that may not be appropriate when the next environmental shift occurs. Rather, firms should retain flexibility and shift risk to outsiders"* (ANDERSON & GATIGNON, 1986, p.14).

The profile of a company analyzed in the present study is characterized mostly by being family businesses, low-structure companies and with relatively limited investment capabilities. Those adversities, along with the inherent complexities of the market in which they are, force the companies to take the most out of its internal resources. All of the common and best practices implemented by the companies are somehow related to saving costs and seeking new markets that will keep their profit

margin sustained. The internal resources identified with the RBV approach and evaluated according to the VRIO framework, showed that there isn't too much competitive advantage between companies. Mostly there is a competitive parity among them, or a temporary competitive advantage which will not sustain in the long term.

What it is possible to see, at a TCT perspective, is that import companies, by the definition, are production outsourcers. None of them work as a manufacturer, nor have any established vertical integration. On the contrary, manufacturing is outsourced, transportation is outsourced and also the import process is outsourced. Indeed, out of the sample interviewed for this study, only one of them owns the import process in-house, and none of them has a transportation capability of its own, but rather rely on external services.

In some cases, like the exchange rate issue, it was possible to observe a lack of governance in almost all of the interviewees, with gaps that aren't properly filled and that can have some significant impact on the operation. However, companies are always struggling to be more efficient and effective, since this can be their leverage against major competitors.

Further research could go deeper into numbers, to see effectively if companies with better positioned resources are actually the ones performing better in the short-term. This approach will deal with sensitive, hard to get data and therefore companies must comply with the researcher objectives and purpose.

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APPENDIX

APPENDIX I: CHILE'S TRADE AGREEMENTS

SIGNATORY	TYPE OF AGREEMENT	ENTRY INTO FORCE
AUSTRALIA	**Free Trade Agreement**	2009 - March 06
BOLIVIA	Economic Complementation Agreement	1993 - April 06
CANADA	**Free Trade Agreement**	1997 - July 05
CENTRAL AMERICA (1)	**Free Trade Agreement**	2002 - February 14
CHINA	**Free Trade Agreement**	2006 - October 01
COLOMBIA	**Free Trade Agreement**	2009 - May 08
SOUTH KOREA	**Free Trade Agreement**	2004 - April 02
CUBA	Economic Complementation Agreement	2008 - June 27
ECUADOR	Economic Complementation Agreement	2010 - January 25
EFTA (2)	**Free Trade Agreement**	2004 - December 01
UNITED STATES	**Free Trade Agreement**	2004 - January 01
HONG KONG	**Free Trade Agreement**	2014 - October 09
INDIA	Partial Scope Agreement	2007 - August 17
JAPAN	Economic Partnership Agreement	2007 - September 03
MALAYSIA	**Free Trade Agreement**	2012 - February 25
MERCOSUR (3)	Economic Complementation Agreement	1996 - October 01
MEXICO	**Free Trade Agreement**	1999 - July 31
P4 (4)	Economic Association Agreement	2006 - November 08
PANAMA	**Free Trade Agreement**	2008 - March 07
PERU	Economic Complementation Agreement	2009 - March 01
THAILAND	**Free Trade Agreement**	2015 - November 05
TURKEY	**Free Trade Agreement**	2011 - March 01
EUROPEAN UNION (5)	Association Agreement	2003 - February 01
VENEZUELA	Economic Complementation Agreement	1993 - July 01
VIETNAM	**Free Trade Agreement**	2014 - January 01
PACIFIC ALLIANCE	Trade Protocol	2016 - May 01

(1) **Central America**: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.
(2) **EFTA (European Free Trade Association)**: Iceland, Liechtenstein, Norway and Switzerland.
(3) **Mercosur**: Integrated by Argentina, Paraguay, Venezuela, Brazil and Uruguay. Chile participates as an associated country.
(4) **P4**: Chile, New Zealand, Singapore and Brunei Darussalam.
(5) **European Union**: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Portugal, Romania, Spain, Sweden, United Kingdom, United States of America.
Source: Author's elaboration. Data: Direcon - Directorate-General for International Economic Relations (Chile).

APPENDIX II: IMPORT COST WORKSHEET

IMPORT COST WORKSHEET

Importer	[redacted]	**Date of Issue**	17/04/2018
Origin	NINGBO PORT / CHINA, PEOPLE'S REPUBLIC	**NCM**	9607.11.00; 9607.19.00; 9607.20.00
Destin.	VITÓRIA PORT, ESPÍRITO SANTO	**Product**	4YG.10.226-ZÍPER,COM,GRAMPOS,DE,METAL,4YG,10
Transport.	MARITIM	**FOB**	USD 127.118,80
Fiscal FX	3,39030 USD	**Internat. Shipping**	USD 2.700,00
Type of Operation	CONTA E ORDEM	**Insurance**	USD 234,18
N/Reference	BLB 039/18	**THC**	USD 275,97
		CIF	USD 130.328,95
Transport knowledge	NGX60213254	**Net Weight**	KG 23.183,9900
Invoice	18MH233007	**Gross Weight**	KG 27.794,1400
Exporter	7490	**DI**	18/0665464-6
		INCOTERM	FOB

VALUE OF GOODS (FISCAL)

FOB		430.970,87
INTERNATIONAL SHIPPING		9.153,81
INSURANCE		793,94
CIF	**R$**	**440.918,62**

NATIONALIZATION TAXES

II (IMPORT TAX)		79.533,75
IPI		0,00
ICMS		DEFERRED
PIS		9.278,93
COFINS		42.638,93
COST COFINS (1%)		4.418,54
	R$	**135.870,15**

OPERATIONAL EXPENSES

ACOMPANHAMENTO DE LI	400,00
AFRMM - MARINHA MERCANTE	2.527,32
CONFECÇÃO DE LI	200,00
DAMAGE PROTECTION CHARGE	120,00
DESCONSOLIDAÇÃO	177,99
DIFERENÇA THC	(135,62)
DIF.FRETE INTERNACIONAL	457,68
DROP OFF FEE	160,19
HDA/SDA	529,00
HONORÁRIO DESPACHANTE	900,00
IOF - IMPORTAÇÃO	36,52
ISPS	89,00
PACOTE DE SERVIÇOS PLUS SIMPLES	473,68
SEGURO NACIONAL	570,60
SISCOSERV	70,00
TARIFA BANCÁRIA - CTA E ORDEM	9,70
TARIFA DE ANUÊNCIA DE LI - B. BRASIL	88,17
TARIFA DE ANUÊNCIA DE LI - B. BRASIL	264,51
TAXA DE LIBERAÇÃO DE BL/AWB	390,00
TAXA SISCOMEX	267,60
TSC - TERMINAL SERVICES	70,00
THC	935,62
TOTAL EXPENSES	**8.601,96**

COST OF ENETERING ON INVENTORY

TOTAL VALUE OF FISCAL ENTRY		585.390,72
IPI CREDIT		0,00
ICMS CREDIT		0,00
NATIONALIZATION PIS		0,00
NATIONALIZATION COFINS		0,00
NET COST	**R$**	**585.390,72**

TAXES ON EXIT FISCAL INVOICE

P.I.S.		0,00
COFINS		0,00
OPERATIONAL EXPENSE		
B.C. ICMS		143.478,65
I.C.M.S.		24.391,37
ICMS ST		0,00
SALES PRICE		609.781,99
I.P.I.		0,00
TOTAL VALUE OF FISCAL INVOICE	**R$**	**609.781,99**

NOTES

[1] New Institutional Economics (NIE) corresponds to a "*well-established field which studies the role that culture, legal systems, and political institutions have on economic development"*. Retrieved from: http://www.radicalsocialentreps.org/theory/new-institutional-economics-the-rules-of-the-game-of-life/

[2] BRICS is an acronym that represents five emerging economies (Brazil, Russia, India, China and South Africa). The term was first used by English economist Jim O'Neill, in 2001 and since then has been constantly used in international forums and summits.

[3] "*An anti-dumping duty is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced below fair market value. Dumping is a process where a company exports a product at a price lower than the price it normally charges in its own home market. To protect local businesses and markets, many countries impose stiff duties on products they believe are being dumped in their national market*". (Source: https://www.investopedia.com/terms/a/anti-dumping-duty.asp. Retrieved: 08/12/2018).

[4] The primary goal of the WTO is to act as a forum for negotiations and agreements to reduce obstacles to international trade. Its job is to ensure stability, competition among all countries and thereby ensure the economic development of nations. It is also its responsibility to resolve conflicts between member states and to sign trade agreements, always seeking to make international trade as free as possible (WORLD TRADE ORGANIZATION, 2018).

[5] According to WTO data, they are: DS22, DS30, DS46, DS51, DS52, DS65, DS81, DS116, DS183, DS197, DS199, DS229, DS332, DS355, DS472, DS497.

[6] IPI: tax on industrialized products, both domestic and imported. In the case of imported products, the tax is collected in the port. The IPI is a federal tax and the money raised goes to the national treasury.

[7] II: tax on the importation of foreign products, levied on the importation of foreign goods. The basis of calculation is the customs value and the rate is indicated in the Common External Tariff (CET).

[8] ICMS: tax that affects a movement of goods in general. The main generating factor is a movement of goods internally. ICMS covers various types of services, such as telecommunication, intercity and interstate transportation.

[9] PIS: tax aimed at promoting the integration of employees into the life and development of enterprises

[10] COFINS: has as its objective the financing of Social Security, that is, fundamental areas such as Social Security, Social Assistance and Public Health.

[11] ISS: tax levied by the municipalities. Its incidence occurs in cases where a service provision occurs. Because it is a municipal tax, the rules and rates vary from one municipality to another.

[12] In its English version, the FTA between Chile and China contains 62 pages, which discuss the whole character and essence of the agreement in question. Basically, it consists of a progressive negotiation with three stages: (i) Free Trade Agreement on Commodities, signed in November 2005 in Busan, South Korea, in the context of the APEC Leaders' Summit of the same year, fully in effect as of October 2006; (ii) Complementary Agreement on Trade in Services, signed in April 2008, and in force since August 2010; and (iii) Supplementary Investment Agreement, signed in September 2012, during the APEC Leaders' Summit in Vladivostok, Russia, entering into force on February 8, 2014.

[13] Asia-Pacific Economic Cooperation (APEC) is a regional economic forum established in 1989 to leverage Asia-Pacific's growing interdependence. The 21 members of APEC aim to create greater prosperity for the region by promoting balanced, inclusive, sustainable, innovative and secure growth and accelerating regional economic integration. " Source: APEC. Access: https://www.apec.org/About-Us/About-APEC.

[14] *Mercosul propõe ofensiva pelo livre comércio*. (2018, June 17). Retrieved August 03, 2018, from http://www.jb.com.br/internacional/noticias/2018/06/17/mercosul-propoe-ofensiva-pelo-livre-comercio/

[15] Generic denomination given to a series of costs incurred in the country, such as legal and labor legislation, which generates heavy social charges, excessive bureaucracy for setting up businesses or for exporting/importing products, lack of well-maintained roads, rail and waterway deficiencies, poor and expensive communications, inefficient ports and airports with high operating costs, among others.

[16] Created in 2007, the Growth Acceleration Program (PAC) has promoted the resumption of planning and execution of major social, urban, logistics and energy infrastructure projects in the country, contributing to its accelerated and sustainable development (PAC, 2018). Retrieved from: http://www.pac.gov.br/sobre-o-pac

[17] “Car Wash Operation” is the largest corruption investigation conducted in Brazil. It began in the state of Paraná on March 17, 2014 and its currently under investigation. Since then, the operation has discovered the existence of a vast corruption scheme at Petrobras, involving politicians from various parties and some of the country's largest public and private companies, mainly contractors.

[18] “Snowball or chain referral sampling is a method that has been widely used in qualitative sociological research. The method yields a study sample through referrals made among people who share or know of others who possess some characteristics that are of research interest. The method is well suited for a number of research purposes and is particularly applicable when the focus of study is on a sensitive issue, possibly concerning a relatively private matter, and thus requires the knowledge of insiders to locate people for the study” (WALDORF & BIERNACKI, 1981, p. 141).

[19] The fiscal classification or Mercosur Common Nomenclature (NCM) orders by 8-digit code the goods according to their nature. All goods are classified by this code in TEC (Common External Tariff) and it is through the NCM that it is possible to determine the tax rates and benefits.