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Case Study: The internationalization of MCI Group to Brazil

Porto Alegre
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Trabalho de conclusão de curso de Especialização apresentado ao Programa de Pós-Graduação em Administração da Universidade Federal do Rio Grande do Sul, como requisito parcial para a obtenção do título de Especialista em Administração de Empresas.

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ABSTRACT

Internationalization of service firms constitutes a field of study which still lacks substantial study. The need to come up with analysis of how service firms go beyond borders is linked to the new business conditions provided by globalization. Recent theories have sought to understand the complex domain of service firms and the challenges and opportunities that they face when going abroad. This paper sets out to investigate the different aspects related to the internationalization of service firms, paying a special attention to the case of the global firm MCI Group, which constitutes an example of how a swiss-based communications and event management firm has developed strategies to become a global leader. The results obtained show that MCI Group applies a high degree of resource commitment in its internationalization strategy. Being a large company, it is also better able to cope with risks related to internationalization. The firm has 3 different entry-mode strategies. In Brazil, the strategy was to merge with a local firm. The company also follows a client-seeking mode of operating abroad. Cultural aspects also play an important role when choosing a firm to partner with.

Keywords: Internationalization Process. Service Firms. Events industry.

TABLE OF CONTENTS

Table 1 - Strategies / entry modes in the international market	19
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SUMMARY

1	INTRODUCTION	08
1.1	OBJECTIVES	09
1.1.1	Main objective.....	09
1.1.2	Specific Objectives	10
1.2	STUDY FRAMEWORK.....	10
2	THEORY FRAMEWORK.....	11
2.1	THEORIES ON INTERNATIONALIZATION OF SERVICE FIRMS.....	11
2.2	DUNNING'S ECLECTIC THEORY	12
2.3	MOTIVATIONS FOR A FIRM TO INTERNATIONALIZE	13
2.4	ENTRY MODES IN INTERNATIONAL MARKETS.....	15
2.5	THE INTERNATIONALIZATION PROCESS OF THE FIRM	16
2.5.1	Entry Modes According to Grönroos.....	16
2.5.2	Garrido's Approach.....	18
2.5.3	The choice of the theory for this study	19
3	RESEARCH METHODS.....	21
3.1	CHOICE OF CASE STUDY	22
3.2	DATA COLLECTION	22
3.3	DATA PROCESSING AND ANALYSIS	24
4	CHARACTERIZATION OF THE ACTIVITY SECTOR	25
4.1	ECONOMIC OVERVIEW OF THE EVENTS SECTOR	27
5	COMPANY PROFILE.....	29
6	THE INTERNATIONALIZATION OF MCI GROUP	31
6.1	SELECTION CRITERIA FOR MARKETS AND ENTRY MODES	31
6.2	THE EXPANSION TO BRAZIL	33
7	CONCLUSIONS	35
	REFERENCES.....	37
	ANNEX A – QUESTIONNAIRE USED IN THE INTERVIEW.....	39

1 INTRODUCTION

Traditionally, services have been thought of as locally produced solutions, and service firms have been considered local establishments. Although services still, to a large extent, are produced by small and local firms, service businesses have become more international. Following the globalization process, the service sector is rapidly expanding over national borders.

The globalization phenomenon has acquired more pace since the beginning of the 1990s, and has since been the main factor behind the deregulation of economies and the opening of domestic markets to international firms. Aiming for growth, larger revenues and economies of scale, firms have searched for new markets; consumers and suppliers have become part of an international network where firms compete in order to secure their position, both domestically and abroad.

The world economy has seen enormous growth in the past two decades. This has been the result of trade liberalization and the creation of world market. Not only China is a major driving force behind this movement, but also other emerging economies, such as Brazil and India, have been responsible for the growth of the world economy. In this sense, manufacturing firms were the first to seek opportunities abroad, marketing their products in a homogenous global market.

Lemaire et al. (1997) states that the globalization of economies and markets is the main factor behind the internationalization of firms, as it provides a series of opportunities for companies to invest and grow. Academic institutions have since sought to analyze the internationalization process and provide valuable insights for manufacturing firms to be successful in their operations abroad.

Notwithstanding this scenario, the sector which was most responsible for value creation inside economies was not manufacturing, but service. Indeed, services have become a driving force in the global economy. The service sector is today considered the largest element of developed nations and that has been translated into increased opportunities for service firms to act globally. And yet, the amount of empirical research addressing internationalization of service firms remains relatively low. That can be due to the fact that service firms have shown apprehension when confronted with the idea of acting in a foreign market. The

complex nature of service production and the belief among practitioners in service businesses that it is difficult to market services outside domestic markets play an important role in this case.

Other more general obstacles for internationalization, which are true for manufactured goods as well, are also point by service firms as reasons for not being abroad. Such obstacles are a lack of resources, too little knowledge about exporting and a belief that linguistic and cultural differences will make internationalization too demanding.

This paper is the result of a 4-month internship during the months of May to August 2009 at the office of MCI Group in Paris, France. MCI Group is today one of the world's top communications and event management companies. Counting over 40 offices around the world and more than 800 employees, the swiss-based firm is an example of how service firms can be successful in foreign markets. Thus, this paper will focus on a specific case - the start of MCI Group's operations in Brazil - in order to provide insights into how service firms can act globally.

1.1 OBJECTIVES

This study has designed the following objectives.

1.1.1 Main Objective

Study the internationalization strategy of MCI Group, with a focus on the São Paulo Office opening.

1.1.2 Specific Objectives

- Describe the internationalization process of MCI GROUP, identifying factors which have motivated the decision to internationalize, the choice of markets and the modes of entry in those market
- Identify the main factors (encouraging and discouraging) of the internationalization process for the company;
- Provide insights for other service firms willing to internationalize.

1.2 FRAMEWORK OF STUDY

The paper is organized in seven chapters. The objectives and the presentation of this study have already been addressed in the introductory part. The second chapter will provide the theory framework upon which this study is based. On chapter three, the choice of method and the data processing analysis are described. Chapter four will give a brief overview of the impact of the tourism activity in the national economies, paying special attention to the case of the events industry and the economic forecast for the Brazilian economy.

The final part of this study will cover the main results obtained in this researched and will be followed by the concluding remarks, on chapter seven.

2 THEORY FRAMEWORK

Internationalization is considered to be the process through which a firm moves from operating solely in its domestic marketplace to international markets (ANDERSEN, 1993).

International services differ from domestic services in that they cross borders and embrace a foreign culture. Unlike international products, which can enter foreign markets using a variety of modes, including exporting, franchising, joint ventures, and build/buy, for services the crossing of borders is both diverse and difficult because of their inherent characteristics.

Literature about internationalization of service companies is rather incipient. Most of the material found is geared towards the needs and the paths adopted by manufacturing sector companies when internationalizing their operations.

That is mainly due to manufacturing firms being the pioneers of the move towards the international market. Many studies of manufacturing firms have privileged the impact on export behavior of firms, observing characteristics such as size, age, ownership and sales (BURTON AND SCHLEGELMILCH, 1987).

However, the last two decades have seen a clear change in this model, with the globalization of markets and access to technology playing a major role in this movement, shortening physical and psychological distances between markets. Yet, this was not followed by an increase in studies of service sector internationalization process. As Erramili (1990) states, little is known about how service firms enter foreign markets. "For international services, theory lags practice by a considerable degree".

This chapter will try to overcome this gap, by discussing the theories of service firm internationalization which better apply for the study of the case at hand.

2.1 THEORIES ON INTERNATIONALIZATION OF SERVICE FIRMS

In traditional international marketing models focusing on the needs of manufacturing firms, the internationalization process can start in a minor scale using

indirect export channels followed by a step-by-step move towards more direct channels. This enables the firm gradually to increase its understanding of quality expectations, personnel requirements, distribution and media structures, and buying behavior peculiarities on the foreign market. For service firms the situation is different. One way or the other, it immediately faces all this and other problems related to entering a foreign market, (CARMAN AND LANGEARD, 1980). It has to find an entry mode and a strategy that helps it to cope with this situation as well as possible. A quick view of Dunning's eclectic theory, though aimed at the manufacturing sector, may shed more light into how a service firm may design its internationalization strategy.

2.2 DUNNING'S ECLECTIC THEORY

Dunning's (1980) intention was to offer a holistic approach to understand and identify the factors that play a role in the action of internationalizing. The eclectic theory elaborated by Dunning is a transaction cost-based theory that seeks to explain the transfer, internationalization, and firm-specific ownership advantages. While multifaceted, eclectic theory suggests the importance of firm- and location-specific factors to explain international operations. Dunning states that specific organizational skills or technologies allow a firm a competitive advantage in the marketplace. Also, the author indicated that country-specific factors are essential to successful international operations. He contends that the characteristics of the market entered significantly influence a firm's international efforts.

Aaby and Slater (1989) argue that international expansion requires a great deal of resource commitment by the expanding firm. They indicate that the larger a firm becomes, the greater its ability to effectively engage in export activity, and that larger firms appear to be better suited to absorb the risks associated with internationalization.

Javalgi et al (2003) also assert that larger businesses are more likely to operate internationally. One of the reasons appointed is that larger firms have more resources to commit to international expansion and are better able to cope with the

risks linked with it. Moreover, larger firms tend to operate in mature domestic markets and so may be searching for growth internationally.

2.3 MOTIVATIONS FOR A FIRM TO INTERNATIONALIZE

Hollensen (2004) provides an approach to internationalization based on proactive and reactive reasons. Pro-active motivations for firms to go international are based on the interests of firms in exploring their competitive advantages or market possibilities. Reactive motivations, on the other hand, indicate that a firm reacts to pressures and threats, be it in the domestic or in the foreign market, adapting to them and changing its perspectives and its activities along with it. Proactive motives are focused mainly on opportunities, whereas reactive motives are necessary for the firm's survival.

Pro-active motivations comprise:

- * Profit and growth: short-term profit-seekers and motivation for growth are primary factors for small and medium size companies at the first stages of internationalization.
- * Administration: this motivation reflects the desire of the managerial body to engage on foreign trade. The attitudes of the managers and their perception of the firm and of the foreign market are paramount to understand the pattern of internationalization of the firm.
- * Technology / Product uniqueness: when a firm produces a good or service which does not face immediate competitiveness, or when a firm holds monopoly of a technology in a given area.
- * Information / Opportunities in the international market: the perception of opportunities in the external market act as an important stimulus only if the firm is capable of securing the necessary resources to respond to such opportunities. Acquisition of market knowledge or access to information may distinguish one firm from its competitors. This involves knowing the targeted consumers and the targeted market.
- * Economies of scale: operating in a global scale may enable a firm to increase output, helping to reduce costs and, consequently, making the firm more competitive.

* Fiscal benefits: such benefits, granted by some States to firms, enable them to offer products at lower prices, raising the prospects of greater profits.

Reactive motivations involve:

* Competitive pressure: fear of losing market-share in the domestic market by firms who have economies of scale in the global market. Another reason may be the reaction of domestic firms to a newcomer.

* Limitation of domestic market: Limitation or saturation of domestic market may lead to internationalization efforts.

* Overproduction / capacity surplus: if domestic sales are below expectations, then the firm might want to go abroad to sale its inventory. When demand in domestic market returns to a desired level, the firm may return to it. This strategy is, nonetheless, complicated by factors such as consumer behavior. Most consumers in foreign markets tend to prefer long-standing business relationships and not sporadic ones.

* Unexpected foreign orders: many small firms can have orders being processed abroad. This will mean that the firm's activities have surpassed country-borders and have reached consumers in foreign markets. Those consumers may place orders for certain products and the firm will have to start an export strategy to service that demand.

* Seasonal sales: seasonal demand surges might affect the way a firm produces to domestic and foreign market. It can be an important stimulus to explore a foreign market, leading to a more stable demand along with the years.

* Proximity to international markets / consumers / psychological distance: physical and psychological distance play an important role in internationalization of firms. Cultural aspects, legal factors and other norms can make a foreign market that is geographically near, appear distant, and vice-versa.

Based on the pro-active and re-active motivations to internationalize, strategies may be drawn in order to take advantage of opportunities in external markets. In this sense, firms will search for resources, markets and technologies motivated by strategic aspects, such as the expansion of business and the maintenance of competitiveness in the home market.

2.4 ENTRY MODES IN INTERNATIONAL MARKETS

In order to access new markets, firms can choose different entry modes or strategies, which vary from low to high level of commitment of its resources. Firms, in general, will tend to begin their internationalization efforts by following a parsimonious strategy, applying low levels of resources, with a view to maintaining control of its activities. In a later moment, it may decide to apply more resources and even make a direct investment, by building its entire operations in another market.

As previously stated, most theories in traditional literature focus mainly on the internationalization process of manufacturing firms. Today, however, the technological advancements, as far as for example the Internet and satellite and digital television are concerned, have created totally new forms of internationalization. In many cases going abroad is not a choice of the service firm any more. Potential customers on foreign markets pick up service offers for a domestic market and require the firm to deliver internationally as well. Satellite television and especially the Internet have opened up services for consumers wherever these have access to those technologies. Of course the firm can choose to ignore foreign interest in its offerings, and perhaps lose new markets of considerable size, or it can sometimes unexpectedly find itself an international service provider. Specialty retailing, such as book stores and fitness equipment, are examples of services that in this way have become international.

Grönroos (1999) identifies three general entry modes for service firms going into foreign markets:

- (1) client-following mode;
- (2) market-seeking mode; and
- (3) electronic marketing mode.

Those entry modes are non-mutually exclusive. A firm using the Internet as a form of electronic marketing mode can do this deliberately to get access to international markets. This entry mode is, thus, at the same time market seeking. Also, a firm following a client abroad may have decided to take this opportunity to seek new markets actively.

Services also differ from manufactured products in that they are produced and consumed at the same time. In this sense, it is important to note Erramilli's (1990) definition of hard and soft services.

Hard services require limited or no local presence by the exporter and consumption can, to a major extent, be separated from production. Conversely, soft services production and consumption are, to a major extent, simultaneous processes, and such services require major local presence by the service firm or a representative that acts on its behalf. Hard services will be commonly related to industrial services such as engineering and computing; soft services consist more of consulting and consumer based services. Exporting is a common mode of entry for firm's delivering hard service. Soft services are mainly non- exported. (Erramilli, 1990).

2.5 THE INTERNATIONALIZATION PROCESS OF THE FIRM

The choice of entry mode of a firm in the international market is one of the most strategic decisions in the internationalization process of the firm. It determines the degree of control over the international activity, the degree of commitment of its resources and it requires a good level of commitment with resources that are not easy to transfer to other companies. (NAKOS AND BROUTHERS, 2002).

In order to have a broad understanding of how service firms internationalize, this study has detailed the views of Grönroos (1999) and Garrido (2007).

2.5.1 Entry mode strategies according to Grönroos

Following Grönroos' (1999) theorization, a service firm that plans to start to market its services internationally has to find a way of making its services accessible in the chosen foreign market. Once this has been done, a local service offering has to be developed in the new market. Regardless of how much of the service can be produced in a back office on the home market, some of the service offering is always

produced locally. This is true even for electronically marketed services. If nothing else, the local postal system becomes the final local link in the service system.

The author details five main strategies for internationalizing services. These are not mutually exclusive, and in some cases some of them work for manufactured goods as well:

- (1) direct export;
- (2) systems export;
- (3) direct entry;
- (4) indirect entry; and
- (5) electronic marketing.

Direct export of services may basically take place on industrial markets. Consultants and firms repairing and maintaining valuable equipment may have their base on the domestic market and whenever needed move the resources and system required to produce the service to the client abroad.

Systems export is a joint export effort by two or more firms whose solutions complement each others. A service firm may support a goods-exporting firm or another service firm. For example, when a manufacturer delivers equipment or turn-key factories to international buyers, a need for engineering services, distribution, cleaning, security and other services is often present. This gives service firms an opportunity to expand their markets abroad.

Direct entry means that the service firm establishes a service-producing organization of its own on the foreign market. For manufactured goods in the first stage of a learning process, a sales office can be such an organization. For a service firm, a local organization normally has to be able to produce and deliver the service from the beginning. The time for learning becomes short. Almost from day one the firm has to be able to cope with problems with production, human resource management and consumer behavior.

In order to decrease the potential problems with a direct entry strategy, instead of establishing a new organization of its own the internationalizing firm can acquire a local firm operating on the same service market. This way one gets access to knowledge about the market as well as about how to manage the service operation in the foreign environment. A central issue in such an acquisition is to keep

the key people in the acquired firm. Without them the internationalizing service firm may easily find itself in the same position as when establishing a totally new operation.

Another option is to form a joint venture with a local firm, which offers the local partner new growth opportunities at the same time as it gives the international partner much-needed local know-how. Direct entry can be used for internationalizing consumer services as well as services for industrial markets.

Indirect entry is used when the service firm wants to avoid establishing a local operation that is totally or partly owned by itself. Nevertheless, the firm wants to establish a permanent operation in the foreign market. A consulting firm can, for example, through a licensing agreement give a local firm exclusive rights to use the professional concept of the firm. This of course requires that exclusive rights can be guaranteed. In a sense, franchising resembles indirect export of manufactured goods, where the exporter makes use of middlemen on the local market who have the local knowledge needed to penetrate the market

Electronic marketing as an internationalizing strategy means that the service firm extends its accessibility through the use of advanced electronic technology. The Internet provides firms with a way of communicating its offerings and putting them up for sale, and a way of collecting data about the buying habits and patterns of its customers and using network partners to arrange delivery and payment. The electronic bookstore Amazon.com is a good example of a firm internationalizing its services using electronic marketing.

2.5.2 Garrido's internationalization theory

Based on Garrido (2007), it is possible to group the entry modes in 2 different categories, in terms of resource commitment and the degree of control over international marketing activities. Low complexity modes have a lower volume of resource commitment, making the firm subjected to lesser risks. High complexity modes, on the other hand, will impact on a greater involvement in the organization, as well as a higher level of resource commitment, of risks and of control.

Table 1 summarizes the strategies / entry modes in the international market:

Degree of commitment of a firm's resources	Strategies / entry modes in foreign market	
Low	Export	- Direct; - Indirect;
Medium	Intermediate	- Licensing; - Franchise; - Joint Ventures;
High	Hybrid	- Acquisition; - Foreign Direct Investment (FDI);

Table 1: strategies / entry modes in the international market.

As Table 1 suggests, the lower the degree of commitment, the lower the risk of a firm in operating in a foreign market. It is important, thus, that each firm has a clear vision of what kind of commitment it wants to establish with the foreign markets and at what price it will do that.

Also, regardless of which entry mode the internationalizing firm uses, the local customers have to accept the services of a firm with a foreign background. In addition, governments of countries abroad sometimes resist foreign service firms. There is always a possibility of ethnocentric tendencies (SHARMA et al., 1995) among consumers on the markets abroad. Such tendencies may become a problem for the internationalizing firm. Ethnocentrism means that consumers prefer domestic goods or services, because of nationalistic feelings. According to Sharma et al. (1995) openness to foreign cultures may support the acceptance of goods and services with a foreign origin whereas, for example, patriotism and conservatism may keep consumers from buying.

2.5.3 The choice of the theory for this study

No single theory on internationalization of the firm will fully account for the many specificities of a firm's business. In this case, it is important to have a broad view of the many processes which can be adopted and the impact of each strategy in the whole process.

On a later step, this case study will come back to these theories, but it is important to stress already at this moment that no theory will be used as a whole. Parts of the theory will be taken in order to adapt theory to practice. The very type of service offered by the firm which is subject of this study involves a high degree of resource commitment, playing an important role in the firm's choice of entry mode in foreign markets.

Moreover, a certain number of variables that play an important role in the internationalization process of the firm should now be identified. In order to seek an internationalization strategy, the firm will have to establish the degree of commitment of its resources to the successful operation of this process. This includes financial capabilities, human resources, organizational culture, a market study which will provide information on the best place to establish the firm and which will also point out the country-specific factors that are essential to the success in the operation. These variables are present in this study and appear as important steps for the case study chosen.

The nature of the firm and its services have an important impact on the degree of commitment of its resources. As this paper will later discuss, the firm at hand offers services of the sort which cannot be produced in the home office. All of the service offering will be produced locally. This has a large impact on the financial capability of the firm, which will have to make use of large amounts of capital in order to set-up its operations in the foreign market. As the theory indicates, larger firms appear to be better suited to absorb the risks associated with internationalization.

Another important aspect concerns the attitudes and perceptions representing the decision makers' subjective evaluation of international activities of the firm. A favorable orientation towards international operations facilitates the firm's mobilization of its financial and managerial resources.

Country-specific factors, such as political stability, a stabilized economy, which is well-connected to the international flow of capitals, people and goods, a favorable environment to investment, and a developed logistic infrastructure are essential for the successful expansion of a service company in a foreign market.

3 RESEARCH METHODS

This study sets out to investigate the different aspects in service sector internationalization processes, in order to fully understand the motivations and the strategies behind MCI GROUP's global expansion, especially in the case of the opening of the São Paulo office in 2009.

Questions such as the importance of the service sector in the economy, the aspects that lead MCI to internationalize in the first place, how it has chosen to expand its business, which where the main obstacles and main encouraging factors behind the expansion towards Brazil were paramount for the correct assessment of the internationalization strategy and provided valuable information for the production of this study.

Case study was the model chosen for the elaboration of this work. This model enables a more accurate view of the particularities which this subject involves and also provides the reader with relevant aspects for a comprehensive understanding of the proposed subject.

According to YIN (2001), it can also enable the researcher to dig out more information about the company, rescuing experiences that would not or could not be retrieved by other methods.

The method adopted will provided the empirical investigation that will serve as a framework for the study of the phenomenon in the real context in which it occurs. Following YIN (2005), it is the best strategy when questions such as "how" and "why" are to be formulated.

Moreover, case studies can be conducted and produced for many reasons, including the simple presentation of individual cases (a unique case), or the desire to reach wide generalizations based on evidence of the case study.

This case study will, thus, be a descriptive work, which sets out to characterize the pattern of events in a certain span of time, based on predetermined theories. As previously mentioned, many authors assert that traditional internationalization theories do not fully account for a precise understanding of the internationalization process of service firms.

Johanson and Valhne (1990) suggest that the current theoretical approaches to the process of internationalization are not directly applicable to the service sector.

They suggest that the inherent differences in manufacturing and service firms necessitate a context-specific approach to understanding a service firm's internationalization.

In this sense, this study will make use of the amount of theoretical work listed above and will apply it to the specific case of the internationalization process of a service firm - MCI - which offers event management and communications services.

3.1 CHOICE OF CASE STUDY

The case was selected due to the experience that his author gathered during his internship program at the MCI Paris Office, during the months of May throughout August 2009. While the internship position at MCI Paris was located at the Exhibition and Sponsoring Department, focusing on providing Associations with solutions to their Congress organization, this author was also able to work on different projects, such as the set-up and local management of one major international event in Brazil, by the time MCI Group was starting its operations in the country, in October 2009. These opportunities were the main inspirations to this study and the author hopes to have made justice to the experience and knowledge acquired during this period.

This study is also part of the final examination of the Joint MBA Program conducted by Universidade Federal do Rio Grande do Sul and the Champagne School of Management - ESC Troyes.

3.2 DATA COLLECTION

Evidences for a case study might be found in different sources: documents, archive registries, interviews, direct observation of a phenomenon, participative observation, etc. The advantage of using several sources for data collection is that it is possible to draw conclusion with converging lines of investigation. This study has privileged the methods of interviewing and documental research.

Patton (1980) sees three different possibilities for interpreting data collected from interviews: a) informal conversation, with no questions elaborated; b) guided interview, with previously elaborated items; and, c) standard interview, supported by a rigidly-elaborated questionnaire.

One major interview was made during the paper's writing process. Following phone calls and e-mails exchanged with MCI Paris, a questionnaire was designed in order to have a more accurate understanding of the firm's activities and strategies. This questionnaire was then sent out by e-mail to the Director of the Institutional Division of MCI Brazil, Mrs. Gina van Dijk, who readily accepted to help with this project.

The questionnaire used for this phase is annexed to this paper. It comprises questions concerning the motivations that lead the firm to internationalize; the external and internal factors associated to it; what information was important when deciding to enter a new market; the different entry modes used by the company; the criteria for opening new offices; and the main obstacles and facilitators in the process of going abroad. Following this list of questions, the intention was to obtain the necessary information which would form a bridge between theory and practice.

After having received the answers from the questionnaires, a new turn of questions was made, in order to validate the ones obtained. Telephone calls acted as a subsidiary in this phase.

After compiling all information, the document was sent to MCI Group's Executive Vice-President, Mr. Jurriaen Sleijster, who ratified and added information from the interview. This was crossed with the documental research, in order to validate the assumptions. Also, additional documents were requested in order to complement this research.

Data collected from documental research worked as a subsidiary to the better characterization of the service sector in Brazil and also gave the author the necessary information to draw his conclusions about the company studied.

3.3 DATA PROCESSING AND ANALISYS

The data gathered during this research was processed in different steps. By first describing the sector of activity of the firm, it was intended to prepare the reader for a view from general to specific, also providing a good base and knowledge about the firm's activity sector.

The next phase was comprised of the description of the internationalization process of the firm, based on the information obtained from the questionnaire. Chapters 5 and 6 are supported by a historical perspective of how the firm has started its expansion and how it consolidated its position worldwide. Chapter 6 describes the internationalization process of MCI Group in Brazil, and focuses on data collected from the company's documents and from the interview with two above-mentioned MCI directors. The last chapter proposes some concluding remarks on this theme.

4 CHARACTERIZATION OF THE ACTIVITY SECTOR

The events industry has become a worldwide business activity, based on its economic, commercial, technical, scientific and cultural impact on societies. Today, governments both at local and at national level have perceived the positive results obtained from the successful attraction of events to the development of communities. The event sector has a wide range of activities and impacts directly on the transport, tourism and commercial sectors. Thus, not only economic factors, but other factors such as education, culture, play an important role in the decision to host an event.

In the short term though, economic effects seem to be more tangible, with the results obtained from taxation and the creation of jobs. As a result, governments have started to pay growing attention to this sector of activity. An example of that is the report from Fundação Getúlio Vargas (FGV, 2008), which was contracted by the Brazilian Ministry of Tourism to develop a study to assess the impact of the event industry in the tourism sector. The report stresses the importance of international events and conferences in the total amount of revenue generated by the tourism sector and its growing impact to the entire Brazilian economy.

The growing importance of the segment of Events and Congresses is also a point stressed by the United Nations, which has officially recognized the Events and Fairs industry; also, the industry has been included in the ISIC - International Standard Industrial Classification of All Economic Activities – as a separated economic category. This will allow the incorporation of data from the events industry to the TSA - Tourism Satellite Account – in order to study the participation and the impact of spending in this area, compared to other economic indexes, such as GDP (PIB) and job creation.

All this works as evidence of the importance and impact of this sector in the national economy. According to FGV (2008), the data for the year of 2008 points out that the events industry has generated a revenue of approximately US\$ 122,6 million to the Brazilian economy.

In order to estimate the impacts caused by Tourism, Blake et al. (2003) proposed different methods, such as the input-output matrix, the national accounts, and the general equilibrium model. All these approaches have the advantage of computing the relations between tourism and the other economic sectors. However,

the models also have faults in respect to the time-frame, which is an important aspect for the event sector.

Bearing this in mind, it is possible to divide the economic impact of a given event into three distinct levels: pre-event, event and after-event. If one wants to evaluate the economic impact of a big event, such as the Olympics or the World Cup, for example, it is important to take into account the money generated with the spending of tourists, as well as the effect of the investment in infra-structure (new buildings, sport facilities, etc.) on the local economy. However, if one analyses a smaller event, a study of the touristic spending might be satisfactory.

One of the tools most commonly used to evaluate the contribution of touristic activity to the economy of a given region is the study of economic impact of tourism (STYNES, 1999). The study shows that the most common implications of this sort of analysis are:

- * Changes in the Supply Side of the sector might involve quantitative changes (such as the opening or closing of hotels, attractions) – leading to a expansion or contraction of capacity; or qualitative changes (improvement of environmental quality, local infrastructure, nature of the products and services available in the region). These changes will probably have as outcome diverse impacts which shall then be assessed;
- * Evaluation of the economic impacts due to changes in the touristic Demand – population, competitiveness of the region, commercials, trends, economic atmosphere; all of those play an important role in measuring the impact of changes in the quantity of tourists and the amount spent by them in a given region.
- * Evaluation of the effects of public policies on the touristic activity, both direct and indirect, will provide important subsidies to the correct assessment and differentiation between positive and negative policies;
- * The comprehension of the economic structure and the interdependencies between the different sectors in the local economy – the economic results help quantify the size and structure of the tourism sector in a given region and its link to other economic sectors;

* Comparison of different allocation of resources. This study may give evidence for the government to promote investment on tourism;

4.1 ECONOMIC OVERVIEW OF THE EVENTS SECTOR

In the last years, the Events sector has seen its relevance grow in the generation of businesses worldwide. According to data from the ICCA – International Congress and Convention Association - 8.294 events took place around the world in 2008 - 800 more than compared to 2008¹. Brazil has passed from 8th to 7th on the Top 10 rank of ICCA, hosting 293 international events. São Paulo ranks 18, with a total of 79 international events hosted, in a list of 20 cities surveyed.

More recent data shows that from January through March 2010 there was an increase in billings from companies of the Events industry. This points towards a growth in the sector in 2010, despite the meager results of 2009, which can be attributed to the global economic crisis.

A recent bulletin written by the Brazilian Ministry of Tourism with the support of FGV, offers new data collected by the United Nations World Tourism Organization (UNWTO), which point to the recuperation of the economic activity in tourism, after it declined in 2008 and 2009, due to the international economic crisis. The data for January-February 2010 point to a expansion in the sector.

Brazil stands out as one of the most attractive economies in the world for investment, especially after having managed to pass the economic crisis without big turmoil. The Economic Performance Bulletin, published by the Ministry of Tourism (TURISMO, 2010) brings an forecast from the International Monetary Fund (IMF) which estimates that the Brazilian economy will grow 5,5% in 2010, and 4,1% in 2011. This is important, as it works as an important mood index for the private sector to invest in the economy.

The same report (FGV, 2010) draws attention to growing number of participants in events since January 2010, which as positively surprised the business sector's expectations.

¹ Disponível em: <<http://www.iccaworld.com/npps/story.cfm?nppage=2175>>. Acesso: em Maio 2010.

This quick overview of the economic factors was intended to provide a understanding of its impact in the decision-making of businessmen and brings important understanding as to why the Brazilian is regarded today as a hub for investment.

The coming section will now introduce MCI Group, which is the subject of analysis in this paper.

5 COMPANY PROFILE

MCI is an event management and communications service firm, which was established in 1987, in Geneva, Switzerland. It is today one of the world's leading companies in the provision of services such as destination management, event management and professional conference organization (PCO) to companies and institutions,

MCI began to grow significantly from 1999 with the opening of an office in Zurich and the acquisition of two companies based in Lyon, following an internationalization effort to become the leading company in Europe. Soon, MCI began its acquisitions in the United Kingdom and in Brussels, and the development of new companies in France, Germany and Spain have contributed to the consolidation of the firm's position in the European market.

The company's vision, to build a globally integrated company, can be rightly observed by its presence, today, in all 5 continents². Its latest expansion resulted in the opening of offices in Brazil, South Korea and Australia.

The company has two different types of customers and divides its operations according to them. On the institutional side, there are Associations and Governments, which make up 50% of the total customer share. They are provided with services such as Professional Congress Organization (PCO) and Association Management & Consulting, as well as Destination Management services if the need arises. Corporate clients are responsible for the other 50% of client share; the company offers them services such as Meetings and Events planning and management, and Performance Improvement Programs which aim at fostering employee engagement, as well as Destination Management. In both divisions, MCI offers a wide range of services, from projects and logistics to full-service and consulting.

According to MCI's 2009 Annual Report, its gross margin by expertise is composed of 37% congress management; 31% meetings and events; 12% technical and creative production; 10% destination management; and 10% association

² In the United States, the company operates through a Global Partnership with SmithBucklin. There are no MCI offices in that country.

management consulting. A quick glance on these figures shows that Event management is one of the main services offered by the company.

According to Olivier Giauque, Chief Financial Officer from MCI Group Holding, the gross margin in 2009 saw a 12% increase compared to 2008, and reached EUR 64.3 million, while turnover reached EUR 230 million. This was a result mainly from the acquisition of operations in Latin America, namely in Argentina and in Brazil, and from obtaining new clients in Asia.

MCI Group's operations show high efficiency in Europe, responsible for 89% of the gross margin, Asia and the Middle East make up 8% and Latin America represents 3% of the firm's gross margin.

Notwithstanding the 2009 global economic crisis and the consequences derived from it, MCI Group managed to increase its gross margin by 12%. This shows that MCI adopted the right strategy in dealing with the economic adversities.

6 THE INTERNATIONALIZATION PROCESS OF MCI GROUP

The internationalization process of MCI Group follows its vision to become a global player.

According to MCI Group's Executive Vice-President, Mr. Jurriaen Sleijster, the company identified that there would be a need for such companies: clients will want to work increasingly with event management companies which have a similar global footprint as theirs.

He also asserts that "We are able to execute services globally – but with a local flavor – according to similar standards and quality criteria, thus helping our clients to get their messages out across the globe in a uniform yet locally adapted way".

This follows Javalgi et al (2003) theorization, which says that larger businesses are more likely to operate internationally. This is the case for MCI Group, which has more resources available to commit to its international expansion and can deal with risks associated to it.

The next sections will see the firm's internationalization strategies with a view to correctly understand the criteria and method applied for the opening of the Brazil branch of MCI Group. This was prepared with the help of information provided by the head of the Institutional Division of MCI Brazil, Mrs. Gina van Dijk.

6.1 SELECTION CRITERIA FOR MARKETS AND ENTRY MODES

The criteria of MCI Group for the selection of markets takes into consideration aspects such as the proximity to the firm's customers, market size, type of customers, local infrastructure, maturity of the market, availability of human resources, and others.

Another way for the company to expand its operations is by following its clients. Many of the company's clients have an international presence, and this stands out as an important aspect of the firm's internationalization process.

According to MCI's President, Mr. Roger Tondeur, the company will follow its clients where they go.(ANNUAL REPORT, 2009).

MCI's global expansion strategy is also based on a careful study of the market and takes into considerations statistics such as the International Congress and Convention Association (ICCA) International Association Meetings Market Report. (MCI ANNUAL REPORT, 2009).

Expertise and know-how of the local market are determinant aspects when choosing a local firm to partner with. When internationalizing, MCI will also study the market in order to identify which products (in this case, services) will be most profitable in the beginning of operations. It may then decide to open the new office or acquire a local player, offering in the beginning a limited array of services, which may later be expanded to include the entire service portfolio. Typically though, MCI searches to provide both Corporate and Institutional clients with services from any one office location.

MCI also divides its operation between corporate and institutional clients, in order to strike a balance in its business activity. Corporate clients provide a quick access to business (decision time on events is much shorter than with Institutional clients, so an MCI office can start operating immediately, hire staff and generate revenue) whereas Institutional clients provide the office with a long-term event horizon. Some Institutional events are signed up and planned 4 years ahead of time, and this gives stability to the long-term revenue of the office, allowing for a planned gradual growth. The balance between corporate and institutional business is one of the key aspects of MCI's successful growth.

MCI applies 3 different entry mode strategies to its international expansion. Due to the nature of MCI's business, that is, being an association management, event management and communications service provider, the firm follows only strategies which demand medium to high levels of resource commitment. These are: mergers/aquisitions, joint-ventures, and start-up.

When MCI seeks to enter a market by merging with or acquiring a local firm, the goal is to establish a partnership with a well-established company. In this case, MCI will follow a Merger Strategy. However, when MCI identifies a promising smaller structure, it then continues with an acquisition strategy to develop the business. In both cases MCI aims to develop a leading position in that market.

By merging with a local firm, MCI gains a foothold in a new market and has access to local talents with local market knowledge. If the local company is a specialist in corporate business, MCI will typically look at developing institutional business through this office to establish a balanced service- and client portfolio.

A local acquisition target has to have a good “cultural fit” with MCI. This means that the target firm has to boast common values and work ethics. MCI does not aim to “take over and change” an office, but to build on its existing structure and to work with the target firm’s skills. At a later stage, operations can be increased with additional services.

There are instances where MCI identifies one or more talented entrepreneurial individuals who wish to establish an office in a country or region where MCI is not yet present. In these cases MCI invites these people to propose a business plan of how they would like to engage in the establishment of an MCI office, and if a good case can be made, MCI will go ahead and invest in this opportunity.

The decision to acquire or start up is based on the local market conditions. Questions such as “Is there a suitable acquisition target?”, “Is there a market to go after?”, “Do MCI clients have business there?” are also determinant when identifying new target markets.

Another important aspect of MCI’s internationalization process is that, until now, the opening of new offices worldwide has been managed with the company’s own capital.

6.2 THE EXPANSION TO BRAZIL

Latin America was a region where the company wanted to seek expansion. Brazil was a natural choice, as it is the region’s biggest economy, boasting high business potential.

The company chose Grupo Alatur, a local corporate travel and event management firm to start a joint venture with and to develop its operations in the country. MCI Group has also moved Mr Oscar Cerezales – former Management Director of MCI Spain – to help build operations in Brazil. This is also an important

proof of the level of resource commitment MCI is making to develop its presence in Brazil.

Ricardo Ferreira, Chair of the Advisory Board of MCI Brazil and senior partner of Grupo Alatur, says:

Our ambition in Brazil is to be the leader in the meetings & events industry, and I believe this is the perfect timing for MCI to enter the Brazilian Market. Today our event market is mainly logistic-driven, however more and more companies need strategic partners to help them achieve event return on investment (ROI)

MCI has opened two offices in the country, one in São Paulo and the other in Rio de Janeiro. The MCI São Paulo office will mainly develop the corporate side, focusing on the Healthcare sector, whilst MCI Rio de Janeiro will be the centre for association clients, with a focus on Association Management and Consulting. Moreover, as Rio de Janeiro is one of the main destinations in Brazil for incoming groups, Ovation Brazil, the tourism operator, will be strategically based in that city.

In Brazil, MCI has chosen to start its business offering the following services: Performance Improvement, Meeting and Events, AM&C: Association Management & Consulting, Ovation: tourism, and PCO: professional congress organization for associations.

According to Mrs. van Dijk, after having completed only one year of operations in the country, it is already possible to state that results have been positive. Clients have reached out to the firm, both because of MCI's leadership in the market and also due to the merger with Grupo Alatur.

7 CONCLUSIONS

The study of the internationalization process of service firms allows a better understanding of the many challenges, risks and opportunities that service firms face when expanding their operations to foreign markets. This paper's objective was to study the internationalization of the company MCI Group and its latest efforts aimed at the Brazilian market.

One of the main challenges in this domain is to find a pattern of behavior for such firms that want to market their services beyond domestic borders. Much of internationalization theories available are aimed at manufacturing firms. That is why this study privileged the theories of Dunning (1999) as a way of presenting the case of how manufacturing companies have sought internationalization. There are certain aspects which can be applied to both cases (manufacturing and service firms), but in order to understand how service firms act in the international process, it is also important to see how they differ (and in what they do not) from manufacturing firms.

This paper sought to apply both Gronrös' (1999) and Garridos' (2007) approaches to the internationalization of service firms, which has provided this paper with the theoretical framework. There are, indeed, many differences that apply to service firms. One of the main aspects is that services are, to a major extent inseparable, in the sense that production and consumption occur simultaneously, requiring the local presence of the service firm. This is a determinant aspect when analyzing a firm's entry mode in a foreign market.

The globalization era has increased business possibilities for firms; new opportunities have arisen. By expanding its business around the globe, an international firm can strengthen its competitive position. MCI Group's strategy takes this into account, as can be seen by its continuing enlargement and profitability.

Some concluding remarks can, thus, be drawn from this study. The fact that over the last 20 years, MCI has developed a large net of firms around the globe, shows how a carefully studied growth strategy can lead to success. Following the theorization proposed in this paper, larger businesses are more likely to operate internationally. One of the reasons for that is the fact that larger firms have more resources to commit to international expansion and are better able to cope with the risks linked with it.

MCI Group's internationalization strategy is also based on a client-seeking mode. Many of the company's clients have an international presence, and this stands out as an important aspect of the firm's internationalization process.

Due to the very nature of the company's business, the firm follows only strategies which demand medium to high levels of resource commitment. MCI has chosen three different entry-mode strategies: mergers/aquisitions, joint-ventures, and start-up.

When expanding to Latin America, MCI chose to establish an office in Brazil due to its booming economy and high business potential. In Brazil, which was the case presented in this study, MCI followed a merging strategy, establishing a partnership with Grupo Alatur. In this case, the local company had already a good share of corporate clients, and MCI has, thus, profited from the local know-how and client base.

As MCI also pays close attention to the client-share, and since Grupo Alatur has a bigger corporate share of clients, MCI has decided to focus on Associations and Government area. This is aimed at striking a balance in its client-share, which is a key element in its growth strategy.

Aspects such as the cultural proximity to the firm's values were also important when MCI chose to partner with Grupo Alatur.

Finally, it is important to stress that the internationalization of service sector firms remains a very fruitful field of study, and analyzing successful experiences such as MCI's is an important, though still insufficient, effort in shedding more light on this subject.

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ANNEX A – QUESTIONNAIRE USED IN THE INTERVIEW

Executive interviewed: Mrs. Gina Van Dijk - Director Institutional Division - MCI Brazil.

QUESTIONNAIRE FOR MCI GROUP

STUDENT: Vinicius Gürtler da Rosa
Internship at MCI Paris Office during months of May – August 2009.

THEME OF MONOGRAPH: The Internationalization Process of MCI GROUP: the case study of Brazil._

- 1) Motivations that lead the firm to internationalize. Please appoint external and internal factors that have influenced the decision of entering new markets.
- 2) Which factors were crucial when choosing the markets? What information was important when deciding to enter a given market; how did the company gather this information?
- 3) What are the types of entry modes that MCI GROUP chooses when entering a foreign market?
- 4) What are the criteria for opening new offices?
- 5) Main obstacles perceived when internationalizing.
- 6) Factors that eased the process of entering a new market.
- 7) Has the entry mode in Brazil differed from previous internationalization strategies? Please indicate the main reasons for the opening of MCI's Office in Brazil;
- 8) Please describe the motivations that lead ALATUR to seek MCI Group
- 9) In your opinion, how has the Brazilian market responded to this merger? Has MCI Group Brazil perceived a good response in the market?