

DYNAMIC CAPABILITIES DEVELOPMENT TO IMPLEMENT INTERNATIONAL STRATEGY: THE CASE OF A BRAZILIAN WINE COMPANY

**Tondolo, Vilmar Antonio Gonçalves¹
Bitencourt, Cláudia Cristina²
Tondolo, Rosana da Rosa Portella³**

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ABSTRACT

There is a significant gap between the processes of formulating and implementing strategy in the field of the strategy studies. Recently, the formulation of the strategy has received more attention, both within academic and the practitioner areas. This suggests Strategy Literature should increase its focus on implementing strategy. In this sense, Dynamic Capability offers a valuable approach to address that issue. Accordingly, this paper aims to explore theoretical elements involved in the process of implementing the internationalization strategy through a Dynamic Capability approach in a Brazilian winery company. This research is characterized as a case study with exploratory-descriptive qualitative approach. We have identified aspects that illustrate the implementation of international strategy and development of capabilities.

Key words: dynamic capabilities, strategy implementation, internationalization strategy, wine, Brazil.

RESUMEN

Existe una brecha significativa entre los procesos de formulación e implementación de la estrategia en el campo de estudio de las estrategias. Recientemente, la formulación de la estrategia ha recibido más atención, tanto dentro del área académica como de la profesional. Esto sugiere que la literatura sobre estrategia debería aumentar su enfoque en la implementación de la misma. De esta manera, la capacidad dinámica ofrece un valioso enfoque para abordar esta cuestión. Sobre esta base, el presente estudio se propone analizar los elementos teóricos que intervienen en el proceso de implementación de la estrategia de internacionalización a través de un enfoque de la capacidad dinámica de una empresa Brasileña de la industria del vino. Esta investigación se caracteriza como un estudio de caso del tipo exploratorio-descriptivo, con un enfoque cualitativo. Se identificaron los aspectos que ilustran la implementación de la estrategia internacional y el desarrollo de las capacidades.

Palabras clave: capacidad dinámica, implementación de estrategias, estrategia de internacionalización, vino, Brasil.

1 Ph.D. candidate in Business Administration (University of Vale do Rio dos Sinos, Brazil); lecture (Faculdade da Serra Gaúcha, Brazil). **Postal address:** Waldemar Lazzarotto, 612, apt. 401, Caxias do Sul- RS, Brazil. **Phone number:** +55-54-99712552; **e-mail:** vtondolo@gmail.com

2 Professor at Ph.D. Program in Business Administration at University of Vale do Rio dos Sinos, Brazil). **Postal address:** Av. Dom Pedro II, 1273, apt. 306, Porto Alegre-RS, Brazil. **Phone number:** +55-51-81112273; **e-mail:** claudiacb@unisinis.br

3 Ph.D. student in Business Administration (University of Vale do Rio dos Sinos, Brazil); lecture (Faculdade da Serra Gaúcha, Brazil). **Postal address:** Waldemar Lazzarotto, 612, apt. 401, Caxias do Sul-RS, Brazil. **Phone number:** +55-54+99455215; **e-mail:** rosanatondolo@gmail.com

RÉSUMÉ

Il y a un écart important entre les processus de formulation et de mise en œuvre de la stratégie dans le domaine des études de stratégie. Récemment, la formulation de la stratégie a reçu plus d'attention, tant à l'intérieur d'enseignement et les domaines praticien. Cela donne à penser stratégie de la littérature devrait mettre davantage l'accent sur la mise en œuvre la stratégie. En ce sens, dynamique capacité offre une approche intéressante pour aborder cette question. En conséquence, cet article vise à explorer les éléments théoriques qui se posent dans le processus de mise en œuvre de la stratégie d'internationalisation à travers une approche dynamique des capacités au sein d'une entreprise vinicole brésilienne. Cette recherche se caractérise par une étude de cas avec l'approche qualitative exploratoire descriptive. Nous avons identifié les aspects qui illustrent la mise en œuvre de la stratégie internationale et le développement des capacités.

Mots-clé: des capacités dynamiques, stratégie d'exécution, stratégie d'internationalisation, vin, Brésil.

1. INTRODUCTION

The strategic management deals with a group of decisions and actions, resulting in the formulation and implementation of strategy, and goals of the organization. The implementation is seen as part of the strategic management, but managers do not employ the same attention in the implementation plan, as employed in the strategy formulation (Shah, 2005). In the other hand, the case of internationalization is increasingly attracting the attention of researchers in the area of management. It is also a movement of national companies seeking entry into international markets. One of the main motivations of this movement by the company is seeking a higher competitive standard (Schmitz and Knorrninga, 2000). Association between entrepreneurship and internationalization has also been highlighted in the literature. For instance, international entrepreneurship is the process of search for new opportunities in foreign markets, without losing the perspective of competitive advantage (Zahra and George, 2006).

Regarding contributions from Shah (2005) on barriers to implementing the strategy; Hrebiniak and Joyce (2005) on the need for further research about the implementation of the strategy, and (Teece *et al.*, 1997) on Dynamic Capabilities, the central objective of this work is to explore theoretical elements involved in the process of implementing the internationalization strategy through a Dynamic Capability approach in a Brazilian winery company. We have developed a qualitative case, exploring and expanding the company issues observed in previous studies. This study is organized into the following sections: theoretical background review, methodological procedures, case analysis, final considerations and references.

2. THEORETICAL BACKGROUND

According to the objective of this research, we focused the theoretical review on strategy implementation and Dynamic Capabilities (DC).

2.1. STRATEGY IMPLEMENTATION

Hrebiniak and Joyce (2005) argue that formulation and implementation are distinguishable shares and interdependent processes of strategic management. Indeed, formulation precedes implementation. However, Hambrick and Canella (1989) warn that the implementation should be considered during the formulation. As Shah (2005) states the formulation of strategy is focused on determining the future direction of organization, the design of appropriate strategies since the implementation is geared to the process of translating the strategy into action. When a new strategy is not successfully implemented, it is just an illusion (Hambrick and Canella, 1989).

Hrebiniak and Joyce (2005) highlight that companies able to sustain high performance, or able to achieve the high performance, made the following key activities: i) Developed a clear strategic direction; ii) Built a quick and effective organization; iii) Established an adaptive culture; and, iv) Implemented focus on the need of consumers and reduced costs. The authors add that only the first key activity is more directed to the formulation of the strategy, while others are more geared to the implementation of strategy.

Knowledge about the implementation of strategy and its influence on the organization is under-emphasized in the literature of strategic management, decision making and corporate management (Hrebiniak and Joyce, 2005). Organizational performance depends not only on how the strategy is formulated, but also on

how the strategy is implemented. The implementation requires the ability of managers to coordinate a broad scope of issues to transform strategic intent into action (Shah, 2005).

The organizational fit over time is central to the implementation the strategy, indicating that in the organization «the learning occurred the feedback of the performance was received, evaluated and made the necessary adjustments in its competitiveness» (Hrebiniak and Joyce, 2005: 620). The authors emphasize that the creation of strategies to adapt to environmental changes, and how firms get better performance than others in this adaptation are central points in the study of the field of strategy.

The core capabilities and specific resources drive the processes of search. Lack of capacity may affect the implementation of the strategy and the organization's ability to adapt to environmental pressures. The learning is a central aspect for the adaptation and performance, which may interfere in the organization looks like and how the organization implements the strategy (Hrebiniak and Joyce, 2005). Shah (2005) identified six main factors to the implementation of the strategy: i) sound strategy; ii) efficient allocation of resources; iii) involvement of managers; iv) understanding and involvement of employees; v) financial rewards; and, vi) information systems. These factors are fundamental to the organization over the obstacles to implementation. The author adds that is needed a broader analysis of his findings, allowing the generalization of results.

2.2. DYNAMIC CAPABILITIES (DC)

Shelton (2005) addresses that internal resources such as managerial and organizational skills are necessary for the coordination of the enterprise, as well as external resources are needed for the organization to position and explore new opportunities. Based on the vision of Lee *et al.* (2007) define entrepreneurs as individuals who combine resources in new ways and risks, improving the potential to create social value. The DC are dynamic skills, continuous learning, development and accumulation of skills, leading over time to different capabilities of the competitors (Teece *et al.*, 1997). In this sense, Teece (2007) highlights that DC are meta-competencies that transcend operational competencies. The DC becomes companies to be able to create innovation and profit. «Enterprises with strong dynamic capabilities are intensely entrepreneurial» (Teece, 2007).

Zahra *et al.* (2006) emphasize that the DC in new ventures and established firms are the source key to

superior performance. DC is the fundamental relationship between resources, capabilities, and learning outcomes. The authors approach that new business and established firms have different sources of benefits from their DC. According to the authors, the process of entrepreneurship is the starting point for development of the substantive and dynamic capabilities. From this perspective the substantive capabilities are, for instance, the ability to solve a problem or achieve a result, since the dynamic capabilities are the ability of organizations to change their substantive capabilities.

3. METHODOLOGICAL PROCEDURES

This research is characterized as an exploratory-descriptive qualitative case study. The company selected for the study was the Miolo Wine Company. It was selected due to Miolo's increasing results, while other Brazilian companies in the same sector tend to follow a downward trend in their performance. This is a crisis that the wine industry faces due to market opening, the lack of government support, the high rates of taxation, among other factors. However, it is interesting to observe the rising curve of results presented by the wine Miolo. This leads to question and seek to better understand why this movement. The data collection techniques used were: i) semi-structured interview; ii) analysis based on documentary records of files; and, iii) data from previous studies on the company based on Dolabella (2006), Dolabella and Bitencourt (2006), Bitencourt (2007) and Tondolo *et al.* (2008). Interviews were conducted with a partner-owner, with the director of marketing and international relations, with 2 oenologists, the manager of human resources, coordinator of the integrated producers. Each interview lasted approximately one hour. All of them were recorded and transcribed for later analysis.

In addition, the search query was previously developed by the research group GEMAC (Group of Studies in Change, Learning and Capabilities), which are «The analysis and articulation of organizational skills in agro-industrial sectors of Rio Grande do Sul: The case of industries of wine, poultry and piggery» (Bitencourt, 2007) and Master's thesis untitled «The consolidation of organizational capabilities in the Brazilian wine: The Miolo case study» (Dolabella, 2006).

To analyze the data we used the content analysis technique. The categories of analysis developed were the following: i) barriers to implementation of international strategy; ii) type of strategic orientation

adopted by the international organization; iii) resources and capabilities developed by the company to implement the international strategy; iv) role of entrepreneurship in the internationalization process; and, (v) results of the internationalization process followed by the company.

To validate the data we used protocols for the development and formalization of the case study, which was based on the theoretical framework previously defined, and aimed to unify and systemize the work of observation and analysis, increasing reliability of the study (internal validity). We also used multiple sources of evidence, searching the triangulation of data through the intersection of different sources for the study of the same object, as a way to validate and verify the consistency of data collected (Stake, 1998; Yin, 2003). We use analytical generalization based in Yin (2003) to get external validity.

4. THE INTERNATIONALIZATION STRATEGY AT MIOLO

The process of internationalization at Miolo started in 2002. Currently 10% of the company production is directed to the external market. Of that amount, approximately 70% of the company exports are directed to the following markets: USA, Germany and the UK. In these markets the company uses representatives who are responsible for distributing the product. The remainder of the volume exported is directly to other countries in Europe and Asia. In these markets the company uses exclusive representatives for each product line. An interesting aspect is that company is replicating the strategy of entry used initially in the U.S., UK and Germany. Thus, the company is seeking to use prior knowledge of the process of internationalization, for entry into new markets. Knowledge is essential for the implementation of international entrepreneurial strategy.

Miolo seeks to implement its international strategy with products from high concept in the market. Accordingly, the company has a quality-driven approach. The company also stresses that such guidance is part of its corporate strategy; a price-driven approach requires a transaction based on economy of scale. Miolo has focused on development of resources and capabilities to improve product quality continuously.

China is a target market that the company is currently seeking undertake. In this market, the company is facing some difficulties to implement its strategy, in special due to the lack of market information. According to School of Uppsala, Miolo are experiencing psychological barriers. To overcome this barrier, the company is

seeking local partners to develop, especially for knowledge of that market. There is the attempt to implement new strategies for entry, before the barriers imposed by it.

In the current stage of Miolo's internationalization process, the company seeks to internalize the knowledge of the logistical activities as the main activity of the value chain. Moreover, this company has been chosen those countries where it has more familiarity, expanding in order when barriers are overcome. Overall, the company uses its range of high-quality wines in all international markets target. However, according to the level of knowledge acquired in these markets, as well as the type of barriers faced the company implements different strategies of entry for each market context. In relation with entering into new markets, the company follows a logical multi-domestic strategy (*e.g.*, Craig and Grant, 1993; Porter, 1986), when the product line of the company follows a pattern of overall strategy.

The main barriers to implementing the firm strategy are characterized as: institutional, internal of the company and international. Moreover, in terms of actions employed by the company, they are internal actions and industry actions. To implement the international strategy the company has anticipated the demands of international markets, reflecting its entrepreneurial culture. The company achieved high levels of certifications. This enables the company to anticipate front to customers in demanding markets such as Europe. Furthermore, certification has resulted in best practices in internal processes and qualification of the final product. Finally, one of the most significant results of the implementation of the strategy reflected in the competitiveness of the company. The search for competitiveness in foreign markets maintained the high standards the company competitive in the domestic market, even observing the crisis in the industry on which to position your product in the domestic market in order to open the market and high rates of taxation on national product.

Two dynamic capabilities were developed by the company: management of resources in the chain, and market management. These two capabilities have been impacting in substantive capabilities such as: management of the value chain and entry into foreign markets. The development of dynamic capabilities was central alignment of internal capabilities and resources toward the implementation of international strategy. The process of developing the dynamic capabilities at Miolo is associated with three

activities: observation and evaluation, resource renewal, and resource reconfiguration.

5. FINAL CONSIDERATIONS

Regarding the aim of this study, we would like to emphasize the following key points. First at all, in the implementation of international strategy the company has employed three key activities stressed by Hrebiniak and Joyce (2005): i) the development of a clear strategic posture; ii) the construction of a rapid and effective organization; and, iii) the establishment of an adaptive culture.

Second, the learning accumulated along the path of the company was one of the core capabilities in the implementation of international strategy. Third, knowledge is an essential resource for implementing the international strategy of the company. Stimulate learning is a fundamental capability for the development of new skills. Accordingly, the key element to the implementation of the strategy discussed by Shah (2005) is the efficient allocation of resources employed by the company. This commitment has been core to the company overcome the barriers faced during its internationalization process.

Fourth, based in Covin and Slevin (1999) we could identify that Miolo has been driving its strategy between two types of corporate entrepreneurship: Sustained regeneration and renewal strategy. In these types of corporate entrepreneurship the company employs actions such as: entry in new markets and strategic news goals. Regarding internationalization process, company employs the logic of international market makers (e.g. Oviatt and MacDougall, 1994), using logistics as the main value activity. These entrepreneurial aspects have been driving the internationalization processes of the company.

Fifth, we could identify that company developed two dynamic capabilities responsible for alignment of substantives capabilities toward to implement the international strategy. This development allowed the alignment of activities focused on exploration and exploitation of international market opportunities. Madsen *et al.* (2007) highlight four generic types of DC. In this sense, the company has developed three types of DC as following: observation and evaluation, resource renewal, and resource reconfiguration.

Finally, we highlight the limitations of this study with regard to their ability to spread and the need to understand the perceptions of customers, thus passing the perceptions of members internal and external to the organization. We suggest the development of

further studies focusing on the implementation of strategies in other sectors of agribusiness, as well as the internationalization process developed in new markets.

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