



# Internationalization of a SME: The Case Study of Grupo Fogo de Chão Europa

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## **Abstract**

**Title:** Internationalization of a SME: Grupo Fogo de Chão Europa

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**Keywords:** Restaurants; SME's; Antecedents of Internationalization; Adaptation; Standardization; Market Selection; Entry Modes; Joint Ventures

This dissertation, presented as a case study, explores the internationalization of Grupo Fogo de Chão Europa, a group of restaurants, through a comparative study analysis of the expansion process to the Spanish and British markets.

The study aims to investigate the main factors that led to internationalization, the strategic decisions made, the entry modes, the adaptation strategies, and how to overcome the challenges of venturing abroad. Drawing from qualitative data collected from company documents, the firm's website, and interviews, the research examines the factors influencing the market selection, entry mode choice, and brands selected.

Furthermore, it evaluated the balance between standardization and adaptation strategies to tackle the needs of different markets better while maintaining brand consistency. The case study focused on the importance of networking and how those existing connections helped identify international opportunities and facilitated entry into foreign markets. Moreover, it explores the potential of franchising to accelerate its international growth and the organizational challenges associated with this strategy.

Through a comprehensive analysis of the company's internationalization journey, this study significantly contributes to the academic understanding of SMEs' international expansion strategies.

## **Abstrato em português**

**Título:** Internacionalização de uma PME: Grupo Fogo de Chão Europa

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**Palavras-chave:** Restaurantes; PMEs; Antecedentes da Internacionalização; Adaptação; Estandarização; Seleção de Mercados; Modos de entrada; Joint Venture;

Esta dissertação, apresentada sob a forma de um estudo de caso, explora a internacionalização do Grupo Fogo de Chão Europa, um grupo de restaurantes, através de uma análise comparativa entre o processo de expansão para o mercado espanhol e para o mercado britânico.

O estudo tem como objetivo investigar quais os principais fatores que levaram à internacionalização, as decisões estratégicas tomadas, os modos de entrada, as estratégias de adaptação, e como ultrapassar os desafios que se colocam na expansão para o estrangeiro. Com base em dados qualitativos recolhidos de documentos da empresa, no website, e por entrevistas, a investigação teve como objetivo analisar quais os fatores que influenciaram a seleção do mercado, a escolha do modo de entrada e as marcas selecionadas.

Além disso, o estudo também avaliou o equilíbrio entre as estratégias de estandarização e adaptação para melhor responder às necessidades dos diferentes mercados, mantendo a consistência das marcas. O estudo de caso centra-se na importância do networking e na forma como estes contactos ajudaram a identificar oportunidades internacionais e como facilitaram a entrada em mercados estrangeiros. Do mesmo modo, este explora o potencial do franchising como forma de acelerar o seu crescimento internacional e os desafios organizacionais associados a esta estratégia.

Através de uma análise aprofundada do percurso de internacionalização desta empresa, este estudo contribui para uma melhor compreensão das estratégias de expansão internacional das Pequenas e Médias Empresas (PMEs).

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## **List of abbreviations**

EU: European Union

FDI: Foreign Direct Investment

JV: Joint Venture

LoF: Liability of Foreignness

HSR: High-Speed Rail

SME: Small and medium-sized enterprise

UK: United Kingdom

# **Introduction**

## **Problem Statement**

Developing an internationalization strategy is challenging for small and medium-sized enterprises (SMEs) that are family-owned, where management or ownership is held by family members (Astrachan & Shanker, 2003). Due to their size, they might face added challenges as they lack resources, capabilities, and expertise in foreign markets (Steinhäuser et al., 2021). This dissertation focuses on SMEs since they hold an important role worldwide, as they constitute 90% of all companies and are responsible for 70% of jobs and GDP worldwide (Rajah & Woeffray, 2022).

The case study aims to understand Grupo Fogo de Chão Europa's context and internationalization process. It analyzes what imperatives and factors led the company to venture abroad and how they materialized. Given the increasingly saturated market in the Brazilian restaurant niche, it became mandatory to face these challenges strategically.

While there is an increasing number of literature on the internationalization of SMEs, there is a lack of research particularly in the restaurant industry. In this context, this dissertation aims to familiarize the reader with this industry, understanding what constraints and opportunities exist in this field while exploring strategies that can be used to overcome challenges and achieve success in international markets.

The primary objective of this dissertation is to fill some research gaps in the field of internationalization. It aims to provide a detailed overview of the internationalization process, including its initial steps, motivators, and strategies. Additionally, it seeks to analyze the role of networking in the expansion process, thereby offering a comprehensive understanding.

## Research Questions

- What are the primary drivers behind Grupo Fogo de Chão Europa's decision to expand beyond their domestic borders?
- How did they enter new foreign markets? How did the use of Joint Ventures facilitate entry into foreign markets? What are the advantages and challenges?
- How did Grupo Fogo de Chão Europa balance between standardization and adaptation in their internationalization process and how did it benefit the company? Additionally, how was this balance achieved in both the Spanish and British markets?

## Research Note

This chapter focuses on the relevant literature concerning the internationalization of SMEs. Entering foreign markets has managerial implications, and several decisions must be made, such as selecting the right market and selecting the suitable entry mode (Lojacono, 2020).

To gain a comprehensive understanding of the internationalization process, the conceptual framework developed by Steinhäuser et al. (2021) which includes Antecedents, Patterns, and Outcomes, was taken into consideration. Outcomes will not be mentioned in this dissertation, as they are not explored in the case study.

## Internationalization strategies

### Motives to go abroad

SMEs are increasingly present in international markets and significantly contribute to economic prosperity and growth of the world (Reynolds, 1997). At the same time, their internationalization is marked as being “purposeful and goal-oriented” (Benito, 2015). According to Lojacono (2020) and Gupta & Govindarajan (2000), crossing borders has become a strategic imperative for SMEs for several reasons, especially in the context of global connectivity and economic interdependence.

- *The growth imperative* [Market-seeking]: Firms go abroad to seek growth opportunities in new markets and attract new clients (Dunning & Lundan, 2008).
- *The efficiency imperative* [Efficiency-seeking]: Enterprises go overseas to decrease production costs (Root, 1994) and to obtain a minimum efficiency scale. This strategy is a form of leveraging through arbitrage.
- *The knowledge imperative* [Resource/Asset-seeking]: Companies cross borders to obtain resources, such as technology and highly specialized human skills, which are unavailable in their domestic borders (Benito, 2015).
- *The globalization of customers*: Once domestic customers internationalize, firms should strike to follow their steps (Gupta & Govindarajan, 2000; Root, 1994). International clients prefer having partners that can serve them globally and maintain quality standards; otherwise, they are replaced by global suppliers. Simultaneously, local customers would rather deal with fewer distributors than seek new ones in the new market.

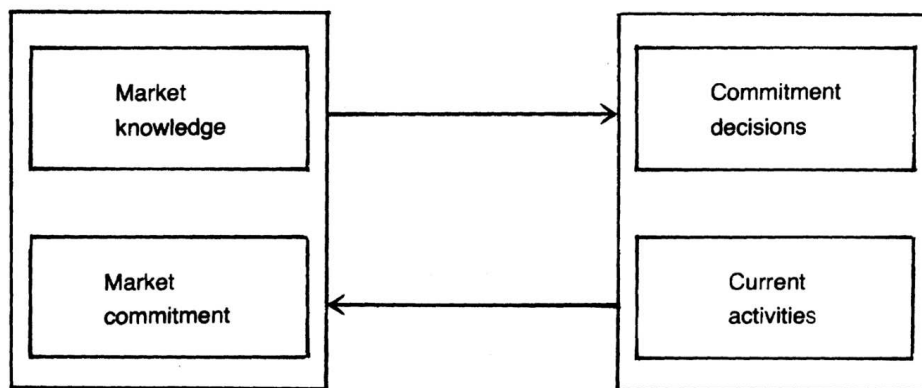
- *The globalization of competitors*: If competitors expand globally, whereas you do not, they can leverage their international footprint to gain a first-mover advantage, capturing market growth and achieving global efficiency.
- *Risk management*: From a financial standpoint, firms can decrease risk by having a more diversified portfolio.

## Theoretical perspectives on the Internationalization Process

### Stages Model: (Uppsala) Internationalization Process Model

According to Johanson & Vahlne (1977), internationalization is a slow and incremental process (Clercq et al., 2012) characterized by a gradual involvement in foreign markets. Initially, firms embark on the internationalization process with lower resource commitments by exporting their products and or services. As Martineau and Pastoriza (2016) suggested, SMEs often start exporting to nearby countries and progressively to countries with higher cultural, geographic, economic, and political distances.

Figure 1 Uppsala Stage Model



*Note.* Market knowledge impacts commitment decisions, as the current activities affect market commitment. From "The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitments" by J. Johanson and J.-E. Vahlne, 1977, *Journal of International Business Studies*, p. 26

Over time, as firms acquire more experience and knowledge overseas, they not only increase their commitment levels, they also obtain more control over operations, and increase profit return (Pan & Tse, 2000) by setting up sales subsidiaries and even production facilities (Chu &

Anderson, 1992). This commitment increase is not tied to a specific entry mode but instead based on the firm's understanding of the market and its confidence in operating there.

This model underscores the pivotal role of learning and knowledge acquisition in the internationalization process. The lack of market knowledge is a significant obstacle when entering foreign markets, primarily because this knowledge is predominantly gained through active participation in international operations (Johanson & Vahlne, 1977). As these enterprises gain market experience, their commitment to the market gradually increases. In essence, this model accentuates how learning and knowledge acquisition lead to higher foreign market commitment (Johanson & Vahlne, 2006).

### **Network Approach**

Although their depth varies, Yamin and Kurt (2018) define a network as a general web of relationships. The concept of liability of outsidership highlights how a firm's lack of networks can affect its performance in foreign markets, mainly due to a lack of foreign business knowledge. Therefore, a diversified network strengthens a company's capacity to find market opportunities and mitigate environmental risks (Steinhäuser et al., 2021).

Networks play a crucial role in a venture's internationalization, providing knowledge transfer, resource access, and experiential learning. According to Johanson and Vahlne (2009), networks can compress years of research and managerial efforts, reducing costs associated with going international. At the same time, networks foster synergetic energy and accelerate smaller companies' internationalization stages (Coviello & McAuley, 1999).

In addition, Kirzner (1973) assumes that recognizing opportunities is strongly correlated with ongoing business activities rather than targeted opportunity-seeking. Johanson & Vahlne (2006) further explained that these opportunities often emerge because of insights from the partner's privileged knowledge, potentially leading to the creation of new business prospects.

To conclude, networks promote knowledge exchange, experiential learning, and resource access, enhancing ventures' capability to capitalize and navigate overseas. (Coviello & Munro, 1997; Zhou, Wu, & Luo, 2007; O'Farrell, Wood, & Zheng, 1998)

### **Antecedents**

This subchapter will examine the factors that influence an SME to expand its operations overseas. According to Steinhäuser, this stage can be further understood by the following subtopics: environmental, firm, and individual factor levels.

## **Environmental level**

Martineau and Pastoriza (2016) delineate environmental-level factors in government export programs and home-market issues.

As the most researched environmental-level antecedent, government export programs play a significant role in facilitating the internationalization of SMEs. Based on findings within this area of investigation, the international involvement of these companies is not necessarily a deliberate decision. Instead, it is often a random process in which their participation in international events, notably trade fairs, leads them to export their products and or services. This can significantly assist SMEs by facilitating contacts, allowing them to develop their networks (Martineau & Pastoriza, 2016). These initiatives are significant as they have the potential to have a positive effect on international participation. (Alvarez, 2004; Hutchinson, Quinn, & Nicholas, 2006; Spence, 2003)

Simultaneously, the emergence of challenges in the home market constitutes one of the main drivers for SMEs to go abroad. When local competition starts to pose as a threat, these enterprises opt for international expansion. This decision is often triggered by escalating competition in the home market or when local demand declines. (Steinhäuser et al., 2021; Mariz-Pérez & García-Álvarez, 2009; Chetty & Hamilton, 1996).

Furthermore, some SMEs venture into new markets due to the stagnation of their home markets or because foreign markets offer faster growth opportunities (Root, *Entry Strategies for International Markets*, 1994).

## **Firm level**

Firm-level factors focus on various aspects that enable a firm to internationalize, such as firm structure and capabilities, international opportunity recognition, knowledge domain, and international orientation (Steinhäuser et al., 2021). Among those aspects, the most relevant, according to Martineau and Pastoriza (2016), are the firm's size, network, and product innovation capacity.

Regarding firm size, it emerges as a pivotal research element that influences international involvement. Multiple studies have demonstrated empirically that a certain size is not just important but crucial for SMEs to participate in global affairs (Serra et al., 2012). As mentioned previously, the network owned by a company serves as a precious intangible asset, as it helps

to identify international opportunities and reduce opportunistic behavior by foreign actors (Coviello & Munro, 1997).

Lastly, product-innovation capacity is also vastly researched as an antecedent for internationalization (Dhanaraj & Beamish, 2003; Filatotchev et al., 2009; Naasimbeni, 2001). This is an essential factor as it not only contributes to improving home competitiveness but also maximizes opportunities given by foreign markets.

## **Individual level**

Here, we will examine the individual level in the light of a more proactive and deliberate process rather than it being a random event. Individual-level factors that concern the entrepreneur shape a manager's perception of the internationalization process and the receptiveness to these new international opportunities (Steinhäuser et al., 2021).

A manager's socio-cognitive attributes are often examined as a crucial element of international engagement (Acedo & Florin, 2006; Acedo & Jones, 2007). Bell (1997) and Knight (2001) suggest that specific managerial attitudinal barriers, such as the fear of losing control and intolerance to ambiguity, are one of the main internal obstacles for SMEs going overseas, given the significant and decisive role managers play in the decision-making of exporting (Ganatakis & Love, 2012). Likewise, prior personal and professional exposure to the international arena has been found to mitigate the negative perception toward global markets, resulting in more reasonable expectations of the benefits of exporting (Westhead et al., 2002).

## **Liability of Foreignness**

As companies decide to grow internationally, they need to consider the potential challenges they might encounter, commonly referred to as Liability of Foreignness (LoF) in literature. As outlined by Lojacono (2020), this phenomenon arises from three main factors:

- *Unfamiliarity with the host environment*: Adapting to a new market requires both time and financial investment, resulting in increased expenses for doing business abroad.
- *Relational hazard*: When entering a foreign market, there may be a lack of consolidated connections with the local network.
- *Potential discrimination*: Local institutions and authorities might discriminate against non-domestic players. Certain countries protect their national companies, for example, through subsidies that only local firms have access to.

## **Pattern**

This subchapter will focus on the activities and range of actions a firm must take to achieve internationalization.

## **Market Selection**

As Lojacono (2020) indicated, firms must evaluate their strategic objectives before venturing abroad and determine if international expansion is advantageous. If, after deep analysis, the internationalization has positive impacts, then the firm must select a specific market to invest in, considering these two factors:

- The strategic importance of a determined geography/market.
- The ability to exploit the market's potential.

## **CAGE Model (Ghemawat, 2007)**

The CAGE framework, standing for cultural, administrative, geographic, and economic distance, offers a comprehensive analysis of the elements that create "distance" between countries. This framework not only helps to identify particular and critical settings of each foreign market but also helps to identify which countries are closer in each critical dimensions (Ghemawat, 2007). The wider the distance between countries, the greater the Liability of Foreignness. (Lojacono, 2020). The essential distance elements are presented in Figure 2.

*Table 1: CAGE model and its distance attributes*

Attributes creating distance

<b>CULTURAL DISTANCE</b>	<b>ADMINISTRATIVE DISTANCE</b>	<b>GEOGRAPHIC DISTANCE</b>	<b>ECONOMIC DISTANCE</b>
<b>Different language</b>	<b>Absence of colonial ties</b>	<b>Physical remoteness</b>	<b>Difference in consumer incomes</b>
<b>Different ethnicities; lack of connective ethic or social network</b>	<b>Absence of shared monetary or political association</b>	<b>Lack of common border</b>	<b>Differences in costs and quality of:</b> <ul style="list-style-type: none"> <li>• natural resources</li> <li>• financial resources</li> <li>• human resources</li> <li>• infrastructure</li> <li>• intermediate inputs</li> <li>• information or knowledge</li> </ul>
<b>Different religions</b>	<b>Government policies</b>	<b>Lack of sea or river access</b>	
<b>Different social norms</b>	<b>Institutional weakness</b>	<b>Size of country</b>	
		<b>Weak transportation or communication links</b>	
		<b>Differences in climates</b>	

*Note.* The figure was designed by the author and adapted from "Distance Still Matters: The Hard Reality of Global Expansion" by P. Ghemawat, 2001, *Harvard Business Review*, p. 5

Ghemawat (2001) points out that the more CAGE distance there is between two countries, from the origin to the host market, the less export volume and profitability can be achieved. In summary, the CAGE framework serves as a guide, enabling the analysis of countries' differences and aiding in selecting foreign markets that closely align with the home market.

### **The Strategic Importance of the Market**

Lojacono (2020) states that when selecting a foreign market, evaluating the strategic importance of the specific geography is imperative. To achieve this, the firm needs to analyze various factors, including economic indicators such as GDP, GDP growth, and GDP per capita. Another crucial set of variables that are important to assess is the potential per capita spending, which helps to determine whether there is demand for that particular product/service or if there is a decline.

In addition to the previous variables, assessing the CAGE distance is imperative, as discussed in the previous subchapter. Despite the market's apparent attractiveness, administrative and economic distances can decrease the overall competitiveness, making it less attractive.

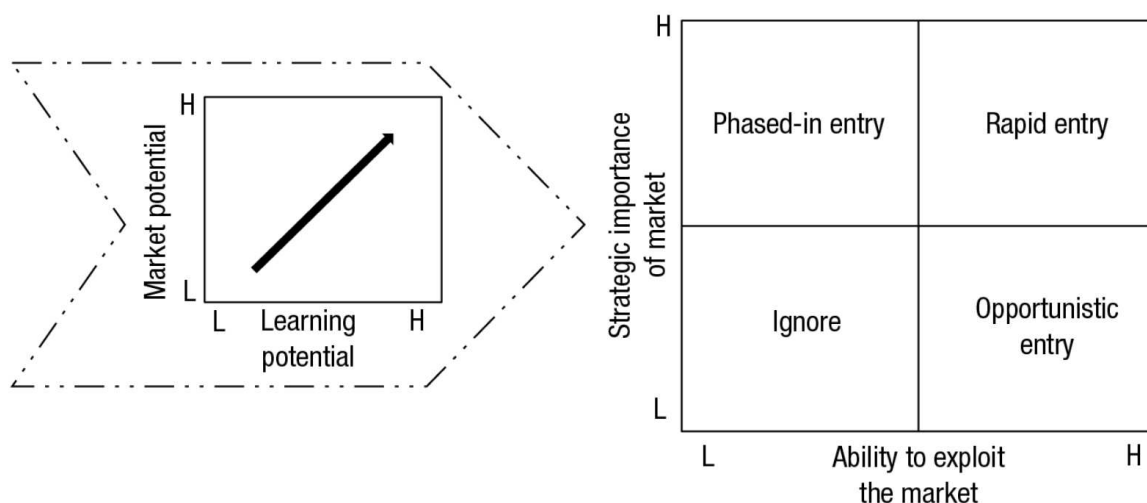
The reason behind a company's selection of a particular market also depends on its strategic goals. For instance, if the company aims to develop or acquire specific competencies, it must seek specialist clusters that better align with its objectives.

### Framework for choosing a foreign market

The framework presented on the left in Figure 2 helps to demonstrate that not all markets have the same strategic importance. Consequently, the attention is directed towards the two main dimensions that help to understand the strategic importance: the market potential, encompassing market size and potential growth, and the learning potential. This framework facilitates the assessment of the strategic importance of a specific market (Gupta & Govindarajan, 2000).

To the right of Figure 2, Gupta and Govindarajan (2000) present a framework with the intersection of two variables: the strategic importance of the market and the ability to exploit it. This framework aids in assessing the attractiveness of a specific foreign market and suggests potential entry strategies (Lojacono, 2020).

Figure 2 Global expansion strategy: Drivers of attractiveness



*Note.* Figure developed by Lojacono (2020) based on "Managing Global Expansion: A Conceptual Framework" by A.K. Gupta and V. Govindarajan, 2000, *Business Horizons*, p.48

According to Gupta and Govindarajan, "Phased-in Entry" is when the market is attractive but significant obstacles obstruct its exploitation. Therefore, it becomes crucial for the company to develop the required knowledge and expertise to apply to the target market. An effective way for the firm to develop these capabilities is to "enter a beachhead market: one that closest resembles the targeted strategic market but provides a safer opportunity to learn how to enter and succeed there" for instance, Austria for Germany and Canada for the US (Gupta & Govindarajan, 2000). This process enables the company to become more adequately prepared to enter.

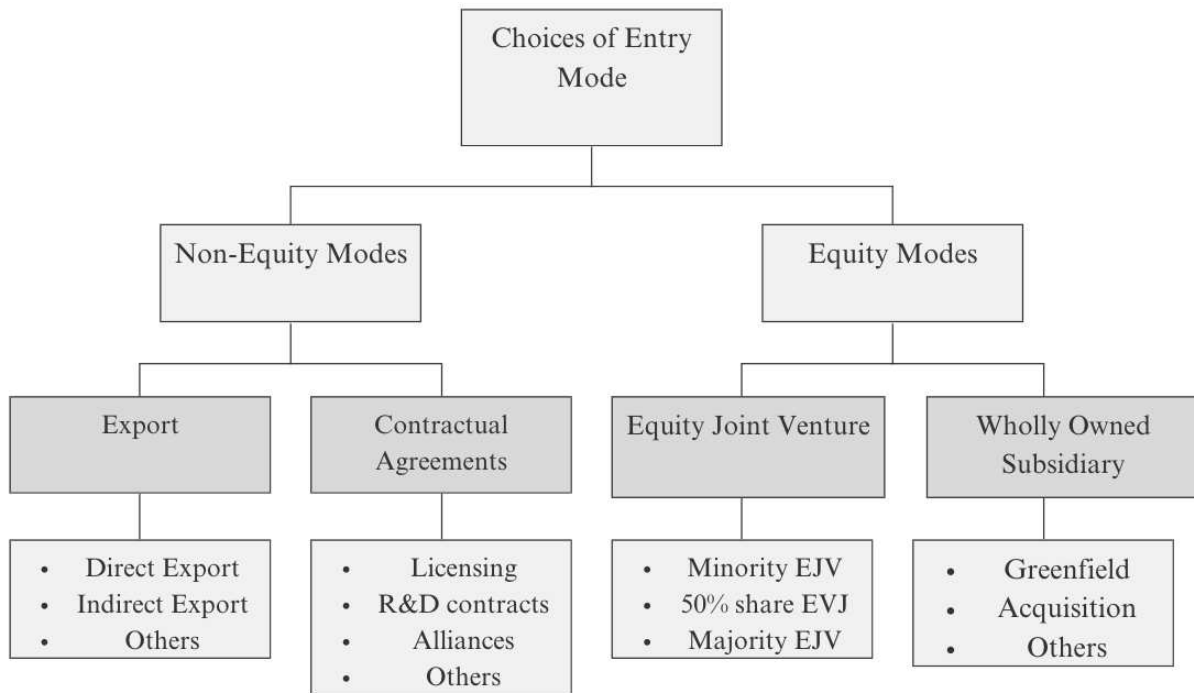
The opportunistic entry occurs when a company can only generate revenue by fully consolidating its position in the foreign market. If an SME is in the bottom-left quadrant, it should avoid entering that market. On the other hand, if it is in the top-right quadrant, entering the desired foreign market should be pursued with no hesitation (Lojacono, 2020).

## **Entry Modes**

Root (1994) stated that an international market entry mode refers to the institutional arrangement that facilitates the entry of the venture's products, services, resources, technology, or human resources into the targeted market. Selecting the appropriate entry mode is critical for the venture's success after choosing the right foreign market. Simultaneously, internationalization requires commitment, the allocation of resources, and the assumption of risks, meaning that any drawback could translate into a considerable loss of time and financial resources (Root, 1987).

The framework presented by Pan & Tse (2000) categorizes entry modes into two distinguished groups (figure 3): non-equity modes or equity modes, essentially delineating between those that involve or do not involve Foreign Direct Investment (FDI).

*Figure 3 A hierarchical model of choice of entry modes*



*Note.* The figure was designed by the author adapted from "The hierarchical model of market entry modes" by Y. Pan and D.K. Tse, 2000, *Journal of International Business Studies*, 31(4), p. 540

Equity modes, namely wholly owned subsidiaries, require more resource commitment due to the necessity of FDI to set operations in the foreign market. Simultaneously, they represent a high-risk and return mode, providing high control over operations (Pan & Tse, 2000; Anderson & Gatignon, 1986). In the case of joint ventures, the control depends on equity participation. On the other hand, non-equity modes, including exportation and contractual agreements, require less commitment as they do not require establishing an independent organization. Consequently, they have lower risk, return, and control (Pan & Tse, 2000). In the specific case of exporting, despite its high operational control, it lacks the marketing control necessary to reach new markets. Lastly, contractual agreements give the licensing firm the least control (Agarwal & Ramaswami, 1992).

Deciding on the type of entry mode is a strategic decision. Companies choose different entry modes for various reasons (Agarwal & Ramaswami, 1992). According to Dunning (1988), the choice of entry mode is influenced by ownership, location, and internalization (integrating transactions) advantages, each offering different benefits and drawbacks.

*Table 2: Advantages and Disadvantages: Franchising, Joint Ventures and Whole Subsidiary*

<b>Entry mode</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>Franchising:</b> Is a specialized form of licensing where the franchisee pays an initial fee along with ongoing royalties to the franchisor in exchange for the right of use and represent their brand, while assisting on a continuing basis.	<ul style="list-style-type: none"> <li>- Reduced costs and risks on the establishment of a firm</li> <li>- Rapid expansion opportunities</li> </ul>	<ul style="list-style-type: none"> <li>- Quality control</li> <li>- Potentially creating a new competitor</li> <li>- Difficulty in managing many franchisees</li> <li>- Franchisee not having key capabilities to reached desired KPI's</li> </ul>
<b>Joint Ventures:</b> When there is a direct investment with two or more partners who share ownership	<ul style="list-style-type: none"> <li>- Access to the capabilities of the business partner</li> <li>- Sharing resources</li> <li>- Shared investment</li> <li>- Reduced costs and risks</li> </ul>	<ul style="list-style-type: none"> <li>- Sharing profits with the business partner</li> <li>- Shared ownership might lead to conflict</li> <li>- Creating a potential competitor</li> </ul>
<b>Whole Subsidiary:</b> When the direct investment is made 100% by the company	<ul style="list-style-type: none"> <li>- Take advantage of all operations' income.</li> </ul>	<ul style="list-style-type: none"> <li>- Higher costs</li> <li>- Difficulty in adapting the management team to local customs.</li> <li>- Difficulty in adapting the product or service to the local reality</li> </ul>

*Note.* Designed by the author from "Pensamento Estratégico" by Cardeal N., 2015, *Universidade Católica Portuguesa*

## **Standardization vs Adaptation**

A critical decision always arises within business internationalization: whether to adapt or standardize (Annushkina & Regazzo, 2020). Given that diverse markets have different preferences, as delineated in the CAGE framework, assessing these differences is imperative before embarking on internationalization.

Professor Levitt (1983) defends that "ancient differences in national taste or modes of doing business would disappear" (Levitt, 1983) and advocates that when going international,

companies should be standardized. This reasoning is grounded in standardization's benefits, such as leveraging economies of scale, reducing costs, dealing with quality issues more effectively due to the learning curve effect, and, in general, simplifying the business model (Annushkina & Regazzo, 2020).

Nevertheless, standardization also poses some drawbacks. Despite living in a globalized era, cultural differences still impact customers' behavior, and firms must be aware of them. One significant disadvantage is the lack of sensibility towards local needs, potentially leading to a mismatch between the product and the requirements and cultural nuances of a particular host market (Ghantous & Aix-Marseille, 2008).

## **The Triple A Model: Arbitrage, Aggregation, and Adaptation**

In this section, we will explore three strategies that can be implemented when internationalizing a product or service: arbitrage, aggregation, and adaptation.

### **Adaptation**

Unlike standardization, adaptation is a strategic process that involves tailoring products to suit a specific market. As we've discussed, numerous factors contribute to differences and distances among countries, as analyzed in the CAGE framework. Therefore, to effectively address each market's unique needs and preferences, SMEs must strategically adapt to the host market, ensuring they don't overlook local needs (Ghantous & Aix-Marseille, 2008). The adaptation strategy underscores the importance of understanding the market specificities to capture new customers strategically.

In this context, firms deepen their advantage by adjusting their products to optimize demand in these new markets (Ghemawat, 2007). This approach acknowledges each market's diverse social, economic, and cultural nature, allowing firms to better connect with their clients, thereby increasing their market share.

### **Aggregation**

This strategy seeks to exploit the existing economies of scale with the firm's current assets without altering its business model. Rather than adapting to the specificities of each country, the primary objective is to capitalize on greater economies of scale (Ghemawat, 2007). It is central to use the firm's home-market advantage in the new markets by aggregating new demand for this approach.

These strategies focus on exploiting these commonalities by targeting countries with similarities and low CAGE (Cultural, Administrative, Geographic, and Economic) distances, particularly in segments with homogenous market characteristics. However, instead of fully standardizing, the emphasis lies on regionalization. This strategic approach seeks to benefit from similarities while maintaining flexibility based on regional differences to optimize market penetration and operational efficiency. (Ghemawat, 2007).

Ultimately, aggregation aims to overcome countries' differences and maximize the existing synergies across regions, with its primary motivation being market-seeking.

### **Arbitrage**

Arbitrage is an approach that serves the original cross-border strategy (Ghemawat, 2007): you go overseas by exploiting differences for cost advantage. Unlike strategies that only seek economies of scale, this approach focuses on exploring differences as an opportunity rather than a constraint. (Ghemawat, 2007). Arbitrage can be a potential source of competitive advantage.

Firms can develop new or complementary advantages by arbitraging technical and market knowledge. This strategy involves entering new foreign markets to harness capabilities that might not have been feasible in other geographies. (Ghemawat, 2007)

## **Methodology**

Qualitative research was employed in this study to reach a meaningful conclusion, drawing data primarily from interviews conducted with the company. These interviews took place both in person and online and were recorded to aid the analysis and to mitigate possible inaccuracies and biases. Additionally, direct communication was established with Grupo Fogo de Chão Europa personnel to ensure the most accurate information. At the same time, the group's website served as an additional source of information.

*Table 3 Interviews Process*

First interview	Interview with the CEO, Clenio Scartezini, about the historical background of the Brazilian barbecue, the history of Grupo Fogo de Chão Europa and which brands they hold in their portfolio.
Second interview	Interview with Clenio about the internationalization process in Spain.
Third interview	Interview with Clenio and Leonardo (manager at Soho, London) to better understand the internationalization process in the UK

Triangulation was employed to comprehend the events in the light of various theoretical frameworks, taking vital information from multiple sources. The data was gathered from primary and secondary sources through direct contact with numerous members within the company to verify information and conduct comparisons.

*Table 4 Data Sources*

<b>Source</b>	<b>Number</b>	<b>Example</b>
<b>Interviews</b>	3	Interviews with the CEO
<b>Direct observations</b>	16	<p>Informal meetings with managers off-line: information exchanged through WhatsApp.</p> <p>Direct meetings in various restaurants to analyze their system.</p> <p>Going to various locations to have access to their menu offers and prices.</p> <p>Contact with the marketing team to obtain images.</p> <p>Contacting managers in foreign markets to know more about the adaptation process.</p>
<b>Private documents</b>	1	Portfolio used to secure the Soho location.

# Case study

## Introduction

### **Beyond an Innovation in the Restaurant Industry: a Culture**

The southern region of Brazil is mainly known not only for its stunning landscapes, like Serra Gaúcha, but also for its traditional barbecue with savory meats. In this same region, particularly in Rio Grande do Sul, it is common to have a Sunday gathering, also known as "churrasco de Domingo," a custom with a special place in the heart of its locals.

This weekly ritual is deeply rooted in the regional culture, reflecting its gaucho heritage and the appreciation for grilled meat. Fueled by the exceptional quality meat produced in the region, it this custom becomes part of their way of life. Families and friends typically gather on Sunday afternoons to prepare the salads and the meat for the barbecue. The core element of the meal is the traditional cuts of beef, sometimes involving pork, chicken, and/or lamb seasoned with only salt and grilled on open flames or charcoal. To complement, there are usually side dishes such as rice, black beans, farofa, Brazilian mayo, salads, and freshly baked bread.

The Brazilian barbecue is not only about the food but also about tradition and community. It's a social event where stories are shared, customs are passed down through generations, and bonds are strengthened. This cherished tradition embodies the warmth and hospitality of southern Brazilian culture.

### **From Tradition to the Restaurant Setting: The Genesis of Rodízio**

This Sunday custom found a new home at a churrascaria, a type of restaurant specialized in serving high-quality meats. It's where the tradition from home finds its way into a restaurant setting (Fajans, 2012). Nowadays, churrascarias commonly present two dining options: an all-you-can-eat arrangement, famously known as Rodízio, or selecting dishes "à la carte". For this study, our focus will primarily be on the Rodízio option, a tradition that has become a part of the cultural fabric of Brazil.

The Rodízio tradition is believed to have origins in the 1960s in a churrascaria, in São Paulo, Brazil. Initially, clients would select skewers from the menu. However, due to high demand levels and frequent mix-ups, the owner ordered that everyone serve small amounts from all different skewers to all clients in a loop; hence, the Rodízio system was established. This allowed customers to pay a fixed price for unlimited servings of high-quality meats. Like the

"churrasco de Domingo" Rodízio service features several cuts of beef as its centerpiece, accompanied by pork, chicken, or lamb options.

Nonetheless, there are many particularities and unique aspects that distinguish this dining service. In fact, one of the main attractions lies in the spectacle of watching the churrasqueiros (Appendix 1) dressed traditionally, expertly cutting the meat with precision using a large knife. They ensure each guest receives the finest cut and is ready to serve the desired amount. The meat is served in "espeto corrido" (Appendix 1), a system invented to fight the high demand and volume.

Moreover, it's common to find a wooden block with two colors: green, indicating a desire for more meat, and red, to pause the service or stop altogether. (Appendix 2). Nowadays, many steakhouses enhance the experience by offering a buffet spread with various typical salads and salty snacks to evoke a more authentic and traditional dining experience (Appendix 3).

Rodízio quickly became popular, not only in Brazil but in other parts of the world, particularly in regions with significant Brazilian communities, such as Portugal, where Brazilian cuisine gained popularity.

## **The History of Grupo Fogo de Chão Europa**

### **Historical Background**

The founder of Grupo Fogo de Chão Europa, Clenio Scartezini, was born in Nova Brescia, in Rio Grande do Sul, the the capital of Brazilian barbecue. Born and raised within this rich culture, he soon developed his skills in the art of barbecue from a young age.

Coming from a low-income family of farmers and inspired by the example set by his elders, he started working at the young age of 15 in Rio de Janeiro. Even in his youth, he already dreamed of working in a churrascaria, with the aspiration of owning his own restaurant one day. Driven by this vision, Clenio accepted a proposal to expand his expertise in Elvas, Portugal, and in 1989, started working in one of the first churrascarias in the country (Appendix 4). After a lot of hard work in 1995, his vision materialized as he opened his first Rodízio restaurant named "O Churrascão".

Situated in Portimão, Portugal, this first location choice posed many challenges. While the city thrives during the summer months fueled by tourism, the rest of the year is notably quieter: "We mainly worked during the summer; during winter, there was hardly any profit" said Clenio. Recognizing the need for a more sustainable setting, Clenio quickly made use of his contacts,

and within two years, he found a spot in Lisbon. Teaming up with another business partner who happened to be a former co-worker, in 1998 they inaugurated Fogo de Chão in Portugal (Appendix 5). Initially, they had an equal 50-50 partnership. However, as the business grew, Clenio secured full ownership by buying out his partner's shares. Later, in 2002, a third establishment was opened in Cascais (Appendix 6).

In the present day, the group now has 25 locations across three countries, offering a diverse set of services. In addition to their presence in throughout Portugal, they began establishing themselves in shopping malls since 2009, diversifying their portfolio before expanding internationally. In this environment, they offer dishes to be consumed in the shopping malls dining area, and some restaurants also feature a reserved seating area where the Rodizio service is provided (Appendix 7). Furthermore, they have diversified their portfolio by introducing a non-meat-related concept: a pizzeria brand called Scartezini. This strategy allowed the group to adjust their business model and help solidify their presence in the Portuguese market.

### **Mission, Vision, and Values**

The mission of Grupo Fogo de Chão Europa reflects its commitment to sharing and celebrating the gaucho culture while offering others the opportunity to experience and immerse themselves in the wonders of southern Brazilian cuisine.

The company's vision is to lead the Brazilian Steakhouse niche in Europe. According to the CEO, they have a significant presence in the Portuguese market and desire to explore other markets.

Grupo Fogo de Chão upholds the following values:

- *Promoting the gaucho culture:* It integrates the spirit of Southern Brazil into the dining experience, from the ambiance service to the servers' uniform, inviting the guests to immerse themselves within the culture.
- *Serving high-quality meats:* It selects the finest cuts of beef to ensure each client enjoys a great culinary experience.
- *Client's satisfaction:* It makes sure every guest leaves completely satisfied.
- *Fast service:* they make sure to maintain commitment to quality while also emphasizing on efficiency as one of their keystones. It's crucial to deliver an attentive and quick service to accommodate the needs of each client without compromising excellence.

## **Current Situation**

The Grupo Fogo de Chão Europa owns four different brands with 25 total locations.

### **Fogo de Chão**

Fogo de Chão is the first brand created by the group, set in 1998. This brand aims to explore the more authentic gaucho dining experience with the typical "espeto corrido" style (Appendix 8). Unlike Sabor Gaúcho, these restaurants are usually located in more premium locations and hold a capacity of 100+ seats, being able to accommodate more customers.

### **Prazeres da Picanha**

Prazeres da Picanha, the second brand introduced by the group, was created in 2006 with the inauguration of its first restaurant in Lisbon. This brand presents an Argentinian barbecue style, where the meats are sliced, grilled, and then served, departing from the classic "espeto" method of presentation (Appendix 9 and 10). Here, they not only serve the all-you-can-eat option but also serve dishes.

### **Scartezini**

Scartezini, the third brand established by the group, initially focused on serving chicken dishes. However, after recognizing that its initial model was not becoming popular in Portugal, it underwent a significant rebranding in 2019. The brand shifted its focus to becoming a pizzeria serving Italian food with a Brazilian touch (Appendix 11). It serves both dishes and an all-you-can-eat pizza service.

### **Sabor Gaúcho**

Sabor Gaúcho, the fourth brand established by the group, opened its first restaurant in Porto in 2015. Like Fogo de Chão, this brand specializes in the typical Rodízio featuring the "espeto corrido" service (Appendix 12). Notably, it's the first brand of the group to go beyond borders, inaugurating its first restaurant abroad in Madrid in 2016. This brand distinguishes itself from Fogo de Chão in its setting, meaning that it's mainly present in shopping malls. It also has a smaller capacity, averaging 70/80 seats per restaurant, while Fogo de Chão accommodates more than 100 seats.

*Table 5 Current portfolio of Grupo Fogo de Chão Europa*

<b>Current situation</b>	<b>Fogo de Chão</b>	<b>Prazeres da Picanha</b>	<b>Scartezini</b>	<b>Sabor gaúcho</b>
<b>Foundation year</b>	<b>1998</b>	<b>2006</b>	<b>2011</b>	<b>2015</b>
<b>Price range</b> [just considering the menu price, no drink or dessert included]	<b>Portugal: Rodízio:</b> 22,98 - 27,98 <b>Uk:</b> <b>Rodízio:</b> 48,96 - 57,13 Eur [Conversion from GBP to Eur on 23/03/2024]	<b>Portugal:</b> <b>Rodízio:</b> 18.98 - 27,98 Eur <b>Dishes:</b> 14,48 - 18.98 Eur	<b>Portugal:</b> <b>All-you-can-eat:</b> 14,98 - 17,98 <b>Dishes:</b> 10,90 - 18.90	<b>Portugal:</b> <b>Rodízio:</b> 18,98 - 29,98 <b>Dishes:</b> 8.90 -16,90 [exclusive for shopping malls] <b>Spain:</b> <b>Rodízio:</b> 26,50 - 45 Eur
<b>Menu offer</b>	<b>Brazilian Rodizio and dishes</b> [Exclusive during weekdays' lunch hours]	<b>Argentinian Rodizio and Brazilian dishes</b>	<b>Italian food</b> with a brazilian twist	<b>Brazilian Rodizio and Brazilian dishes</b>
<b>Number of locations</b>	11	2	4	8
<b>Countries</b>	<b>Portugal</b> [Lisbon, Porto, Braga and Portimão] and <b>United Kingdom</b> [London and Brighton]	<b>Portugal</b> [Lisbon]	<b>Portugal</b> [Lisbon]	<b>Portugal</b> [Lisbon and Porto] and <b>Spain</b> [Madrid]
<b>Internationalization year</b>	2018	N/A	N/A	2016

Note. Data collected by the author on the 23<sup>rd</sup> of March of 2024

## **Antecedents**

### **Environmental level**

Grupo Fogo de Chão Europa strongly desired to expand beyond borders to address the saturated domestic market and grow internationally. With the emergence of new Brazilian restaurants, competition intensified "despite holding a good position within the market" said Clenio. It's becoming increasingly common to find new Brazilian restaurants to satisfy the growing Brazilian community in Portugal (Santos, 2023) and other customers who simply enjoy Brazilian cuisine. At the same time, some of these competitors are starting their internationalization process. Although there are still opportunities to explore the market, the group must diversify its offer. This was one of the driving factors behind the rebranding of "Scartezini" and adding restaurants in shopping malls (2009), enabling the group to broaden its services and further solidify its market position. At the same time, the concept of Brazilian barbecue is relatively unfamiliar in the European market, presenting an opportunity to be explored.

Meanwhile, due to significant expenses associated with purchasing high-quality meats, considering that they are predominantly exported from South America, opening restaurants abroad facilitated the group to practice higher prices, guaranteeing higher profit margins. This is relevant as Portuguese consumers have a different purchase power than other European countries. This strategy has been implemented in Spain and the UK, where prices are aligned with economic indicators such as GDP per capita and average spending per meal, increasing prices per meal.

### **Firm level**

The group benefits from many connections since the CEO, Clenio, has vast experience in the industry. He has worked in Brazil and has encountered great professionals. He comes from a community where many became steakhouse owners and has a team of employees who are highly loyal to the group. Some employers eventually venture overseas and open business of their own. As a result, Clenio has connected with many people who currently work in foreign markets, enabling him access to privileged information and business opportunities in those markets.

At the same time, considering the nature of these types of restaurants, it's necessary for the waiters to hold a specific set of skills to have a service closer to its traditional settings. For example, the churrasqueiro, the one that serves the meat, must have mastered skills such as

taking care of their knife, recognizing the best cuts in a piece of meat, and carefully cutting to maintain the proper shape, keeping it appealing and desirable. These are vital elements to ensure excellent service to customers. If one doesn't master these skills, they are set to fail. The service is critical to the success of each restaurant, as they provide a unique and cultural experience. Therefore, as this knowledge is concentrated in a small group, competition finds it more challenging to copy the same business model.

The fact that Clenio was born in an environment that privileged this technique and then worked as a churrasqueiro for more than 18 years allowed him to master this knowledge and create a unique service that sets it apart from traditional Portuguese restaurants.

### **Individual level**

The CEO has always been interested in taking his business overseas. In the 1990s, one of his initial goals was to establish a restaurant in Madrid, which materialized in 2016. He has always perceived going abroad positively and did not fear internationalizing. At the same time, he relied on his experienced colleagues to facilitate his ventures overseas, leveraging their knowledge of the local market, suppliers, hiring staff, and other aspects. These factors helped to adapt to those new markets and avoid additional costs.

Clenio's professional journey also played an essential role in the internationalization process. Having worked in Brazil and Portugal, he gained international experience, which gave him a positive perception and confidence towards expanding his business beyond borders.

### **Why cross borders and not simply explore the domestic market?**

Crossing borders and venturing into international markets has always seemed like a compelling opportunity for Grupo Fogo de Chão Europa, primarily due to the saturated domestic market. Owing restaurants from North to South in Portugal, it became clear that expanding beyond borders was a stage in the company's natural growth process. At the same time, with the focus on market expansion, the decision was to expand the business by opening restaurant in international markets, seeking for growth opportunities beyond domestic borders.

Moreover, the CEO recognized the potential of introducing and expanding this cultural phenomenon - Rodízio - into new territories. The idea of offering something new in these markets excited him, and it was the perfect opportunity to capture new territories that hadn't yet

been explored. Simultaneously, it promoted a culture, a service, and a lifestyle that held great significance to him, all of which aligned with the values and mission of the group.

Additionally, the insights of Clenio's contacts played an vital role in providing valuable information regarding other attractive European markets, such as the Spanish and British markets. These connections, comprising individuals working abroad in other steakhouses, offered invaluable insights.

In summary, while the domestic market can offer a sense of familiarity, venturing internationally presented a growth opportunity to expand the Grupo Fogo de Chão Europa, spread culture and a unique culinary experience while taking advantage of opportunities given by the insights of Clenio's global contacts.

## **Internationalization Process**

### **Madrid**

#### **The first step: selecting the right market**

Considering that the Portuguese market was saturated with Brazilian restaurants, the European market quickly became attractive. Clenio had always dreamed of opening a restaurant in Madrid, so when an opportunity presented itself, he was eager to take it without hesitation.

While working in Elvas, Portugal, he met a client who owned a steakhouse in Madrid. Often, they talked about potential investment opportunities in Madrid, as there were prospects for the creation of a high-speed rail (HSR) in the early 1990s. This would connect Lisbon to Madrid in 3 hours, facilitating the access and connectivity of both capitals. At that time, and after negotiations, Clenio determined that this opportunity did not favor his interests. Twenty-five years later, during which Clenio established his restaurants, he crossed paths with this client once again. Both were still interested in materializing the dream they left in the 1990s. Still, this time, Clenio had more financial resources and industry knowledge and was able to make a better deal with this former client. This was an exciting step for the Grupo Fogo de Chão Europa, as it would pose the beginning of the internationalization process in a very interesting market.

There were various reasons why Spain, especially Madrid, would be an excellent fit as the first country to be a part of the internationalization process. Linguistically, while Portuguese and Spanish are different languages, they share similarities, making comprehension between the two relatively easy. This helps to minimize cultural differences between the two countries.

From an administrative point of view, both countries are members of the European Union (EU), which grants them access to the European Single Market. This arrangement facilitates the free movement of goods, capital, labor, and services across borders. At the same time, Spain ranked 33rd in Ease of Doing Business<sup>1</sup> (World Bank, 2016), highlighting the advantages and ease of investing in the country. Spain is considered a free country, ranking 95 out of 100 according to Freedom House in 2016, indicating political stability that, by consequence, creates an interesting environment for long-term investments.

Geographically, Madrid and Lisbon are merely 625 kilometers apart, making transportation relatively easy between the two capitals. Madrid holds three airports and robust road connections, ensuring efficient travel times between the two cities.

Lastly, regarding economics, Spain exhibited a higher GDP per capita (\$26,537.16)<sup>2</sup> than Portugal (\$19,991.97)<sup>3</sup>. This economic disparity emphasizes Spain's more robust financial position compared to Portugal, posing a favorable market to be explored by the group.

Despite the numerous advantages entailed in investing in Spain, the opportunity that arose was not the direct result of a deep market selection process but rather a random occurrence. The opportunity came from one of Clenio's connections, which proved to be fruitful. The decision regarding which brand to internationalize first was mainly according to the characteristics of the location. Given the desire to expand the Rodízio system and noting that this location held less than 100 seats and was not in a premium location, the group concluded that Sabor Gaúcho would be a better fit when compared to Fogo de Chão. As a result, in 2016, a new Sabor Gaúcho was inaugurated in Madrid (Appendix 13).

## **Entry Modes**

The Grupo Fogo de Chão Europa's entry into the Spanish market was facilitated by a joint venture (JV) with another business partner, to which Grupo Fogo de Chão Europa held 70% of ownership, granting them significant control over operations. This partner played a crucial role in this JV as it was possible to leverage his market knowledge to find the ideal location and to foster connections with critical suppliers. With already established contacts in the industry, the partner easily accessed the necessary resources to recruit the right personnel, relieving the Grupo Fogo de Chão Europa from substantial managerial efforts. The group also contributed

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<sup>1</sup> Information retrieved from the World Bank

<sup>2</sup> GDP per capita of Spain, according to World Bank (2016)

<sup>3</sup> GDP per capita of Portugal, according to the World Bank (2016)

by transferring skillful "churrasqueiros" to Madrid to help the hiring process since it is difficult to recruit for this role, as it demands a particular set of skills.

This collaborative effort between the two parties enabled the establishment of the Grupo Fogo de Chão Europa in Spain and laid a strong foundation for future growth opportunities in the same market.

## **Standardization vs. Adaptation**

In their discussion, the two parties had to address which strategy to implement when entering the new market. Recognizing some differences in Spanish dining habits, such as later mealtimes, they adjusted their opening hours to align with the local customs. Simultaneously, benefiting from lower regulations on charcoal usage, Sabor Gaúcho Madrid took advantage and is now the only restaurant of the group that utilizes charcoal to grill meat, enhancing the meat's flavor and sticking closer to the tradition. Despite adjusting the menu prices due to higher operating costs in Spain, the menu remained unchanged from the Portuguese one, as the goal was to serve the traditional Rodizio service. This decision allowed the group to avoid adaptation costs.

By being consistent with the pre-established tradition and service, the group aimed to capitalize on the similarities of these two markets while preserving the advantage of offering an innovative dining experience. To summarize, this approach of aggregation, coupled with some minor adaptation, reflects on the group growth strategy.

## **United Kingdom**

After the successful introduction of Sabor Gaúcho in Madrid, the company became even more enthusiastic about venturing into foreign markets. Two years later, in 2018, an opportunity appeared to enter the British market. But where did this opportunity come from?

Grupo Fogo de Chão Europa once employed Leonardo Previato, who had previously worked at a famous steakhouse in São Paulo, to work in one of their restaurants for one year, starting in 2005. Leonardo emigrated to the United Kingdom shortly after to pursue better work conditions. Recognizing his exemplary performance and work ethics, the firm-maintained communication with him, which allowed them to receive important insights about the British market. Leonardo showcased the importance and potential of this market, mentioning essential aspects such as the large population that is present in London, and particularly the size of the Brazilian community - estimated to be 220,000 by the Brazilian Foreign Ministry (Comunidade

Brasileira no Exterior, 2022). He also pointed out the opportunity to work with higher prices and margins, and the overall success of Brazilian steakhouses.

In 2018, Leonardo reached out to Grupo Fogo de Chão Europa with a unique opportunity: his boss at the time, Alessandro, who was also Brazilian, was going through a divorce and needed to sell his business. Recognizing that this would be the perfect opportunity to enter the British market right before Brexit, the group quickly arranged for the CEO to go to London and negotiate with Alessandro. After a successful conversation, they agreed on which Grupo Fogo de Chão Europa would acquire two restaurants that belonged to Alessandro - one in Brighton and another in Clapham.

In fact, there are numerous captivating reasons why venturing into the British market was advantageous for the group, aside from those previously mentioned. Linguistically, even though Portuguese and English are two distinct languages, these two nations share ancient cultural ties as they maintain one of the oldest alliances in the world, fostering closeness and strong diplomatic relations. Throughout history, these two countries established various trade agreements, which, over time, facilitated foreign investment.

From an administrative point of view, the United Kingdom was formerly an EU member. Because the group entered the market before Brexit, it allowed them to benefit from the free movement of goods, capital, labor, and services. Additionally, it ranked 6th country on Ease to do Business by the World Bank, which shows that the government has favorable conditions for establishing a business. Simultaneously, it ranks 94 out of 100 in political freedom according to the Freedom House, which indicates stable political systems.

In terms of geography, despite being 1600 kilometers apart and situated on an island, it has good connections between the two countries as there are various direct flights from 6 airports and the Eurotunnel connecting southern England to the north of France. Therefore, the physical distance is mitigated with robust transportation. Economically, the United Kingdom ranks as the second biggest economy of the Eurozone in 2018, according to Statista, with a GDP per capita of \$43 203,81.<sup>4</sup> This showcases a strong economy, making it very interesting for the group to explore.

In summary, a robust Brazilian community in the UK contributes to the demand of traditional Brazilian products and services. As Alessandro had previously established connections with reputable suppliers, the group quickly got access to good quality products that are central to their services, such as meat, cachaça, and specialized ingredients. Combining these elements

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<sup>4</sup> GDP per capita of UK, according to World Bank (2016)

enables Grupo Fogo de Chão Europa to provide a more traditional service, offering its customers a more authentic Brazilian experience.

### **Why Fogo de Chão and not another brand?**

The firm was eager to consider bringing Fogo de Chão to the UK. It is the group's first brand and offers the premium version of the Rodizio service. During negotiations, the two restaurants acquired held more than 100 seats and were situated in premium locations. The Brighton location benefits from being close to the beach, making it very attractive, especially during summer. Meanwhile, the Clapham location is strategically situated around three metro stations and close to Stockwell, in London. This area has a sizable Portuguese community that is familiar with and enjoys this dining system. In 2019, when negotiations started around a new location in Soho, the best location held by the group, the company was convinced that it was the ideal place for a Fogo de Chão.

### **Soho, London**

In 2019, a Fogo de Chão was inaugurated in Soho (Appendix 14), positioned right next to one of the main Chinatown gates, between Piccadilly Circus and Leicester Square, where the highest tourist traffic among all gates is observed. This is one of London's most visited and touristic areas, and thousands of photographs are taken at this place, making it a prime location for the restaurant, right in the heart of London. This opportunity arose through an agency that knew Alessandro, who identified this spot was available for rental. Recognizing the potential of this offer, as he was already in negotiations with Grupo Fogo de Chão Europa, Alessandro saw this excellent opportunity to boost Fogo de Chão presence in London. As this was an exclusive, high-rent, location with lots of demand, the group was required to present lots of documentation showcasing their financial performance, the brands' identity and positioning, and their presence in the Portuguese and Spanish markets. After being approved to rent this location, the restaurant was inaugurated.

### **Entry modes**

To establish these restaurants in the United Kingdom, Grupo Fogo de Chão Europa entered the British market through a JV, like their approach in Spain. The group held 70% of ownership in this arrangement as they made the financial investment. In contrast, his business partner, Alessandro, had 30% ownership, assuming the responsibility for managing the restaurants. This

structure granted the Grupo Fogo de Chão Europa significant control over operations. Leonardo was also integrated into the team as a manager of the Soho location.

### **Standardization or Adaptation**

As they entered yet another new country, they needed to implement minor changes to adapt to local preferences. They took into consideration the feedback from Alessandro, as he had extensive experience owning restaurants in this same market, and Leonardo, who has been working in the UK for more than eighteen years.

First, they recognized a local preference for lamb and incorporated it into the menu. While lamb also holds a central place in the barbecue tradition, it is less prominent in Portugal, where beef, chicken and pork are more common. Additionally, as the English people have different eating habits, particularly considering their propensity for earlier dining time in the UK, they strategically decided to change their opening hours from 12-22h. This adjustment aimed to accommodate the diverse dining preferences in this market, as it is known for its multicultural population, especially in London. To better accommodate the British population, who are accustomed to eating earlier, and the Brazilians, who tend to dine later, they aimed to have opening hours that ensure inclusivity among all demographics.

When it comes to the menu, there were minimal changes. They continued to offer two Rodizio services and an all-you-can-eat buffet option (that is already complementary to the Rodizio service). Like Madrid, the menu prices were adjusted in accordance with the higher operation costs, leading to higher prices. Leveraging from Alessandro and Leonardo's insights, they successfully adapted to the market, identified the most reliable suppliers, and tackled the local needs better.

### **Conclusion of the case**

The group approached these foreign markets slowly and with caution. The first restaurant to open abroad was in Madrid in 2016. Subsequently, in 2018, the second and third foreign locations were opened in Brighton and Clapham, and finally, Soho opened in 2019, marking yet another significant milestone for the group. It's important to note that it took 18 years to initiate the internationalization process. However, with a better understanding of foreign markets, the group felt more comfortable expanding beyond borders and exploring new locations with key partners.

In the UK, they are currently operating in three different locations. This gradual increase in pace demonstrates how the group is more committed and confident in being present in the international sphere, resulting in four locations abroad. However, the internationalization process has slowed as the pandemic heavily affected the restaurant industry.

In summary, Clenio's connections stand out as one valuable asset, as they served to identify opportunities that led to the group's expansion and internationalization.

## **A note about the future**

While the group has expanded primarily through JVs, it has now considered other options to accelerate internationalization. Franchising offers the opportunity for rapid expansion linked with lower costs and risks when establishing new restaurants, making it ideal for the group to explore new growth opportunities. There has been an ongoing project since 2022, where the group has been codifying its knowledge to expand through franchising. As of now, the focus is to expand further into the Spanish market, leveraging the assistance of a Spanish firm with extensive connections with potential investors interested in exploring these brands.

For now, the group has decided only to franchise "Sabor Gaúcho" and "Fogo de Chão" as they incorporate the typical Brazilian barbecue experience. Aligned with the group's values, there is a strategic reason behind franchising these brands, as they aim to be the pioneers of this dining setting in the European market, which hasn't been explored much yet.

However, being a franchisor also presents specific challenges, particularly regarding organizational structure and resource allocation. As franchising restaurants tend to grow exponentially, managing many franchisees and controlling each restaurant's quality might be challenging. The group recognizes that it needs a more corporate structure, such as having dedicated teams for logistics, quality assurance, marketing, and training and development. Without these internal resources, the group won't be able to deal with the fast-paced growth of franchising.

In addition, the group may need to adapt their organizational culture and management style to accommodate the needs of the franchises. They require a greater level of decentralization, as many responsibilities become part of the franchisee and collaboration with external partners selected by the franchisor. By actively addressing these problems, the group will be able to deal with the complexity of franchising. It will be able to explore new growth opportunities to accelerate its international presence.

# Teaching notes

## Teaching objectives

This case provides professors with a resource that allows them to discuss vital theoretical frameworks using a real-life business case. At the same time, it enables students to better understand these critical topics and how they are present in practical business situations, exploring aspects such as antecedents, market selection, network relevance, the CAGE framework, entry modes, and the triple A model.

By examining these concepts, students will be able to gain essential insights into the internationalization process of an SME and the strategic decisions behind the expansion efforts. This case aims to bridge theory and practice, fostering a better understanding of the dynamics of internationalization and the drivers behind the firm's process.

For students to take the most benefit out of this case and to understand how theory fits in practical terms, they must have access to both the case and the research question after studying the main theoretical frameworks. They should be provided with the case at the end of a class so they have time to read and analyze it at home and then discuss the main takeaways in the next class. This case is meant to be used in a strategy class and preferably studied towards the end of the teaching course when students should already be familiarized with theory.

The key learning objectives of this case are:

- Understanding the key motivators that lead the company to internationalization.
- Analyze the company's entry modes and their contribution to the internationalization process.
- Examine the role of individual expertise, the importance of network, and organizational culture as a mean to facilitate the success of their internationalization efforts.
- Evaluate the impact of external factors, such as market conditions, geopolitical events, and regulatory changes, and their effects on the international expansion strategy of Grupo Fogo de Chão Europa.

This teaching note is reserved for the use of instructors only.

## Synopsis

This case study covers the internationalization strategy that Grupo Fogo de Chão Europa employed. They are an SME that operates in the restaurant industry. The group serves both the typical Brazilian and Argentinian barbecue, as well as Italian food. Starting its activities in 1995, the firm was always open to exploring the international sphere, as its CEO positively perceived the internationalization process.

They had to consider venturing abroad because they faced a saturated domestic market and increasing competition. As the restaurant industry tends to have a lot of employee turnover, the group was able to contact many talented professionals. Some followed their professional paths but kept in contact with the group. At the same time, Clenio Scartezini, CEO of Grupo Fogo de Chão Europa, had a lot of contacts due to his rich experience in the field. This equipped Grupo Fogo de Chão Europa with solid connections, allowing them to gain insights from other foreign markets. Through these connections, they explored opportunities that led the firm to expand its presence to two new markets.

In the future, the company is looking for exponential growth in foreign markets through franchising. Initially, the goal was to explore the Spanish market and, after that, expand to other European markets.

## Questions for discussion

To ensure students clearly understand the case, it's helpful to analyze the following questions:

**Question 1:** What are the primary drivers behind Grupo Fogo de Chão Europa's decision to expanding beyond their domestic borders?

- In this question, the students are expected to clearly state and analyze the main reasons behind the expansion to other markets. Specifically, they need to identify the motives for going abroad and specify which imperatives were behind the firm's internationalization strategy. In addition, students need to identify all antecedents, including the environmental, firm, and individual-level factors. By doing this extensive analysis, the students will better understand the complex decision-making process.

**Question 2:** How did they enter new foreign markets? How did the use of Joint Ventures facilitate entry into foreign markets? What are the advantages and challenges?

- In this question, students are expected to use theories related to entry modes and identify and discuss the entry mode(s) utilized by the group, as well as how having an extensive network facilitated the establishment of Joint Ventures. They should be able to identify the advantages and disadvantages of establishing JVs and franchises. It's important to make clear that they don't yet have any franchisees but are working on that process.

**Question 3:** How did Grupo Fogo de Chão Europa balance between standardization and adaptation in their internationalization process and how did it benefit the company? Additionally, how was this balance achieved in both the Spanish and British markets?

- In this question, the student must be able to clearly state the service's adaptations and why the service was adapted to each market. Additionally, the student must explain why standardization of the service was put in place and which imperative it is related to.

## **Analysis and Discussion**

*1- What are the primary drivers behind Grupo Fogo de Chão Europa's decision to expanding beyond their domestic borders?*

Several reasons led Grupo Fogo de Chão Europa to explore other markets. Among those factors was the growth imperative, which motivated the firm to seek opportunities in new markets to create a new revenue stream, increase its total profits, and reach new clients. At the same time, venturing abroad led the company to diversify its portfolio further and mitigate risks associated with only being present in one single market, aligning with risk management considerations. Lastly, the globalization of competitors pushed Grupo Fogo de Chão Europa to explore foreign markets, as the domestic market was saturated, and competitors are starting to explore some European markets. As Grupo Fogo de Chão Europa aims to be the reference of Brazilian Barbecue in Europe, with the growth of Brazilian restaurants in some strategic markets, this encourages the company to explore overseas opportunities.

Additionally, we can split the reasons for going abroad into three different categories: environmental, firm, and individual level.

### **Environment Level**

At the environmental level, the decision of Grupo Fogo de Chão Europa to go beyond borders was influenced by various reasons. First, the domestic market was saturated. As there is a growing number of Brazilian restaurants in Portugal, the escalating competition made the local market stagnant. Parallely, as the European markets are unfamiliar with this dining concept, it was the perfect setting to explore potential faster-growing markets. There were no governmental programs to support the company.

### **Firm Level**

At the firm level, the network is presented as the most valuable asset held by the company, aligned with the Network Theories, as the CEO has met many talented professionals due to his extensive career, which provided him with crucial contacts. This allowed the firm to receive critical insights and opportunities to explore foreign markets. These contacts, especially in the Spanish and British markets, enabled the firm to fight the liability of foreignness. The group successfully navigated through the unfamiliarity with the host environment and relational hazards by leveraging the expertise of their business partners. As these partners had solid connections with suppliers, local communities, and with the Brazilian community, they could integrate seamlessly into each market with lower adaptation costs for the group.

Secondly, holding knowledge-domain is a relevant factor for their success. As the Brazilian Rodizio stands out due to its unique techniques, it makes it challenging for competition to replicate its business model. The role of the churrasqueiro is central to this advantage, as they possess specialized skills that make the service more authentic. These skills are hard to acquire if you don't have any personal experience, so they solidify Rodizio's advantage in the market, repelling competitors from this type of service.

### **Individual Level**

At the individual level, the CEO of Grupo Fogo de Chão Europa played a very relevant role in the company's internationalization process. Despite lacking formal higher education, his hands-on experience enabled him to build a lot of know-how that is not yet codified, as it is confined to a small number of people, mainly from Brazilian origins. Having emigrated at a young age exposed him to different markets, fostering a more proactive attitude towards venturing abroad. In summary, the confluence of these factors and the CEO's desire to export a dining experience reflecting his cultural heritage motivated Grupo Fogo de Chão Europa to venture abroad and strategically explore opportunities outside their domestic market.

***2- How did they enter new foreign markets? How did the use of Joint Ventures facilitate entry into foreign markets? What are the advantages and challenges?***

So far, the Grupo Fogo de Chão Europa has only used Joint Ventures to enter new foreign markets.

The CEO's extensive network within the restaurant industry played a central role in the company's internationalization process. As mentioned in the network theories, the group received opportunities to explore foreign markets through their connections rather than an opportunity-seeking strategy.

As the group was venturing into unfamiliar markets, partnering with local players enabled them to overcome challenges such as unfamiliarity with the host environment. Being completely integrated in the respective markets, these partners brought invaluable experience, insights, and resources. Moreover, these JVs mitigated what is called "relational hazard", as their business partners were already familiarized with stakeholders in the industry, holding an extensive network. These alliances facilitated a seamless integration of Grupo Fogo de Chão Europa in Spanish and British markets.

These connections facilitated knowledge transfer, allowing an easier integration of the group into the host environment. Not only did it enable them to reduce managerial efforts, but it also contributed to lowering the costs associated with international expansion, leading to a more efficient adaptation to each market. Collaborating with local business partners allowed the group to overcome potential performance challenges in these markets, leveraging their familiarity and expertise.

Each entry mode presents a distinctive set of benefits and drawbacks. In JVs, they partner with a local player, granting access to their capabilities and specific resources while mitigating investment risks, as a single party does not employ the investment. Consequentially, this approach leads to lower risks and costs. However, sharing profits with your partner is a part of the trade-off, and there is a risk of creating a competitor if they decide to copy your business model. Moreover, alignment issues among partners might lead to potential conflicts, undermining collaborative efforts, which can harm the company's financial health.

As mentioned in "Note for future" on the case study, Grupo Fogo de Chão Europa is actively pursuing a franchising project to reach exponential growth and achieve their ambitious goal of not only being the leading group in the European markets but also becoming the reference within the industry.

The franchising strategy presents significant advantages to Grupo Fogo de Chão Europa, such as a substantial reduction of costs and risks and the potential for rapid expansion. However, it also introduces a set of challenges for the franchisor. While franchisees receive training to replicate the original concept, there is the risk of creating a potential competitor. Managing many franchisees could be difficult for the management staff and potentially impact the quality control standards.

In summary, the company's international expansion strategy relied on strategic joint ventures. While these facilitate a smoother market entry and knowledge transfer, they also hold their challenges. Looking ahead, the group is aiming for rapid growth through franchising, a way to escalate quickly with reduced costs. However, franchising might introduce the risk of creating new competitors and might cause difficulty in quality control across multiple locations. Despite these challenges, Grupo Fogo de Chão remains committed to becoming a leading group in the European market.

***3- How did Grupo Fogo de Chão Europa balance between standardization and adaptation in their internationalization process and how did it benefit the company? Additionally, how was this balance achieved in both the Spanish and British markets?***

In general, each market had minimal adaptations, aiming at exploring the home-market advantage when exploring new geographies. In particular, the objective is to preserve the traditional service essence as much as possible, employing a market-seeking strategy. This approach is an example of aggregation, as it emphasizes consistency across different markets. By adopting such a strategy, the company can avoid adaptation costs and capitalized on similarities across markets. Given the substantial presence of Brazilian communities in Spanish and British markets, the company can draw clients without extensive adaptation efforts.

*Table 6 Adaptation and Standardization in Spain and UK*

<b>Country</b>	<b>Adaptation</b>	<b>Standardization</b>
<b>Spain</b>	<ul style="list-style-type: none"> <li>○ It is used a charcoal-based grill. This makes the meat taste closer to the traditions.</li> <li>○ Opening hours are adapted to local customs.</li> </ul>	<ul style="list-style-type: none"> <li>○ Menu offer is the same. There is the Rodizio service with same variety of meat, accompanied by a buffet of salads and salty snacks.</li> </ul>
<b>UK</b>	<ul style="list-style-type: none"> <li>○ It's added lamb in the menu, as it is a local preference</li> <li>○ Opening hours are adapted to local customs.</li> </ul>	<ul style="list-style-type: none"> <li>○ Same service as in Portugal.</li> </ul>

## Conclusions and Limitations

As this study reaches an end, delving into the internationalization process of Grupo Fogo de Chão Europa was very interesting to have a better understanding of their strategic choices. In this way, I was able to see the intersection between theory and practice.

Studying Grupo Fogo de Chão Europa was very enlightening experience to better understand this restaurant industry and how the culture played such a central role in decision-making. Beyond profit and portfolio diversification motives, their market-seeking strategy aimed to introduce a new cultural dining experience to Europe, aligning with their mission statement and vision. For the success of the internationalization process, strategic planning and key partnerships were central to entering new markets. As the group embarks on its next expansion phase through franchising, observing the trajectory and whether they will materialize their vision of becoming a reference in Europe on the Brazilian Steakhouse niche will be exciting.

However, the study faced some limitations, particularly regarding access to market data and financial information due to the company's decentralized structure, as each country has its accounting team. This service is outsourced and due to privacy constraints. In addition, time constraints played a role in not allowing the evaluation of the firm's financial status.

Future research could explore the group's current situation, analyze their adaptation strategies, and the positioning of each market within the European framework. Additionally, it could be relevant to investigate the possible challenges that can be faced on an organizational level, such as cultural adaptation and resource allocation. This study can provide important insights into

other SMEs' internationalization processes and give important strategic decision-making mechanisms that can be used in similar contexts.

## Appendices

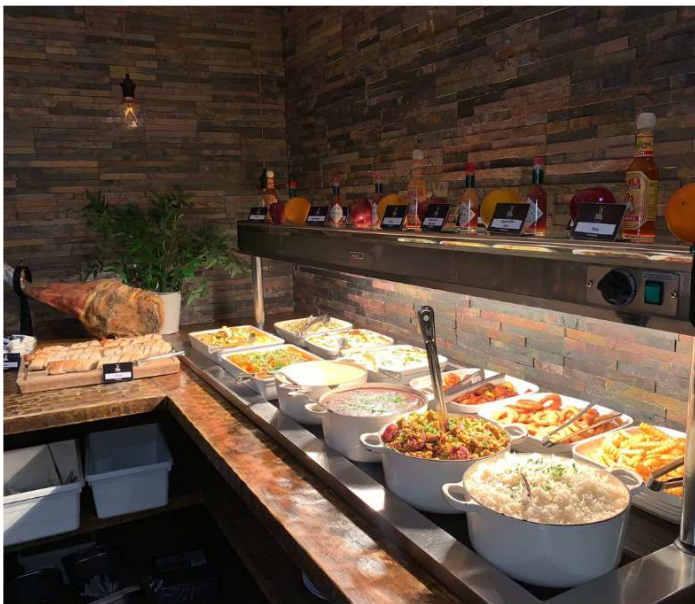
**Appendix 1:** Churrasqueiros uniform on the left, and a piece of Sirloin in an "espeto corrido" on the right (Grupo Fogo de Chão Europa, 2024)



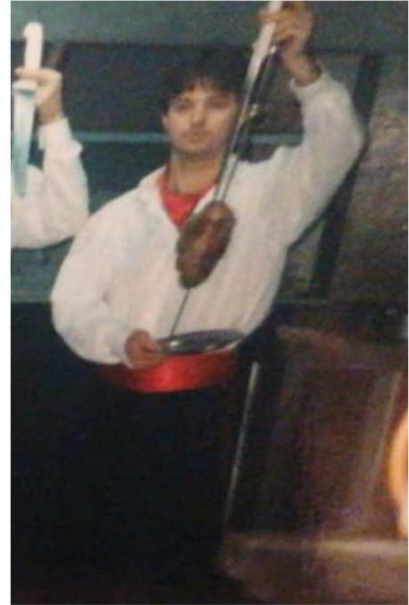
**Appendix 2:** Wooden block: green signals to start or continue the service, while red signals to stop (Grupo Fogo de Chão Europa, 2024)



**Appendix 3:** Buffet: This serves as an example of how the buffet is displayed, varying from one restaurant to another. (Grupo Fogo de Chão Europa, 2024)



**Appendix 4:** Clenio working as a Churrasqueiro between the years of 1989-1995 (Grupo Fogo de Chão, 2024)



**Appendix 5:** Fogo de Chão in Campo Pequeno, established in 1998 (Grupo Fogo de Chão Europa, 2024)



**Appendix 6:** Fogo de Chão in Cascais, inaugurated in 2002. (Grupo Fogo de Chão Europa, 2024)



**Appendix 7:** Sabor Gaúcho in Armazéns do Chiado, opened in 2018. This is an example of a restaurant in a shopping mall. Here, dishes are served in the shopping mall dining area, as presented on the right and left at the entrance to the salon where the Rodizio service is provided (Grupo Fogo de Chão Europa, 2024)



**Appendix 8:** Fogo de Chão (Fogo de Chão Europa, 2024)



**Appendix 9:** Grilled meat: this is how the meat is served in Prazeres da Picanha (Grupo Fogo de Chão Europa, 2024)



**Appendix 10: Prazeres da Picanha (Fogo de Chão Europa, 2024)**



**Appendix 11: Scartezini (Fogo de Chão Europa, 2024)**



**Appendix 12:** Sabor Gaúcho (Fogo de Chão Europa, 2024)



**Appendix 13:** Sabor Gaúcho in Madrid (Grupo Fogo de Chão Europa, 2017)



**Appendix 14:** Fogo de Chão in Soho, London (Grupo Fogo de Chão Europa, 2020)



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