

# The Role of the Subsidiaries of Multinational Corporations: A Case Study in the Brazilian Soft Drink Industry

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**ABSTRACT:** An important challenge for companies which internationalize its business is to develop a globalization level that balance local and globalized operations. The effective management of subsidiaries and business unities could create competitive advantage for the whole corporation in an uncertain and dynamic business scenario. A case study was conducted in a Brazilian soft drink subsidiary. The current paper presents an example the strategic importance of MNEs' subsidiaries of MNE. In our vision subsidiaries could not only implement global strategy but also help in the process of global strategic management, identifying market opportunities and creating competitive advantages.

**Keywords:** international operations, global strategic management.

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## 1. INTRODUCTION

Until the start of the 1990s, the Brazilian soft drink market was characterized by the predominance of only one strategic group<sup>1</sup> represented by the multinationals Coca-Cola and Pepsi-Cola. These companies were aided by barriers of the need for capital and differentiation of their products, and managed to influence all the competitive forces to their advantage, ensuring high financial returns and absolute leadership of the Brazilian market. The management process of these multinationals centralized the strategic decisions and operations in the parent company, which reduced the capacity of the local subsidiaries to act or react when faced with changes in the market. Hence, even with a market with all the entry barriers and competitive forces in favor of the market leaders, after the explosion of consumption brought by the Real Plan currency stabilization in 1994, a new group of national companies, characterized by low-priced brands, attained a 30% market share. Losses of market share and profitability to the agile local competitors, combined with a series of administrative crises, forced the multinationals in the Brazilian soft drink market to rethink their strategies and to quickly decentralize their strategic decisions.

Dawar and Frost (1999) argue that strategically competitive companies are able to apply the competitive discernment acquired locally on a global scale. This being the case, multinationals that want to be competitive should develop and consider local perceptions so as later to apply them to global markets. This new process of strategy formulation recognizes the importance of subsidiaries in identifying market opportunities and creating competitive advantages.

In this sense, based on a case study of a subsidiary active in the Brazilian soft drink market, the present work aims to present an example of the strategic importance of the subsidiaries of multinational corporations and their autonomy in the creation of competitive advantages, avoiding that they become mere instruments to implement or adapt the global directives of the company, aimed mainly at:

- **Brazilian companies that internationalize their business dealings** - Rocha (2003) argues that Brazilian businesses, in beginning the internationalization process, follow the same logic that guides their local actions, in other words, through strong centralization characterized by a preference for wholly owned subsidiaries: “... *by not taking advantage of knowledge of the market and practices in the external market, a contribution that could be brought by local partners*”, companies significantly reduce their chances of success in the external market.
- **Multinational companies active in Brazil** - Borini and Júnior (2003) identify that the majority of the subsidiaries of multinationals that operate in Brazil do not have international responsibility and have the main objective of implementing the global objectives of the parent company on a local scale.

The present work is divided into four parts. The first details the methodology used, while the second presents a bibliographical review of the work on international business strategy, concentrating on the different roles that subsidiaries can exercise and their strategic importance within the corporation as a whole. The third part describes the Brazilian soft drink

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<sup>1</sup> Porter (1986) affirms that a strategic group is a group of companies that are following an identical or similar strategy, over their strategic dimensions.

market and questions of competitiveness in this sector. The last part is an analytic conclusion of the description and theories addressed in the earlier parts.

## 2. METHODOLOGY

The case study methodology (Yin, 2004) consists of an empirical study that investigates a phenomenon and its real life context, given that the frontiers between the phenomenon and the context are not clearly visible and are used as multiple sources of evidence. The theory developed from a case study can be an important as a historical narrative (Eisenhardt, 1989). A single case study stands out for confirming, contesting or extending a theory, and can be used to verify whether the proposals of a theory are correct or if there are more relevant explanations (Yin, 2004).

The object of the present work is the analysis of a contemporary organizational phenomenon characterized by the importance of the subsidiaries of multinationals. We seek to analyze the changes that have occurred over time in the soft drink market, focusing on the strategy of multinationals in Brazil. Thus, it is an ex-post-facto case study, with longitudinal evaluation, since it investigates the analytic categories based on its evolutionary aspects. We chose Coca-Cola Indústria Ltda. As the case study laboratory because of its time of operation and leadership in the sector and because it is a formally structured organization, which facilitated the longitudinal interpretation of the strategic business phenomena.

Yin (2004) believes that the case study has a great ability to deal with a large variety of evidence, such as documents, interviews and observations. The collection of information was based on secondary data obtained in articles, reports and surveys, in which we sought to examine how Coca-Cola positions itself in the Brazilian competitive scenario and its relation with the global strategies of the company and its national subsidiaries. The work was divided into three phases. The first phase covered questions and observations of an exploratory nature, following a bibliographical guideline. The second phase concentrated on a study of secondary sources on the strategies of Coca-Cola in Brazil and the world, besides the beverage and soft drink sector in Brazil, which was relevant for a better visualization of the theme and the research problem. We chose to carry out the phase of analyzing the research data after the bibliographical review due to the need to develop the theme according to a logical sequence and aiming at more consistent guidelines with the reality of the company, trying to interconnect the theories studied with the empirical universe. We sought to establish a correspondence between the strategies delineated in the bibliographical review with those actually adopted by Coca-Cola Indústria Ltda. in its daily operations, based on a mapping of the strategies adopted. We also evaluated some aspects not originally contemplated that may have affected the market studied.

Nevertheless, the research methodology used has some limitations, because it requires the researcher to have a considerable interpretive ability of the content, besides supplying little base for scientific generalization. Since the research were conducted after the analysis of the theoretical references, the study could have been directed to aspects considered relevant by the authors, which could have bypassed some important aspects to the understanding of the matter.

## 3. BIBLIOGRAPHICAL REVIEW

The majority of works on international business strategy published until the end of the 1980s focused on the economic aspects and the reasons that led companies to internationalize their operations, which contributed significantly to the understanding of multinationals and the reason for their existence (Gupta and Govindarajan, 2001). However, motivated by the

observation of Porter (1986) that more was known on the problem of becoming a multinational than on strategies to manage one, various authors such as Bartlett and Ghoshal (1986), Jarillo and Martinez (1989), Roth and Morrison (1992), Gupta and Govindarajan (2001), Birkinshaw, et al. (1997), Rugman and Verberke (2000), and Moore (2001) started to address the management of multinational corporations and the importance of their subsidiaries, filling in this loophole until then present in the literature. Hence, innumerable concepts have arisen to characterize multinationals regarding their strategy, scope and the role of their subsidiaries, so a bibliographical review was necessary that groups and explains the different forms of operation. Table 1 presents the terminologies used, relating the stage of the strategy of a company with the role of the subsidiary according to different terminologies and visions.

We identified, based on the bibliographical review, that companies that internationalize their business operations pass through four levels, and for each of them, their subsidiaries assume different roles according to their autonomy in taking decisions and the geographic scope of their responsibilities. We perceive that the more dispersed their resources and assets are and the greater is the interdependence of the national units, the more important it is to effectively manage subsidiaries and the greater the recognition of their strategic importance not only as implementers of global directives, but with a standout role in formulating strategies, identifying opportunities and creating competitive advantages.

**Table1: Stages of Strategy vs. Role of Subsidiaries**

Low	Low	High	High
Low	High	Low	High
Role of Subsidiaries			
Importer and Local Services	Satélite & Subsidiária Regional	Produtos Mundiais	Subsidiária Global
Implementor		Collaborator	Strategic Leader
Autonomous		Receptive	Active
Implementor	Local Innovator	Global Innovator	Integrated Player
		Integrated	Global Subsidiary Mandate
Local Implementor		Specialized Contributor	World Mandate

Regarding the type of company we are analyzing, Bartlett and Ghoshal (1989) distinguish between multinational companies and global companies. They affirm that a multinational company is decentralized as to its resources and assets, with self-sufficiency at the national level, where knowledge is developed and maintained in each unit. A global company, in contrast, has centralized assets and resources on a global scale and the company implements strategies from the parent company, where knowledge is developed and maintained by the parent company. Rhinesmith (1993) argues that the multinational company creates replicas where it acts with the objective of enjoying advantages of a national company and still counting on global abilities, which differs from a global company that treats the

world as a single market, where the forces of local response are weak, the competitive strategy is centralized and controlled from the central office and standardized products are offered in domestic markets. However, Kotler (1998) summarizes the global company as that which operates in more than one country and obtains advantages in research and development, production, logistics, marketing, finance, costs and reputation that are not available to basically domestic competitors.

While in the global company the definition of the role of subsidiaries is the responsibility of the parent company, some corporate strategies give the operational units the authority to develop their own strategies without restricting the autonomy of their business units, which prompted Bartlett and Ghoshal (1992) to identify two more types of strategy: the multi-domestic and the transnational. In the multi-domestic strategy, which treats the world as a portfolio of national opportunities, the strategies are decentralized to the business units since the subsidiary is more able to understand the complexity and opportunities of the place of operation than the parent company. We can associate the “multi-domestic” concept of Bartlett and Ghoshal (1992) with the “multi-local” concept proposed by Yip (1989). The transnational strategy standardizes certain central elements and localizes other elements, where the multinational company operates in different environments and the subsidiary performs different strategies according to the characteristics of the local environment. In the transnational strategy, the assets and resources are dispersed, interdependent and specialized in the national units, which seek to integrate their operations on a worldwide scale.

Analyzing the influence of the competitive environment and the development of the capacities and initiatives of subsidiaries, various models have been proposed to identify the roles played by subsidiaries. D’Cruz (1986) argues that depending on the level of autonomy in reaching decisions and the geographic scope of responsibilities, subsidiaries can exercise six types of roles. However, even without considering the geographic scope, but instead just the strategic importance of the local environment and its organizational competence, if we start from the principle that the more competent the subsidiary is the greater will be the geographic scope of its responsibilities, we can trace out a parallel between his methodology and that of the other authors. A subsidiary classified as an “importer” has its responsibilities limited to national frontiers and has low autonomy to reach decisions. The subsidiaries classified as “local services” also have responsibility only in the national context, but with more autonomy in relation to the “importers”. In this case, we have subsidiaries of low strategic importance to the multinational, serving only to implement their global directives. As the scope of a firm’s responsibility increases in relation to its geographic scope, it can become either a “regional subsidiary” or a “satellite” company, depending on the autonomy of the decision-making process.

The model proposed by Bartlett and Ghoshal (1992) is very similar to that of D’Cruz (1986), but does not consider the geographic scope, but instead the strategic importance of the environment. Hence, they characterize the subsidiary with high competence in a strategically important market for the multinational corporation as a “strategic leader” subsidiary. The subsidiaries that present global responsibility can be classified as “world products” (Roth and Morrisson, 1992), where world responsibility and strategic control of a determined product is granted, or also as a “global subsidiary”, which stands apart from the former because it already has a certain autonomy in making decisions. When the market is not so strategically important, the subsidiary exercises the role of collaborator if it is highly competent, but when the market is of little significance and the subsidiary has low competence, its role becomes that of “implementer” or “autonomous”. Frequently, multinationals believe that their subsidiaries are unable to contribute to the aggregate value of the corporation as a whole, and

see their subsidiaries only as implementers of the activities, processes and products developed by the parent company.

On the other hand, authors such as Birkinshaw, et al. (1997), Rugman and Verberke (2000) and Moore (2001) believe that some subsidiaries manage to become a source of competitive advantages applicable throughout the multinational corporation. When a subsidiary is highly competent and the market where it operates is strategically important for the multinational corporation, it starts to gain responsibilities beyond its national frontiers. In this sense, is it necessary to develop “centers of excellence” able to take advantage of the specific advantages of subsidiaries for them to gain international responsibilities.

Hence, a deeper analysis of the concept of center of excellence is important to understand which subsidiaries have greater importance for the multinational.

#### **4. CENTERS OF EXCELLENCE**

One of the big challenges to multinational companies is how to manage different resources within their subsidiaries and diffuse them throughout their entire scope of operations. Although the concept of centers of excellence is quite disseminated academically, the existence of these centers in practice is still quite rare (Frost et al., 2002). Centers of competencies, communities of practices, best practices, capability centers and future centers are expressions that often are used to refer to centers of excellence (Moore and Birkinshaw, 1998). In this section, after a description and analysis of the different definitions and concepts of centers of excellence, we propose a new definition that is more objective and adapted exclusively to the operations of multinational companies.

Frost et al. (2002) define centers of excellence as a mechanism increasingly used by multinational companies to identify and leverage different expertises found among their subsidiaries. Besides this, they find two different approaches in the literature for academic use of the term centers of excellence.

The first approach, with roots in the studies of Bartlett and Ghoshal (1986) and Jarillo and Martinez (1990), characterizes centers of excellence as centers responsible for the production of determined products or carrying out certain activities. This is a concept similar to that on subsidiaries responsible for “global products” (Rugman, 1983).

In the second approach, competitive advantage is not gained only through the division of tasks among the business units of companies, but also from the exchange of intangible resources such as proprietary services, image, reputation and knowledge of the consumer base. Expanding this definition, Moore and Birkinshaw (1998) identify two new types of centers of excellence that were not covered by the previous definitions: charismatic centers and virtual centers. The charismatic center is characterized by individuals recognized internationally for their excellence, and virtual center is characterized by not needing centers of excellence to have a fixed, definitive structure, with their members able to work in different places, constituting a virtual center. Frost et al. (2002), however, disagree with Moore and Birkinshaw (1998), arguing that centers of excellence need a physical base, unlike virtual centers. Hence, it is necessary for us to set a more objective definition exclusively based on the actuation of multinational companies.

Based on the different approaches studied, we define centers of excellence as formal organizational structures able to disseminate the best practices and leverage knowledge,

permitting multinationals to benefit on a global scale from the ability to manage their different resources spread throughout the places where their subsidiaries operate.

In this perspective, we can identify a subsidiary assuming the role of strategic leader, through development of processes that Nohia and Ghoshal (1997) characterize as “local to global” and “global to global”. Hence, the subsidiary either first develops competencies aimed at the local market, but that later are used throughout the corporation, or it works as a unit with the parent company in constructing competitive advantages.

Having defined the concept of centers of excellence, the next step is to understand how centers of excellence are created and what factors contribute to their propagation and maintenance.

The increased visibility of their actuation in creating centers of excellence can start with the subsidiary itself or by initiative of the parent company. Birkinshaw et al. (1998) affirm that recognition by the head office occurs when the subsidiary itself, on its own initiative, assumes international responsibilities. Since each subsidiary performs its role in the corporation depending on the strategic importance of its location and its capacities, resources and competencies, the formation of centers of excellence is basically influenced by an external and an internal factor, characterized, respectively, by the conditions of the local competitive environment and the subsidiary’s relations with the rest of the multinational.

To start to discourse on the role of external factors in the development of subsidiaries with greater strategic importance, it is necessary to know a little about the national diamond proposed by Porter (1990):

The Porter model explains the construction of national advantage sustained by some countries starting with an analysis of four attributes (conditions of the factors; condition of demand; related sectors and support ; and strategy, structure and rivalry of companies) that constitute four corners of the so-called diamond of national advantage. These are explained below:

- Conditions of the factors involve the position of the country regarding the factors of production, such as qualified labor and infrastructure. Those factors are relevant that involve large investments and demand specialization.
- Condition of demand involves the composition, intensity and nature of domestic demand that permits companies to perceive the needs of buyers in advance.
- Presence of related sectors and support in the country means, for example, that better qualified suppliers subject to international competition supply inputs at lower costs, more quickly and in preferential form.
- Strategy, structure and rivalry of companies means the competitiveness in the specific sector of a country results from the management practices and organizational models adopted.

The multinational corporation with its subsidiaries established in other countries has access to the sources of advantages of other national diamonds, which through centers of excellence can be taken for development at the parent company and also at other subsidiaries, because the greater the force and dynamism of local competition, the greater the probability a center of excellence will appear. In relation to internal factors, the relation of subsidiaries with the rest of the multinational stands out. In this sense, the greater the autonomy of the subsidiary in relation to the parent company, and the greater its connection with other subsidiaries, the greater will be the probability the multinational has a center of excellence.

Based on this theoretical framework, we will can understand the role of the subsidiaries of multinational corporations. Nevertheless, to corroborate the hypothesis that with a strongly centralized business characterized by a preference for wholly owned subsidiaries, companies significantly reduce their possibility of success in the external market (Rocha, 2003), it is important to analyze the changes that have occurred over time in the Brazilian soft drink market.

## **5. THE BRAZILIAN SOFT DRINK MARKET**

According to the Brazilian Association of the Soft Drink and Non-Alcoholic Beverage Industry (ABIR), there are more than 700 plants making soft drinks in the country, which represent 3,500 brands, supplying nearly one million sales points and generating roughly 60 thousand direct jobs and another 520 thousand indirect jobs. Brazil stands in third place in production and sale of soft drinks, with 11.9 billion liters a year, behind only Mexico (12.7 billion liters) and the United States (57 billion liters), but despite this, per capita consumption in Brazil is still only 63.52 liters a year, while in Mexico this figure is 88.79 liters. This represents a huge potential for the Brazilian market. The Brazilian market can be divided into two different strategic groups. The first, formed of multinationals, detains 68% of the market, with large-scale production, strong distribution schemes and large investments in advertising and marketing, reinforcing the process of differentiation. At the other extreme are the so called “tubáinas” (off brands) and own label soft drinks, which are of inferior quality and aim mainly for the lower and middle classes, and started to emerge in the market with the explosion in consumption after the Real Plan currency stabilization in 1994. They have been greatly facilitated by the launch of 2-liter PET bottles.

The Coca-Cola System in Brazil is integrated by the Brazil Division of The Coca-Cola Company, which covers Coca-Cola Indústrias Ltda. and Recofarma Indústrias do Amazonas Ltda. and by 42 bottling plants operated by 16 independent business groups, which operate as franchises. The Brazil Division is subordinated to the Strategic Business Unit for Latin America, with headquarters in Mexico, but the company’s world headquarters is in Atlanta, the city of the company’s birth. Coca-Cola Indústrias Ltda., headquartered in the city of Rio de Janeiro, coordinates the group of franchises and the national and regional marketing strategies, acting as an exclusive consultant of the Coca-Cola System in Brazil. Recofarma Indústrias do Amazonas Ltda., located in the Free Trade Zone of Manaus, produces and distributes concentrates and bases of beverages to manufacture all the company’s products..

## **6. ANALYSIS OF THE SECTOR**

Until the start of the 1990s, the soft drink industry mainly used returnable glass bottles, which provided various entry barriers and diminished the profitability of a new market participant. An understanding of these entry barriers facilitates analysis of the positioning of a company in the overall industry and puts stress on the critical strong and weak points of the company (Porter, 1986), hence the need to analyze these individually:

a) Access to Distribution Channels – the complex structure of distributing returnable bottles was a large barrier to the entry of small producers. The system of reusing glass bottles involved complex logistics, where the existence of a high inventory of empty glass bottles was essential to guarantee the good functioning of the distribution system. The radius of



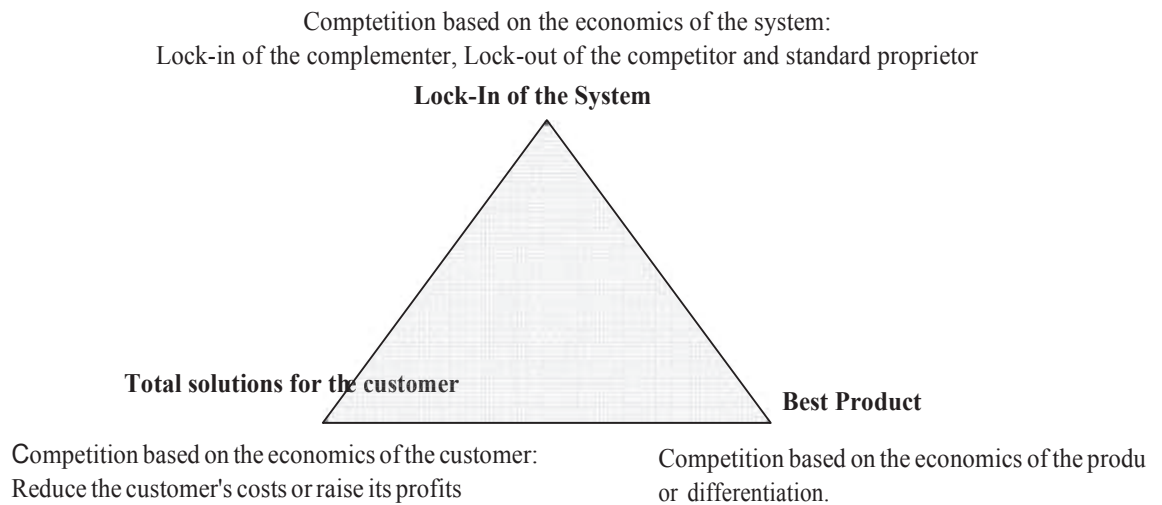
action of a soft drink plant was roughly 200 km for returnable glass bottles, while for disposable plastic bottles and cans the radius is approximately 1000 km.

- b) Capital Requirements – The initial investment to set up a production complex for returnable bottles is very high. Besides this, the need to maintain a high inventory of bottles significantly weighed down the cost of operating in the sector (costs of bottling and stocking), impeding the entry of small companies.
- c) Costs of Change – With returnable bottles, there was greater incentive to remain loyal to Coca-Cola, because the consumer had to come back to the point of sale to exchange it for the same product, which created a cost of changing to a new brand.
- d) Economies of Scale – The lifetime of a returnable bottle is much longer, because there is the need to return them for washing, refilling and selling again. Hence, the cost of making each unit diminished with increased soft drink production. Since the initial investment was very high, a small company would find itself at a definite disadvantage in terms of cost.
- e) Product Differentiation – The products of Coca-Cola are recognized as superior to those of competitors, mainly due to the innumerable marketing campaigns that stress the differentiation of its products.
- f) Cost Disadvantages Independent of Scale – The proprietary technology of the product and favored access to raw materials are examples of situations where a new entrant will not manage to match the intended competitor, as is particularly true of the patent on the Coca-Cola formula.

Hence the soft drink market used the proprietary standard of returnable glass bottles, creating an additional cost to change to another brand, which was a tie among consumers, suppliers and clients. The Delta model, formulated by Hax and Wilde (2001), can explain the Brazilian soft drink market and more specifically the strategies of multinational companies in this sense, because it was centered on the conquest and maintenance of competitive advantages in an environment of rapid changes, globalization and heavy competition.

Developed to face the more complex economic forces that arise in a competitive environment, we can see in the figure below that the model considers three essential forms of competitive positioning that define how a company will compete and serve its consumers:

- a) Best product
- b) Total solutions for the customer
- c) Lock-in of the system

**Figure 1: Delta Model**

**Source:** HAX, Arnaldo C. & WILDE II, Dean L. *The Delta Project: discovering new sources of profitability in a networked economy*. New York: Palgrave, 2001, p. 10.

The best-product strategic option is based on the traditional forms of competition, which only consider the dimensions of low cost and differentiation, where companies create ties with customers by means of the intrinsic superiority of their product. In the total solutions for the customer option, the company manages to act along with customers based on offering more products and services that satisfy the majority of their needs.

In the system lock-in option, the company does not only focus on the product or the customer, but also on being a complements, which can be seen as a provider of services that directly or indirectly stress the company's supply and thus interfere in demand for its products and services. Hax and Wilde (2001) affirm that the maximum point of this initiative is to become owner of the reigning standard in the market. The system lock-in position can be attained by means of a proprietary standard, dominant exchange and restricted access. In the case of the soft drink industry, and more specifically of Coca-Cola, its complements are the suppliers, producers of concentrates, bottlers, distributors and consumers.

In this sense, based on this set up, a vicious circle is created where it will be hard to dislodge the market leader. Nevertheless, from the start of the 1990s, Coca-Cola tried to achieve efficiency in disposable packages by consolidating its franchise territories and systems of manufacturers. It created international "anchor manufacturers", with the idea of reducing the hundreds of independent Coca-Cola makers to less than 10 anchor manufacturers. The system was concerned with creating production centers of disposable packaging at low cost on a world scale. With this, sales of soft drinks in disposable packaging jumped from 12% in 1993 to 90% in 2003. The advantages of disposable packaging are the simplified logistics system, because there is no need to repurchase the empty bottles, eliminating the need to keep a large inventory, with benefits all along the productive chain. The result was a fall in transport and inventory costs, increasing the advantages of operating in the sector. The investment in glass bottle washing plants was greatly reduced. Between 1993 and 1997 the multinationals invested heavily in updating their machinery and production lines and shut down old plants.

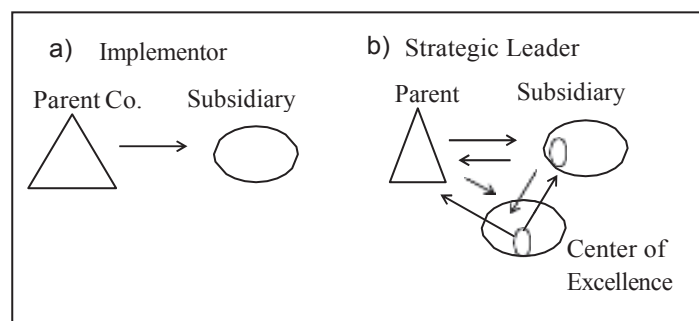
On the other hand, this same structure was also acquired by some regional soft drink companies, which managed, at a very small price, to set up a complete manufacturing structure that they never previously could have called on. The end of the obligation to exchange the old bottles additionally altered the behavior of consumers, making them often act on impulse, because the price of the soft drink already contained the price of the disposable bottle. This was possible due to the low cost of plastic bottles in comparison to glass ones. The PET bottle, popularized in its 2-liter version, wound up making the product more expensive, putting it out of the reach of the poorer classes. In this new context, a competitor could participate efficiently in the market without the need to have a network of plants throughout Brazil. The emergence of makers of low-priced soft drinks occurred in parallel with the period of accelerated growth in consumption that occurred between 1994 and 1997. Faced with this scenario, the leading brands started to distance themselves from poorer consumers, who started to choose cheaper beverages. Since the majority of Brazil's population falls into so-called classes C and D (on an A to F scale from richest to poorest), the large manufacturers lost a potential consumer market to the off brands, which seized 30% of the market.

Hence, even supported by the barriers of the need for capital and to differentiate their products to guarantee high financial returns and absolute leadership in the Brazilian market, the multinationals that were the leaders of the Brazilian soft drink market remained largely inert in the face of the advance of the low-priced brands.

## 7. CONCLUSION

The management process of multinationals in the Brazilian soft drink market centralized strategic and operational decisions in the parent company, which reduced the capacity of the local subsidiaries to react when faced with the onslaught of the low-price brands, since their autonomy in making decisions was very low because the subsidiaries only implemented the directives of the parent company in the local market. Also, the multinationals did not pay sufficient attention to the classes of consumers with less purchasing power. This created a vacuum in this class of consumers, which the low-priced brands quickly filled. This period was characterized by Figure 2 below.

**Figure 2: Evolution of the Strategy of Coca-Cola Subsidiaries**



Even with the owner of the market standard (Hax and Wilde, 2001) and all the entry barriers, what occurred was that after the Real Plan the Brazilian soft drink market passed through huge changes.

In this sense, the multinationals have to rethink their strategies and decentralize their strategic decisions, starting to see their subsidiaries not only as implementers or adapters of

their global strategies, but as companies with competitive knowledge acquired locally, and applying it on a globalized scale, since the subsidiary has greater capacity to understand the complexity and opportunities of the local situation than the parent company does. We have already observed that the greater is the dispersion of their resources and assets and the greater the interdependence of the national units, the more important becomes effective management of subsidiaries and recognition of their importance; and the greater the local strength and dynamism in competing, the greater the probability that a center of excellence will appear. Hence, we identified the subsidiary assuming the role of strategic leader through creation of centers of excellence, which would enable the development of competencies initially aimed at the local market, but that could subsequently be used throughout the company.

We can identify the subsidiary assuming the role of strategic leader, through development of “local-to-global” and “global-to-global” processes (Nohia and Ghoshal, 1997), where the subsidiary can develop competencies aimed at the local market, but that can later be used throughout the corporation; or work together with the parent company to build competitive advantages permitting the entire company to benefit on a global scale from its ability to manage its different resources spread throughout the local operations of its subsidiaries.

Even though the proposed methodology of a single case study does not permit generalizations (Yin, 2004), it is clear from studying the Brazilian soft drink market that multinationals that want to be competitive must develop and consider local perceptions, so as later to apply them to the global markets in formulating their strategies.

The overall aim of this work was to make Brazilian companies that internationalize their businesses and multinationals that operate in Brazil aware of the strategic importance of subsidiaries of multinationals playing a leading role in formulating strategies, identifying market opportunities and creating competitive advantages, avoiding being only instruments for local implementation or adaptation of the global directives of the company.

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