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BUSINESS ARTICLE

M&A AS THE PORTUGUESE ROUTE TO BRAZIL

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Purpose

This thesis project is aimed to be a business magazine article to discuss the specific Portuguese route to enter into Brazil of mergers and acquisitions, analyzing the particularities of cultural compatibility.

The relevance of this article relies not only on the world's sixth economy's potential, which, as a BRIC country, has been facing high expectations of promising growth and opportunities, but particularly on the fact that Portuguese companies have additional incentives to invest there, such as the low levels of cultural distance (Silva, 2005), psychic distance (Sousa; Bradley 2005) and institutional distance. Moreover, M&A has been a focus of many international business articles as an increasingly popular mode of entry (Akgöbek, 2012; Grant Thornton, 2012), especially in countries like Brazil with relatively high challenges in doing business (World Bank, 2012). Taking into account the high failure rate of M&As as well as the specific Portuguese-Brazilian challenge of neglecting preparation by relying on cultural compatibility - *psychic distance paradox* (Silva, 2012; Cyrino, 2010) - it is crucial to educate Portuguese companies in these internationalization processes. Nevertheless, little literature exists analyzing the strengthened relationship of Portugal and Brazil in a practical perspective of M&A.

Therefore, this article provides Portuguese companies with a model for these internationalization processes to Brazil to contribute for the corporate knowledge and future operations' success. The M&A model (Dowling, Festing, Engle, 2008) was adapted from the knowledge retrieved from companies interviewed for this project, which are present in the market (comprising the environment, ICT, aeronautics and telecommunication sectors) and/or advising those who engage in these operations (including a global law firm and a Portuguese investment bank also present in Brazil).

Mergers and Acquisitions

The Portuguese route to enter in Brazil

By Ana Filipa Carvalho

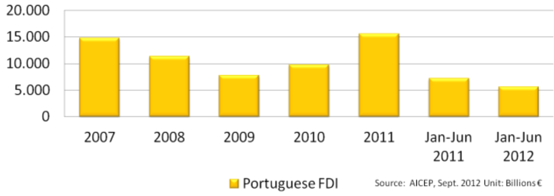
More and more Portuguese companies have been bidding market players and attracting potential partners in order to pursue their growth objectives. Constrained by the empty-of-opportunities' domestic market and convinced by the emergent markets' sparkling opportunities, Portuguese companies have been choosing M&A as the route to enter in the Brazilian market. However, these cross-border operations still face huge challenges on achieving a successful outcome.

In this perspective, this publication aims to contribute for the improvement of the Portuguese corporate knowledge when establishing and implementing an M&A strategy to Brazil, analyzing the particularities of cultural compatibility between both countries.

The acknowledgement of globalization and, as a consequence, of a "single market place of the whole world" (Akgöbek, 2012) made companies from all corners of the world expand their businesses across frontiers. This is highly emphasized when domestic markets are unable to fulfill businesses' growth needs, for instance due to the worldwide economic crisis. In fact, globalization extended the market for foreign direct investment (FDI) and cross-border mergers and acquisitions (M&As). Worldwide nations together received in 2011 more 16 per cent of FDI inflows, compared to 2010 (UNCTAD, World Investment Report 2012), which also reflects a rise in cross-border M&A operations. Portuguese companies did not react differently to this focus on internationalization in order to fulfill their growing strategies.

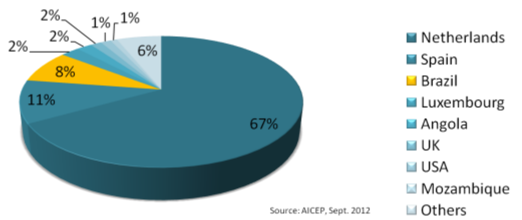
Portuguese Internationalization Path

Considered as the 9th most globalised country (preceding countries such as the United Kingdom and Switzerland), in a study of 158 countries by KOF – Swiss Economic Institute, Portugal has rose 6 places since 2009. This ranking considers the globalization level of Portugal in three perspectives. In an economic perspective, it concerns trade and investment flows, economic restrictions such as tariff rates, among others, while in a social perspective, it analyzes Portuguese personal contact with the exterior, for instance through tourism, information flows and cultural proximity. In a political perspective, in which Portugal scores higher, it takes into account for instance the participation of the country in international organizations and treaties. Similarly to the discovery era around the XV and XVI century and to the period of the engagement with the European Union, Portugal is again focusing its resources and capabilities into internationalization. In 2011 Portuguese companies accounted for €15.6 Billion of gross investment in foreign countries, representing a growing rate of almost 60 per cent



I. Portuguese FDI

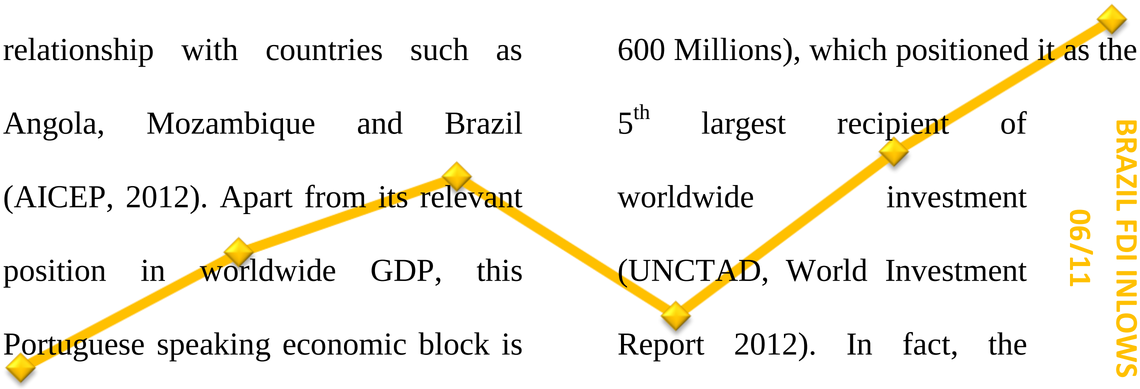
compared to 2010 (AICEP Ficha País, 2012). Still according to AICEP, the sectors in which Portuguese companies were mostly confident on investing recently were the financing and insurance activities (80.2%) as well as the transforming industry (8.4%). The Netherlands have undoubtedly been the focus of Portuguese investment (around 67 per cent in 2012). Nevertheless, acknowledging the potential of the Portuguese speaking market as a whole,



II. Portuguese FDI Destiny Countries Jan/Jun 2012 which represent nowadays 4.6% of the world total GDP (ES Research, 2012), Portugal is clearly strengthening the relationship with countries such as Angola, Mozambique and Brazil (AICEP, 2012). Apart from its relevant position in worldwide GDP, this Portuguese speaking economic block is facing interesting growth rates both in the American and African continents. Therefore, fascinated by these promising growth and business opportunities of countries with which Portugal share the language, Portuguese companies have engaged in internationalization processes into Portuguese speaking countries in order to grow or even survive.

The Brazilian "El Dorado" Promise...

Brazil, also known as one of the BRIC countries, is South America's most promising country and the fifth largest country in terms of land mass and population. Similarly to other emergent markets, Brazil has been facing investors' confidence from all over the world, revealing a 37 per cent growth rate in FDI inflows in 2011 (US $66 600 Millions), which positioned it as the 5th largest recipient of worldwide investment (UNCTAD, World Investment Report 2012). In fact, the biggest transnational companies have cited Brazil as one of the top three most interesting countries to invest into (Região de Leiria, 2012). Despite the Brazilian challenges, named as "Custo Brasil" (high taxation, infrastructure inefficiencies, logistics costs, and lack of qualified human resources, among others), this business focus on the currently world's sixth largest economy (World Bank, 2012) may be mostly explained by the political stability and economic growth[1] sustained by the government reforms as well as by the business opportunities attached to the



[1] Note: Brazil encountered a 7,5% growth in real GDP in 2010 (OECD), the highest growth rate since 1986 and the fifth-best performance amongst the G20 countries.

market. These opportunities usually include the market dimension and competitiveness, highlighted by the increasing purchasing power of the middle class, the favoring market conditions to invest into such as the unlimited possibility to acquire Brazilian companies, the rich natural resources (namely its oil reserves), the future investment opportunities associated to the sporting events and to the government investment priority on areas such as housing, energy and security (PAC)[2], as well as the variety of sectors in development such as agribusiness, energy (clean energy in particular), ICT, tourism, transforming industry (automotive), commerce and infrastructure (E&Y, 2012). The fact that Brazil lacks qualified human resources offer[3] to face such increase in demand strengthen all these opportunities.

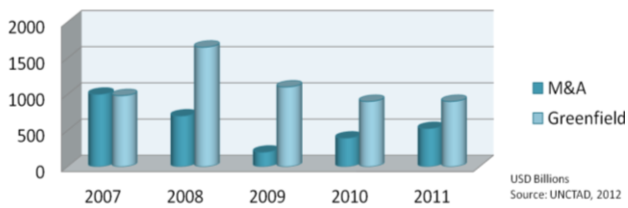
[2] Note: PAC is a governmental program since 2007 designed to stimulate private investment and expand public investment in infrastructures. Source: BNDES
[3] Note: (38.3/100) ranked as number 42 worldwide in the talent index ranking; Source: EIU

… As Portuguese Investment Choice

Since the 90's, encouraged by António Guterres' government after Portugal entrance in the European Union, Portugal has been strengthening its investment relationship with Brazil. As a consequence, Brazil is nowadays the third largest recipient of Portuguese foreign direct investment. In fact, apart from the general Brazilian opportunities mentioned before, Portugal has additional incentives, in terms of cultural factors, to invest there. Characterized by risk aversion (Hofstede, 1980), Portuguese investment history is usually linked to the security that cultural compatibility brings when internationalizing. Following the massive focus on their Spanish "hermanos", Portuguese companies are now exploiting new opportunities in countries in which they also have privileged conditions, such as Brazil. Encouraged by the language communality, the long-lasting social and economic relationship, the greater cultural similarity or at least greater cultural knowledge as well as the close political relationship, translated into bilateral agreements to ease investment, Portuguese companies tend to chose Brazil as primary investment. However, these companies sometimes ignore the challenges that even a Portuguese speaking business may raise.

M&A: the Portuguese route to Brazil

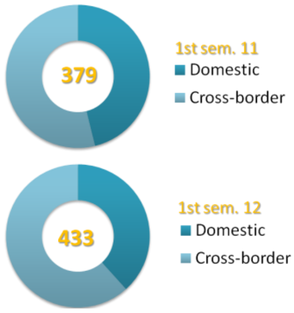
Globally speaking, cross-border M&A operations in 2011 faced an annual rise per se of 53 per cent to $526 billion and also when compared to the weight of greenfield projects (UNCTAD, 2011).



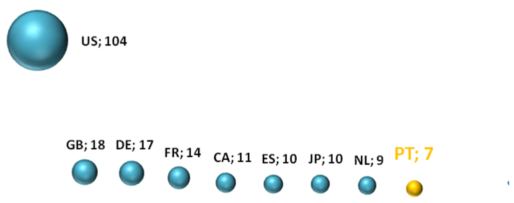
III. Value of cross-border M&As and Greenfield FDI projects worldwide, 2007-2011

A.T. Kearny (2012) goes further on the research claiming that M&As between developed and developing countries increased by 50 per cent over the last 2 years. Particularly, in this perspective it may be stated the scenario of Portugal and Brazil. The Portuguese relationship with the rest of the world has been continuously strengthened through the occurrence of several M&A operations (ATKearny, 2009), including with the emergent markets. Actually, the weight of M&As conducted with them rose from 2% in 2005 to 21% in 2009 of the total value and, specifically, the Portuguese M&As into these markets rose from a value of €0,05 billions in 2005 to €0,57 billions in 2008 (A.T. Kearny, 2009), representing the increasingly relevance of emergent markets for the Portuguese internationalization strategy. Concerning the Brazilian market, M&A operations grew 14.2 per cent in the first semester of 2012, when compared to the homologous period of 2011 (KPMG, 2012). Accounting for 433 M&As in this first semester - mainly in the IT, services provision, internet companies as well as Food, Beverages and

Tobacco sectors - only 166 were conducted by domestic players (KPMG, 2012). Finally, in terms of M&A as the mode of entry to the Brazilian market, it seems to be a growing tendency. Actually, only in the first semester of this year, Portuguese companies were responsible for 7 cross-border M&As in the country, representing 2.6 per cent of the total cross-border M&A operations there (KPMG, 2012). In this sense, Portugal holds the 9th place as M&A agent in Brazil (KPMG, 2012).



IV. Number of M&As in Brazil



Source: KPMG, 2012

Overall, M&A has revealed high relevance in the Brazilian internationalization boom. Acknowledging the difficulty in doing business[4] in Brazil, M&A is regarded by several Portuguese companies as the best route to market, to overcome or attenuate some restrictions/challenges, defined by cultural specificities and the "Custo Brasil". Acquiring a Brazilian company certainly attenuates the challenges of immense bureaucracy, namely in time consuming and complex procedures to start a new business, as well as of accessing financing and bidding for governmental business contests, but, culturally, "acquiring" Brazilian partners could be much more worthy.

> *"Entering by acquiring a company is the easiest way, even if the acquired company is of relatively small dimension in the market."*

> *"Sometimes what companies really need is a culture translator."*

Brazilians have a particular way of doing business, for instance the socialization factor, in which genuine connection is valued, and, so, cultural guidance is crucial.

[4] Note: Ranked 126/183 in the ease of doing business; Source: Doing Business Report 2012

All the above things considered, despite all the unsuccessful stories that have accompanied the history of M&A, it seems that this mode of entry is definitely here to stay, at a time in which organic growth is hard to embrace. In this perspective, the expression “to eat or be eaten” (KPMG, 2010) never meant this much to grow revenues quickly, even if it becomes more expensive. In this sense, Portuguese players regard M&A as a way to attenuate Brazilian market restrictions, while taking advantage of the cultural compatibility. However, despite this compatibility easing the process, companies still need to consider some challenges.

THEORETICAL APPENDICE

M&A: a means of corporate growth

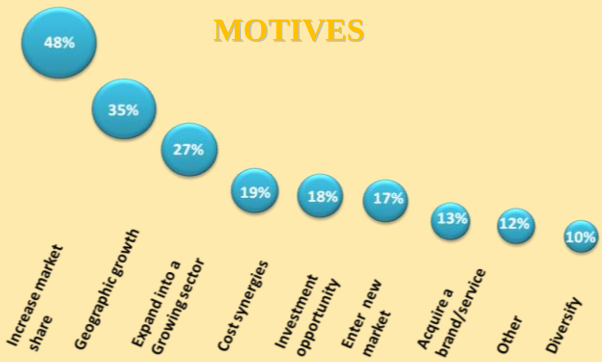
MERGER

“companies come together to combine and share their resources”, in which shareholders of both companies are “joint owners” of the entity (Buckley, 1995)

ACQUISITION

“purchasing the assets or shares of another, and with the acquired firm’s shareholders ceasing to be owners of that firm” (Buckley, 1995)

MOTIVES



VI. M&A Motives; Source: KPMG Global Survey[5]

CHALLENGES

- ✓ Targeting the wrong company
- ✓ Overpayment
- ✓ Poor due diligence
- ✓ Poorly planned and executed post-acquisition integration
- ✓ Culture clash
- ✓ Contrasting management styles

[5] KPMG Global Survey, March-September 2010, on 162 Corporate participants who had conducted deals worth over US$75 million between 2007 and 2010

M&A Journey in Portuguese

Despite the fact that cross-border M&As are top operations within the internationalization strategies worldwide, they still reveal high unsuccessful margins. General M&As present failure rates of 66-75 percent (McKinsey&Company, 2010). Cross-border M&As, specifically, face this failure challenge in a higher magnitude due to the acquirer's lack of familiarity with the acquired firm environment and organizational culture (Buckley, 1995). Combining the complexity of dealing with new sectors or new markets with the complexity of merging people from different national and organizational cultures, cross-border M&As require a rigorous process to be followed. To better understand the real challenges throughout these complex processes of M&A, some interviews were conducted to Portuguese companies already present in Brazil and also to some advisory companies, specialized in supporting M&A operations there.

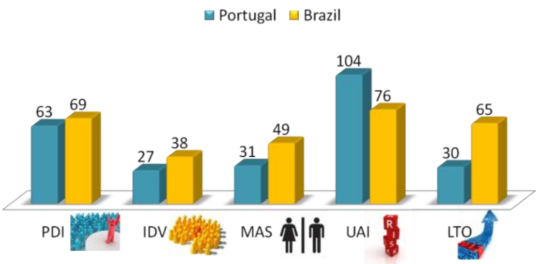
Interviews conducted from 2nd November to 11st December of 2012:

- CEO - environment sector company
- CEO - telecommunication and biotechnology sector company
- Director - aeronautics and security/defense sector company
- CFO and Chief Marketing Officer - ICT sector company
- Head of tax - Portuguese branch of a global leading law firm with expertise in M&A
- Responsible for the M&A department - Portuguese investment bank

Through a wide diversity of sectors, these companies are making notable and long-lasting paths in Brazil by partnering with relevant Brazilian companies, for instance *Embraer*, winning government contracts, owning the largest telecommunication networks of Rio de Janeiro and by working for huge market players, like *Oi* and *Telefonica*. Also, one of the advisory companies is being considered the M&A market leader in Portugal (Bloomberg), ranked in the 5th position in the Brazilian M&A market (ANBIMA), and the other has continuously been in the top of the M&A league tables on legal support.

Therefore, the M&A model (Dowling, Festing, Engle, 2008) on *International Human Resource Management: managing people in a multinational context* was adapted considering the particular case of Portuguese companies entering in Brazil, from the experiences of the interviewed companies, to contribute for the corporate knowledge and future operations' success. While designing the proposed model, some concepts influencing the Portuguese and Brazilian experience were critically discussed. Particularly, the concepts of cultural, psychic and institutional distance were considered throughout the M&A phases' analysis.

It is interesting to demystify the difference between psychic distance and the actual cultural distance. On one hand, cultural distance is defined as "the degree to which cultural values in one country are different from those in another country" (Sousa and Bradley, 2005) and is usually measured by Hofstede's (1980) framework. Despite some clear similarities on the power to distance (respect for hierarchies) and collectivism (group spirit and tendency for informal relationships) factors of the Hofstede research, these two cultures actually differ in the masculinity/femininity, uncertainty avoidance and long term/short term orientation. Actually, Brazilians have proved to be more competitive and assertive at work even if more

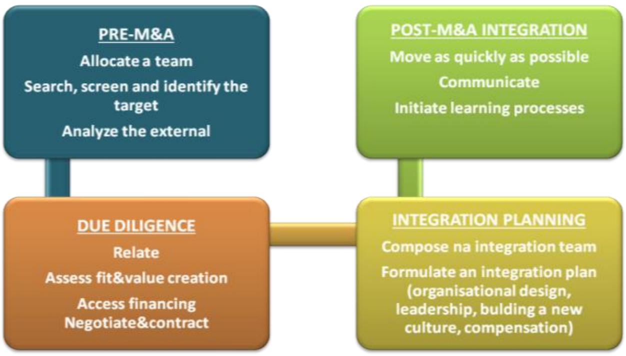


VII. Cultural Dimensions Portugal-Brazil
Source: Hofstede Center, http://geert-hofstede.com

emotional in their personal relationships. Also, they revealed to be more optimistic and less concerned with the future, revealing less loyalty towards employers, as well as more willing to accept changes and challenges (Seabra, 2002). On the other hand, psychic distance concerns "the individual's perception of the differences between the home country and the foreign country" (Sousa and Bradley, 2005) and, therefore, "cannot be measured with factual indicators" (Sousa and Bradley, 2005). In fact, "*although Portuguese and Brazilian cultures are actually different, we are much familiarized with it*", due to the long-lasting connection both countries promote through migration and cultural proximity from soap operas and arts' diffusion even after independence.

It is also relevant to address the benefits that language communality and the institutional distance level, i.e. "the extent of similarity or dissimilarity between the regulatory, cognitive, and normative institutions of two countries" (Kostova, 1996) may bring throughout the M&A process. The institutional distance factor is influenced by the fact that (a) after independence the Brazilian elite and intellectuals have been formed in Coimbra and (2) most of the Brazilian reforms have been based in the Portuguese experience. The fact that Portugal and Brazil have established some bilateral agreements, providing investors with specific benefits and establishing standard practices for both countries, attenuates even more the institutional distance. These facts resulted in legislation proximity and easiness to the Portuguese investor there, compared to other European countries. However, there are relevant differences that might be a consequence of the large period Brazil has gone through as a poor country, especially in taxes' complexity (KPMG, 2010).

Acknowledging a relatively low level of cultural, psychic and institutional distance, Portuguese companies still need to go through a rigorous process to ensure M&A's success – avoiding the psychic distance paradox.



VIII. M&A Model adapted from Dowling, Festing, Engle, 2008

Pre - M&A Phase

Allocate a local team

Allocating a specific team to coordinate all the M&A process as well as defining the M&A strategy, including revisiting the main purpose of this growth strategy, are regular best practices. Especially in the Brazilian market, this team should be present locally as a way to take advantage of the networking easiness, promoted by the language communality and cultural similarity, as well as in order to better screen opportunities and understand the Brazilian environment due to its, still in place, informality in business and market particularities.

"No one can actually think that he/she is able to understand a new market through distance."

Since Brazil has an extremely specific and complex economic environment, local professionals, who are more comfortable with the Brazilian reality, should be engaged since day one with members of the Portuguese company, high and mid-level managers preferably with prior expertise in M&A, to compose the team.

"The only way to attenuate bureaucracy, protectionism and complexity is to have experts both on the market and top challenging areas. Every company [resulting from a cross-

border operation] in Brazil should have an ***excellent tax advisor, a good lawyer and a good accountant*** *to succeed.* ”

Search, screen and identify the target

Brazil is not only a unique country when compared to other countries, namely European ones, but it also comprises a wide variety within itself.

“ *Brazilians are significantly different from Portuguese people and, in particular, very different from each other. Brazil is a country with 27 states, each with their own "personality" and modus operandi.* ”

Therefore, while screening for business opportunities and a potential target it should be taken into consideration two major analyses: (a) strengths and weaknesses of the alternative partners and (b) pros and cons of different states and regions. Considering the high dimension and variability of the Brazilian market, most companies, especially Portuguese ones which usually lack dimension, should address business opportunities either in certain states or regions, instead of the whole country. Acknowledging the Manaus Free Trade Zone in the North region, the level of informality in the Northeast region, the focus on agribusiness as well as on technology, through the *Parque Tecnológico Cidade Digital*, in the central-west region, the giant competitors and maturity of the southeast region and the high levels of quality of life of the South, the most European region with focus on diverse sectors, companies may assess the best opportunity (Brazil Business, 2011).

By exploiting the economic, political, social and cultural benefits of the regions as well as the fit towards an acquiring company of a particular region, the right target may be selected.

Analyze the external environment

An environment research beyond theoretical studies in political, economical, social and cultural terms should then be conducted in place in order to better be aware of the challenges and opportunities while operating and to act accordingly to culture. Despite facing unprecedented political stability, Brazil presents quite unique challenges economically such as the excessive bureaucracy, the existent corruption and informal economy, the complexity of the tax system and the protectionist policies still in place among others. One of the interviewed companies, which is supported by both local and global consultants/advisors, states that “*the main difference in legislation is on tax. However, both legal and accountancy management are also complex and therefore I recommend the continuous support of experts.*” While working to overcome its huge poverty rate, the country is also encouraging the raise of the middle class and balancing the unemployment rate. Brazilians have now different needs and desires to be considered by selling companies. Moreover, culturally, it is important to realize how people live and work there. Since Brazilians are characterized by being very selective in terms of business partners, Portuguese managers should not rely on cultural similarity when approaching Brazilian business men/women. As suggested by one of the interviewed companies established in Brazil, Portuguese managers should

> “***From buying studies on the market opportunity, to analyzing prior studies, mapping the relevant stakeholders, understanding the particular [environment] legislation, participating in conferences, detecting M&A targets through our local team, mapping those opportunities through states and travelling to Brazil to assess those, we spent more than an year doing active M&A planning.***”

*"regard Brazil **not as a Portuguese ex-colony** but as an **unknown non-European country** from Latin America."*

Due Diligence and Negotiation Phase

<u>Relate</u>

Relating was considered a crucial step by most interviewed companies to realize the target fit and personal connection with it and to continuously boost the relationship. In fact, as a CEO claimed, the emotional and relational side of a negotiation is as important as the rational side. *"Before spending huge amounts of money in a business operation, because Brazil is actually very expensive, it is crucial that you can be there and be with your future partners to see if the **CONNECTION** actually exists."* As an ICT company mentioned, being Portuguese is an advantage that should be exploited to develop a trustworthy relationship. The low level of cultural distance between them, including the language communality and the level of informality in doing business, enables the development of an after-work relationship. Even if these two cultures do not match perfectly at work, there are opportunities to understand each other better after work. Not less important, Portuguese managers should take advantage of the language communality and cultural similarity to develop networking, which is a crucial factor in doing business in Brazil.

"Networking is a key issue, especially in Brazil and especially if you need to target government institutions as clients."

<u>Assess fit and value creation potential</u>

Apart from the personal relationship potential, fit with the company strategy, mission and values must be evaluated in terms of capacity, organizational and national culture, product or market extension, and industry diversification to ensure the desired synergies. Influenced by the Brazilian "el dorado" and the low level of psychic distance, Portuguese companies may fall in the psychic distance paradox and neglect the cultural fit assessment. Considerable challenges may arise from the cooperation at work since Brazilians are significantly more assertive and competitive as well as more enthusiastic on launching and taking challenges. Moreover, the fact that Portuguese and Brazilians managers work with a different timeline perspective may bring different expectations at work. As a director claimed with disappointment

“ *when a Brazilian says he is really keen on starting a partnership with you it means he will get back to you around 6 months later.* ”

Apart from these cultural differences, cooperation may be also harmed by the Brazilian post-colonial thinking, characterized by blaming Portugal for the slow development of the country as well as by the need for culture renewal and detachment from the Portuguese traditions and habits – “lusofobia” (Mendes, 2009; Seabra, 2002). However, many Portuguese cultural traits still remain in the Brazilian culture due to a continuous significant Portuguese emigration to Brazil and due to both countries' elite' commitment in the XX century to strengthen the Portuguese-Brazilian community, named “Lusotropicalismo” (Seabra, 2002). In addition, even if companies seem to have a perfect fit, it is crucial to perform a complete due diligence by analyzing the current state and identifying the future opportunities at an strategic, operational, legal, financial, IT and even human resources level. According to a tax counsel in a global law firm, when conducting an M&A the team needs to fully explore the potential target in order to understand not only its opportunities but most importantly its problems and how those can contaminate the acquiring company.

“ *Especially in Brazil, where the economy is still working under much* *informality,* ***realizing what we are actually buying*** *is a crucial process."*

Access financing

Financing is another major challenge of the Brazilian market due to the protectionism that still exists. Little chances are that a Portuguese company will have access to Brazilian financing if it is not in the market before. More precisely, a company stated that it was able to access financing only to those projects related to production units.

Negotiate and contract

While negotiating with the Brazilian target company, there are several things to consider. Firstly, it is important that the external advisors, continuously supporting the M&A process, are fully involved in this phase since, once again, Brazilian contractual specificities may raise confusion. Secondly, and since networking is a crucial point to do business in Brazil, companies may consider special contractual agreements. For instance, one of the interviewed companies established that the shareholders from the acquired company would have to "stay on board" for at least 3 years. Nevertheless, and due to the Brazilians' detached attitude towards employer companies, commitment must be ensured through mechanisms, such as the earn-out mechanism. According to an M&A expert of an investment bank, this mechanism, in which the M&A price is revisited taking into consideration the future profitability, will certainly encourage the managers from the acquired/merged company to collaborate towards success, even if it is not completely theirs anymore. Lastly, Portuguese managers should promote continuous relationship building with partners, who need to feel engagement apart from the pure business contract.

Integration Planning Phase

Compose an integration team

It would be suggested that some Portuguese and Brazilian managers and collaborators work together within a team to facilitate the integration process within the organization. The insignificant language barrier will certainly ease this phase but managers should not ignore the other potential deal breakers, such as culture clashes. As claimed in one of the interviews,

“***cultural proximity can be misleading***, *especially in thinking that Brazilian people easily accept Portuguese managers as their bosses.*”

<u>Formulate an integration plan</u>

An integration plan should be designed by the shareholders and integration team of the new company according to both companies' national and organizational cultures; instead of relying on the cultural similarity to avoid conflicts. In fact, “*some companies do not get sufficiently prepared. Sometimes, they assume a lot and do not provide margin for the unpredictable. Instead, they should design a rigorous road map that is able to* ***accommodate any contingency****, even the unforeseeable.*”

Regarding the new organizational design, Brazilian managers and collaborators, even if belonging to an acquired company, present huge opportunities to the new-born company, namely in terms of networking as well as knowledge and experience in the Brazilian market. Therefore, motivating them is a key priority, mainly because they are usually very detached from the companies they work for and legally have no significant barriers to leave the company. In order to ease the integration both in the Brazilian environment and in the Portuguese company environment, the leadership team should consist of both Portuguese expatriates, previously working for the company, as well as Brazilian managers, even if those are not the previously shareholders. Also, since interviewed companies tend to establish a work force mainly Brazilian in the

> *“Who is better than a Brazilian sales person to sell to Brazilian people? Who is better than a Brazilian HR manager to manage Brazilian people? Who is better than a Brazilian to communicate with Brazilian people? Brazilian managers have local know-how and allow greater networking. The only person I believe is important to be Portuguese is the executive officer.”*

long term, due to the high costs of expatriates, Brazilian managers would certainly ease cooperation with them.

Integrating processes and systems is critical in performing a complete integration of the two separate companies. Curiously, it may be truly challenging due to the low technological level within businesses in Brazil, when compared to most European companies.

Although building a new culture is an on-going process, organizational policies should emphasize those aspects in which the two cultures are most alike, such as the collectivistic attitude, the propensity to work under defined hierarchies, the informality both cultures adopt, especially socially, among others. This process can be facilitated through cultural workshops, cross-departmental meetings with the management team to discuss each department’s improvement suggestions in a way to include collaborators in the decision process, coaching and mentoring programs between individuals from the different initial companies, collective trainings, and team-building events among others. More importantly, culture building and integration should focus on the opportunity of genuine socialization that occurs between them. In this sense, Portuguese managers would apparently think that this is a step raising insignificant problems. However, most companies interviewed referred that Portuguese and Brazilian people, despite knowing each other culture quite well, are considerably different and that, especially in an acquisition process, challenges may arise for Brazilians to accept Portuguese managers as their bosses.

Regarding compensation, and taking into account, both cultures' characteristics, it would be suggested to be largely based on collective metrics and avoiding the uncertainty of variable compensation plans.

> *"Curiously, Brazilians need incentives in the American perspective. They need direct and results' dependent incentives."*

Post-M&A Integration Phase

Move as quickly as possible

It is important that everything is planned in advance so that changes are applicable at the same time and the integration phase shows no inconsistencies to both companies' collaborators. This is especially relevant to Portuguese collaborators due to their high level of uncertainty avoidance.

Communicate and communicate

Especial attention must be paid to the continuous communication with the collaborators. They will face major changes to their past routine and therefore significant doubts will occur. The integration team should make available all the relevant information and encourage informal communication between hierarchical levels within the company to promote an environment of job security, in order to (a) prevent Brazilian collaborators from leaving and (b) make Portuguese collaborators more confident/comfortable with changes.

Initiate learning processes

Last but not least, and mostly relevant to those Portuguese companies in which internationalization is part of their future strategy, the teams involved in the overall process should initiate learning processes in order to build a repository of learning and experience in acquisition related matters useful for other future processes.

Conclusion

Influenced by a strong corporate desire for further growth, mainly from the developed markets' companies, and by the willingness of emerging markets' companies to look overseas as well as to gather resources and expertise, cross-border transactions are predicted to continue increasing. Since transnational operations imply a higher complexity level and since organic growth is nowadays hard to conduct, M&A focus seem to be here to stay. Nevertheless, with the bold challenges of exploiting distant and exotic geographies, closer through globalization, comes language, cultural and management challenges to be overcome.

Although cross-border M&As have many times proved to be unable to retrieve the expected value, it is still suggested that "those who engage in M&A activity tend to outperform those who do not" (Clifford Chance, 2012). In fact, and taking into account current business challenges, these operations enable cost reduction synergies through scale economies and resources and expertise sharing for instance, as well as revenues enhancement through greater geographical exposure and new markets' development. However, neglecting the risks associated with these operations may undermine the promise of value creation.

Brazil, despite its sparkling opportunities of an emerging country hosting events such as the Olympics and the World Cup, is still fighting to overcome many years of overwhelming bureaucracy, corruption, informality and protectionism in the economy. Therefore, the Brazilian market entry mode usually involves interaction with Brazilian players, in particular through M&As. Considering the Portuguese case, it seems correct to imply that Portuguese companies have in fact favorable conditions due to a low level of cultural distance, meeting in an easier way the Brazilian requirements to be a business partner. However, this cultural distance can be turned into a paradox in case Portuguese companies neglect the importance of preparation, due diligence and integration in M&A processes there.

From the interviews conducted to some Portuguese companies concerning their experiences and knowledge of the internationalization process into Brazil, namely through mergers and acquisitions, as well as from analyzing several prior studies and gathering knowledge by working in UK Trade & Investment, some practices were compiled as **key success factors** to

these operations. This article should, then, provide the prior theoretical investigations with a practical view of the internationalization challenges and contribute to a better preparation of the companies when entering in Brazil.

- ✓ Consider regions/states' particularities to choose the target/partner company
- ✓ Master all the market characteristics (political, economic, social and cultural)
- ✓ Work closely with external, preferably local, advisors/consultants
- ✓ Develop local networking
- ✓ Perform a rigorous due diligence: fight intuition and the cultural distance paradox
- ✓ Strengthen emotional connection with Brazilian partners: emotional side of operations
- ✓ Maintain the company staff mainly Brazilian, at least in long term
- ✓ Conduct immediate and solid integration practices
- ✓ Focus on HR, more on culture management and less on terms and conditions
- ✓ Communicate clearly and frequently to avoid uncertainty and turnover

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