Brisa and the CCR Group: A strategic alliance

Francisco Cardoso Ribeiro

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Abstract

Title: Brisa and the CCR Group: A strategic alliance

By: Francisco Maria Quintela de Saldanha Cardoso Ribeiro

In 2012, Brisa, a Portuguese road concession company, reviewed their presence in Brazil under a strategic alliance with local partners which had lasted for more than 9 years.

The case is based on information gathered in interviews to agents from Brisa present in Brazil and from events that occurred during the course of this alliance. The information includes comments and considerations about the relationship and expectations from the alliance between Brisa and the CCR Group.

The internationalization process of Brisa starts in Brazil with a joint-venture with local partners, integrating the CCR Group. The case describes the origin of this alliance, how it was established and the transfer of competencies between both parties as well as the results of the alliance. The description of the alliance is based on a series of episodes and facts that enhance the know-how acquired by each party. This know-how helped Brisa and the CCR Group to achieve a position of success in the industry.

This case can be used as a tool to understand the procedures used to develop a strategic alliance at the international level and the criteria to choose a partner. The students have the possibility to analyse various situations that are faced in a new international environment. Supported by other qualitative and quantitative data, this will help them make a sustained analysis, bringing them closer to the real-life international business perspective.

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1. Case Study

1.1 Introduction

In 2012, two years after Brisa left their participation in Brazil in the CCR Group,[1] the CFO of Brisa João Azevedo Coutinho[2] reported that what best characterized their nine years of joint venture was the perfect relationship between partners and their similarity of needs.

> *"Brisa found the right partners in the right market. We created an excellent relationship with our partners that resulted in a great transfer of know-how and in a profitable business, not only in terms of capital but also in terms of experiences and best practices"*

In the nine-year joint venture relationship with the CCR, there were remarkable issues that transformed this alliance in an extraordinary story, as Valdemar Mendes[3] mentioned:

> *"I think that both companies gained equally with this alliance. I'm definitely sure that for the partners of CCR it's always a pleasure to talk to Brisa when it comes to business."*

The strategic alliance went through several phases: the start-up; the know-how acquisition by each party; and the management of the alliance's termination by both companies.

Given the negative evolution of the Portuguese Economy that directly affected the use of the highways by the Portuguese people, who had less money to spend on the tolled highways, Brisa found a way to fight back these adversities with the internationalization. Its presence in several countries such as Brazil, Holland, the USA or, in the more recent years of 2011 and 2012, Turkey and India became a central point in the overall economic sustainability of the company.

Brisa's CFO referred that the alliance was an unlikely case of success in all parts of the alliance. The managers of Brisa understood that the internationalization was a key success factor to Brisa and they wanted to understand after this alliance what are the

[1] Companhia de Concessões Rodoviárias Group (herein referred to as *"the CCR Group"*).
[2] João Azevedo Coutinho, member of the board of directors and of the executive committee of Brisa, interviewed on 9 November 2012
[3] Valdemar Mendes, director of the Operation and Maintenance business unit at Brisa interviewed on 8 November 2012

drivers and the characteristics that transformed this internationalization process in such a success.

Brisa wanted to understand what contributed to the added value of this alliance and what Brisa's benefit was in this cross border enterprise. What were the factors that led to the international success?

1.2 The Toll Road Concession Industry

Most countries have no toll roads. Where there are toll roads the tolled network typically comprises of less than 5% of the road network. In the tolls for passenger cars there are variations between and within countries, but these variations are not dependent on national income levels. Tolls for bridges and tunnels are considerably higher per kilometre reflecting both the higher cost of construction and maintenance, and the lack of alternative routes. Normally, the investments in this industry are intensive and with large loan commitments.

In most countries with toll roads the private sector has been heavily involved in the development of the roads and often thereafter in their operation. In Latin America in particular, there has also been extensive involvement of the private sector in the maintenance and on-going operation of roads that were built by the public sector. The USA, Japan, and France are the key exceptions to this rule, where most toll roads are owned and operated by public corporations.

Even where toll roads are operated by the private sector, Government support has been considerable in almost all cases.[4]

The Portuguese Road Concession Industry

The Portuguese road industry has been experiencing profound changes since 1990. The main result of these changes is a highway network in good condition, which allows travelling across almost all the country easily and in comfort. These highways are operated by private entities through concession contracts signed between them and

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[4] Estache, António, Romero, Manuel and Bank, John Strong, *The Long and Winding Path to Private Financing and Regulation of Toll Roads,* World Bank, 2012, available [online] at: http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2000/08/14/000094946_0007280537429/additional/102502322_20041117135503.pdf [accessed on 25 October 2012]

the public partner, directly by the state, or indirectly by Estradas de Portugal, EP, the Portuguese roads company.[5]

These concessions, which are of the public-private partnerships type, need to be subjected to regulation. The regulatory obligations designated to InIR (the institute for road infrastructure) together with the contracts and the legal framework, define the Portuguese road sector participation rules.[6]

Between 1990 and 2000 there was a steady decrease in the number of road accidents resulting in death or injury in Portugal. On a yearly average, the number of fatalities fell by 3.2%. Since 2000, the rate of decline has accelerated, with an average annual decrease of 8.2% between 2000 and 2009.[7]

1.3 Brisa

Brisa – Auto-estradas de Portugal[8] was created in 1972. In four decades it has become one of the largest tolled highway operators in the world and the largest company in Portugal in transport infrastructure.

Brisa's main business area is the operation of tolled highways, both through direct investments in Portugal, as well as through its national and international subsidiaries. The remaining businesses managed by the company complement its core business providing services associated to road safety and driving comfort in both highways and urban environments.[9] All business units are independent but in somehow connected by their main driver: the highways.

Brisa's Developments

Since Brisa's foundation in 1972, its executives have focused their efforts on strengthening their competences in certain aspects. Brisa developed its skills in planning and project management, and in the design, construction and operation of highways. Considering the period from 1976 to 1998, Brisa's investment in highways accounted

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5 Estradas de Portugal, 2012 [online] available at : http://www.estradasdeportugal.pt/index.php/pt/governo-da-sociedade [accessed on 21 October 2012]
6 InIR – Instituto de Infra-Estruturas Rodoviárias, I.P. 2012 [online] available at: http://www.inir.pt/portal [accessed on 23 October 2012]
7 International Transport Forum, 2010 [online] available at: http://www.internationaltransportforum.org/irtadpublic/pdf/10IrtadReport.pdf [accessed on 12 December 2012]
8 Herein referred to as Brisa.
9 Brisa, 2012 available [online] at: http://brisa.pt/PresentationLayer/conteudo.aspx?menuid=270&localid=184 [accessed on 17 October 2012]

for 0.21% of the Portuguese GDP (Exhibit 1). These investments in the development of Portugal are found in the construction of the two main Portuguese highways that connect the country from North to South, completing almost 800 kilometers of network (Exhibit 2). Given that its core business is not the construction of highways, Brisa always signs agreements with construction companies to carry out its projects.

In 1994, Brisa won the "Tool Innovation Award" from the International Bridge Tunnel and Turnpike Association, for the innovation and reliability that the new teletoll system “Via Verde” offered, this being the direct result of the investment in innovation and technology that Brisa has been implementing and defending from the start for the industry in order to be able to build a sustainable growth.

These efforts and developments led Brisa to be internationally recognized among companies around the world as a specialist company in the management of highways under concession. The company has substantial know-how accumulated over almost 40 years in four main fields: Planning and construction, Financing, Development, and Business Administration (Exhibit 3).[10]

[10] Brisa, 2012 available [online] at: http://brisa.pt/PresentationLayer/conteudo.aspx?menuid=272&localid=187 [accessed on 17 October 2012]

1.4 The start of the alliance

Brisa in 2001

At the start of the new decade, Brisa held a comfortable position in the Portuguese market. In 2000, its net profit was €202.5 million (Exhibit 4). At this time, Brisa had a solid financial structure, with access to many financing options for its projects and concrete experience in this kind of financing investments.

In 2001, the competition in Portugal in the area of infrastructure companies entering the market was growing and the saturation of opportunities to invest internally lead Brisa to start looking for new opportunities.

Brisa was established in 1972 as a public company, and in 1995 started its privatization process, that finished in 2000. When the company became private, a new vision was taken into consideration, as António de Sousa[11] stated:

> *"As of 1995, Brisa had a stable network, beginning to realize that its network was mature. It now had capacity for growth and in Portugal there was no more room for expansion. When the privatization process ended in 2000, a time when Brisa was already a recognized market player, it had capital to grow, but no significant opportunities in Portugal. The solution was to enter the international market."*

The leaders of Brisa were facing a new situation and had to find new ways to add value by developing new business models and through internationalization. This same year, Brisa started to develop a renovated business model, creating new business units such as the conversion of Via Verde into a self-managed company and acquiring 17% of Brisal, a local competitor from the north Portugal.

Brisa's strategy department devised a plan to start its international expansion: Brisa had to find a strong, local partner, in a country where the concession of highways with tolls was in development. Brisa's director João Azevedo Coutinho said:

> *"Brisa looked at the international markets to start expanding its business into markets where the economy was growing and the country was developing its highways, especially tolled highways."*

[11] António Nunes de Sousa, member of the Board of Directors and of the Executive Committee, interviewed on 7 November 2012.

1.5 The CCR Group

CCR (Companhia de Concessões Rodoviárias / Road Concession Company) was created by the merger of stocks held by large national groups.[12] The company was initially established as a joint venture between four Brazilian construction companies (Andrade Gutierrez S.A.; Camargo Corrêa; Serveng Group; Odebrecht). CCR’s main intention was to tender in the Brazilian road concession program.

Since the onset that diversifying its portfolio and engaging in new businesses is part of CCR's strategic plan for sustained growth. In its mission statements presented in the CCR annual report, it was clear that CCR’s strategy was based on five pillars:

- To expand and diversify the concession network
- To maximize the benefits of bringing together the management of its concessions
- To maximize economies of scale
- To maximize operating efficiencies of each concession
- To explore related business activities

In 2000, the group started to look for an international partner to help in the highway operations because at the time in Brazil there weren’t any companies specialized in these fields. Their purpose was to acquire know-how as the sole agent for the operation of highways. At the time the CCR group had around 13% of market share, and already a large and diversified portfolio of concessions under operation.[13]

CCR gathered information and analyzed companies from the countries with more experience in tolled highways, which at that time were Italy, Spain, France and Portugal.

Being one of the bigger and more experienced companies in those countries, Brisa emerged from that situation as the natural partner.

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[12] Grupo CCR, 2012 available [online] at: http://www.grupoccr.com.br/English/ccr-group/about-group [accessed on 17 October 2012]
[13] Grupo CCR, 2012 available [online] at: http://ccr.riweb.com.br/Show.aspx?id_canal=BZ9eVOuwU9VgCO9RveQWEQ== [accessed on 17 October 2012]

Brazil in 2001

Brazil is the largest country in South America, with an area of 8,515,767 Km2, and is situated on the Atlantic coast, opposite to Portugal.

Infrastructure development was not able to keep up with the country's development, roads were still in poor condition, ports and airports were not able to provide the capacity and service expected from the volume of trade occurring in the country. Nevertheless, the country made strong investments and intended to keep them up in order to increase development and foreign investment.

The country would reach a paved extension of 200,000 km in 2000. Between 1995 and 2005 three major highways (BR-101, linking Curitiba to Porto Alegre; Via Regis Bittencourt, linking São Paulo to Curitiba; and Via Fernão Dias, linking São Paulo to Belo Horizonte) were modernized. Until then, most of these highways were known for their high mortality rate due to traffic accidents.[14]

The concession of highways under the toll collection system did not follow a clear path in Brazil. The concession model was born in 1993 was followed by a rapid expansion. Most major highways in Brazil would then be operated through private concessions, seeking a good performance of the highways, essential for the development of the country's economy, but by 2000, the concessions in Brazil were still virtually nonexistent. There were still some highways that were not private, they were operated by federal or state authorities.

The concession model was based on the privatization of highways that already existed but needed to be improved, expanded and new sections added, where tolls would be installed.[15]

One of the reasons for the Brazilian government to catapult these private concessions was the fact that there were various insurgences of popular movements against the regulations and highway tolls. On the other hand, the regulations were not

[14] Wikipedia, 2012. Brazilian Highway System, Wikipedia [online], available at: http://en.wikipedia.org/wiki/Brazilian_Highway_System [accessed on 18 December 2012]
[15] Inter-American Development Bank, 2012 available[online] at: http://iepecdg.com.br/uploads/artigos/Structural_Reforms_in_Brazil-_Progress_and_Unfinished_Agenda.pdf [accessed on 17 October 2012]

implemented as easily as they had been in Portugal. In Brazil, the law system includes federal and state laws that can change independently and constantly.

In 2000, Brazil was already a destination of foreign direct investment by Portuguese companies such as telecom or retail companies. The investment was growing in different areas. Brazil was a target for Portuguese companies, encouraged by cultural influences such as language, religion and the social network between countries.

Brazil was a Portuguese colony since Pedro Álvares Cabral reached it in 1500 and until 1815,[16] the year in which it became independent. In the more recent years, the relations between both countries, as well as the mutual investment, have been developed by the Portuguese-Brazilian Chamber of Commerce. Almost two-thirds of the Brazilian people (73.57%)[17] are roman catholic, as they originate from Portugal, where Roman Catholics are 84.50% of the population.[18]

Bureaucracy and corruption led to some inefficiencies and a time consuming system that, together with a complex regulatory framework, delayed the day-to-day running of business.

1.6 The Alliance Agreement

By 2001, the Portuguese-Brazilian Chamber of Commerce and Industry (CCILB) was giving support and promoting the economic and trade relations between the two countries. Brisa and CCR were looking for opportunities, and after some meetings they realized that they fitted each other's criteria. The alliance was born during a congress, as described by João Azevedo Coutinho:

> *"Curiously enough, my first task as a Brisa employee was to attend the first congress of highways in Brazil. While there, I started to develop my contact network with the major companies in Brazil. It was then that the first contact with the CCR group was established."*

After analyzing the international opportunities, Brisa started negotiations with the CCR Group. Between 2001 and 2003, it acquired 20% of CCR's business, a €183.2

[16] Wikipedia, 2012. Brazil, wikipedia [online], available at http://en.wikipedia.org/wiki/Brazil [accessed on 18 December 2012]
[17] Demographic Census Report, 2000 IBGE (Brazilian Institute of Geography and Statistics) available [online] at: http://www.ibge.gov.br/english/ [accessed on 18 December 2012]
[18] Central Intelligence Agency, 2012 available [online] at: https://www.cia.gov/library/publications/the-world-factbook/fields/2122.html#po [accessed on 18 December 2012]

million investment divided into four different cash outflows (Exhibit 5). It then created a Brazilian local company called BPE (Brisa Participações e Empreendimentos) responsible for this participation.

In the alliance contract, it was established that Brisa would always have to equal or exceed the participation of the other alliance partners. As João Azevedo Coutinho put it:

> *"In addition, our agreement requiring that we would always have a share that equalled or exceeded that of the other partners, also included a clause providing that any new project would have to be submitted for the approval of one of our members of the board."*

By 2001, one year after the foundation, the CCR Group was established, each partner holding a 20% share. In the same year that the company became public, the company released 34.8% of its shares to the public, forming a new structure.[19]

Inside the local company BPE, Brisa was represented by one director and one financial controller (Exhibit 6). They normally changed every three or four years according to Brisa's international human resources department. BPE was represented in the Executive Committee of CCR by the director who would be in Brazil at the time. João Azevedo Coutinho was the member of the Board of Directors of CCR for Brisa during the whole alliance time (Exhibit 7).

1.7 2001 to 2009

From the onset, Brisa faced new challenges in Brazil while participating in the operation and maintenance of the highways. As described by the first local executive representing Brisa, Manuel Lamego[20]:

> *"When we arrived in Brazil, the market and the highways seemed the same or very similar but afterwards things were different. The structure of the highways was somehow equal to Portugal but when we talk about the technical characteristics of a highway in Europe, they are totally different in Brazil. For example at the time there were bus stops in the middle of the highways. Also in terms of access to the highways things were circumstantially different. Things in general weren't the same, they weren't worst, they were just different."*

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[19] Brisa, 2012; "Annual Report 2001". Available [online] at http://brisa.pt/PresentationLayer/textos00.aspx?menuid=152 [accessed on 27 September 2012]

[20] Manuel Lamego, director of Brisa Concessions business unit for Brisa, interviewed on 9 November 2012

On the other hand, the traffic rules were different, as mentioned by António Nunes:

> *"The traffic in Brazil was completely undisciplined. Typically there were pedestrians and bicycles on a highway. There was a great lack of discipline, and a large number of deaths due to traffic accidents."*

Brisa also encountered diverse situations when facing the first international expansion, such as legal, social and economic differences. Brisa faced situations that contributed to their future international expansion, as stated by Manuel Lamego:

> *"We faced problems like our work permits and other legal issues that we had not thought of, and a language that seemed to be the same but that ultimately led to language misunderstandings. The laws and tax requirements were very different. In the first year we had to tackle issues that would have been easier to deal with if we had thought of them beforehand".*

Brisa also faced new market differences in Brazil, as for instance the size of the highways, which in general were significantly bigger. For example, Brisa was responsible for the management and control of the Rodonorte Highway, a 481 km road, almost twice the size of the longest highway in Portugal, as Valdemar Mendes stated:

> *"The longest distance between main cities in Portugal is around 200 km, while in Brazil it is around 500 km, and there are certain parts of the highway where for many kilometres there are no villages or major cities.*

In 2004, the group acquired Via Oeste and made a follow-on offering, redefining their corporate strategy and assuring for CCR a minimum of 51% of the total number of shares. After one of the partners left (Oderbrecht), one year before, the group reorganized its structure (Exhibit 8). By this time the relationship between the partners seemed to be in synchronization with the transfer of competencies. As the board representative Antonio Sousa put it:

> *"We had a technical cooperation program with CCR that allowed the transfer of people from Brazil to Portugal and vice-versa, in order to get in contact with certain practices and methods during three month periods."*

With the growing of CCR, the headquarters of the group were changed in order to keep up with the company size. BPE was also always changing their location into inside the headquarters of the CCR group or in the nearest building.

In 2006 the company diversified its portfolio, securing the concession of the "Linha 4 Metro de São Paulo" an important underground line in the heart of Sao Paulo.

This same year the CCR Group became the biggest concessionaire of highways in South America.[21]

In 2007, Brisa started its internationalization in North America together with CCR, running the Northwest Parkway concession, in Colorado. This project was led by Brisa (90%) with a small participation of CCR (10%). One year later the project had already a positive EBITDA margin of 26%.[22]

In 2008, CCR got the concession of Rodoanel and Renovias, assuring that the company fulfilled its growing strategy and portfolio diversification. One year later, Brisa's operational targets were met, with an EBITDA of 72% reinforcing its financial strength. The net profit increased by 6% compared to 2008 and throughout the nine years of the alliance (Exhibit 4).

The last representative of Brisa in Brazil, Valdemar Mendes made a curious statement about the relationship between CCR and Brisa throughout the years:

> *"The relations between the shareholders were almost of friendship and cordiality and when things work like that, everything becomes much easier."*

Valdemar Mendes also mentioned the importance of the first international expansion and its contribution to the future expansion of Brisa:

> *"When Brisa decided to go to other international markets, we knew that we needed to be much more careful and needed more and better market research and to study the local trends."*

The stock price of the CCR Group since the beginning of the alliance increased more than 700% (Exhibit10). Despite the difficult macro-economic conditions prevailing in Portugal, Brisa registered a positive year in 2009, consolidating its strong market performance. The share price climbed 34.2%, corresponding to a value per share of €7.18, countering the decline of the previous year (Exhibit 11).[23]

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[21] Grupo CCR, 2012 available [online] at: http://www.grupoccr.com.br/English/ccr-group/about-group [accessed on 17 October 2012]

[22] Brisa, 2012; "Annual Report 2007" available [online] at http://brisa.pt/PresentationLayer/textos00.aspx?menuid=152 [accessed on 27 September 2012]

[23] Reuters, 2012 available [online] at: http://www.reuters.com/finance/markets [accessed on 2 December 2012]

In time, Brisa's shareholding position in CCR was close to €1,100 million.[24] In 2009, CCR was the largest private group operating in the road infrastructure sector in Brazil, managing 1,571 km of highways in this country.[25]

In 2009, the manager of BPE, Valdemar Mendes, referred to the previous years thus:

> *"After the first few years of the alliance the CCR partners started to understand the methods and techniques of the operation and management of highways. We adjusted our mission and goals to other variants without abandoning the operation and maintenance of highways."*

Portugal was posting a weak economic growth since the beginning of the millennium, below the Euro area average. Due to the European crisis, economic growth contracted 2.9% in 2009. Brazil also registered a contraction in the economy but showed a clearly higher CAGR in the period from 2001 to 2009 (Exhibit 12).

Brisa's other internationalization processes

Only one year after the first internationalization and independently from the CCR group, Brisa started its expansion program, acquiring 4% of Abertis, a major player in Spain. The chairman of Brisa, Vasco de Mello, understood that the business model of internationalization should take one form:

> *"The CCR in Brazil was the first Brisa operation in the international market and demonstrates the feasibility of Brisa's model for growth based on partnerships."*

In 2005, Brisa expanded their business, implementing a toll system in the Czech Republic and in the same year made a partnership to tender for the construction of the two main roads in Poland.[26] Two years later Brisa started a project in Holland with Movenience, a company in which Brisa held 30% (Exhibit 9).

1.8 The final year of the alliance, 2010

In the beginning of 2010 the Portuguese company suffered a downgrade of Standard and Poor's credit rating from "BBB" to "BBB-". At the time, the agency noted

[24] Brisa, 2012; "Annual Report 2009" available [online] at http://brisa.pt/PresentationLayer/textos00.aspx?menuid=152 [accessed on 16 October 2012]
[25] Brisa, 2012; "Annual Report 2009" available [online] at http://brisa.pt/PresentationLayer/textos00.aspx?menuid=152 [accessed on 17 October 2012]
[26] Brisa, 2012; "Annual Report 2005" available [online] at http://brisa.pt/PresentationLayer/textos00.aspx?menuid=152 [accessed on 27 September 2012]

that Brisa's liquidity risk was "less than adequate". The weaker economic outlook for Portugal should also be reflected in the performance of traffic flows in the country.

In 2010, Brisa faced the decrease of the Portuguese economy which translated into a decrease in the number of people using the tolled highways. This situation ended by affecting their share price, according to the statement made by the Chairman Vasco de Mello in the Annual Report:

> *"At the financial level and in terms of stock market performance, we saw an excessive correlation between the rise in Portugal's sovereign risk and Brisa's stock performance"*

After some internal decisions, Brisa decided to sell their participation in the CCR group. Starting on 24 September, Brisa sold their position to its partners and in the stock market in three phases.

Vasco de Mello mentioned that the profit from the operation was used not only to strengthen the financial position of the company, but also to finance its future growth in other regions.

"The sale does not mean a negative view of Brazil or CCR," Vasco de Mello said in a conference call with local analysts. *"Brisa need to prepare for the future and this was the best solution.*"[27]

The sale was carried out gradually in consecutive installments throughout the year. The challenge consisted of arranging an exit strategy while preventing that expectations of future sales contaminated the stock, causing its devaluation. Brisa received a gross value of €1,318.2 million from the sale, translated into a net value of €1,156 million. The disposal process was based on a mixed model which included part of the sale in M&A (with major shareholders acquiring 6% of the capital) and the remaining 10.35% sold on the capital market. Brisa carefully chose the most appropriate moment to make its block trade, in order to optimize total proceeds (Exhibit 13).

[27] Economia & Negócios, 2012; Economia, available [online] at: http://economia.estadao.com.br/noticias/economia,portuguesa-brisa-anuncia-venda-de-fatia-na-ccr-e-sai-do-brasil,24342,0.htm [accessed on 30 September 2012]

1.9 Legacy left in Brazil

After Brisa's exit of the CCR group the relationship between both parties remained professional and friendly. Brisa is still active due to its participation in BPE in Controlar, an automobile inspection company where the know-how gained at Controlauto, a company which Brisa holds in Portugal also helped.[28]

In 2012, Brisa and CCR signed a preliminary agreement to evaluate and eventual tender for the privatization of the Portuguese airport management company.[29]

The relations also remained very friendly as the last representative Valdemar Mendes said:

> *"Nowadays Brisa's and CCR's managers are still friends, together we think about new business opportunities or we just simply get together for social meetings."*

1.10 Conclusion

After nine years of alliance, the CFO of Brisa and the main responsible for its first internationalization process declared:

> *"We got to a certain point where we considered that the curve of value creation was starting to invert its trend. It doesn't mean that if we had kept the alliance we couldn't have gained more value but its rhythm would be much slower and the risk higher."*

In 2012 CCR was considered one of the biggest concession companies in the world and registered an undoubting growth over the nine years of the alliance. Did Brisa's transfer of technology to CCR both in terms of management and operation propel the concession's development and projection in the Brazilian market and at international level?

What factors led the alliance to success? Did Brisa take the right approach in a cross border alliance? In the different approaches of business management, which company benefitted more with this alliance and what was the know-how transferred?

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[28] Brisa 2012; Business & Companies available [online] at: http://brisa.pt/PresentationLayer/textosdetail.aspx?menuid=249&textoid=1444 [accessed 5 December 2012]

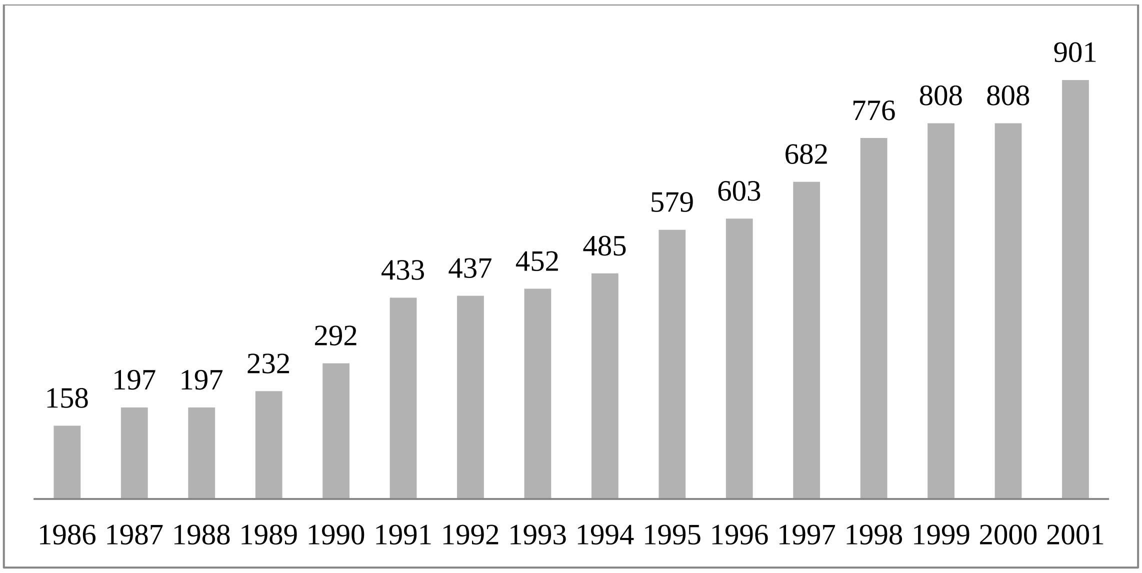
[29] Exame Brasil, 2012, Companies available [online] at: http://exame.abril.com.br/negocios/empresas/noticias/brisa-e-ccr-desistem-de-acordo-para-privatizacao-da-ana [accessed on 5 December 2012]

Exhibit 1: State Investments and their weight on the GDP

Public Investment	1976-80	1981-85	1986-88	1989-93	1994-98	Sample Average
Aggregated public investment	1.21	1.26	1.27	1.76	2.16	1.55
National Roads	0.29	0.35	0.41	0.56	0.76	0.48
Municipal Roads	0.32	0.41	0.36	0.45	0.45	0.40
Highways	0.15	0.12	0.11	0.31	0.34	0.21
Ports	0.14	0.19	0.11	0.09	0.08	0.12
Airports	0.02	0.05	0.08	0.06	0.05	0.05
Railways	0.30	0.15	0.20	0.29	0.49	0.29

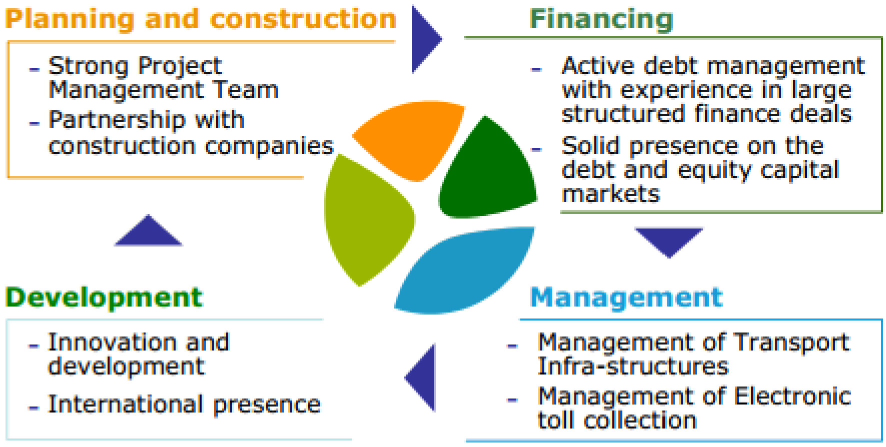
Source: Alfredo M. Pereira, Jorge M. Andraz, *Public Investment in Transportation Infrastructure and Economic Performance in Portugal*, Journal of Economic Development, Chung-Ang Unviersity, Department of Economics, vol. 32(1), pages 1-20, June 2007

Exhibit 2: Portuguese Brisa Network Km in Operation 1986-2001



Source: Brisa Annual Report

Exhibit 3: Brisa's Value Chain



Source: www.brisa.pt

Exhibit 4: Brisa Key Figures 2000-2009

million €	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Ebitda	315	357	384	403	424	418	418	460	483	482
Ebit	229	263	271	275	315	296	294	281	277	223
Net Profit	203	212	213	152	191	298	167	259	152	161

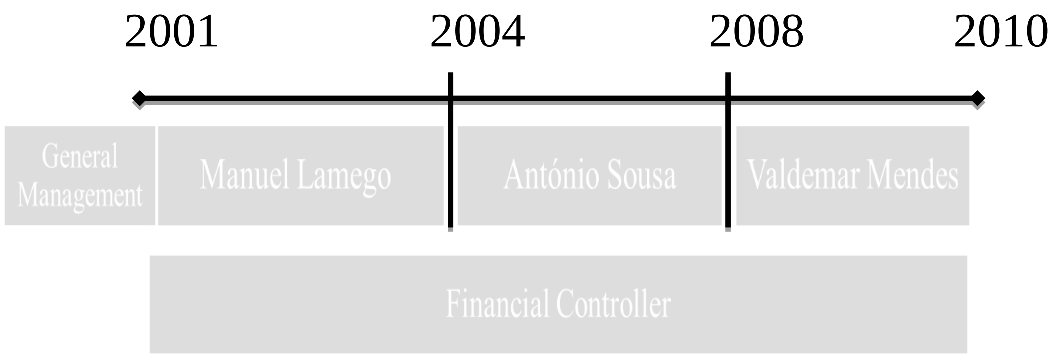
Source: Brisa 2001 Annual Report

Exhibit 5: Brisa Cash-Flows in CCR

million €	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Cash Outflows	126.3	30.7	26.2	0	0	0	0	0	0	0	183.2
Cash Inflows	0	0	0	0	23.5	27.7	40.5	41.9	34.6	44	212.2

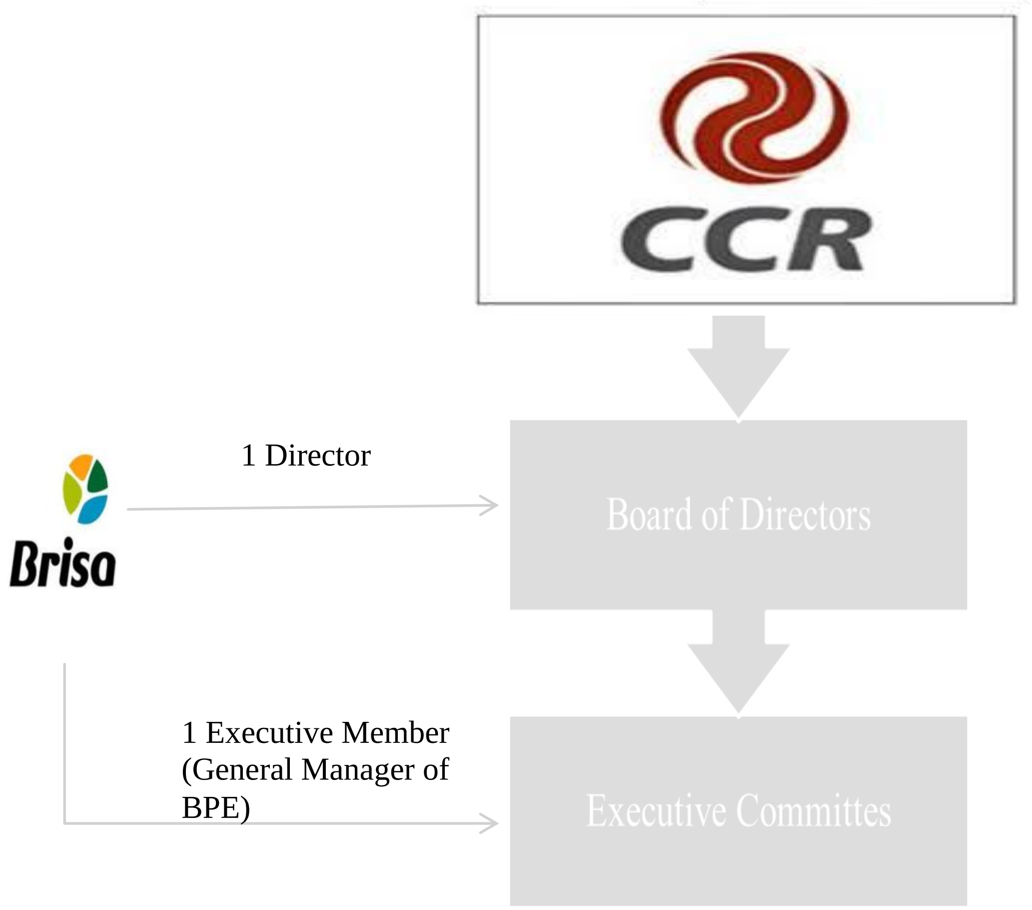
Source: Brisa 2011 Annual Report

Exhibit 6: BPE structure and timeline



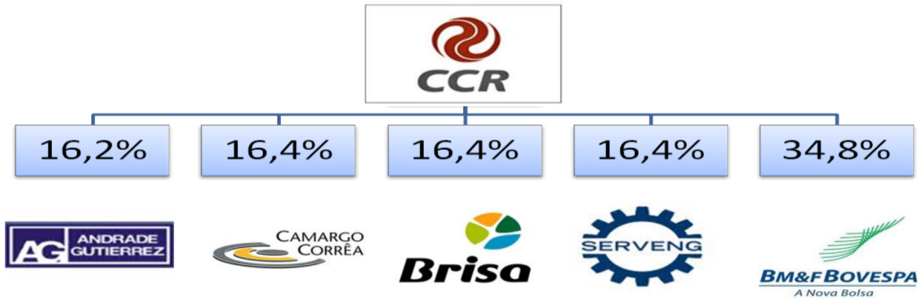
Source: Brisa 2011 Annual Report

Exhibit 7: Brisa representatives in the CCR group



Source: Information released during the interviews with the members of Brisa’s Board of Directors.

Exhibit 8: CCR Group Shareholders in 2006



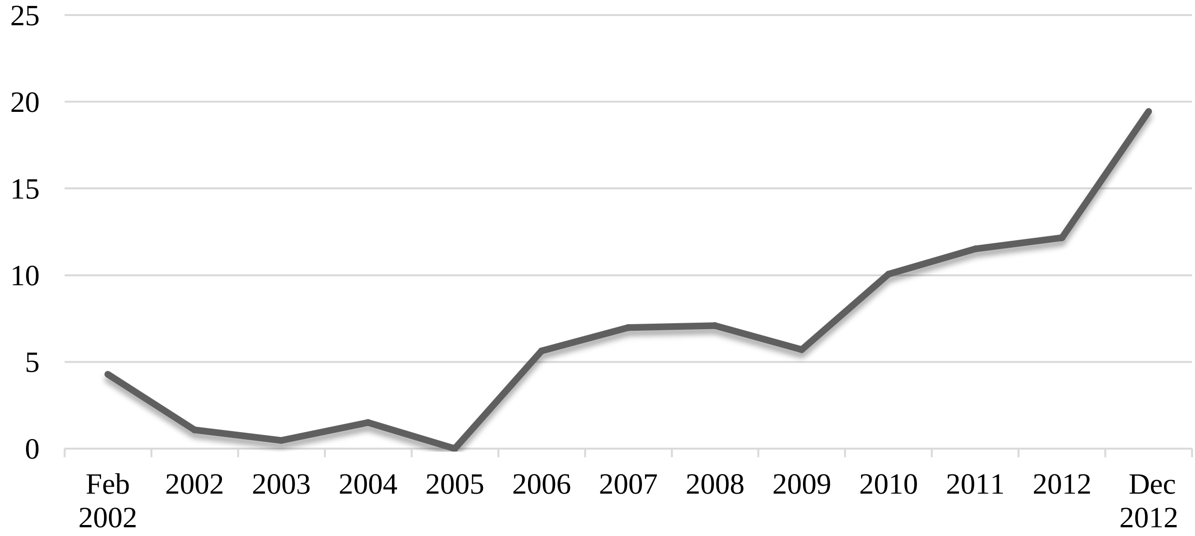
Source: CCR Group Annual Report

Exhibit 9: Brisa 2008 New Projects

	Projects	
	Northwest Parkway	**Movenience**
Brisa	90%	30%
Other Partners	10%	
CCR	10%	
Westershelde Tunnel		60%
NedMobiel		10%

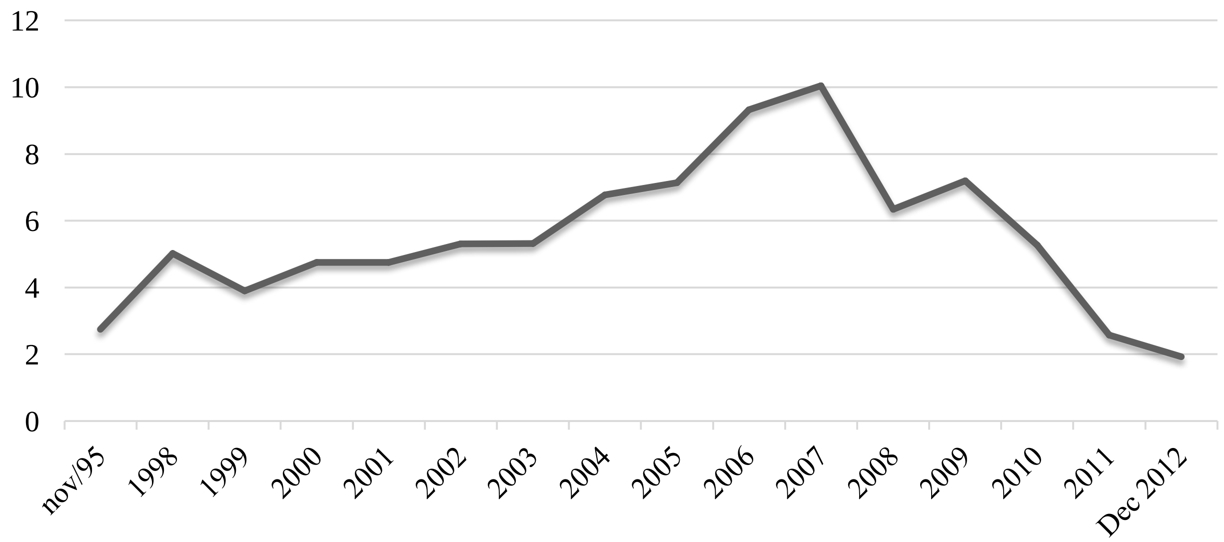
Source: Brisa 2008 Annual Report

Exhibit 10: CCR Share price history 2002 - 2012



Source: Reuters

Exhibit 11: Brisa Share price history 1988 – 2012 (in Euros)



Source: Reuters

Exhibit 12: GDP Evolution in Portugal and Brazil (2000- 20011)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Portugal	3.92%	1.97%	0.76%	-0.91%	1.56%	0.78%	1.45%	2.37%	-0.01%	-2.91%	1.41%	-1.61%
Brazil	4.31%	1.31%	2.66%	1.15%	5.71%	3.16%	3.96%	6.09%	5.17%	-0.33%	7.53%	2.73%

Source: World Bank, 2012. GDP growth (annual %)

Exhibit 13: Cash-Inflow Timing and Values of Brisa participation in the CCR Group

Buyer	%	Data	Share Price (BRL)	Net Value (million €)
CCR Shareholders	6 %	September 24th	37.4	382
Stock Market				
1st Phase	3.61%	October & November	45.9	281
2nd Phase	6.75&	December 15th	43	439
Total	16.36%			1.156

Source: Brisa Annual Report

2. Teaching Note

2.1 Introduction

In the Case Study some information may be slightly distorted, either for simplification purposes or to maintain Brisa's and CCR's confidentiality, but ultimately all basic facts have been maintained.

2.2 Synopsis

In 2000, Brisa, a Portuguese tolled highway operation company, started their internationalization program, following the new managerial vision provided from the privatization phases occurred at the end of the 90's. In Portugal, Brisa was the major highway operations company, responsible for the management and operation of the main roads across the country.

The internationalization process of Brisa started in Brazil, with a joint venture with local partners which became the CCR Group. The case describes the origin of this alliance, how it was developed and the transfer of expertise between both parties as well as the results of the alliance. The description of the alliance is composed by a series of events and facts that enhance the know-how acquisition by each party for the whole duration.

Two years after the end of this alliance the managers and executives of Brisa want to understand and clarify what were the key points that transformed this alliance in a good financial return as well as to understand what were the lessons learned and the know-how acquired for the future development of the company.

2.3 Suggested Assignment Questions

Students should read the case and come to class prepared to discuss the following questions:

Part I – Before the Alliance

1. What market and company characteristics led Brisa to think in new business opportunities? What where those opportunities?
2. Before Brisa joined the CCR group what characterized the company? What were the differences encountered by Brisa between the Brazilian and the Portuguese markets?

Part II – The Alliance Results

3. What type of agreement did Brisa have with CCR? Can you consider any relationship between the type of agreement and the primary purposes of the agreement?
4. In the negotiation of the alliance strategy and regarding the scope of the alliance, what were Brisa's actions to try to ensure success?
5. In the different fields of the scope of the alliance which company do you believe benefited more from the alliance?

2.4 Teaching Objectives

The teaching objectives of this case are as follow:

- To understand the evolution of the major companies in the country from its conception to its internationalization.
- To have students acquire a good understanding of the market and industry culture in different countries.
- To help students explore different structural and corporate cross-border problems.
- To highlight the complexity of an internationalization process and how to proceed and approach different markets.

- To illustrate to students the different strategic objectives of the companies across the alliance agreement.
- To have students familiarize themselves with the purposes of strategic alliances and their scope.
- To help students evaluate the creation of value and the benefits of international alliances in the different fields of business.

2.5 Use of the Case

The case allows the students to study a set of real business decisions that should help them find a partner in the business world. They should also be able to analyze it from the view point of making strategic decisions about cross-border alliances and through corporate organizations as well as in terms of the purpose of value creation for the companies. Even though the case story seems simple, there are some important issues relating to the market selection and the reasons for the internationalization.

The Brisa and CCR case can be used in an undergraduate or master strategy course under the topic of internationalization strategies. It can also be used in the courses of strategic alliances or of corporate strategy.

2.6 Relevant Theory

This case aims at introducing international business administration students to the strategy alliances of companies abroad. In order to enrich this learning experience, some theoretical models and information to support this case discussion and analysis were included in the teaching note. The following books and respective theories were used in this analysis:

- PEST Analysis: Freire, A., *Estratégia – Sucesso em Portugal*, Verbo,12th edition, 2008.
- M. Michael Y. Yoshino, U. Srinivasa Rangan, *An Entrepreneurial Approach to Globalization*, Harvard Business School Press. 1995.
- Yves L. Doz, Gary Hamel, *Alliance Advantage: the art of creating value through partnering*, Harvard Business School Press, 1998.

- SWOT framework: Porter, M., *Competitive Advantage: Creating and Sustaining Superior Performance*, 1985.
- The Cultural, Administrative, Geographical and Economical distancies model (The CAGE Model): Ghemawat, Pankaj. Siegel, Jordan, *Redefining Global Strategy: Crossing borders in a world where differences still matter*, Harvard Business Review Press, Chapter 2, 2007.

2.7 Analysis and Discussion

The analysis and discussion of this case study is planned according to the assignment questions. The case is calculated to be lectured in a 90 minutes class.

(In the beginning of the class, teachers should ask a student to summarize, in 2-3 minutes, the most important information in the case. After letting different students intervene with other comments they may have on the most important information, teachers should go on to the first assignment question).

Part I – Before the Alliance (25 minutes)

1. What market and company characteristics led Brisa to think in new business opportunities? What where those opportunities?

To analyze the Portuguese market we must understand that Portugal had a highway network in good condition (page 2) and a positive GDP growth, and take into account that the highway system reached most parts of Portugal, and the laws and regulations were stabilized (page 2). Through Brisa, Portugal developed Via Verde, a reference across the world. This information can be summarized on a PEST analysis, provided on **TN Exhibit 1**.

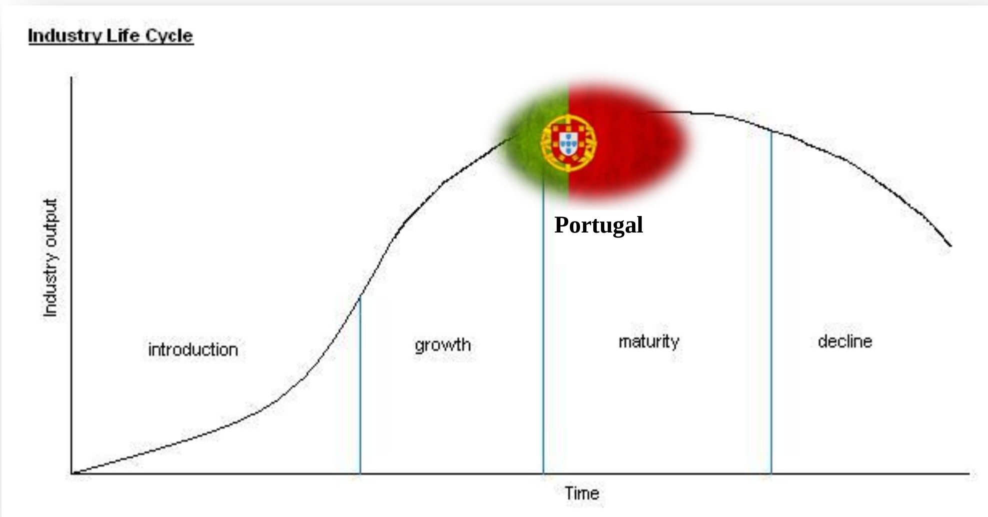
TN Exhibit 1: Portuguese Road Concession Industry PEST Analysis

Political Context	• Managed by private entities • Regulation defined by InIR • Laws and governments stabilized
Economic Context	• Positive GDP Growth rate
Social-Cultural Context	• Easiness to travel • Access to almost all country by highway
Technological Context	• Highway network in good health • Development of Via Verde

Source: Case Writer

In 2000, the Portuguese market was facing a new situation where, after a decade of growing, the industry was mature (page 4). The construction and maintenance of the highways was an important step in the Portuguese economy as the only considerable player in the market (page 3) as can be seen in Exhibit 1. **TN Exhibit 2** shows where the Portuguese industry is located, with an industry lifecycle chart taken from Porter, Michael E. (1980), *Competitive Advantage: Creating and Sustaining Superior Performance*, pp.157-8, 1985

TN Exhibit 2: Portuguese Road Concession Industry Lifecycle



Source: Case writer

When the question is about characterizing the company, about the company strengths and weaknesses that can be translated into opportunities, Brisa can be analysed with a SWOT framework developed by Porter, Michael E. (1980), *Competitive Advantage: Creating and Sustaining Superior Performance*, pp.157-8, 1985 represented on the **TN Exhibit 3.** As a specialist operator of highways, Brisa finds in internationalization a big opportunity as well as a possibility for the diversification into new business models (page 4) in the medium-long term, based on the strengths shown in its value chain (Exhibit 3). Besides the operation and management of highways, these strengths can also be found in the financial market, with a solid presence in the debt and equity capital markets.

On the other hand, as shown in TN Exhibit 2, the Portuguese market represents a threat with no space for growth. The competitors in Europe, in countries with tolled highways, are also a threat to Brisa's aspirations for the international market.

TN Exhibit 3 SWOT Analysis of Brisa in 2000

Strengths	**Weaknesses**
• Operation and Management Experts • Solid Presence on the debt and equity capital market	• Portugal tolled highways growth rate • Need of partners in the construction field
Opportunities	**Threats**
• Internationalization • Innovation and diversification	• European competitors in countries with tolled highways

Source: Case Writer

2. Before Brisa joined the CCR group what characterized the company? What were the differences encountered by Brisa between the Brazilian and the Portuguese markets?

The CCR group was created by large construction companies to achieve market leadership in the concession network (page 5). **TN Exhibit 4** summarizes the SWOT analysis of CCR before the integration of Brisa. The strengths of CCR can be found in that it was made up of large national groups, providing capacity to gain more concessions and financial strength. On the other hand, the fact that it was only a construction company and not a specialized company in the concession industry makes it a weakness for the group.

The growing of concessions in Brazil at the start of the millennium canbe considered a good opportunity (page 6). On the other hand, the rise of these concessions gave way to the creation of new competitors. The instability of the governments and regulations can also be seen as a threat to the group.

TN Exhibit 4: SWOT Analysis of the CCR group before Brisa

Strengths	Weaknesses
• Market dominated by large national groups	• Lack of specialization in the concessions operations and maintenance
Opportunities	**Threats**
• Growing of the concessions market launched by the government	• The growing competitors • Instability of governments and regulations

Source: Case Writer

To answer the second part of the question it is important to measure the differences/similarities between Portugal and Brazil, emphasizing the distances in different fields. To be able to do that, the CAGE framework gives a good perspective. The most important information is summarized in **TN Exhibit 5**. Some parts of this analysis indicate a strong relationship between both countries but in real situations faced by Brisa managers and described below, the difference between countries is bigger than expected.

Concerning the cultural distance between Portugal and Brazil the language is the same (page 6), which led us to reduce distances but sometimes led to misunderstandings (page 7), relevant to the industry contracts and management. The ethnicities in Portugal and Brazil are almost equal, which led to cut down the distances (page 6).

The social norms between countries, as described by Manuel Lamego (page 7), and Antonio Sousa (page 8), were big, since the rules and habits of the Brazilian people regarding conducts and behaviours in the highways led to difficulties in the adaptation process and standards taken from Portugal.

Concerning the ethnic aspects, both countries are linked by one major religion, the Roman Catholic, which helps to shrink the distance between people, contributing to a better social relationship between workers.

The overall cultural distances can be classified as **medium.**

As for the administrative distance between Portugal and Brazil, one can consider the colonial ties, the currency issues and the political association. Firstly, the fact that Brazil was a Portuguese colony created a link (page 6) and it diminished the distance between countries. The currency in Brazil is the Real, which revealed some difficulties in terms of transfer of dividends regarding the legal issues (page 7). The political instability and the fact that Brazil is a federal state with different laws and rules between them increased the distance between the countries because it was difficult to implement the operation rules of the tolled highways as they were implemented in Portugal (page 8). The overall administrative distance can be considered medium/ high.

Regarding the geographic distance, Portugal and Brazil are separated by an ocean, but the industry itself does not have transportation costs of resources. The resources needed for the business, normally are acquired in the country, so in terms of physical distance, there are no limitations. The only inconvenience is the distance between the Brisa administrators and their home country as well as the communications between them. The lack of local supervision can create difficulties to the alliance's health, this being the reason why Brisa insured the presence of local managers in Brazil to reduce the distances between countries.

The size of Brazil affected the operation of Brisa experts regarding the length of the highways and the distance between the two countries led the operational team facing new issues that did not occur in Portugal, such as the lack of villages or cities between major cities (page 7). The overall ranking of the geographic distance is then classified as **medium.**

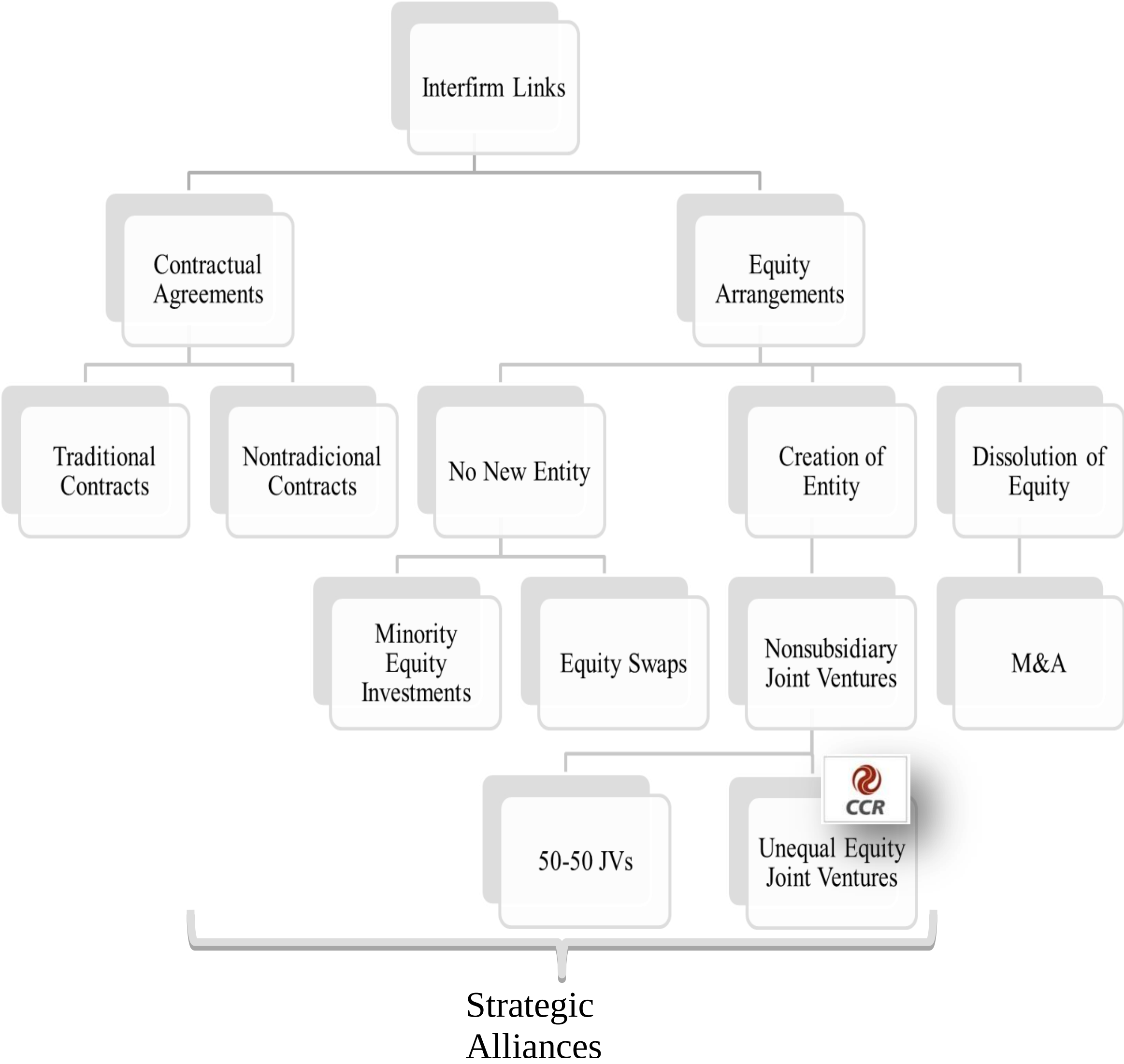
Finally the economic aspect between countries in 2000 can be found in Exhibit 12. Comparing the GDP and the GDP per capita it is possible to see that in those years the distance was increasing, which can be translated by the number of cars using tolled highways. So the distance can be considered **high.**

Part II – The analysis of the alliance (90 minutes)

3. What type of agreement did Brisa sign with CCR? Can you consider any relationship between the type of agreement and the primary purposes of the agreement?

The agreement that Brisa signed with CCR was a strategic alliance, by which Brisa acquired 20% of CCR's business a €183.2 million investment (page 6). This interfirm link can be described as an Unequal Equity Joint Venture as it provided an equity arrangement between parties and the creation of a new entity (Yoshino, Michael Y., *Strategic alliances: an entrepreneurial approach to globalization*, Harvard Business School Press. 1995) as this can be seen in **TN Exhibit 6**.

TN Exhibit 6: Types of Interfirm Links

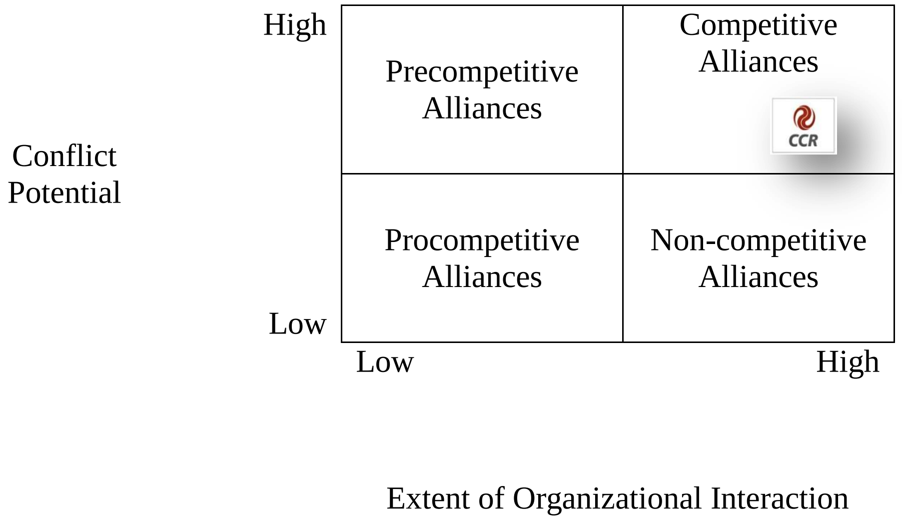


Source: Case Writer

Regarding the typology of the alliance, according to Michael Yoshino and Srinivasa Rangan framework[30] present on **TN Exhibit 7,** this alliance can be called a Competitive Alliance, considering the high extent of organization interaction found in the cooperation programs (page 8) and the presence of Brisa in any decision made by the group (page 7). The potential for conflict between parties regarding the tactical and strategic field is also high since the CCR group wants to gain and expand the concession network (page 10) and so does Brisa (page 4).

[30] Yoshino, Michael Y., *Strategic alliances: an entrepreneurial approach to globalization*, Harvard Business School Press, 1995.

TN Exhibit 7: Typology of the Alliance



Source: Michael Y.Yoshino, U.Srinivasa Rangan, *Strategic Alliances: an entrepreneurial approach to globalization*, Harvard Business School Press, 1995 / Case Writer

Regarding the primary purpose of the alliance and its value creation and capture, according to Yves L. Doz, Gary Hamel, *Alliance Advantage: the art of creating value through partnering*, Harvard Business School Press, 1998 there are three types of primary purposes: the Co-option; the Co-specialization; and the Learning and Internalization. According to the case study this alliance has as its primary purpose the Co-specialization between companies. The issues that led to this option are: what does my potential partner bring that is unique? And what is the source of that uniqueness?

Brisa is specialized in the management and operation of concessions and the other partners are experts and well known in the Brazilian market. So this alliance has as its primary purpose the synergistic value creation that results from the combination of previously separate resources, positions, skills and knowledge in the different areas of expertise of each partner, such as construction, knowledge about the Brazilian market, and the experience of Brisa in the management and operation of tolled highways.

4. In the negotiation of the alliance strategy and regarding the scope of the alliance, what were Brisa's actions to try to ensure success?

Regarding the scope of the alliance, there are three main aspects to be considered in this strategic alliance[31]. They are the Strategic, the Operational and the Economic fields.

In the strategic field, Brisa opted to ensure that it had at least the same or a higher percentage than the other partners (page 7) to guarantee their presence across borders and power in the decision making process regarding new projects and activities. The presence in the executive committees and in the board of directors allowed Brisa to defend its rights in this partnership.

Concerning the operational issues, the technical cooperation exchange program provided a larger "exchange surface" on which members of the partner firms can interact, communicate and learn from each other (page 8). The physical positioning of the BPE (local Brisa representative) also always helped Brisa to stay in contact with the day-to-day activities involved in the alliance.

Finally, in what concerns the economic aspect, Brisa ensured that the value or cost of the interdependencies between partners was recognised by all partners throughout the contract ensuring as well the presence in the stock market so that all the accounts were more transparent.

5. In the different fields of the scope of the alliance which company do you believe benefited more from the alliance?

To answer this question, the students should elaborate a pros and cons table of the different issues regarding the strategic, operational and economic drivers for both parts: Brisa and the CCR group.

The first issue analysed is the strategic field issue, as can be seen in the Brisa case, had the internationalization in its objectives. On the other hand, the shareholders of CCR wanted to understand the management and operation of highways to be able to

[31] Yoshino, Michael Y., *Strategic alliances: an entrepreneurial approach to globalization*, Harvard Business School Press, 1995.

diversify their portfolio, so these were the strategic objectives for both parts. Analysing the strategies and the results of both companies we can draw various conclusions.

On the pros side, as mentioned in the case, after the first years Brisa started to increase the number of internationalizations to more diverse cultures (page 9), expanding to Spain, the Czech Republic, Poland and Holland. Brisa also enlarged its operation and management techniques by dealing in markets with different sizes (page 8) and characteristics. Brisa also gained the experience of being present in one of the bigger companies in the world of the road infrastructure sector (page 10).

In addition, the model adopted in partnerships gave Brisa the knowledge of how to enter foreign markets, as can be seen from the partnerships that followed (Exhibit 13), always using a local partner and also a construction company as partner.

On the part of the CCR Group, it essentially acquired the knowledge and the best practices brought by Brisa regarding the operation and management of highways, which led them to reach one of the strategic pillars: the maximization of the operation efficiency in the concessions.

In the operational aspect, during the time of the alliance, there were clearly two distinct positions. Regarding the pros and cons for Brisa:

Pros:

- The gain of knowledge through exchange programs (page 8)
- Experience in dealing with different market situations (i.e.: size of the highways (page 8)
- Experience in the approach of other foreign markets (page 9)
- Relation with other shareholders in a different country
- Overall management skills

Cons:

- The CCR gain the knowledge of managing concessions, the key strength of Brisa.

Analysing the pros and cons for the CCR group:

Pros:

- Acquisition of experience and know-how in the operation and management of tolled highways.
- Techniques and technologies used in the toll systems

Cons:

- Loss of the opportunity of the monopoly control in the operational area due to the impossibility of having more shares than Brisa
- Dependent on the approval of the Brisa partners to start new project

Finally, regarding the financial aspect, it is possible to evaluate the presence of Brisa in Brazil from different perspectives:

1. Analysing the Cash Flows subtracting the Inflows from the Outflows presented on Exhibit 5, excluding the value of the alienation:

   Total Inflows – Total Outflows = €212.2 -€183.2 = €29 million

2. Considering the gain from the alienation of Brisa's stake in CCR is the Return on Investment tool:
   a = Net value of the alienation + Inflows
   b = Outflows

ROI = (Gains from Investment[a] – Cost of Investment[b]) / (Cost of Investment) =

[(1156+212.2) – 183.2)] / 183.2 = 647 %

Based on these figures, the alienation of Brisa seemed very attractive and a better output in finance issues than the CCR partners, but the value spent by the other partners can be attenuated in the dividends that the company is generating by the continuous growth rate of the stock prices in the period following 2010 (Exhibit 10).

In conclusion, it is possible to say that both companies gain in different fields, in different ways. On a whole, it is possible to sum up parts and conclude that on the overall alliance analysis, both companies gained but it is difficult to measure the value that Brisa took in by opening doors to other countries and also difficult to measure the value of know-how in the operation and maintenance released by the Brisa to other partners.