How Can Inherent Cross Border M&A Integration Risks Be Addressed And Mitigated? A Case Study

ABSTRACT

Cross-border merger and acquisition (M&A) has gained popularity over the recent decades. Most of the attention given to the theme has focused on the reasons that lead to the decision of companies merging. Despite the high importance of these reasons for the success of the operation, the present study aims to explore the post-acquisition integration period of cross-border M&As and the risks involved in order to understand how it can influence the success of the operation. Based on a qualitative single-case study research, this study contrasts cross-border post-acquisition integration concepts in existent literature with the case of a Brazilian *cachaça* company´s acquisition by an international group. Findings show how main integration challenges—internal resources' and external integration risk, cultural differences, and information system integration—were mitigated to guarantee a successful acquisition, contributing academically with an empirical case to the deficient post-acquisition internationalization literature notwithstanding some theoretical propositions to be further tested; and managerially, by exposing and openly discussing the challenges and benefits of a cross-border post-acquisition integration, with a so-far unique case of an incubator inside a large multinational organization, that can guide and inspire managers in their endeavors.

Keywords: Cross-border M&A, Post-acquisition/Post-merger Integration, Internationalization, *Cachaça*.

1 INTRODUCTION

Since the 1990s, growing integration of markets and the simultaneous interdependence of economies belonging to distinct regions of the globe have deeply influenced the way companies deal with expansion; internationalization has assumed a relevant role in their strategy by facilitating, increasing, and, in many cases, allowing the flow of products, knowledge, technology, money, and opportunities among countries (EVENETT, 2004; MARTYNOVA; RENNEBOOG, 2008). Also, distinct arrangements of international businesses, including mergers and acquisitions (M&A), Greenfield investments, and joint ventures, have been established in a relatively brief time. Motivations for each structure vary according to the companies' interests, objectives, and risks to be faced (SHIMIZU et al., 2004), but cross-border M&As have particularly been growing.

An acquisition process can be divided into two different moments: the acquisition of the target firm *per se* and its integration into the acquiring group. The objective of this study is to focus on the integration stage, a critical part for the success of the M&A but often neglected. More specifically, it aims to understand how the post-acquisition international integration process was conducted, along with its main challenges and risks that may be responsible for the unfavorable success rate statistics of cross-border M&As (MOELLER; SCHLINGEMANN; STULZ, 2004; SHIMIZU et al, 2004; CARTWRIGHT; SCHOENBERG, 2006) to answer the question of "How Can Inherent Cross Border M&A Integration Risks Be Addressed And Mitigated?".

To accomplish that in great depth, a single case study approach was chosen, with the object of the study being a *cachaça* distiller, acquired by a foreign beverage group. Currently dominated by foreign multinational beverage groups, most of the large producers of *cachaça*—the Brazilian famous distilled beverage—were originally domestic but object of acquisitions.

Notwithstanding the limitations of a single, context specific, case study, we do believe that it contributes both academically, by adding an empirical case to the deficient post-acquisition internationalization literature as well as theoretical propositions to be further tested, and managerially, by exposing and openly discussing the challenges and benefits of a cross-border post-acquisition integration, with a so-far unique case of an incubator inside a large multinational organization, that can guide and inspire managers in their endeavors.

2 LITERATURE REVIEW

This literature review will be focused on acquisitions, specifically on cross-border ones, object of this research.

An acquisition would have as main advantages obtaining resources and gaining access to foreign markets, although with a lower control over assets than in greenfield operations, as everything is already established (SHIMIZU et al., 2004), but higher than in JVs (PAK; PARK, 2004). If in one hand you have lower risks regarding establishing relationships with stakeholders (suppliers, clients, employees), there are cultural differences, among other uncertainties that impact the merging process and the performance of the firm (SHIMIZU et al., 2004; MANTECON, 2009).

The history of mergers and acquisitions (M&As) can be structured by researchers in periods called waves (SHIMIZU et al., 2004), and we are currently experiencing the fifth wave, strongly and positively impacted by globalization. Despite its complexity, an M&A strategy has become a popular alternative for firms interested on expanding its activities internationally. In 2004, for example, international acquisitions amounted 30,000 or US$ 1.9 trillion (CARTWRIGHT; SCHOENBERG, 2006). In 2015, it reached over 46,000 or US$ 4.75 trillion (INSTITUTE FOR MERGERS, ACQUISITIONS & ALLIANCES, 2017). Main motivations for global M&As has traditionally been economies of scale, market share gains, geographical expansion, technical expertise acquisition, development of research skills, and acquisition of new technologies (VALENTINI, 2012).

With the number of cross-border M&As rising during the past years, so has research in this area. The literature on internationalization has given a huge focus to the conditions necessary for cross-border M&As. Nevertheless, according to Shimizu et al. (2004, p. 310) "the attention has gradually changed from the antecedents of M&As to the processes and outcomes of post-M&A implementation". This change in perspective could be an attempt to explain why, despite the increase in the number of operations and the amount involved in international acquisitions in recent years, the success rate of mergers is still questionable (CARTWRIGHT; SCHOENBERG, 2006).

Many authors affirm that, on average, cross-border M&A results remain below the expectations (MOELLER; SCHLINGEMANN; STULZ, 2004; SHIMIZU et al., 2004; CARTWRIGHT; SCHOENBERG, 2006). According to Schoenberg (2006) in his empirical study, considering the four common measures of acquisitions performance (cumulative abnormal returns, managers' assessments, divestment data, and expert informants' assessments), the average acquisition success rate ranged from 44% to 56%. But what are the difficulties involved in the M&A process that could lead to these adverse statistics.

Post-Merger and Acquisition Risks and Challenges

Once the choice is made and a company decides to enter a new country using cross-border M&A, there is the integration stage. An integration is said effective, and therefore its acquisition performance considered to be superior, when it is both socio-culturally and task integrated (BJÖRKMAN; STAHL; VAARA, 2007). But there are some risks associated to its implementation, three of which deserve special attention: integration risk, cultural differences, and information and systems integration.

2.1. Integration Risk

Despite all the advantages an acquisition can bring to the acquirer, the post-merger integration process can disrupt the target firm or even destroy the capabilities that made the acquired organization attractive (PURANAM; SINGH; ZOLLO, 2003) capabilities being defined as . This phenomenon is called integration risk. Chen and Wang (2014) define integration risk of cross-border M&A as the uncertainty of a firm's performance caused by resource similarities and complementarities after M&A integration.

Cross-border M&A integration risks can be internal or external (CHEN; WANG, 2014).

2.1.1 Internal Integration Risk

Cross-border M&A internal integration risk is considered a main risk and relates to the uncertainty regarding the maintenance of competitive internal resources of both acquirer and acquired firms after the merger. This risk derives from a potential competition between the firms, conflict among members, information blockage, and the establishment of factions inside the organization. These problems, in turn, can result in job dissatisfaction, reduced level of trust between the parties, and intention to leave the company (AGARWAL; RAMASWAMI, 1992; CARTWRIGHT; COOPER., 1993; LEROY; RAMANANTSOA, 1997).

Chen and Wang (2014) propose that one way to reduce cross-border M&A internal integration risk is by displaying internal resources similarity, promoting thus social identity among members. This is based on the similarity-attraction paradigm, which advocated that interpersonal similarities lead to interpersonal attraction, and hence to social integration. So, to reduce cross-border M&A internal integration risk one should promote interunit trust and develop a shared vision, objectives, and cultural values between the two firms involved, using social integration mechanisms such as personnel rotation, short-term visits, joint training programs, meetings, membership in cross-unit teams, task force committees, etc. (LARSSON; LUBATKIN, 2001).

As a result of the cross-border M&A, the social structure of the organization will be changed, and employees will compare the emerging structure to their original ones. If it is similar, people will easily leave the old social entity and migrate to the new one, and there shall be successful internal resource integration, with lower friction cost, higher economies of scale, and learning efficiency improvement. However, if the new community resulting from the merger is considerably different, people will hesitate, and integration will not be as smooth.

Also, there is the mission of task integration, which includes the outcomes obtained with resource sharing and learning. These outcomes depend on the degree of operational integration. “Although, theoretically, integration can result in a balanced merging, this balance rarely occurs in practice; instead, the acquirer typically imposes control on the target firm, and where changes occur in policies, systems […]” (BJÖRKMAN; STAHL; VAARA, 2007, p. 666). In transitions characterized by a high degree of operational changes, acculturative stress is likely to increase due to loss of authority and redesign of procedures. This stress leads to feelings of hostility and ones that will negatively impact the social integration process. On the other hand, the operational integration contributes positively to the absorptive capacity—motivation and ability of receiving organization to acquire and assimilate capabilities—since processes and practices will be articulated and possibly codified (DAVID; SINGH, 1994).

2.1.2 External Integration Risk

Another potential risk is the cross-border M&A external integration risk, referent to the uncertainty regarding reactions from customers – of both acquired and acquirer – to the merger. Clients can worry, for example, about change in product supply, pricing strategy, sales strategy, etc. (HOMBURG; BUCERIUS, 2006).

An efficient way to mitigate this risk is by promoting – and showing - resource complementarities’ integration, which happens when resources from both firms are combined in such a way that creates value to the resultant company (CHEN; WANG, 2014). So, the more complementary external resources of acquirer and target firms are, the lower the M&A external integration risk.

So, we can say that cross-border M&A performance is proportional to internal resource similarity and external resource complementarity (CHEN; WANG, 2014).

2.2 Cultural Risk

Literature on cross-border M&A performance has traditionally focused on financial and strategic factors; however, research into the organizational and human resources has been receiving increasing attention in recent years, with the cultural aspect of it and its influence on value creation in special. Apparently, cultural aspects impact value creation by influencing the investor’s expectations about future performance of the resultant company, and by affecting the likelihood of actual economic benefits (STAHL; VOIGT, 2008).

Culture is a widely discussed concept, depending on the area of research. For this specific paper, we will adopt the definition Barkema and Vermeulen (1997), in which, broadly defined, culture is a system of shared values that serves to both solve problems of external adaptation and internal integration. External adaptation regards the company's objective and strategy definition, as well as how opportunities and threats in the environment are perceived and responded to. Internal integration refers to a firm and its employees' relationship (BARKEMA; VERMEULEN, 1997). The set of values shared by members of an organization is called organizational culture (CAO et al., 2015; SCHEIN, 2004).

In addition to organizational culture differences, in a cross-border M&A several other barriers may come into the scene, such as language problems, different legal systems, regulatory hurdles, and other national cultural barriers (BJÖRKMAN; STAHL; VAARA, 2007). So, cultural differences include national cultural differences plus organizational cultural differences.

Hofstede and Bond (1988) explains the national culture barriers through five dimensions: (i) Power distance, regarding the different ways people accept unequal distribution of power inside organizations; (ii) uncertainty avoidance, regarding how people deal with uncertainty and ambiguity; (iii) individualism/collectivism, regarding how much people prefer to belong to a united group of people or to work alone; (iv) masculinity, regarding how much people prefer concepts of success and competition over modesty and concern for others; and (v) Confucian dynamism, regarding future orientation perspective. All of the above can affect cross-border operations (HOFSTEDE; BOND, 1988).

The process of coordinating diverse cultures and making them mutually existent and developed is called cultural integration (ZHU; HUANG, 2007). In a cross border M&A such integration is a dual mission – of both organizational and national cultures – and literature calls it a double-layered acculturation (BJÖRKMAN; STAHL; VAARA, 2007; STAHL; VOIGT, 2008).

According to the culture distance hypothesis, difficulties, risks, and costs associated to cross-cultural contact increase as cultural differences between two individuals, groups, or organizations grow. Despite being a reasonable assumption, the impact of cultural distance over cross-border M&A performance remains inconclusive (BJÖRKMAN; STAHL; VAARA, 2007; STAHL; VOIGT, 2008). Some studies that positively relate outcomes and cultural differences are based in the argument of complementarities, with cultural differences being a potential source of learning, value creation and synergies (BJÖRKMAN; STAHL; VAARA, 2007). Nevertheless, cultural differences cannot be so large, otherwise it hinders the transfer of capabilities, resource sharing, and learning, thus decreasing complementarity and synergies potential. As cultural distance grow, combining practices become incompatible and implementation problems arise (SLANGEN, 2006).

It is impossible to previously forecast if the benefits of cultural differences in terms of potential for capability transfer, resource sharing, and learning will overcome the impediments caused by cultural differences in the integration process (STAHL; VOIGT, 2008). So a cultural difference can be either an asset or a liability (BJÖRKMAN; STAHL; VAARA, 2007; STAHL; VOIGT, 2008)

2.3 Information System Integration

Another challenge in cross-border M&A is integration of information systems (IS). The IS integration tends to be ignored in M&A processes (CARLSSON et al., 2011), despite necessary for both companies to start operating as one. The scarcity of academic literature reflects that. According to Stylianou, Jeffries and Robbins (1996), most structural changes in organizations do not involve IS professionals until the formal announcement of them, with corporate ad integration-related planning usually not including the IS team.

In the case of a cross-border merger, IS integration is affected by cultural differences, morale, work load, remuneration policy, variations in internal IS policies and procedures, technical skills, etc. Other factors such as the lack of planning targets, shifting priorities, and incompatibility and redundancy of technology (software and hardware) constitute a risk for IS integration and bring weaknesses to the post-acquisition integration process (STYLIANOU; JEFFRIES; ROBBINS, 1996; WEBER; PLISKIN, 1996). Often, expectations regarding IS integration in an M&A are unrealistic, potentially resulting in information shortages and processing problems, thereby disrupting the normal flow of the business. For a successful IS integration, Alaranta (2006) advocates IS planning as an important post-merger integration part, that should be supported by top management through high-quality communication to end-users, high involvement of end-users in strategic IS decision, and standardization. Besides the technical difficulties, IS integration creates discomfort and entails reactions from the organization's members to the changes that can jeopardize the flow of the process. Also, internal resources and cultural differences are involved. So, clear communication to all parties affected of changes, their purposes, expectations, and potential benefits, is recommended.

3 METHOD

The aim of this study is to analyze the integration process between both parties involved in a cross-border M&A to identify "How Can Inherent Cross Border M&A Integration Risks Be Addressed and Mitigated?". Although this investigation may help to understand the reasons that led to a cross-border M&A decision in the first place, it is mainly focused on understanding the way the integration was conducted, contrasting practices adopted with the literature regarding cross-border M&A post-acquisition process, analyzing the positive and negative effects of the adopted dynamics.

Considering the phenomenon's complexity and interdependence of factors in International Business, theoretical explanations are based on multiple forms of knowledge and methods. Important questions typically present a multi-level approach and require a deep understanding of related contextual processes to be answered (EISENHARDT, 1989; CHENG; ROTH, 2015). The same idea is defended by Gummesson (2007 p. 228) who states that "business is a constant flux and it is only partially predictable", and so, "research method must allow the study of change processes". When confronted with a quantitative approach, the author defends that a one point-of-time snapshot may be insufficient exactly because it does not capture the change processes.

So, in order to capture the complexity of cross-border M&As and all the change processes it encompasses, the research method herein chosen was the case study, as it provides a holistic and systemic view without restricting variables and links, being the appropriate method for a contemporary phenomenon such as cross-border M&As, for the type of question being asked and for dealing with multiple sources of information (EISENHARDT, 1989; GEORGE; BENNETT 2005; GHAURI, 2003; YIN, 1989). Despite some inherent limitations of the method, such as the small sample and the consequent impossibility to offer generalizations (YIN, 1989), we do believe the intrinsic freedom for data generation and analytical capability of the method offer a somewhat broader coverage (YIN, 1989; GUMMESSON, 2007) that compensates. Moreover, "*since it is a theory-building approach that is deeply embedded in rich empirical data, building theory from cases is likely to produce theory that is accurate, interesting, and testable*" (EISENHARDT; GRAEBNER 2007, p. 26). In an effort both to make our findings and insights more interesting and testable, not to mention shortening the gap between qualitative and quantitative researchers (GIOYA; CORLEY; HAMILTON, 2013), we have also provided some theoretical propositions at the end of this article.

Finally, to guarantee a higher degree of validity and reliability for this research, we have used a previously-outlined research design and protocols, semi-structured interview scripts, full interview transcriptions and databases, as well as multiple information sources to be triangulated (CRESWELL; MILLER 2000; GIBBERT; RUIGROK; WICKI, 2008; YIN, 1989).

Case Selection:

The selected company did not allow the disclosure of its name, so we will herein call it *Cachaça* Co. *Cachaça* Co. was a producer in Brazil that underwent a cross-border M&A in 2015, when it was partially acquired by a multinational group, from herein on to be called International Corp. for privacy reasons. Based on theoretical sampling, the choice had the following criteria: 1) it had to be a current producer of *cachaça* in Brazil, a sector that has undergone an international acquisition movement since 2010; 2) it must had been recently acquired by a multinational corporation; and, finally, the last criteria was 3) to be willing to give interviews and disclose information. Three companies passed through the first two pre-requisites during the selected period (2010-2017) but failed the last one.

Data Collection

Main data source was a series of in-depth personal interviews with *Cachaca* Co ´s brand Managing Director, Mrs. Manuela (also disguised), in a total of approximately 180 minutes (three different sessions of around one hour each) of interview based on a semi-structured script with 61 open-ended questions.

Additional information was raised through secondary data – over 30 documents originated from various sources (newspapers, magazines, websites etc.) – which was then triangulated to increase validity of the case described in details in the next section.

A database with all secondary material gathered, interview transcripts and systematic procedures used throughout all the research stages was kept (Gibbert, Ruigrok, & Wicki 2008).

4 CASE STUDY

4.1 CACHAÇA CO, STARTING A COMPANY[1]

A group of entrepreneurs from different countries (Brazil, US, and UK), Mark Brown among them, founded in 2005 a company called Cachaça Co. Based in the US, the aim was to offer a super-premium *cachaça*, the most popular Brazilian distilled beverage made of sugar cane, in the international market, particularly in the US.

Based on previous experiences in both the beverage industry as well as on product launches, Brown believed Americans loved exotic beverages. Tequila from Mexico, Vodka from Russia and Poland, and Sake from Japan; all these spirits were already well-known in US, but *cachaça* was still very Brazilian, still foreign, still exotic.

Americans did not know *cachaça* either because of the low quality of the first US-introduced beverages or due to its low level of marketing efforts, specially comparing to tequila's case. Brown believed that if the quality of product improved, its popularity would take off. So Cachaça Co's strategy was based on two main pillars: investing in high quality and creating awareness for the new category of product in the market.

In order to ensure quality, the product was initially produced in Brazil and sent to France, more specifically the region of Cognac, where they found the necessary expertise to finish the production of high-quality distilled beverage.

Regarding awareness, Cachaça Co invested in marketing and distribution: it could be found in the largest American cities as well online; at important social events and fancy restaurants; and was advertised in luxury US magazines. It would also sponsor trendy bars to promote drinks with Cachaça Co.

After becoming relatively known in the US, the next stage was to expand internationally. In 2006, it entered markets such as UK and France. In 2007, it was time for Austria, Puerto Rico, and Thailand. In 2008, the product started to be sold in Canada. In 2009, Cachaça Co entered Italy, Spain, and Portugal, reaching a total presence of twelve countries.

The company does not disclose any financial figure, but the estimated result for such effort is that between the period from 2005 to 2010, the company increased its sales by 8 times, reaching the estimated amount of 156,000 9-liter cases. During the same period, the staff grew from 15 to 65 direct employees, over half located outside the US. Such growth attracted the attention of large beverage multinational groups and in 2015 the company announced its acquisition by International Corp.

1 Based on a Journal of Business Research's article on the acquired company. Unable to disclose for privacy reasons.

4.2 INTERNATIONAL CORP, THE ACQUIRER GROUP[2]

Intrinsically linked to Cuba`s history, International Corp was founded in 1862 and it has been family owned for seven generations. It is considered the largest privately held family-owned spirits company in the world. The company employs around 6,000 people at 29 facilities in 16 locations over four different continents and sells in more than 150 countries. Mostly known for its rum, the company currently owns more than 200 brand labels. Among these many labels, the only one originally from International Corp was its famous rum.

The company's strategy has been one of acquiring high quality and consolidated spirits in different regions of the world, diversifying the types of products provided and increasing its coverage. Heritage and high production standards have been the core values pursued to bring new brands to the group's portfolio.

Since the company does not release its financial figures, it is difficult to know the company's size; however, market estimates sales of around US$ 4.6 billion in 2014.

4.3 ACQUISITION BACKGROUND

When planning to start a new *cachaça* brand, one of the main concerns of Brown was raising capital, so different possible investors were contacted, including International Corp. International Corp, on the other end, always tries to be ahead on new trends in spirits, with an internal team responsible for studying the market and investing in several brands that can become profitable years ahead. So, when Brown presented the project to develop the company, International Corp decided to invest. In return, International Corp received part of Cachaça Co's shares and the preference rights in case of a future sale.

When Cachaça Co's activities started to succeed, both companies settled a distribution agreement: Cachaça Co would be able to use International Corp's logistics expertise and International Corp would receive the profits from the investment made.

By the year 2015, Cachaça Co's activities were doing well: it had received many awards for its premium quality, created brand awareness in different markets where it was distributed and expanded to many different countries. Brown had finally succeeded, he created a new *cachaça* brand.

International Corp, on the other hand, had no *cachaça* brand. Additionally, the concepts of a strong brand and high quality, which the group has always defended for the brands under its management, were present in Cachaça Co. In the words of Manuela Souza, Cachaça Co's brand manager director:

> "First, this [Cachaça Co] is a distinguishable, an outstanding brand in the market. It is the number one brand in the US premium market of *cachaça*. Nowadays, except Cachaça Co, International Corp owns no other *cachaça* brand. So, International Corp complemented its portfolio with a brand that is a leader in the premium segment in US."

And she continues:

2 Based on a **Miami Herald**'s article on the acquirer. Unable to disclose for privacy reasons.

> "Second, I think Cachaça Co did an exceptional work regarding on-trade (bars, restaurants, lounges, etc.). Since Cachaça Co was born, Mark [Brown] did an excellent job that made Cachaça Co the market leader in the US and caught International Corp's attention. International Corp would never acquire a random *cachaça* brand, a brand without good work behind it or a weak brand. If you take a look at International Corp's brands, you will notice that there is no brand without heritage. There is no low-quality brand."

Finally, at that time, *cachaça* consumption behavior was changing, with premium products experiencing a huge increase in sales despite the general global consumption fall.

Therefore, on July 18, 2015, International Corp announced Cachaça Co's acquisition.

4.4 POST-ACQUISITION

The Brand Manager

By the time of this case study, Manuela Souza had been working for International Corp for three years, one of which managing the Cachaça Co after the acquisition. Previously, she had worked for over ten years in companies such as L'Oréal and Estée Lauder, always involved in strategy and brand management. At International Corp, Souza worked in Brazil as marketing director for all the group's brands and in Mexico as head of Latin America. Finally, she was invited to share her time between Brazil and New York for her current position: Cachaça Co's global brand director.

Besides the intrinsic activities of a brand manager, Souza is also a key agent to help on leading the post-acquisition integration process between the acquirer, International Corp, and the acquired firm, Cachaça Co. During the interview, Souza highlighted the way Cachaça Co was added to the International Corp's structure as one of the key factors for understanding its integration process.

The new structure

In order to respect management differences from the small brands being acquired and incorporated into its large management structure, International Corp created a division called Incubation Brands, in which these companies are viewed as startups and have higher flexibility regarding compliance to group's rules and standards.

However, while brands such as Cachaça Co have the freedom to work differently from others inside International Corp's portfolio, they also can count on the group's huge structure to make them more efficient, such as logistics, sales teams, finance, HR, legal, and other departments.

According to International Corp, the combination of being flexible and dynamic when needed and being able to take advantage of a huge cost-efficient structure, gives conditions to Cachaça Co to obtain better results after the integration:

> "Previously, International Corp used to acquire companies and add them to its enormous structure. International Corp owns huge brands such as Grey Goose and Martini, […] and people would treat these [small]brands in the same way they treat the big brands. When this happens with a small brand, it automatically loses relevance. Many things you should be doing micro, you

> will be doing macro. Because of this you lose market share, visibility, etc. Nowadays, I manage a startup inside a global company." (Souza)

As a direct consequence of the new structure, Cachaça Co's team had some changes. For those areas that Cachaça Co would use International Corp's structure, many employees were laid off, whereas in those which it took advantage of the flexibility provided by International Corp, it kept its original teams. The production team also remained basically the same, although transferred to International Corp's plants division and with a different line of report - to the global factories division. As a direct result, Cachaça Co's staff went from 65 direct employees in 2010 to 13.

Strategy, production and sales/distribution

Since Cachaça Co is a premium beverage company, known for its artisanal process of production and quality resulting from it, International Corp did not make any changes to it:

> "It [the production process] is identical. We did not change anything. It's 100% identical. The objective is exactly not to make changes, otherwise we lose what International Corp acquired. This [attempt to optimize the production process] is the other company's big mistake. I don't want to lose what International Corp bought. This [production process] was exactly what International Corp was interested in when it acquired Cachaça Co. So, it's important to keep it." (Souza)

The same happened with its price policy in all regions.

Sales and distribution were the most affected, despite the fact that International Corp already distributed Cachaça Co in some locations:

> "Regarding distribution, what changed was: before, we covered certain points, but now we cover much wider points. Now we utilize International Corp's arms that we did not use before." (Souza)

And she continues:

> "There was a person in charge of selling Cachaça Co in Europe who worked with many different distributors. […] But, when you have International Corp by your side, there is no reason to look for distributors. Nowadays I have no sales through distributors […] I can exploit International Corp's distribution and commercial chain." (Souza)

In terms of strategy, some minor changes were done. The product has always been produced in Brazil, but before the acquisition it used to be bottled in 3 different locations depending on bottle size and label regulations: Europe, US, and Brazil. After the integration, all tasks - from production to bottling/labeling - are done in Brazil.

Knowledge flow

So far, International Corp did not interfere in Cachaça Co's core values, managed it as a startup and maintained its production process. However, it is inevitable that once working together, a knowledge transfer starts to take place – in both directions.

International Corp brought in mainly knowledge on structure and organization of work flow. Some examples are related to labor safety, legal rules, and quality control. As a global company that values these subjects, International Corp holds many ISO certifications. These standards are gradually being implemented at Cachaça Co's facilities to give them the same standards of International Corp's facilities all around the world.

Another valuable contribution came from International Corp's vast experience with demand forecast, purchasing, and logistics. After doing it for so many years and for so many brands, it is only natural they would have something to teach:

> "I think International Corp's expertise is with logistics, quality, and process configuration. It is a knowledge that will help us be better prepared. Without changing absolutely anything in the production process, it is helping us on how we plan production, in terms of what should we buy, where should we stock, how we should organize inflow and outflow." (Souza)

On the other hand, Cachaça Co has contributed to International Corp by teaching how to make *cachaça* and how to make it in an artisanal way.

Finally, an important practice adopted to exchange knowledge was to place people from one company inside the other company to learn/teach procedures, routines, and solutions for some period of time. It not only promotes expertise exchange, but also contributes for a better environment where peers of different brands meet each other in person and make the relationship inside the group more fluid.

Stakeholders' response to the acquisition

In terms of stakeholders' response, there was no substantial change observed after the acquisition. Regarding suppliers, as most of the inputs are owned by Cachaça Co, this reduces the risk of changes. But even for those inputs purchased from external suppliers, there was no relevant change of suppliers or significant price oscillation observed.

Regarding consumers, again, no change was observed. However, a curious fact was that some mixology[3] bars, preventing quality changes due to changes in production process after the acquisition, decided to not use Cachaça Co anymore. This is a very particular kind of bars and representative in sales terms, but Cachaça Co used it as one more reason to keep the production process the same.

Cultural similarities in the companies

Some friction due to cultural differences could be eventually expected. However, as Cachaça Co since its very beginning was born as an international company involving Brazil and US and later on some other countries, they were used to operating with cultural differences, so it seemed not to be an issue to the integration process.

> "One thing that I really realize is that the way to deal with Brazil is totally different from the way to deal with other countries. People in Brazil work differently from people in the US, and both people work differently from people in Europe. I have to adapt my approach. Sometimes I need to be less or more straightforward." (Souza)

3 Mixology is generally accepted as a refined and in-depth study of the art and craft of mixing drinks.

Besides, Cachaça Co's and International Corp's culture apparently did not diverge much, with the main similarity between the companies being their relations to employees. International Corp, besides its size, nurtures a family-owned attitude and tries to make staff feel part of a big family. The balance between professional and personal life and flexibility at work are some practical examples of their family values. Also, a sense of ownership is fostered, with everybody being stimulated to feel responsible for the company, to bring his/her own ideas, to be in charge of his/her own results.This work environment matches the one found at Cachaça Co. As a small company, it is easier for employees to meet each other, offering a more personal atmosphere at work, and hence, bringing the feeling of a big family. Additionally, since it is a small company, everybody is stimulated to solve different kinds of problems. People are motivated to assume responsibilities and are rewarded for their achievements.

In Ms. Souza own words:

> "At both firms, employees are highly appreciated. There is a family culture in both of them. In both companies, the staff is treated as member of a family. In both of them the employee is stimulated to feel as a company owner. You feel yourself as part of the enterprise, not only an employee. You dress the colors. You become a brand advocate." (Souza)

The company culture directly impacts the relationship between people of Cachaça Co and International Corp. There is obviously some degree of formality, but probably lower than in other big groups, people are stimulated to directly contact different teams inside the organization no matter the brand name they work for in order to solve problems or to obtain help.

Information systems

Information exchange does not depend heavily on systems, but on emails or Windows Office programs. International Corp does plan to implement SAP in the short term, but thankfully it will be implemented after the integration, thus probably at both companies at the same time.

5 CASE ANALYSIS

5.1 PRE-ACQUISITION MOTIVATIONS AND POST-ACQUISITION ADVANTAGES

International Corp's expansion strategy has been equity-based (ERRAMILLI; AGARWAL; DEV, 2002; SHIMIZU et al., 2004), more specifically, acquisition oriented, with the only greenfield investment ever made being their original rum brand.

However, regarding Cachaça Co specifically, this movement was done in stages. Before the full acquisition, International Corp was a minority shareholder since inception and had settled a distribution agreement with Cachaça Co in some different regions on the globe. By so doing, International Corp already knew the company to be acquired from inside; without owning the company, it was possible to test the product's receptiveness in different markets, to understand the company's modus operandi, the sales response to marketing efforts, and the customer feedback related to product quality. After that, it was possible for International Corp to make a much more solid evaluation of the business, culminating in full acquisiion.

Motivations for the acquisition had nothing to do with new market entry (KOGUT; SINGH, 1988; BOATENG et al., 2008), or legitimacy gaining (SHIMIZU et al., 2004), but with product diversification. By acquiring Cachaça Co, International Corp gained access to *cachaça* consumers, complementing International Corp's brand portfolio with a new product category previously missing, thus gaining access to new knowledge and resources (BOATENG et al., 2008).

5.2 DEALING WITH INTEGRATION RISK

The integration of Cachaça Co and International Corp was facilitated by the similarity of their internal resources which, according to literature, decreases internal integration risk (CHEN; WANG, 2014). First, both companies had similar core values, with the appraisal for high quality products and focus on creating brand awareness being some of them. Other important values, such as treating the staff as part of a family, or stimulating employees to feel like company owners, are also ideas embedded in both companies' culture. Secondly, both had similar work dynamics: As a direct effect of the ownership feeling aforementioned, behaviors like bringing new ideas, assuming individual responsibilities, searching for own solutions and being rewarded for improvements achieved, shaped the daily routine in both institutions.

Nonetheless, despite all these convergence points, it is important to mention that Cachaça Co dismissed part of its staff in activities that could be more efficiently handled by International Corp, obviously generating some stress with the remaining employees. The solution used to offset such negative buzz was to communicate the long-term project for the firm and to make sure the role of each remaining member was clear.

Thirdly, internal integration was facilitated by the fact that International Corp had a previous relation with Cachaça Co, and by acting as a distributor partner before the merger, parties involved were not strangers to each other.

Regarding external integration risks, those were mitigated by the complementarities of external resources (CHEN; WANG, 2014). International Corp and Cachaça Co offered different categories of products and thus did not compete directly for the same customers (HOMBURG; BUCERIUS, 2006). As already mentioned, other factors that could also cause a negative response from Cachaça Co's original clients such as price policy, production process, and marketing strategy remained unchanged and thus did not cause any disruption.

5.3 DEALING WITH CULTURAL DIFFERENCES

The cultural differences involved in a situation of cross-border acquisition can be divided into company cultures differences and national culture differences (BJÖRKMAN; STAHL; VAARA, 2007; ZHU; HUANG, 2007). In terms of national cultural differences, both Cachaça Co and International Corp already had global operations before the acquisition, hence were already used to dealing with particularities of different regions.

Regarding organizational culture differences, there weren't many either, as companies shared similar core values. But most importantly, by allocating Cachaça Co under a different and smaller organizational structure – for Incubation Brands - and giving it flexibility, individuality, and operational leeway, International Corp could reduce the cultural shock of a relatively small company being acquired by a larger group. According to Björkman, Stahl and Vaara (2007), transitions defined by huge operational transformation result in acculturative stress and consequently hostility.

International Corp left Cachaça Co under a different and more flexible structure, kept the production process untouched and distribution was previously done by International Corp, so integration generated much less stress then in many other cross-culture M&As. It is worth noting though, that, at the same time processes were being carefully structured and codified to match International Corp's standards, in accordance to what is preached by David and Singh (1994) - operational integration can bring benefits once processes and practices are articulated and codified, and capabilities are assimilated.

With regard to sociocultural integration, some of the examples mentioned by Larsson and Lubatkin (2001) such as personnel rotation, short-term visits, and task force committees were observed. The global brand director of Cachaça Co, Souza, is an example herself of personnel rotation. Before Cachaça Co, she worked in different units, teams and positions inside the International Corp group. Additionally, short-term visits are common between Cachaça Co and other International Corp brands in order to share expertise. Finally, the Incubation Brands group itself is an example of a task force committee where smaller brands share their efforts to grow together.

5.4 DEALING WITH INFORMATION SYSTEM INTEGRATION

The information system integration risk for Cachaça Co's case was not experienced so far since both companies, currently, don't share any operational systems. However, International Corp plans to implement SAP in Cachaça Co in the short term, and thus system implementation risk can rise.

6. CONCLUSIONS

According to the information gathered through primary and secondary data and herein presented and analyzed, the integration process resultant from the acquisition of Cachaça Co by the International Corp Group appears to have been quite successful in terms of dealing with and overcoming the difficulties and risks of such integration. So, the case should be adequate to help answer the research question "How can inherent risks of cross-border M&A integration be addressed and mitigated?"

The case analysis was built on three main theoretical concepts of risk in an acquisition integration process: resources' integration risk (internal and external) and cultural risk. Regarding the information system integration risk concept, this case had little to contribute, mainly due to their IS initial stage of development.

Regarding resources' integration risk, our case findings confirm the main concepts in academic literature: the match between the core values of both institutions (similarities) as well as their complementarities played a key role in the successful internal resource integration (CHEN; WANG, 2014). Also, as they did not compete directly for market share and main external policies (production, marketing and pricing) remained unchanged, the uncertainty was reduced, and so was the external integration risk (HOMBURG; BUCERIUS, 2006), leading us to the following proposition:

P1. The less one needs to change in the acquired company operations, the higher the chances of a smooth and successful integration.

The second concept, the cultural risk, typically a double-layered one in cross-border M&As, was mitigated by the short cultural distance between the organizations studied given (i) global nature of operations of both entities prior to acquisition (national culture risk), and (ii) organizational culture compatibility between them. The meritocracy policy, the degree of formality and collectivity feeling are some examples of shared values between the firms that helped to reduce the cultural risk. On top of all that, both companies stimulate the activities suggested by theory (LARSSON; LUBATKIN, 2001) to promote the social integration, such as short-term visits, task force committees, meetings, job rotation, etc.

P2. Companies with similar core values and culture traits have higher chances of successful cross-border M&A integration.

P3. Companies that had to deal with cultural differences in the past (either cultural or organizational) are better prepared for cross-border M&A integration.

Finally, attention-grabbing, and not seen in the literature herein reviewed, were two of International Corp's strategies for brand acquisition: 1) having an internal team just to study new trends in the spirits market and investing in brands that may become profitable in the future; and 2) keeping smaller acquired brands/companies under a structure similar to that of an incubator. With the first, International Corp was able to make its investment in Cachaça Co in stages: first as a minority shareholder, then as a distributor through an agreement and finally as a full owner, thus having increased its investments and risk gradually and only in case of positive outcomes and perspectives in each stage. With its second strategy, the incubator structure, it found an interesting and particular way to deal with delicate concepts approached by literature such as operational integration, internal integration risk, and acculturative stress. As a result of these two innovative strategies, we conclude with two final major propositions:

P4. Acquisitions done in stages or when the acquirer has deeper knowledge on the acquired company, have higher chances of successful cross-border M&A integration.

P5. Running the acquired smaller companies under a separate, more flexible structure facilitates cross-border M&A integration

LIMITATIONS, CONTRIBUTIONS AND FUTURE RESEARCH SUGGESTIONS

Despite the single case characteristic of this research, which does not allow for statistic generalizations, this study contributes with an empirical case that while confirming some findings in literature also brings new successful practices into light: the integration risks being mitigated by an acquisition made in stages but mainly by managing the acquired company under a separate and more flexible organizational structure, similar to an in-house incubator, for a period of time, to smooth the integration process. This case has therefore a managerial contribution, by serving as important orientation to practitioners, as well as an academic one, by generating important new insights that led to theoretical propositions, to be tested in further studies. As put by Gioya, Corley and Hamilton (2013, p.25), propositions make the work more accessible to other scholars – both qualitative and quantitative – and "can help augment the transferability of emergent concepts".

For future studies, despite the quantitative studies to test the theoretical propositions herein developed, it would be useful to replicate the study with other companies in the same industry and in others to compare the results, focusing on understanding how other organizations dealt with the concepts studied, how they applied them, and the results obtained. Additionally, it is worth expanding the study of cross-border M&A post-acquisition process to longer periods of time, in a more longitudinal study. Finally, studies contemplating more employees and from different hierarchical levels in both the acquirer and acquired companies would undoubtedly enrich the results.

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