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Market analysis and entry mode selection for subsurface consultancy into Brazil.

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I have been working full-time during the whole process, so only evenings and weekends were used for work. The report topic was selected based on my interest in strategic planning and internationalization.

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Eilin Haugvaldstad

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Abstract

The Norwegian oil and gas market is slowing down and companies have to look for new ways to grow in alternative markets locally or go abroad. This is the situation for First Geo (Formerly Aker Geo). The company has been market leaders within subsurface consulting services and G&G products for 20 years. However, the market is not the same as it was and cost cuts mean that consulting services are no longer in such high demand. The only way for continued growth, as defined by management, is to look outside Norway or to tap into alternative markets locally. First Geo are looking for oil and gas markets that are still developing and growing. In these markets First Geo can offer advanced consultancy services and products that others within the same that market cannot offer.

Brazil has been an attractive market for Norwegian oil and gas services companies due to strong growth and potential future development of the oil and gas industry. Norwegian companies are also considered attractive partners due to 40 years of oil and gas experience. In addition, Petrobras' investment plans for exploration and production for the next few years is an indication that the Brazilian market will continue to grow and develop (Petrobras).

This report will evaluate whether First Geo should enter the Brazilian market. The report will use relevant market attractiveness evaluation theory and market entry theory to evaluate the issue. The report will also look at the cultural differences between the two nations to give a better understanding of what challenges and opportunities First Geo might encounter if deciding to enter the Brazilian market. The theory selected is mainly based on external factors; an internal analysis has yet been conducted, as the macro-economic and cultural indicators will be the base for whether or not First Geo should consider entering.

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1. Introduction

1.1. Globalization and Foreign Direct Investment (FDI)

Over the past decades the world economy has changed and it is continuing to change rapidly. Trade is no longer prevented due to barriers such as language, distance, political regulations, culture and business systems. The barriers are declining and the world is becoming more and more accessible. This is due to advances in transportation and telecommunication technology. National economies are merging into “an interdependent, integrated global economic system”. Hill (2011) defines this process as Globalization. Held and McGrew (99) characterised globalization by four types of change:

1. The stretching of social, political and economic activities across regions and continents.
2. The intensification or growth of interconnectedness and flow of trade, investment, finance, migration and culture.
3. Increase of global interactions and processes due to worldwide system of transport and communication technology.
4. The growing global interactions makes the boundaries between domestic matters and global affairs increasingly blurred as local developments can potentially have global consequences.

The linkage and interdependence between countries is increasing, creating opportunities and threats. Access to growing economies and low cost markets makes Foreign Direct Investment (FDI) attractive for companies looking to grow. FDI is when a firm invests resources in business activities outside its home country (Hill 2011). As the trade barriers are decreasing and countries, such as Brazil, are opening up their economies, companies look for developing economies to invest their resources.

1.2. Norway and Brazil

In 2011 The Norwegian Ministry for Foreign Affairs published the report *The Norwegian Government's Strategy for cooperation between Brazil and Norway*, documenting Norway's interest in Brazil. Norway and Brazil has been trading partners for over 170 years, starting with the first Norwegian Ship arriving in Rio de Janeiro with a batch of klippfisk (cod). The ship returned from Brazil with a cargo of sugar and coffee and the two nations are still trading

these commodities today (Norwegian Ministry of Foreign Affairs, 2011). Brazil is Norway's largest export market for services after the European Union (EU) and the United States of America (US).

The trade between the two nations is dominated by Norwegian investment into Brazil. Since 2002 and until 2013, 83 Norwegian companies were established in Brazil.

Brazil opened up the oil and gas sector to international companies in 1997, and from this point on Norwegian companies showed and maintained a continued and increasing interest in the Brazilian oil and gas market (Inventure Management 2014).

The huge new oil and gas discoveries on the Brazilian continental shelf has made Brazil increasingly attractive for Norwegian oil and gas companies, with 66% of all the recent companies to enter Brazil operating in the oil and gas sector (Inventure Management 2014). The interest from the Norwegian companies is unlikely to decline as Petrobras plans to invest US\$10 billion into Brazilian exploration and production activities over the next 3 years (PWC, 2013).

However, there are still some barriers limiting entry into Brazil. The aim of the "Brazil Strategy" is to improve relations between the two countries and assist in trade. With the focus on improving market access and framework for Norwegian companies in Brazil. As a result, Brazil is a natural market for First Geo to consider.

1.3. Company Profile – First Geo

First Geo is a consultancy firm to the Norwegian oil and gas industry. First Geo delivers consultants who are experts within the subsurface disciplines including geology, geophysics, petrophysics, and reservoir technology. The company started out in 1995 by Jepsen, Sørensen and Ilebekk, and was called JSI consulting. In 1998, JSI was sold to Aker Maritime who later merged with Kværner. In March 2002 Aker Kværner became Aker Solutions, and is the sole owner. The company was renamed Aker Geo. In September 2014 Aker Geo was part of the Aker Solutions downscaling initiative (Akersolutions.com) and the company was removed from the Aker Solutions Corporation. This was to function as an independent company under the new name First Geo, as part of the Akastor oil service investment company. The new company was assigned a new Board of Directors and had to go through a rebranding from

Aker Geo to First Geo. The company managed to communicate the new brand successfully and as of today it seems that it has been a positive change for the company.

First Geo is currently Norway's largest consultancy firm within its field. First Geo has 80 employees and 20 associates. The company has also made great success with its trademarked software product hiQbe™ and multi-client reports of the NCS (Norwegian Continental Shelf). The key product that appears to offer a competitive edge for First Geo is its seismic depth conversion tool, hiQbe™. This report will however look at the market as a whole, Exploration and Production (E&P) industry, rather than look at the different segments that First Geo might want to focus on.

First Geo's internal analysis (First Geo Strategy, 2015) summarizes the following advantages and disadvantages.

First Geo has a good reputation and is considered an attractive employer with competitive wages and incentives.

The company has frame agreements with most of the international oil companies operating on the Norwegian Continental shelf (NCS). Among these are Statoil and BP, two companies that are operators on the Brazilian Continental Shelf (BCS). First Geo has new owners with financial backing for investments, and with requirements of sourcing new opportunities to grow the business. (First Geo Strategy, 2015).

However, the company has also been affected by the slowdown in the oil and gas market in 2014, with poor results (First Geo Financial report 2014). The company has little experience with Foreign Direct Investment, and no business experience from Brazil. Additionally, First Geo has no fluent Portuguese speakers. However, the local market is satisfied and slowing down, and First Geo wish to look for international market opportunities.

1.4. Research questions

Considering the above conditions, the paper asks the following research questions:

1. Based on macroeconomic conditions, industry factors and cultural differences, is it a smart strategic move for First Geo to enter the Brazilian Market?
2. And if so, what market entry mode is the most appropriate?

2. Method

2.1. Research objectives

The research objective is to evaluate and determine whether or not First Geo should enter the Brazilian market and what method of entry should they use if deciding to do so. The research looks at macroeconomic factors as the primary indicators. The paper also considers internal factors, cultural factors and looks at the industry attractiveness. The main focus of the paper is to identify potential challenges and opportunities based on available data. The research should give First Geo enough information to make an educated decision based on the unbiased and objective recommendation of this paper.

2.2. Research design

There are two main types of research design, qualitative and quantitative. The difference between these methods is in the way the data is handled, collected and analysed. Qualitative methods use words, pictures or objects whilst quantitative methods operate with numerical data. (Davies & Hughes, 2014)

The qualitative method seeks to get complete, detailed descriptions and is relevant when the researcher has little previous knowledge of the topic. Qualitative methods are used to construct statistical models to explain what is observed.

The method that is best suited depends on how much one knows of the topic prior to commencing the research and what the goal is with regards to analysing the correlations. (Gripsrud et al. 2010).

The research method used for this paper is a qualitative method, as the objective is to get more in-depth knowledge of the research question. This method is used due to lack of previous knowledge of the topic by the author and the need for detailed descriptions to answer the research question.

2.3. Data Collection

Data collection for qualitative research can be done in multiple ways. Methods such as observation of knowing or unknowing participants, in-depth interviews, document analysis and questionnaires (Davies & Hughes 2014). The author decided to conduct research primarily on data analysis of second hand data. Data was collected through reliable sources

such as journal articles, statistical data and books. The data is collected from reliable sources and theory cross checked for accuracy.

The author also conducted three in-depth interviews with people with the relevant background to support or dismiss the second hand data and the research objectives. In-depth interviews were one on one with an interview guide for each participant. The interview guide consisted of a set of topics to guide the interview and to ensure all relevant information was covered.

All the interviews had the same topics, but varied based on the experience and knowledge of the person being interviewed. Using this method the author could compare the answers and evaluate the results of the in-depth interviews. It was important to do a semi structured interview to get as much information as possible from the respondents and not limit the result by following a strict questionnaire.

The participants all had extensive experience from Brazil and Norway, and hence would be able to give invaluable insight on the topic. The first interview was with Helle Moen, Managing Director of Innovation Norway, Brazil subsidiary, Moen has extensive experience assisting Norwegian businesses setting up in Brazil, making her the primary source of first hand data for this thesis. Moen has worked towards the Brazilian market for 10 years, and has lived there permanently for the past 3 years, working for Innovation Norway. Before that she worked four year as an Investment Director in a venture capital firm called Investinor. Her responsibility was for the clean tech and renewable energy sector. Prior to that Moen was responsible for business development as Vice President for Marine Tech, the private research institute. For Marine Tech, she established a company in Brazil, the Marine tech Subsidiary – Marine Tech Brazil. This experience has given her valuable insight about establishing a company in Brazil and the doing business in Brazil, the culture and the bureaucracy and complexity of the Brazilian market.

The interview took place over skype and lasted about 35 minutes. Moen's in-depth knowledge ensured that all the topics were covered in an efficient manner without the interviewer having to steer the interview back on topic or ask too many questions (Appendix 1 and 2)

The second interview was conducted face to face with Rikke Norberg, Senior MWD engineer for Schlumberger. Norberg has worked in Brazil and her response will be used to support Moen's statements as well as supporting the secondary data.

The third interview was also conducted face to face and was with Caio Freire Silveira, a petroleum engineer from Brazil now working in Norway. This interview gave valuable insight to working in Brazil and Norway, but from a Brazilians perspective.

Both the interview with Norberg and Silveira took 25 minutes and the interviewer had to ask more questions than in the first interview with Moen. (Appendix 3,4 and Appendix 5,6).

2.4. Validity and reliability

The second hand data from academic journals are considered very reliable as they are already checked and validated and written by experts and cross checked by the journal. The primary data however has both strength and weaknesses. The indepth interview can be very time and resource consuming. It takes time to find and collect and compare the data, as the data can be in large volumes and be unstructured and non-numerical. There's also the concern of the interviewer influencing the interviewee. By asking questions, the way a question is asked (leading the answer one wants) and by projecting signals through body language. The presence of the interviewer can affect the validity of the data collected (Davies & Hughes 2014). The benefit of using in-depth interview is that it allows for a richer volume and also allows for follow up questions to ensure that the topics in question are covered (Gripsrud, 2010). One should also consider the interview objects in questions and their motives.

3. Theory

To address the research objective of this paper, this section will define the theoretical background for the paper. According to Johnson et al. (2014), when a company has decided that it's time to enter a foreign market, it has to decide on what market to enter and how to enter that market (Johnson et al. 2014). There are several ways to determine what market to enter and how, so this paper will look at the following theories for choosing a market.

- PEST Analysis
- Hofstede's cultural dimensions
- Porters five forces
- Entry modes

The PEST analysis will address the macroeconomic factors relevant for the objectives. Hofstede's cultural dimensions address the issue of difference between the home country and the host country. Porter's Five Forces is the frame work for the industry analysis, hence, is the industry attractive enough for First Geo to enter? Entry mode theory will build the base on what mode of entry First Geo should choose, if they choose to enter the Brazilian market.

3.1. PEST Analysis

The PEST framework is used to categorise environmental factors that matters to a company. PEST looks at the macro-environment of an organisation. PEST is acronym for Political, Economic, Social and Technological factors. When entering a new market, it is important to have a good understanding of these external factors. (Johnson et al 2014).

3.1.1. Political

Government regulations and legal factors will affect your organisation. It is important to do an analysis of the political factors to determine the political stability of the country in question. Also taxation, trade regulations, safety regulations, intellectual property rights and employee laws are important factors. The political and legal environment can offer opportunities as well as risks (Johnson et al 2014).

3.1.2. Economic

The organisation looks at the economic situation of a country, such as inflation, interest rates, economic growth, exchange rate and unemployment. Economic factors are significant for a company when considering new market. (Johnson et al. 2014)

3.1.3. Social

Changes in social factors, such as population distribution and educational level are very important to a company entering a new market. If the population is young with a highly educated work force then the market would be more attractive than with an old and uneducated workforce. (Johnson et al 2014)

3.1.4. Technological

The Technological element is highly dependent of the development status of country or location. Some developing countries are advancing rapidly whereas others can be at the other end of the technologically advanced spectrum. (Johnson et al 2014).

3.2. Hofstede's cultural dimension

When entering a foreign market, cultural differences can be a major challenge to the organisation. Geert Hofstede conducted one of the most comprehensive studies of workplace culture. Hofstede conducted one of the most in-depth studies on this matter between 1967 and 1973. The data covered employee values at IBM and included more than 70 countries from which he based his Dimensions of National Culture theory. (Hofstede, 1994)

The Dimensions of National Culture is the theory of the values that differentiates country culture from each other into five groups. By understanding the differences the organisation can be better prepared prior to entering into a new market or in the case of First Geo, help them determine what market to enter into. Limitations to the theory are that the data is based on a 30 year old study and therefore some of the output and conclusions are now considered to be out dated and irrelevant (Holden, 2002). Also the research is based on company culture, not national culture, even if Hofstede claims that it is adaptable to both settings (McFarlin and Sweeney 2011). Despite the limitations, the study is still adapted in the field of international management to understand the impacts of culture in business.

3.2.1. Power Distance (PDI)

The Power Distance cultural dimension reflects the extent to which people in a culture accept large differences in power between individuals or groups in a company. In high power cultures, people are more likely to accept differences and follow instructions or orders by others with a more powerful role. In cultures with low power distance, power is more evenly spread out and the hierarchy is flatter. There will be less micromanagement and more trust between manager and employees. However, the employee is also expected to think more for themselves and take on more responsibility. (Hofstede, 1994)

3.2.2. Individualism versus Collectivism (IDV)

This dimension describes whether members of a culture view themselves primarily as part of a group or as individuals. In the workplace it affects the kind of relationship people have with their colleagues. In an individualistic culture people are expected to primarily take care of themselves. Privacy and focus on what you yourself can achieve is highly valued.

In a collective culture, the focus is on what is best for everyone in that group and there is more emphasis on protecting and caring for each other. A society's score on this dimension depends on whether the society views them as "I" or "we". (Hofstede, 1994)

3.2.3. Masculinity versus Femininity (MAS)

Masculinity versus femininity describes whether the society values success, power and money more highly than it values people, work-life balance and relationships. A more masculine society values professional achievements and the pursuit of power. Masculine societies also have a bigger equality between men and women in the workforce. Men are expected to provide for the family and women to care for the home and the family. In a Feminine society, men and women are more equal. There is also a focus on taking care of the less fortunate and a less aggressive work culture is sought after. (Hofstede, 1994)

3.2.4. Uncertainty Avoidance Index (UAI)

Uncertainty avoidance refers to how a culture accepts uncertainty and risk. People in a culture where there is low uncertainty avoidance accept that things are unpredictable. They are less concerned with rules, procedures and organisational hierarchy. They value creativity and common sense. Cultures with high uncertainty avoidance are intolerant of unorthodox

behaviour and ideas and values rules and regulations in an attempt to control the outcome and minimize uncertainty and the risk. (Hofstede, 1994)

3.2.5. Long-Term Orientation versus Short-term orientation (LTO)

The fifth dimension was added in 1991 by Michael Harris Bond and approved by Hofstede. The fifth dimension investigates the whether a culture is long-term oriented or short-term oriented. Long- term oriented societies values dealing with issues in a sensible manner to obtain future rewards, such as when it comes to saving, persistence, and adapting to changing circumstances. Short-term oriented societies values traditions, pride of culture and preserving things the way they are. They are suspicious of change and take family obligations very seriously. (Hofstede, 1994)

3.3. Porters five forces

To fully understand the competitiveness of rivals and the profitability of the industry, Porters five forces analysis can be a helpful tool. Porter identifies five forces that determine the attractiveness of the industry you are in or entering. The forces consist of the elements that can affect your ability to serve your customers (Porter, 2008).



Figure 1. Five Forces. Porter (2008)

The five forces are:

3.3.1. Supplier power

The company has to look at how much power suppliers have in the market, for example how easy is it for a supplier to increase price. This depends on the number of suppliers, the size of the supplier and how unique the products are etc. If your supplier is the only one who can deliver the volume you need, then the supplier is more powerful because your company depends on them. Also expensive switching costs will give the supplier more power. Powerful suppliers are in the position to increase price, limiting quality or service. The more suppliers there are in the market, the better for the buyer (Porter 2008).

3.3.2. Buyer power

Can the buyer drive down the price and at what extent? This defines the power of the buyer in the market. One has to assess the bargaining power of the buyer before entering a new market. The power of the buyer depends on multiple factors including how important is the client? In Norway, many oil and gas service companies have Statoil as their main customer. In 2013-2014 Statoil started cutting costs dramatically and many suppliers were affected dramatically, as Statoil was their only customer (Offshore.no s.a.). When this happens it is because one individual company is dominating the market and has extreme buying power, leaving the companies supplying this market very vulnerable (Porter 2008).

3.3.3. Threat of substitution

If it is easy for a customer to substitute your product for another then it reduce the attractiveness of the market. A substitute performs the same or similar function as your product or services at a different mean. Videoconferencing is a substitute for travel. Sometimes the treat of a substitute can eliminate the need for another product completely (Porter 2008). The treat of the substitute reduces the power of the supplier. If there are many substitutes, offering to cover the same or similar need, then buyers are more powerful (Porter 2008).

3.3.4. Threat of new entry

Growing, profitable markets will attract new entrants, which will make the market's profitability decrease. New entrants will compete for market share and put pressure on price and increase competition. If there are strong patents regulations, high entrance barriers and

economies of scale, then threat of new entry will be lower (Porter 2008). Loyal buyers and high switching costs will make the market less attractive for new entrants.

3.3.5. Rivalry among existing competitors

How many competitors are offering the same service or product will determine the attractiveness of the market. High rivalry limits the profitability of the market. The size of the competitors and their market share determines the rivalry in the market. Rivalry will also make the market price sensitive and decrease overhead as participants will compete on all levels to gain higher market share (Porter 2008). If the market is not competing on price, but quality, features, brand value or time of service, then the market will be less price sensitive due to rivalry among existing competitors.

3.4. Entry modes

Once First Geo has decided what country to enter, they will need to decide what method of entry to use. Root (1994) defines foreign market entry as “an institutional arrangement that makes possible the entry of a firm’s products, technology, human skills, management or other resources into a foreign country”. Choosing between entry modes means having to trade off one advantage for another. Each entry mode has its advantages and its disadvantages. It is therefore up to First Geo to determine what advantages to prioritise and disadvantages to accept. Anderson and Gatignon (1986) define the choice of entry mode is a function of trade-off between control and resources on is willing to commit. Johnson et al. (2014) defines four main modes of entry:

- Export
- licensing/ franchising
- Joint venture (JV)
- Wholly owned subsidiaries (WOS).

Figure 2 illustrates the entry modes according to trade off dimensions.

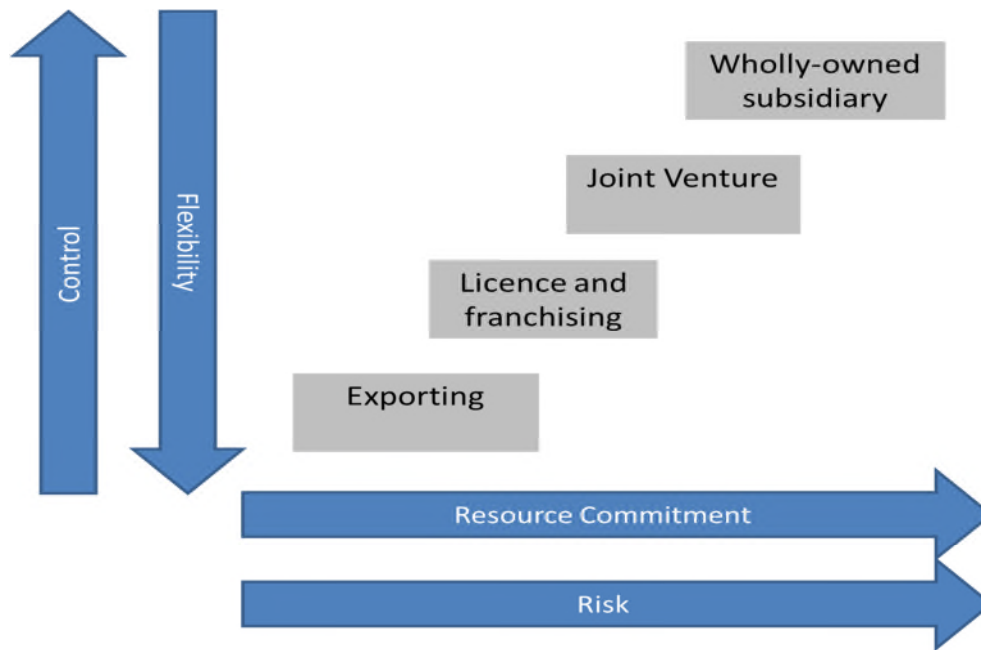


Figure 2. Entry modes according to trade off dimensions: Control, resource commitment, flexibility and risk. Cavusgil et.al (2011)

3.4.1. Exporting

Exporting is the most basic way to enter an international market and is the ideal solution for a small company selling a product or service that is easily transported in the global marketplace.

Regarding exporting, one has the option of utilising an agent or a distributor. The difference is that the agent works for you and the distributor buys your product as a competitor to resell with a mark-up. One drawback with exporting is that the company has less market presence and spend less on marketing and branding and as a result might not get the full potential from that market. (McFarlin and Sweeney. 2011)

3.4.2. License or franchise

Licensing or franchising is another inexpensive way of entering the market. Licencing is a contractual agreement in which the company (licensor) sells a foreign firm (the licensee) the right to use its brand names, trademarks, copyrights, patents, technology or other intellectual property. Franchising is a more elaborate version of licencing. It includes the contractual rights to operate a business using the methods, procedures, products, trademarks and marketing strategies of a company. Contracts are longer lasting and have a greater control and commitment by both parties. (McFarlin and Sweeney. 2011)

3.4.3. Joint venture

Joint venture is the best option when it is considered too high a risk to enter the market alone and one cannot rely on a licence or a franchise to respect the contract, underperform or steal the intellectual property. A joint venture gives shared ownership and the company gets more control of what the local partner is doing and both parties has a common goal. Local knowledge and know-how from the partnership is an additional benefit brought to the partnership (Johnson et al 2014).

3.4.4. Wholly owned subsidiary

Wholly owned subsidiary is when a firm either purchases a local firm or builds its operation from scratch in the foreign market. This enables full control and provides hands on market knowledge. However, it also requires the most significant commitment and investment. (McFarlin and Sweeney. 2011)

Hill (2011) has summarised the advantages and disadvantages of each method in table 3.1 below.

Entry Mode	Advantages	Disadvantages
Exporting	Ability to realize location and experience curve economise	High transport cost Trade barriers Problem with local agent/distributor
Licensing/ Franchising	Low development cost and risk	Lack of control over quality and technology inability to realize location and experience Curve economy Inability to engage in global strategic coordination
Joint venture	Access to local partner's knowledge Sharing developing cost and risk Politically acceptable	Lack of control over technology Inability to engage in global strategic coordination Inability to realize location and experience
Wholly owned Subsidiaries	Protection of technology Ability to engage in global strategic coordination Ability to realize location and experience economies	High cost and risk

Figure 3. Advantages and Disadvantages of entry mode. Adapted from Hill et.al (2014)

4. Analysis

In this section the report will attempt to interpret and analyse the findings from the second hand data and the primary data, the in depth interviews regarding entering Brazil. The country analysis is primarily based on empirical data from journals, books, newspapers and reports. The report takes into account the observations and interpretations from the primary research findings from the in-depth interviews with Moen, Norberg and Silveira.

4.1. PEST Analysis

4.1.1. Political

Brazil is the largest country in South America with a population of 203 million. Brazil is the fifth largest country by geographical area and population. Brazil gained independence in 1822 from Portugal and had a constitutional monarchy until 1889 when a federal republic was established. Brazil reclaimed democracy in 1985 and a new constitution was enacted by Brazil's National Congress in 1988 (OECD 2013).

The country has since become more open to trade and continues to lowering trade barriers. The Petroleum Law came with act no. 9478 in 1997 which allowed international Oil companies to participate in the Brazilian oil and gas industry. Oil companies could apply for exploration licenses and operate on the Brazilian continental shelf. However, the National Oil Company, Petrobras, is still the main operator, with 93% of the exploration and production market share. (Doing Business in Brazil 2013)

The legal system is civil code, however it is slow and complicated. The Brazilian constitution consists of 250 articles (CIA 2014).

The tax system in Brazil is according to doing business in Brazil (2013), one of the most complex systems in the world. This is another contributing factor for the bureaucratic difficulties facing companies doing business in Brazil. The EIM (2011) report identified the complex tax system in Brazil as one out of four major challenges in doing business in Brazil. The other three were identified as bureaucracy, complexity of regulation and high interest rate and difficult access to financing.

Brazil is an extremely bureaucratic country and getting things done requires a lot of time and money, which can be a problem if you need to set up a business. Comparatively, it takes 102 days to start up a business in Brazil compared to five days to set up a business in Norway (Doing Business 2015).

To set up a company in Brazil, more than 50 different certificates are required in addition to having to contact numerous regulatory agencies for approvals. Generally many regulatory agencies and governmental offices have overlapping jurisdiction, making it even more difficult to set up a business. The Global Competitiveness ranked an inefficient government and bureaucracy as the fifth most problematic factor in doing business in Brazil (Transparency Index 2014).

Corruption is still a problem in Brazil, ranking in at 69th place globally, by the International Transparency report. Current President, Dilma Rousseff has adapted a strong stance against corruptions, however a number of public officials have been charged with inside trade charges and accepting bribes (Transparency Index 2014). The current corruption trial underlines the issues still present within the Brazilian government, with multiple top politicians being accused (BBC 2015)

An additional challenge for First Geo entering Brazil is the local content policy which was established in 2003. It was introduced to strengthen and grow the local market and participation in the oil and gas industry. It requires participants in the oil and gas industry to use local suppliers and manpower. The cost of the act is costly but the intent is to grow the national industry in terms of technology, educate and train the workforce and generate local jobs (PWC 2013).

4.1.2. Economic

Brazil is the 7th largest economy by GDP but the 95th in GDP per capita. The GDP growth has slowed down over the past years, decreasing from a 7, and 5 % GDP growth in 2010 to a 0, 9% growth in 2013 (OECD, 2013) However, the country has had an average of 4, 2 % growth over the past two decades, indicating a recent slowdown but overall high growth.

The largest contributing sectors to Brazil's economy are agriculture, manufacturing, mining and services. The oil and gas sector contributed to 13% of the countries GPD according to Petrobras (2014), compared to 3% in 2000, making the industry increasingly important to the

country's economy. According to the U.S. Energy Information Administration (2014), Brazil is the world's 10th largest energy producer and the 8th largest energy consumer in 2013.

However, the current drop in oil prices and the slowdown in the oil and gas market worldwide can continue to affect the Brazilian economy.

4.1.3. Social

Brazil is the largest country in South America with a population of over 200 million and a low population growth 0.8% in 2014 (CIA. 2014). The median age is 30,7 years and life expectancy is 73 years. Brazil has made great progress in reducing inequality and poverty over the past two decades. A rapidly expanding middle class helps decrease the gap between rich and poor. However, a significant 63% of 25-64 years olds have not completed upper secondary school, leaving a large unskilled workforce (OECD 2013). Despite the low level of skilled workers, the unemployment is continuing to decrease and was at 5,3% in 2013 (OECD, 2013).

4.1.4. Technological

For First Geo to enter a country, a National Data Repository (NDR) has to be in place for them to be able to produce and sell its trade mark product hiQbe™.

The governing body in charge of the NDR usually controls and regulates the exchange, capture and distribution of exploration and production information with the aim of ensuring the growth and development of the industry and the country's natural resources. It is also in place to restrain the exploration activities and protect the environment and the interest of the nation. For the E&P industry this also includes setting up a data bank to handle large volumes of data, including seismic.

The Brazilian NDR is called BDEP (Banco de Dados de Exploração e Produção). It was established in 2000 by the National Petroleum Agency (ANP), which is the governing body for the oil and gas sector. The BDEP is responsible for all data acquired on exploration and production activities. The BDEP is modelled after the Norwegian set up of DISKOS, hence it is similar to what system currently used by First Geo. (Energistics.org)

Brazil has for the past decade achieved significant progress in developing science and technology. The World Bank (2011) Report shows that Brazil spent 1.2% of the GDP on research and development.

4.2. Hofstede's cultural dimension

For First Geo to consider entering Brazil it has to consider the differences in culture. What works in Norway might not work in Brazil. It is important for First Geo to understand these differences before entering Brazil. As displayed in Figure 3 there are clear differences between the two nations.

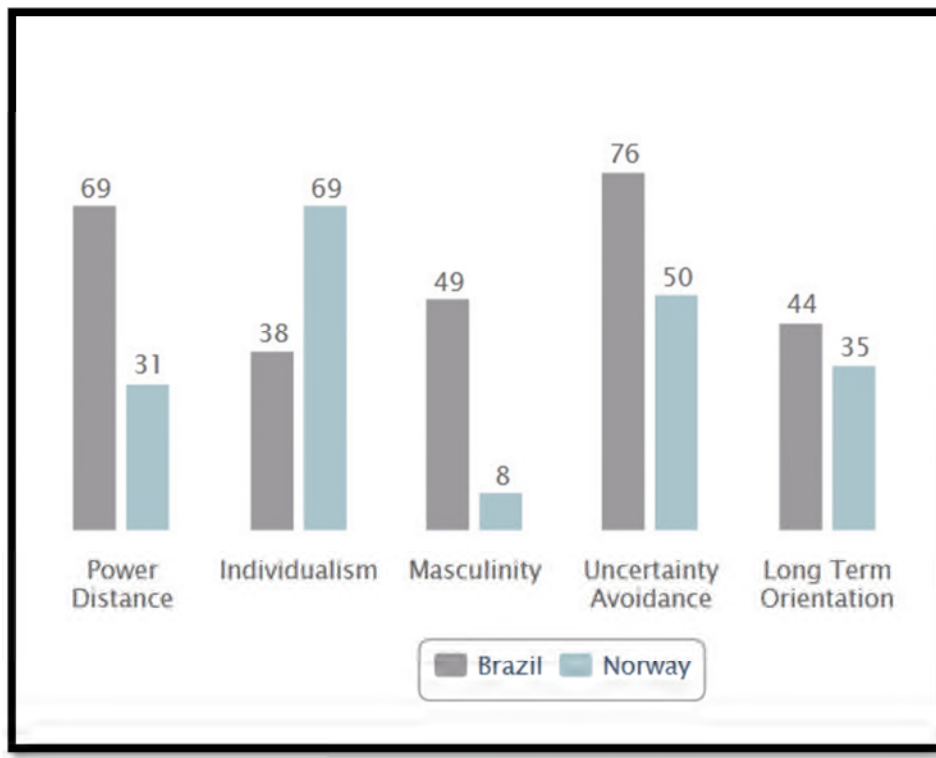


Figure 4. Cultural Dimensions Brazil - Norway (www.gert-hofstede.com)

Power distance in Brazil is high which implies that not all are equal and that is expressed in business its hierarchy. Unlike in Norway where the hierarchy is flat and people will usually speak their minds and correct a manager if necessary, Brazilian workers will not question a manager's order. It also means that the manager has to be very direct and clear when expecting something to be done; as the Brazilian worker will not do something that he wasn't told to do or change a method which is not efficient, effective or correct. (Hofstede)

There is also a clear segregation on individualism between Norway and Brazil. It has to do whether members of society view themselves as an individual or part of a group. Brazil is a collective society, with a strong focus on family and what's best for the family as a whole.

Individuals are very loyal and continue to protect and take care of each other, and this affects the workplace too. Family business is important and relationships and connections are used. Networking becomes very important in order to do business and building the relationships takes time. Therefore, Business meetings often start with social conversation to get a sense of who is participating in the meeting rather than getting down to business straight away, like one would do in Norway (Hofstede). This also means that time is not as an important issue in Brazilian business as it is for Norwegians, and patience will be tested for Norwegians trying to do business in Brazil.

Masculine societies are driven by competition and success whereas feminine societies are driven by values, caring for others and quality of life. Brazil scores 49 on this dimension and is neither masculine nor feminine. Norway is a very feminine society, second most feminine after Sweden, and this could complicate things for a Norwegian company in Brazil. However, it probably means that the Brazilian workers will work longer hours and be more career focused than the Norwegian, so it would probably not be a major issue.

The dimension of Uncertainty Avoidance is high for Brazil, and indicates the need for rules and regulations. This results in elaborate and complex legal system and bureaucratic processes. This can affect business in many ways. One of the key effects is that a company wanting to enter Brazil has to be prepared for a long and often difficult process. The intentions of the processes are to ensure that Brazil becomes a better place, however they result in slow and frustrating progress, which can be detrimental to businesses setting up in Brazil. In addition, attempts to change or improve regulations, often ends in adding to the already complicated regulation and making it more complicated and inefficient (Hofstede).

Brazil scored a 44 on the Long Term Orientation Dimension, and is therefore not overly concerned about honouring culture and history nor overly focused on being innovative and forward thinking.

As illustrated, there are cultural differences that can create challenges for a Norwegian company trying to enter the Brazilian market. Especially the Uncertainty Avoidance and Power Distance.

4.3. Porter's Five Forces

Before looking at the five forces, it is important to clarify what industry First Geo belongs to. An industry is defined by firms making similar type of products/services, have similar sets of value-adding processes or resources. (De Wit and Meyer, 2010). There is a supply side similarity for the participants in an industry (Kay 1993). However, an industry can also be defined by the activity system or resource similarity. First Geo is a technical consultancy firm, offering specific and niche technical skills to the oil and gas industry. Even though Ernst and Young also provide consultancy services to the oil industry, they do not compete with First Geo as their skillset is of a different niche. Both First Geo and Ernst and Young participate in the Oil and Gas industry, but that definition of an industry is too wide. There are many phases in a life of an oil field, and companies in the exploration phase, may have very little to no knowledge of what goes on in the decommissioning phase of an oil field. First Geo provides primarily subsurface consultancy services to the oil companies in the exploration, appraisal and development phase.

4.3.1. Supplier power

For First Geo, there only suppliers are employees, as the main business activity is consultancy. However, due to the lack of an educated workforce, the access to the right people will be difficult. Also, First Geo's hiQbe™ product requires access to seismic data which is controlled and regulated to the NDR and hence they will also exhibit supplier power as they control access to data through memberships.

4.3.2. Buyer power

Petrobras is the main local buyer of First Geo's products and services as it is the biggest oil company in Brazil. The company had monopoly up until 1997, when the government opened up the oil and gas industry to international competition. Petrobras is responsible for 93, 1% of the production on the Brazilian continental shelf (Doing business in Brazil 2013).

The second largest oil producer in Brazil is Statoil with 3 % of the oil production, followed by Shell (2, 2%) in third place. This indicates that the buyer in Brazil has major bargaining power. This means that as a supplier to Petrobras, you can be vulnerable and may not have the opportunity to take your business to a competing company, as there are so few to choose from. However, there are new oil companies setting up business in Brazil, which creates an opportunity for First Geo, as they can focus on the smaller exploration companies, rather than the major player (Doing business in Brazil, 2013). This strategy has the added benefit of reducing company specific dependence and associated risk.

	Operator	Production (boe/d)	%
1	Petrobras	2.327.290	93,1%
2	Statoil Brasil	75.688	3,0%
3	Shell Brasil	55.118	2,2%
4	BP Energy	13.389	0,5%
5	OGX Maranhão	11.784	0,5%
6	OGX	11.318	0,5%
7	Sonangol Starfish	1.139	-
8	Gran Tierra	1.028	-
9	Petrosynergy	695	-
10	Partex Brasil	262	-
11	Petrogal Brasil	232	-
12	W. Petróleo	193	-
13	Panergy	155	-
14	Recôncavo E&P	129	-
15	UTC Engenharia	83	-
16	UTC Óleo	54	-
17	Santana	51	-
18	Alvopetro	29	-
19	UP Petróleo Brasil	23	-
20	Central Resources	21	-
21	Cheim	16	-
22	Severo Villares	15	-
23	Egesa	6	-
24	Genesis 2000	2	-
25	Arclima	0,5	-

Figure 5. Overview of E&P companies in Brazil (Doing Business in Brazil 2013)

4.3.3. Competitive rivalry

First Geo has three major types of competitors:

1. Subsurface consultancy service providers
2. Customers - Oil companies compete with First Geo to recruit geologists, but do not compete on supplying services.
3. Independent consultants

The three biggest subsurface consultancy competitors in Norway are AGR, Weatherford Consulting and Senergy. These firms supply the same services as First Geo, try to hire the same people and apply for the same tenders. Only Weatherford Consulting has an office in Brazil. Other companies offering the same services in Brazil are SGS Exploration Services and SRK Consulting, both major international companies with offices in Brazil. The biggest advantage the already established companies have over First Geo is experience and networks. This is however, a major advantage, as relationships are extremely important for Brazilians in business (Hofstede).

First Geo also competes to a certain extent with their customers, the oil companies. They compete for personnel, as many oil companies hire their own exploration staff, rather than use consultants.

Independent consultants are also a major competition. Senior professionals starting their own single person company are a major threat to First Geo. Experts that recognise their own value, often want the whole consultancy fee, rather than “sharing it” with an employer. However, it is often difficult for single person companies to get assignments with oil companies, as they require a company to be pre-qualified to apply for any tender. Hence, the independent consultant would not have the policies and process in place to be qualified (HSE standards and legal requirements etc.) (Petrobras.com.br).

4.3.4. Threat of substitution

There really is no clear way of substituting the services of First Geo, as oil companies need geologists, petrophysicists, and geophysicists to find oil. (BP: Finding oil and gas). However, the threat is if they decide to employ their own staff rather than hire consultants.

4.3.5. Threat of new entry

As Brazil is the biggest offshore market in the world with a fast growing economy, a lot of competition will want a piece of the pie. However, the complex bureaucracy might scare of competition.

4.4. Entry Modes

The mode of entry into Brazil depends on multiple factors. According to Laufs and Schwens (2014), choice of entry mode is determined by the level of resources willing to commit level of risk and need for control.

The *Norwegian Investments in Brazil* Report conducted by Innovation Norway, the Norwegian Embassy in Brazil and the Norwegian Consulate shows 92% of the Norwegian companies in Brazil are present through a local subsidiary. Hollensen (2004) states that the choice of entry mode depends on market size and growth, direct and indirect trade barriers, competition and a country risk/demand uncertainty. Hollensen (2004) also includes Cultural Distance between home country and host country as a determining factor.

According to *Doing Business in Brazil*, the two most common modes of entry is through an agent or establishing a subsidiary. There reason why is mostly due to the importance of getting local content and building network. It is also costly and time consuming to set up a business due to complex taxations and local legal framework. Companies therefor find it easier to go all in with a hands on method (*Doing Business in Brazil* 2013).

Furthermore, according to a report by the Scottish Enterprise (2013), Brazil is notorious for difficulties and delays in import of goods. This is due to the complex tax system, and high import taxes create delays in custom and increase the price of the good.

As First Geo doesn't have anyone with experience from Brazil nor a network. Significant amount of research has to be conducted before even considering entering into Brazil. Local content requirement is also a challenge for First Geo entering Brazil. Holtbrugge and Baron (2013) found that firms entering into BRIC (Brazil, Russia, India and China) countries through joint ventures have a greater market success than firms entering through wholly owned subsidiaries.

As First Geo doesn't have any local content or network, Joint venture could give them the market insight they need. Joint venture gives the company access to local market knowledge and market institutions (Holtbrugge and Baron 2013). On the downside, it can be problematic due to organisational and culture misalignment.

As the 92% of the Norwegian companies setting up in Brazil choose to enter the market with local subsidiary, it could be an indicator that the need for local presence in Brazil outweighs the need for getting up and running as fast as possible. Koch (2001) says that the popularity of an entry mode should be investigated by the firm entering an international market. If there's a favourable mode of entry selected, then this is a good indication that it's the best option. There reason being that these companies has most likely already done the same country analysis that your business is going through, and has concluded that this method is the most sustainable for entering Brazil. Out of the 183 Norwegian companies in Brazil, 168 of them chose wholly owned subsidiary. Out of these 183 companies, 66% are in oil and gas. (Norwegian investment in Brazil 2013)

Lemke (2014) found in her research paper of European SME (small and medium enterprices) in Brazil said that using an agent or distributor was discarded due to numerous reports of complicated agreements between company and agent. The legal framework in Brazil triggered unwilling employment resulting in disagreements ending in court and where the majority of cased ended in the court favouring the agent. This result in leaving the company with legal issues and wasting time and money that could and should have been invested in setting up a business in Brazil. This is supported by the Scottish Enterprise report (2013). Agents are very well protected by Brazilian regulations, which can end in the company taking on a bigger commitment than they initially intended, regulations that the agent may be fully aware of. Also joint venture was disregarded in one case, as the complicated process of due-diligence outweighed the benefits of local know how of having a local partner (Lemke 2014).

In the end, the local content requirement sets the path for most companies in oil and gas. As in order to qualify for the *Petrobras Master Vendor* list, a legally established entity is required. (Petrobras' Supplier Certification). As a result, Wholly owned subsidiary is the entry mode that First Geo has to conduct in order to make it into the Brazilian market.

5. Findings and discussion.

In this section the report will analyse and compare the primary data. The interview with industry expert, Helle Moen, sets an educated basis for the analysis and the two other interviews are used to confirm or disregard the data. Based on the theoretical background, the interviews covered market factors, such as elements from PEST and Porter's Five Forces. Political and social factors stood out in the interviews as primary issues. The cultural aspect was also discussed as well as market entry trends among Norwegian companies in Brazil.

5.1. Market attractiveness

The market size and growth is the primary reason why so many companies want to enter Brazil. However, Moen explains in the interview that "Brazil is not for beginners". This becomes increasingly apparent as the interviews and the datasets are reviewed.

The primary reason why Norwegian companies from the oil and gas industry enter the Brazilian market is due to the fact that Brazil is the largest offshore oil and gas market in the world. Norway is the second largest offshore market and with over 40 years of offshore experience, Norwegian companies have experience and technology that is very attractive to the Brazilian government and industry.

An important factor is that Norway and Brazil have a long lasting relationship in trade, going back more than 170 years. The first ship came to Brazil in 1842 with bocalão, and left with coffee and sugar. Norway still export a billion NOK in value of dried cod to Brazil each year, Moen explains.

Brazil has also adopted many industry standards on the Norwegian oil and gas sector, especially on how to spend the revenue on developing the country as a whole. The local content policy is based on what Norway did in the 1970's. The technology and experience that Norway has is very attractive to the Brazilian oil and gas market, which explains why 82 % of the Norwegian companies with subsidiary in Brazil, have their office in Rio de Janeiro. Oil and gas companies make up 66% of the Norwegian companies in Brazil, of which 50% were established during the last 6 years (Norwegian Investment in Brazil, 2014).

Bureaucracy was defined as the biggest challenge for Norwegian workers and Norwegian companies in Brazil. As explained by Moen, the political and legal factors are very challenging. The World Bank Group (WBG, 2014) ranked Norway as the world's sixth

easiest country to do business in. Brazil ranked number 120 on ease of doing business. Moen underlines the importance of having enough time and money when entering Brazil. She says “you have to be able to handle NOT making money for quite some time” about starting a business in Brazil. Getting through all the paperwork and processes takes time and money. In fact, starting up a business in Brazil takes 102 days compared to 5 days in Norway (World Bank Group, 2014)

Corruption is another political and legal issue to consider before entering Brazil. All three of the interviewees identified corruption as a major factor for businesses in Brazil. Either from witnessing it or from “word of mouth” The importance of international experience was stressed as it would give you a better chance of being able to pick up signals that might get the company into trouble or resist taking the easy way out.

Corruption witnessed by Mr. Silveira was exchange of money for the guarantee or to be prioritisation of selection during the tender for a state controlled construction business. Silveira also witnessed agreements between two parties to perform a job differently than in the signed contract to meet a deadline. He underlines that most of the corrupt activities are not in the form of the exchange of money, rather in the form of “you scratch my back I’ll scratch yours”.

The complex legal system and tax system can create problems for companies. Moen stresses the importance of getting good advice on legal, tax and employment issues, to avoid getting into problems at a later stage. Reports of foreign companies going to court due to unknowingly committing to employment conditions or agreements are common in Brazil. Safety regulations are however not as strict as in Norway and working conditions are affected, according to Norberg and Silveira.

Local content requirement is also a challenge, since there is a shortage of qualified workers in the local market. As a result businesses are often forced to accept that progress may be limited or not optimal as it could be in alternative locations globally.

5.2. Culture

A cultural difference, as described by Hofstede, was also identified by the three subjects as very different between the two countries. Language was defined as the primary cultural factor creating difficulties in doing business in Brazil. Most Brazilians don’t speak English and

Petrobras conduct all their meetings in Portuguese as well as all their documents. Brazilians were also identified as being more career focused than Norwegians, working longer hours and being better at networking. However, the long hours were also identified as due to a different attitude towards time and deadlines. Even though a Brazilian often worked longer hours, this does not necessarily mean that a larger volume of work being completed hence the Norwegian method of working is generally seemed as more efficient. Networking was also found important, as advances in business in Brazil often happen through well-established business connections or family members.

The collective society of Brazil means that the importance of networking is an essential factor in setting up a business. As a Brazilian, you are expected to help out family members in business, and this means that it can be difficult to be a foreign worker or company in Brazil.

The workforce is not evenly distributed between men and women, especially not offshore. However, inequality was not considered a prominent issue by the interviewees.

Power distance however, was found to be very prominent in Brazil with significant gaps between workers and managers. Norwegians, both workers and managers, could struggle to adapt to the hierarchic approach adopted in Brazil. The implications are that a worker will not question a manager's decision, even knowing that it is the wrong decision. A Norwegian worker would let the manager know, and a Norwegian manager would expect to be told. Hence, there's no room for initiative or "thinking by yourself". A way of working that was considered a source of frustration for a Norwegian.

5.3. Entry mode

The primary entry mode into Brazil was found to be wholly owned subsidiaries. However, the mode of entry was gradual and it was recommended to start of doing research and building local network prior to entering Brazil. This is supported by the cultural aspect as well as legal issues. Due to the complexity of the legal system, tax and employment regulations, getting good advice to avoid future issues. The bureaucracy is a major barrier of entry for Norwegian Companies, and Moen underlines the importance of seeking good advice and allowing plenty of time before entering Brazil.

6. Discussion

In this section the report will apply the theory, primary data and secondary data to the case of First Geo with the objective of finding a conclusion to the research questions and hence, a recommendation for the company.

There are many reasons for First Geo to enter Brazil. The average GDP growth of 4, 2% over the past decade makes Brazil financially attractive. So does the extensive plans by Petrobras for exploration and production investments for the next few years. On the other hand, the GDP growth has declined drastically over the past three years, and this could be an indication that the boom is over. There is also the issue of the falling oil price that has pushed industry to cut costs. The cost savings agenda is significantly reduced the strength of the NOK and reduced the financial result of First Geo. The cost saving is evident in all oil and gas markets worldwide, including Brazil. This directly affects the consultancy business. However, The Energy Information Administration (2015) predictions are that the oil price will increase towards the end of 2015 and that the panic has settled in the market.

The Ministry of Foreign Affairs's strategy for assisting Norwegian companies entering Brazil is also a benefit. Resources are made available for First Geo through the government to make the process easier (the Brazil Strategy 2011). Brazil is the largest offshore market in the world and Norwegian technology is well suited for the conditions. Norway's 40 years of offshore experience makes the technology and the knowledge a highly valued asset in Brazil (Doing Business in Brazil 2013)

Another opportunity is the 13th licensing round, opening up new blocks for exploration, has been announced by the ANP (http://www.brasil-rounds.gov.br/index_e.asp) for the end of 2015. This means that the oil companies applying for licences will need exploration services both before the application deadline and after being rewarded a license. The rounds in Brazil have been delayed for the past few years, but the government is now pushing for efficiency and this is a great opportunity for both oil companies and service companies, such as First Geo.

Unfortunately, there are many challenges facing First Geo if they choose to enter Brazil. Both secondary data and primary data suggest Brazil's bureaucracy being the main obstacle in entering Brazil. The World Bank ranks Brazil as 120th in terms of ease of doing business, and it takes 102 days to set up a business, compared to 5 days in Norway (Doing Business 2015).

Corruption is also a factor facing First Geo in Brazil. The complicated and slow bureaucracy doesn't help this situation, as many will be tempted to take the easy solution and pay someone off to get ahead. Lack of international experience will also challenge First Geo, as it can be difficult to identify corruption when it happens. However, First Geo has a strong Corporate Responsibility initiative and through the Code of Conduct (2014) of which all First Geo employees are educated to identify, avoid and report unethical actions. The code of code of conduct is a useful tool in fighting corruption if entering Brazil.

Nonetheless, the code of conduct might be able to assist First Geo with corruption, but it does not give them much assistance in understanding and handling of the complex legal system and work and employment regulations in Brazil. The numerous rules and regulations in Brazil can possibly be explained by culture and the fear of uncertainty. Brazil's Uncertainty Avoidance score on Hofstede's cultural dimensions indicates that Brazil is very uneasy with respect to uncertainty and there's a strong need to control the uncertain future. The result is a comprehensive and complex legal framework and over the top regulations that could be very hard for First Geo to understand and deal with without Correct and adequate advice and help. Moen, suggests getting help as the key component for succeeding in Brazil and to make the process of setting up and starting a business in Brazil less of a challenge.

The cultural differences were also identified in the research as a major factor influencing how business is done in Brazil. The difference in Power Distance between Norway and Brazil means that it might be hard to continue with Norwegian work methods in Brazil. Power Distance in Brazil is high and there is a significant gap between managers and workers. Brazil's operating methods requires clear instructions and managers have to follow up employees. Managers are to a larger degree expected to micro-manage in Brazil compared to Norway where employees are expected to think for themselves and to report or communicate to management if the instructions are unclear or incorrect. A Brazilian would not question an instruction from a manager nor initiate an alternative to the same degree as in Norway.

The primary data also revealed that culture also affect communication as Brazilians are not inclined to disagree with an instruction from a manager. It is also considered very impolite to say no and this can lead to misunderstandings. As phrased by Moen "*when a Brazilian says yes, it means maybe. When a Brazilian says maybe, it means no. And if a Brazilian says No,*

then he's not Brazilian". This is of course not a proven fact, but an indicator of the differences in culture between northern European countries and Brazil.

Another issue for First Geo with the Local Content requirement is the fact that Brazil has a shortage of skilled workers. Despite having a young population and a decreasing unemployment rate, the oil and gas industry is struggling to get qualified people. This increased the competition for the right people and hence increasing salaries. The research found that in some cases the salaries could be twice the rate of Norwegian salaries. This is a major challenge for First Geo. Not only will they struggle to find the right skilled professional to join the team to meet the local content requirement, they will also have to fight to get them to join First Geo, rather than a competitor. This means that the bargaining power of the supplier is high (the employee) as well as the rivalry between existing competitors.

Competing firms that already are established in Brazil have an advantage and that competitive rivalry is strong in the Brazilian market. In addition the bargaining power of the buyer (primary buyer being Petrobras) making the market less attractive. The Porter Five Forces did however find that there's no threat of substitution and that there threat for new entrants is low, due to complex rules and regulations to enter the Brazilian Market.

The study also found that to enter Brazil, First Geo has to go all in with a wholly owned subsidiary. Not because there is no other methods, but due to the local content requirement. The research found it best to have a "hands on" approach when entering Brazil, that there is no quick fix for penetrating the Brazilian market. Networking is very important in business, and it will take time before solid business relationships are established and business opportunities present themselves. Overall, the study found that there is a huge potential in the Brazilian market, however, there is not an easy way of exploiting this potential.

7. Conclusion

Brazil is indeed a very attractive market for oil and gas companies; however, there are many other factors than just economic growth to consider.

This thesis looked at different variables with the objective to answer the research questions:

1. Based on macroeconomic conditions, industry factors and cultural differences, is it a smart strategic move for First Geo to enter the Brazilian market?
2. And if so, what market entry mode is the most appropriate?

The author used multiple research methods to obtain information that could lead to a conclusion. Primary data was collected through the method of in-depth interviews, journal articles, reports, books and newspaper articles were collected and reviewed to gather secondary information to support the selected theory and to assist in finding a conclusion.

Conditions that were analysed were the Macro-economic conditions of Brazil. This was done through the theory of a PEST analysis. The market attractiveness was further analysed through Porters Five Forces. By comparing the secondary and the primary data, the report found the business conditions to be very difficult in Brazil. Even though there is a strong economic growth, the political and the social factors are very challenging. The legal content requirement and the complicated tax and legal system were identified as a critical challenge for setting up a business in Brazil, and factors that could make the process very time and resource consuming.

The social factors were supported by Hofstede's cultural dimensions. The cultural differences between Brazil and Norway could create numerous difficulties, such as the miscommunication between management and worker. Also the extensive collectivist society in Brazil means that building a network is crucial to succeed, but very time consuming to achieve. After looking at the market attractiveness and the cultural differences, the threats outweigh the opportunities. This answers the first research question: No, First Geo should not enter Brazil. The main challenges found were bureaucracy, rules, regulations, language and networks.

If First Geo were to enter Brazil, then the research supported wholly owned subsidiary as the best entry mode. This is because of the local content requirement, but also due to the need to build relationship and a network to make it in Brazil.

In the end, the author believes that due to the many challenges identified in this report, First Geo should look to other oil and gas markets to enter.

8. Criticism and further research

Writing this thesis the interest for strategy and business development has increased. The author has gained a better understand of the preparation need to enter into a new market and the different factors that needs to be considered. But it has also revealed how much more there is to know about market analysis and market entry modes. As the author continued working on the thesis, multiple issues became apparent.

Firstly, the report should have had done a comprehensive internal analysis of First Geo. However, such material was not available, and that would have been a completely single assignment to take on, as that too requires in-depth research.

Secondly it was difficult to find valid information on Brazil as the official webpage of the ANP (Agência Nacional do Petróleo) was all in Portuguese.

Thirdly, alternative interview objects and methods could have been selected. A case study of other oil and gas service companies entering Brazil was a good option. However, the relevance to First Geo could have been limited, as most of the Norwegian companies in Brazil are large multinational entities. The author also challenged to find entry mode theory relevant to Brazil. It was also a struggled to find public information, such as information on local consultancy firms and information about geoscience professionals in Brazil.

For further research the author would do research on the consultancy industry in Brazil. Also, research on market penetration by Norwegian service companies in Brazil would be an interesting topic.

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10. Appendix

10.1 Appendix 1

Questionnaire for Brazil – oil and gas service industry – Helle Moen

1. What is your background and what experience do you have from Brazil?
2. Why is Brazil such an important market for the Norwegian government and the Norwegian oil and gas industry?
3. What is the biggest opportunity for Norwegian companies entering Brazil?
4. What is the biggest challenge for a Norwegian company entering Brazil?
5. What political / legal factors should a company consider before entering Brazil? Such as tax and regulations?
6. What are the implications of the local content requirements for oil service companies?
7. How stable is the current government?
8. Brazil has a low score when it comes to corruption, is this relevant concern for Norwegian companies entering the Brazilian market?
9. Have you ever witnessed / been exposed to corruption, activities that are immoral?
10. Is there technological challenges running a business in Brazil?
11. What are the major cultural differences between Norway and Brazil
12. What are the biggest business culture difference between Norway and Brazil?
Networking? Smøring?

13. Can the differences create problems for a Norwegian company trying to enter the Brazilian market?
14. How should a company prepare for these differences?
15. I'm looking at small to medium size companies trying to enter the Brazilian market. How easy is it for a small to medium sized company to enter into the Brazilian oil and gas market market?
16. What strategy (entry mode) is the most common for entering into Brazil? Joint Venture? Licencing? Exporting? Or fully owned subsidiaries?
17. What do you think is the main success criteria for making it in Brazil?
18. What three recommendations would you give a SME that was planning on entering Brazil?

10.2. Appendix 2

Memo from Interview with Helle Moen 04.05.2015

E: To start off, can you tell us a little bit about your background before you started working with Invasion Norway in Brazil

H:My background before I started working as director of Innovation Norway in Brazil, I worked four years as Investment Director in a venture capital firm called Investinor. With special responsibility for the clean tech and renewable energy sector. This gave me a very interest in global energy systems which I find very relevant to my current position. Before that I was the VP for the Private research institute Marine Tech – with special responsibility for international business development. And in that position I establish a company in Brazil – our subsidiary marine Tech Brazil. So I have actually establish a company in brazil so I know

a bit about the business culture and the bureaucracy in Brazil and the complexity of the market.

E: So how long have you been with Innovasjon Norge?

H: I've been there for three years, I started July 2012 – and started directly as Managing Director.

E: So do you live in Brazil permanently

H: I live there now, for three years. But before that I lived in Norway but travelled to and from Brazil and worked with Brazil for over 10 years.

E: So why in your opinion is the Brazilian Market so important to the Norwegian Government and to Norwegian oil and gas industry?

H: Brazil is the world's largest offshore Market, Norway is the second largest. So these two countries are very important. And more importantly, The Brazilian offshore market is very complicated, its deep water deep wells, so Norwegian technology is especially well suited for these conditions. At the same time the importance for the long term relationship between Norway and Brazil should be stressed. The fact that we have been trading for more than 170 years starting out with the Bocalão – Klippfisk, coming from Norway in 1842. The ship came with Bacalao and went back to Norway with sugar and coffee means that Norway has a long lasting relationship in trade and that is actually quite important. We still export about a billion NOK in value of dried cod to Brazil every year, so it is still very important sector. At the same time Brazil has also defined that they would like to adopt the Norwegian model for development of the oil and gas sector. And how to spend the revenues on developing the country as a whole. They also defined the local content policy based on what Norway did between the 70s and 1994. So there are several things that makes Brazil an important market.

E: So is it the technology that the Norwegian industry has in the offshore oil and gas market that is our competitive advantage?

H: I would say that with certainty. We have technology that Brazil wants and needs and at the same time we are a neutral country to cooperate with and quite small so not a big threat in any way.

E: So moving on to the political and legal factors: What are the major political and legal factors that a company should consider before entering Brazil?

H: There are several things they have to consider. One thing is that sometimes we say just as a joke but it's actually very relevant: "Brazil is not for beginners". If you look at the World Bank's rating of "ease of doing business" you can see where Norway is at compared to Brazil. When it comes to how difficult it is to do business. Norway is number 6 on the list, it's one of the 10 easiest countries in the world to do business. Brazil is number 120. So if you struggle to do business in Norway, with Norwegian bureaucracy, don't even think about doing business in Brazil. That is a good test point.

Also, Bureaucracy is probably what everyone thinks about, but you also need to consider the fact that things take time. You need to spend enough time and effort, and with that money, to build relationships where you have a level of trust where you can start talking business. This can be challenging. This means that you need to be able to handle NOT making money for quite some time; you need to allow for that which means that you have to have owners that allow you to do that. You need to have the financial strength

At the same time it's very bureaucratic and with that also comes corruption. As most people now see, and it is a major factor in Brazil. Which means that you need to have international experience enough to pick up and recognise corruption when it happens.

What's happening in Brazil now (The Petrobras Scandal 2014*) has happened in many markets before, and it's the new anti-corrupting law that entered into operation in February last year, and the scandal is the first big case to be trailed after that new law. It is an interesting time in Brazil. But it means that Brazil is not for beginners, this is a good quote by Tom Jobim. And it's never been a place for beginners. It's a very complicated and very advanced market.

Language is also a very important thing, English is not widely spoken. In business to a certain degree, but you need to be able to speak Portuguese or you need to have people who does.

And the cultural differences are very often underestimated and they are larger than Norwegians believe.

E: Yes, moving from the political factors to the cultural factors, do the differences create business problems for Norwegian companies?

H: yes they do. The differences are quite big and we don't recognise it because..., for one thing Brazilians are extremely friendly and polite, they are very easy to get to know. They are very easy to become friends with, and generally people you meet in business have European background so they look a lot like us, if you compare working in Asia where you can see that people are different, but not in Brazil, so it's easy to think that we are the same. We like the same thing, we laugh at the same jokes but the differences are there even if you don't see it at first. One of the major things is the fact that Brazilians don't say no. They consider it impolite to give a straight no. People don't do it. A Brazilian saying is that if a Brazilian says yes then it's a maybe. If he says maybe it's a no and if he says no, then he's not Brazilian.

Which means that Norwegians that have only worked in Norway or north Europe, north America tend to forget this and think that "We had a great meeting, they were very positive" when actually it's not the case for the Brazilians. And this causes a lot of confusion.

I would actually claim that cultural misunderstandings are probably one of the most important factors why things don't work out in Brazil for many companies.

E: So it's not just considering the numbers, market growth and getting around the political issues, it's the culture as well.

H: it is definitely the culture as well. And it's one of the traps that are very easy to go in.

Also that many think that, back to the complexity of the market, because Norway has a well regulated labour market, where there are strict rules and legislations around what you are allowed to do and not allowed to do, people tend to think that if you follow Norwegian regulations with regards to employees, that you should be on the safe side. But this is not a fact. The Brazilian legislation around labour and having employees is much more complicated than in Norway. Which means that if you don't know this when you hire someone, even just as a consultant, you may get problems later that could take you to court and that would mean that you would have problems working in the market after. This we see a lot of.

E: so building a network and relationships and getting help is important.

H: Getting help, getting advisors. If you don't have experience working in Brazil, if you don't have experience with tax legislation and labour law, then just forget doing it by yourself, you need to have advisors. You need to have a good tax lawyer and a good accountant. There's no way around that, and you need to talk to someone who knows the HR rules and regulations.

E: Ok, I see. So the local content requirement that applies for oil companies, do they apply to the same extent to service companies?

H: Service companies have to go by the requirements, but to what degree they have to follow it, I'm not sure. It depends on the project you are working in, they all have different requirements. What your place is in the supply chain. That too is a very complicated issue. Again, one of the things where you need to have professional advisors. But its always wise to assume that having local content in you delivery, is a good idea. Even if you're not required to do so. Because local content is measured on a project in several levels, both on sub system level and on the total level. So if you can contribute to local content, its an advantage.

This is also an issue that's related to the corruption scandal (Petrobras 2014), where is the limit. If you start selection on other things than price and qualifications, where does the line go? And that's where you enter a grey zone. And so local content, rumours has it that there might be a change coming. Maybe in the future. But as of today, we don't have any concrete evidence that it is going to happen.

E: So with local content, wouldn't it be difficult to get qualified workers?

H: YES

E: and how far along is that training/educational process along? Because the reason to have this requirement is so that it will build the Brazilian labour market.

H: that is one of the complicated things. Depending on what you are going to do, getting engineers has been ok. At least for Norwegian companies. The main issue is technical workers, those on deck, the doers. Electricians, mechanics and crew for supply boats. It is very very difficult to get. There is enough basic trained sailors, but they are all educated from the same school, so they all have the same training. So getting specialised workers for advanced operations are very difficult to get. And of course this has two effects: it pushes the salary levels up. It can be almost twice the level of Norwegian salaries. And at the same time, and this is really difficult and something that you have to be careful of, and that is the safety issue. People are not trained well enough. Brazil has been lucky and hasn't had any major accidents yet, but if there is going to be a lack of qualified operators on all these vessels, that could become a problem.

E: Great I think we've covered most of the topics I wanted to talk about. So, for small and medium sized companies that wants to enter into the Brazilian market, what strategies are normally used?

H: You have to start with relationship building. Get the level of trust in place. I do think that the companies that can find good solid partners through joint ventures are more successful, due to all the cultural differences. But its most common to have a local subsidiary. (Wholly owned subsidiaries). But the most important thing is to spend enough time getting to know the market and building relationships. Getting as much knowledge to start with as possible is the key thing.

We see that the companies that has joined Innovation Norway's market training called FRAM Marked, they seems to have a very good starting point. It is also common to have a representative or agent, then establish a subsidiary or having non-binding partnerships before entering a joint venture, is the common method. The best method is to just take you time and evaluate. Going into Brazil is not a left hand job, it's not something that you can do when you don't have anything else to do. If you decide to do anything in Brazil, then you really have to go all in. and that again goes back to the fact that you need resources to enter brazil.

E: Is that why it would be hard for a SME to enter into brazil?

H: Unless they have sting owners, that really wants to invest in Brazil and is prepared to spend the necessary time it takes to do it right.

E:Ok, looks like I've covered all the topics I wanted to cover. To sum it up, what would be the key most important factors for a SME to consider before entering Brazil? Three most important things?

H: 1. Learn as much as possible about the market. 2. Spend time to get a network and build relationships 3. And use advisors. You can get a lot of help through the government systems and through consultants. Don't save money on advice. Get the good ones.

End of interview.

10.3. Appendix 3

Questionnaire for Brazil – oil and gas service industry – Rikke Norberg

1. What is your background and what experience do you have from Brazil? Did you work for Petrobras?
2. What are the biggest differences at work?
3. What are the biggest cultural differences?
4. Did they create any problems/ misunderstanding?
5. Was there a differences in quality/skills set between Norwegians and Brazilians
6. What was the best thing about working in Brazil
7. What was the worst thing?
8. Did you notice any corruption?
9. What do you think are the biggest challenge in setting up a business in Brazil?
10. 3 words to describe Brazil

10.4. Appendix 4

Memo from interview with Rikke Norberg 05.05.2015

E: What is your background and what experience do you have from Brazil?

R: I have a background in Petroleum Technology from NTNU and graduated in 2010. I was transferred with my company in June 2012. I Mainly worked for BP, but I also have experience with Petrobras.

E: How long were you in Brazil?

R: 18 months

E: What were the biggest differences at work?

R: There are many differences between working in Brazil compared to Norway. The biggest difference is probably how everything is organized and structured. I can only speak from my experience, but everything seems more organized in Norway. We can always trust what gets

sent to the rig. That none of the equipment is missing and that they are working. Besides from this, Brazil use a lot of the same technologies as in Norway. And in the oil business Norwegian companies are everywhere. Companies like Kongsberg, Aker, NOV and DNV are some of the ones I encountered. Brazil is also considered as a high tech location. They use all the high tech tools that Schlumberger can provide and the oil companies are not afraid of trying our latest technologies. After I came back home to Norway I realized that we used more of our high tech tools there.

For me personally the biggest difference is that I worked more in Brazil. In Norway I have a set rotation have a right to get paid overtime if I work long hours. In Brazil I had no such thing as time off. I often spent 28 days offshore, sent back to shore for a couple of days just to be sent back for another 28 days.

E: and what are the biggest cultural differences?

R: I think that the hierarchy stands stronger in Brazil than in Norway. You respect your superiors in a different way and approach them differently. The Brazilians are still very friendly and including. When you are working with something there will always be someone to ask if you need any kind of help. That rarely happens in Norway unless you ask.

And the Brazilians don't really speak English that well, so the communication was sometimes difficult. I didn't experience any big misunderstandings, but it was sometimes frustrating when you tried to explain or understand something.

E: how about gender equality?

R: When it comes the genders there is always a majority of men offshore, however there weren't any less female offshore in Brazil than in Norway. I never experienced anything that made me feel unwelcome or misplaced.

E: Did the cultural differences crate any problems? Any misunderstanding at work?

R: Despite the language barrier, I can't remember that I experienced any big problems or misunderstandings. Petrobras tend to stick to Portuguese in all their meetings and interactions even when foreigners are present. However, if there is something that you need to know or be

aware of they will somehow make sure that you receive the message. They were never complaining that you didn't understand their language or made any big deal about it.

E: Was there a differences in quality or in skills set between Norwegians and Brazilians

R: Yes and no. In my company I would say that the skills of my Brazilian colleagues were better than the Norwegians. That has probably to with that the Brazilians work 2-2 rotation and not 2-4, and because of that they have more experience. They have also no problem with working more than that even though they don't get paid overtime as in Norway. When it comes the rig crew in general I would say that Norway have better skilled crews. In Brazil the crews were often changed out and always training new people takes time.

E: What was the best thing about working in Brazil?

R: To me it was most definitely the climate. Since we work outside a lot , working in a perfect temperature outside Bahia in Salvador compared to a winter storm in the Barents sea should say enough.

E: haha, so you don't like the freezing conditions in the Barents sea?

R: haha, no not at all.

E: So what was the worst thing about working there?

R: I never had any time off. I spent most of my time offshore and if I for a few days were onshore I had to work at the base. I lived in this amazing country and didn't get to see enough as I had hoped since I always were required to work.

E: that doesn't sound like much fun.

R: no, too much work and not enough fun.

E: Did you notice any corruption?

R: I cant say that I saw any corruption. However there was always some talk about it. I think Brazil have managed to reduce or maybe even eliminate their corruption on street level. I did experience a lot of strikes though. Police were on strike for a couple of months and when I got

there I wasn't able to register my visa as the office that were handling it was on strike as well. To me it seemed like there was always a strike somewhere.

E: What do you think are the biggest challenges in setting up a business in Brazil?

R: Language. You will have to speak Portuguese as the Brazilians don't really speak English that well. Also Brazil is very protective of their own. If I'm not mistaken, you basically have to have a good reason to hire a foreigner instead of a Brazilian. Just to get a job is difficult as a foreigner so to set up a business I would imagine could be very challenging. The bureaucracy is also very heavy. Nothing seems to be efficient, huge paper mill, and I would rather deal with NAV than any Brazilian office.

E: so last question: 3 words to describe Brazil

R: Hot, colorful, vibrant

E: great! Thank you Rikke.

R: no problem.

End of interview.

10.5. Appendix 5

Questionnaire for Caio Freire Silveira

Name, age and Nationality:

11. What is your background and what experience do you have from Brazil and Norway?
12. What are the biggest differences at work between B and N?
13. What are the biggest cultural differences?
14. Was there a differences in quality/skills set between Norwegians and Brazilians
15. What was the best thing about working in Norway compared to Brazil?
16. What was the worst thing?
17. When you worked in Brazil, did you notice any corruption?

18. What do you think are the biggest challenges for Norwegians setting up a business in Brazil?

10.6. Appendix 6

Memo from interview with Caio Freire Silveira. 05.05.2015

E: What is your background and what experience do you have from Brazil and Norway?

C: I have a Bachelor in Petroleum Engineer and graduated in December 2010. I worked in Brazil for Saipem Brazil from 2008 till 2011 as a production operator. Then I joined Schlumberger and moved to Norway in January 2011. I work as a field engineer in Norway.

E: What are the biggest differences in working in Brazil and working in Norway?

C: In my opinion the biggest difference is about working conditions. The safety awareness is a lot higher in Norway. People are in general more conscious about safety in Norway. And work regulations are followed more strictly in Norway.

E: and what do you think are the biggest cultural differences.?

C: Norway has an incredible social mind set. There's a huge barrier among working colleagues from work and social interactions. It takes a very long time to get to know your Norwegian colleague at a personal level. Also, men and women are deemed more equal and capable to perform same tasks.

E: So equality is higher in Norway than in Brazil.

C: Yes.

E: Is there a difference in quality and skill set between Norwegians and Brazilian?

C: I see Brazilians more flexible and more career oriented. I consider Norwegians as having a "Work to live" mind set. There is no judgment from my side on which is correct or not.

E: What is the best thing about working in Norway compared to Brazil?

C: Safety. Even though I do feel sometimes, this can be abused as an excuse from some parties, when trying to perform a task in a slower pace. Sometimes some excuses are used,

pretending to increase the safety, but in reality clearly these aspects are ignored during execution.

E: What was the worst thing?

C: I feel in Norway, sometimes co-workers are seen as only individuals, therefore can be observed some lack of “team-work” (“I do my part and don’t really care about your performance”)

E: When you worked in Brazil, did you notice any corruption?

C: Yes.

E: Can you give me an example?

C: I’ve seen Exchange of money, “facilitation”, to guarantee or to be prioritized during a tender for a state controlled construction business.

I’ve also witnessed agreement between two parties to perform a job differently than written on the signed contract, to accomplish a deadline. No money exchanged, but as from my point of view, corruption does not necessarily have to be about money transaction, but can also be a mutual agreement to reach a win-win situation for those two directly involved. And not thinking about the contract or even the big picture of the business. The last one is constantly happening at various situations and all levels of a company.

E: What do you think are the biggest challenges for Norwegians setting up a business in Brazil?

C: In my opinion I think communication with locals is the biggest challenge. Also the huge amount of bureaucracy. There’s a real difficulty for companies to find highly qualified local professionals, which you need for the local content requirement.

E: Ok, thank you. I think I got it all.

C. No problem.

End of interview.

