

Latin America: Another step in TMA's growth

by Eduardo Lemos, Perform Management & Consulting

TMA-Brazil is preparing to become our association's newest international affiliate in March. At their January meeting, TMA International's Board of Directors approved the group as a provisional chapter in formation. Eduardo Lemos of Perform Management and Consulting in São Paulo will serve as TMA-Brazil President in 2009. Here he shares his personal insights into the current restructuring and corporate renewal environment in Brazil.

Brazil's corporate renewal environment

Brazil's new bankruptcy law (No. 11,101, February 9, 2005) has brought important and long overdue changes to the country's insolvency framework. The law provides two forms for reorganization of financially distressed companies: in-court and out-of-court "pre-packaged" restructuring, slightly shifting the center of gravity from overprotected debtors to

focus more on going-in concerns and creditor interests.

Along with Brazil's increased socio-political stability and robust enterprise governance and financial markets, the new insolvency law, (locally referred to as the "law of enterprise recovery") has been promoting the reduction of the cost of debt. The basic rate is currently at 12.75%—less than half of what it was in the 1990's—and the Brazilian credit market has



TMA-Brazil founding members (from left): Sergio Duque Estrada, Luiz Cláudio Galeazzi, Thomas Felsberg (chairman of the board), Renato Carvalho, Anneliese Moritz, Luiz Fernando Paiva and Eduardo Lemos (president). All but Ms. Moritz are the appointed members of the affiliate's board of directors.

increased from 30% to 41% of GDP (currently 1.4 trillion USD) in recent years. But 8 billion U.S. dollars in equity and revenues are lost each year in the state of São Paulo alone, with bankrupted companies incapable of turning around or recovering appropriate value.

The biggest challenge now is a cultural one. Educating managers, lawyers, bankers, and judges on turnaround management is critical, as many of these professional bodies are yet to be freed from old degenerative corporate habits and to be acquainted with best corporate renewal practices.

Some corporate stakeholders (financial institutions, investors, suppliers, clients, and shareholders) have exaggerated prejudices toward ailing companies. Banks and factorings, in particular, have often buffered themselves with strangling interest rates. Many are not yet acquainted with the how-to's in a turnaround situation—be it in court or out of court—especially in a DIP scenario.

Court-appointed, or judiciary administrators, most of whom have law experience and usually are partisans of the old bankruptcy culture, are not well qualified or prepared to effectively undertake the corporate renewal challenge. In many cases, it can be argued that they have been the cause of the execution of flawed business recovery plans, which are biased toward liquidation.

Many turnaround practitioners in Brazil are self-proclaimed “general managers” and “turnaround” one-man-shops. Some do not have the necessary management education, methodology, experience, leadership or integrity to be true corporate renewal professionals. Of the few companies involved with turnaround and

interim management in Brazil, most do not own their own resources. These firms build engagement teams as jobs are sold.

TMA-Brazil

TMA-Brazil's first constitutional general assembly is scheduled for March 9 in São Paulo with a list of 72 confirmed founding members. Its founding Board members recognize that respected professionals working in the corporate renewal industry enhance their reputations through their association with a third-sector organization whose mission is to reduce enterprise mortality.

TMA-Brazil is innovating by allowing corporations to pay directly for multiple employee memberships. This approach has significantly leveraged top-down networking, whereby membership recruiting is partially delegated to top managers of better-known companies willing to pay multiple membership fees and promote the membership benefit to its professionals.

We look forward to providing future updates in TMA International News to apprise you of our continued progress. 



Eduardo Lemos is managing partner of Perform Management & Consulting. He has been involved with early turnaround, market and operational performance improvement interim management and consulting assignments in Europe, South

America and the Middle East. He is a member of the Brazilian Institute of Corporate Governance and is the appointed president of TMA-Brazil.