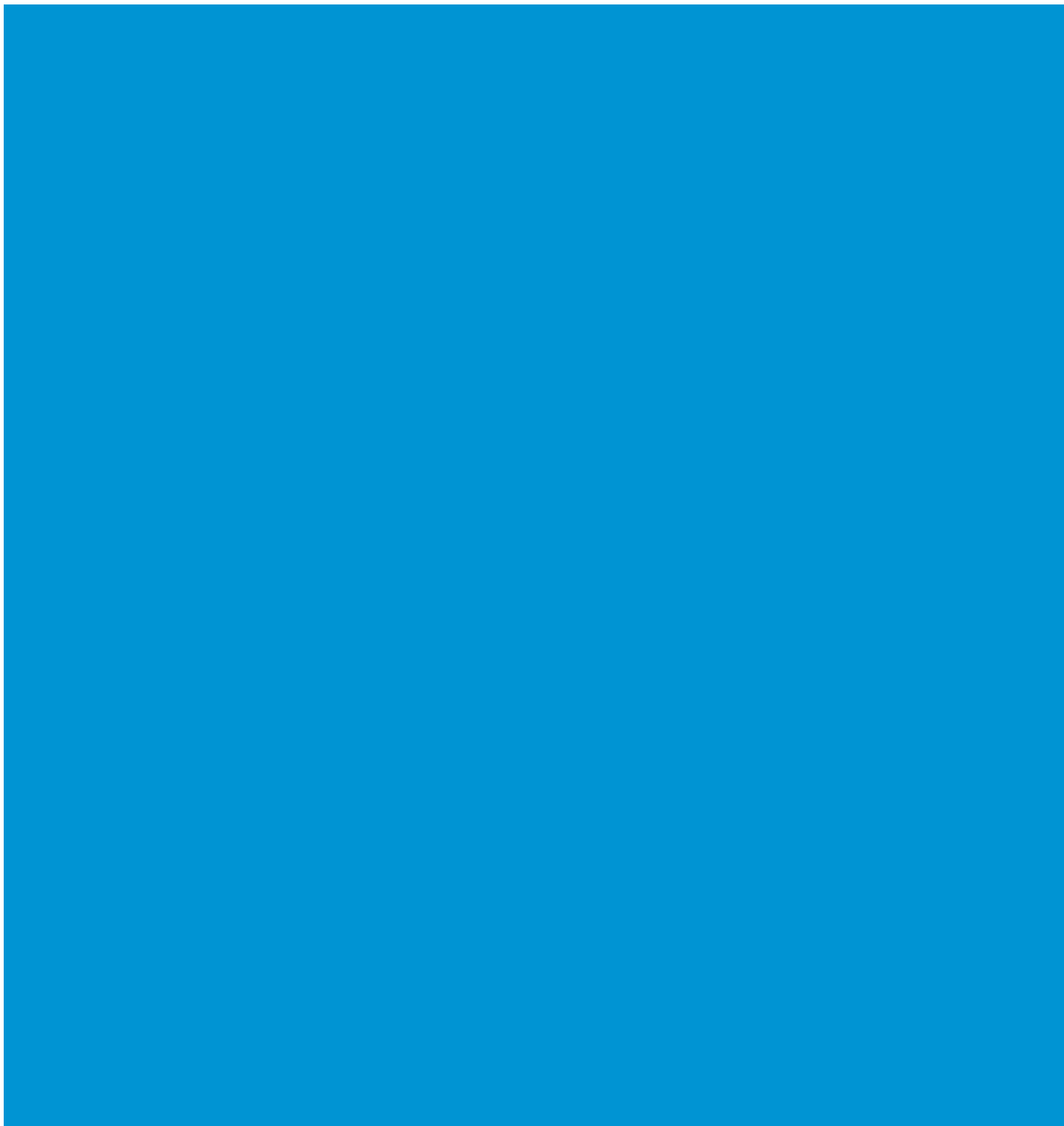


South America: Opportunities & Challenges

New opportunities - but the same
challenges - in a connected world.



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Foreword



We are pleased to share with you the results of our 5th CEO Survey -South America with renewed confidence in the future of our region as well as with a recurring feeling of frustration, as once again it is clear that we continue to be hampered by a tremendous opportunity cost. This becomes clear when we compare where we were five years ago with where we are and question where we could be. We believe this comparison is necessary because we may be misled by the progress achieved if we do not take into consideration the progress that was possible.

During the last five years we have had a very favorable global scenario derived from high liquidity and rapidly increasing commodity prices and have also benefited from the undeniable progress in many of our countries regarding fiscal responsibility. This has translated into growth and with it the steady inclusion

of new consumers with a very positive impact mainly for those industries whose products are directed to low income consumers. The resulting expansion of the tax payer base has further enhanced the improvement in the fiscal position.

Paradoxically, this positive cycle has further stressed the perverse impact of the endogenous problems that have historically handicapped our growth, thus creating the aforementioned opportunity cost. Such problems are well known: lack of infrastructure, excessive bureaucracy, excessive tax burden, poor sustainability of policies and regulations, poor qualification of the work force and low use of technology – the last two both deriving from an insane lack of commitment with education. These recurrent factors clearly highlighted by the results of our survey, inexorably result in a lack of global competitiveness and attractiveness.

The natural question is:

“If we know what is wrong, if we believe progress and job creation are the vital and only sustainable path towards eradication of poverty, why are we unable to polarize the stakeholders and fix our problems?”

At the centre of the answer is our historical conception or rather, misconception, of what a republican State is all about. It is one that places the holder of power and the government ahead of the institution, the State. As a result, we have been historically unable to develop State policies – those which are “supra party politics and supra government” and address systematically and synergistically the “national challenges and priorities”. Moving the focus from ensuring the outcome of the next elections to ensuring the dignity of the next generations.

We must move from the failed vision of “Government responsible for progress” to one of “State as an enabler of progress”. The “enabler State” is one that leverages on the economic agents to maximize the economic and social output. One which delivers efficient core outputs in the areas of Education, Health and Justice, thus promoting citizenship and inclusiveness.

We would like to think that the results of our survey can effectively contribute to the awareness of “where we could be” and to the mobilization of all the stakeholders towards a better future.

Regards,



Luis E. Frisoni Jr.
Senior Partner of South America

Uncertainty over business confidence

“This time around, the financial indiscipline and lack of respect for risk is not coming from inexperienced emerging institutions, but so-called experienced institutions losing their head. The overborrowing, overconsuming and underinvestment is now in the U.S., while emerging markets are accumulating reserves, building their infrastructure and, to some extent, bailing the world economy out because of their strong demand growth.”

Antoine van Agtmael, creator of the term “Emerging markets” in 1981, and chairman of Emerging Markets Management LLC.

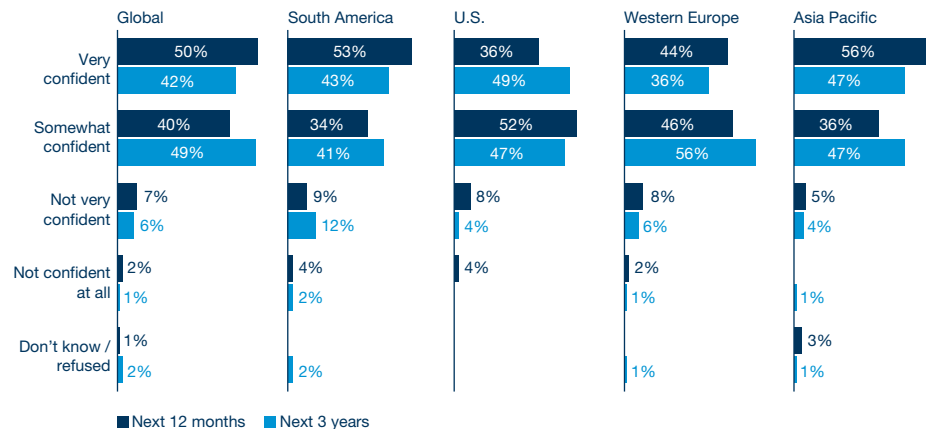
Although the survey was conducted before the full impact of the credit crunch had become apparent, and the consequent likelihood of recession in the U.S. ever greater, it is clear from the results of the survey that the business confidence level of CEOs in the U.S. has diminished substantially compared with our previous survey.

This result is in marked contrast to executives in Asia Pacific and South America and particularly those in Brazil, which in the case of prospects over the next 12 months, showed a remarkable 30 percentage point difference compared to the U.S.

However, when CEOs were asked to assess their level of confidence in prospects for revenue growth over the next 3 years, whilst the U.S. increased, the other three regions saw a reduction.

Does this indicate that economic downturns and upturns have a natural lagtime between developed and developing markets or a more profound change reflecting CEO’s confidence that emerging markets will continue to grow in times of slowdown in developed markets?

How would you assess your level of confidence in prospects for the revenue growth of your company over the next 12 months and the next 3 years?

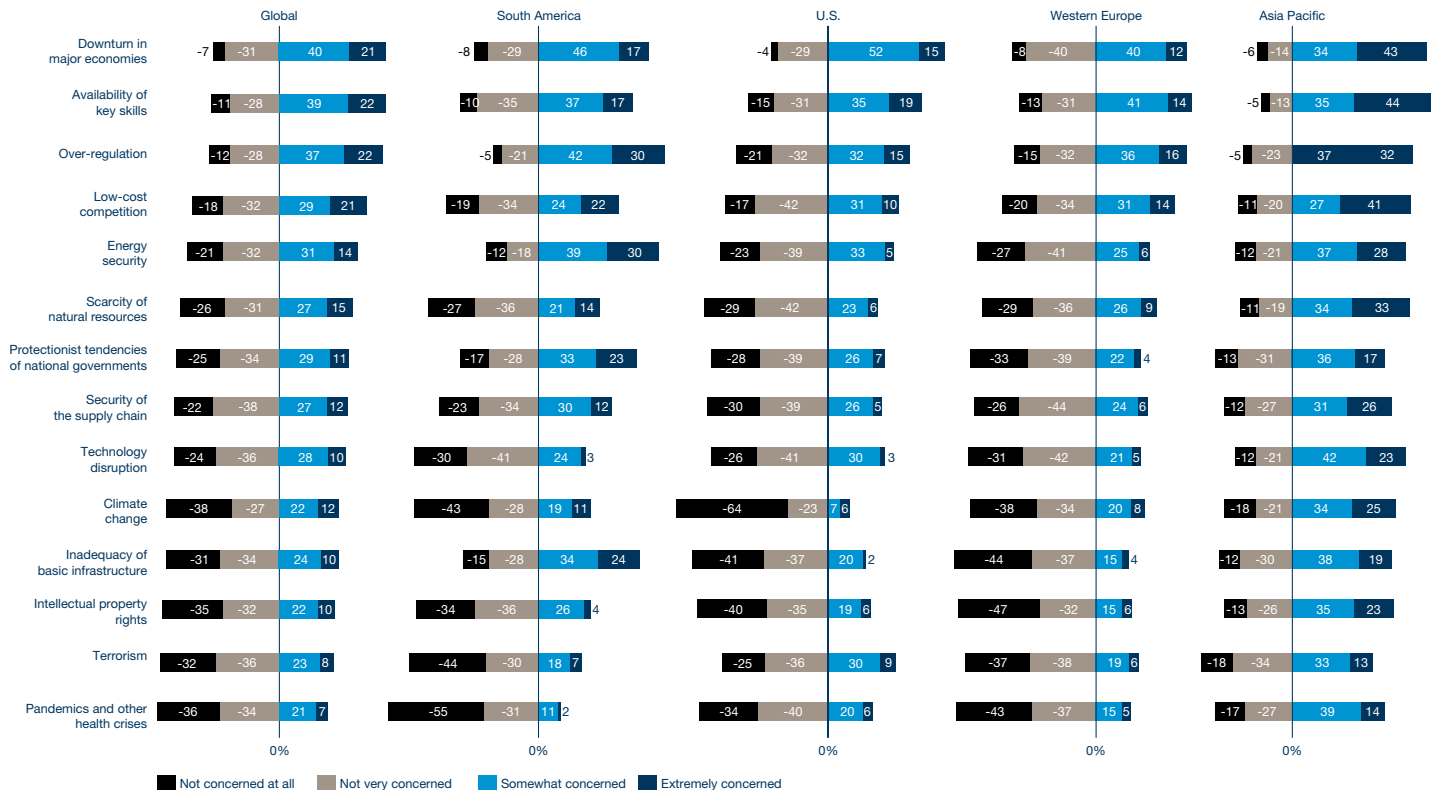


Potential threats to growth

There has been a major change in the minds of CEOs globally with a downturn in major economies heading the list together with the usual concerns on over-regulation, availability of key skills, and low cost competition. In the case of South American CEOs, over-regulation and low cost competition are joined by energy security and protectionist tendencies of national governments.

The concern over energy security is most marked in Argentina and is natural considering the recent traumas the country has faced with energy shortages, but is also influenced by the possibility of energy rationing, once again raising its head in Brazil, caused largely by increased economic growth.

How concerned are you about the following potential threats in relation to your business growth prospects?





The concern over the protectionist tendencies of national governments continues to be significantly higher in South America than in any other region, clearly influenced by Argentina, Bolivia, Ecuador and Venezuela. Positively, this is a much lesser concern in Brazil where the results do not differ significantly from the opinions of U.S. executives.

Over-regulation expresses itself in the form of excessive bureaucracy and complex tax systems. With the exception of Chile, all South American countries rank poorly in the survey “Paying Taxes 2008 – the Global Picture”, prepared by the World Bank in association with PricewaterhouseCoopers, with no less than six countries in the 100’s out of a total survey involving 178 countries.

Ease of paying taxes rankings

Country	2008 ranking
Argentina	147
Bolivia	172
Brazil	137
Chile	34
China	168
Colombia	167
Ecuador	57
Germany	67
India	165
Paraguay	93
Peru	77
Russia	130
UK	12
Uruguay	131
U.S.	76
Venezuela	174

Source: Paying Taxes 2008 – the Global Picture

Behind this concern is the fact that not only is the fiscal burden high in relation to the GDP (34.2% in Brazil in 2006) but the tax payer base is also relatively small due to the high levels of informality and tax evasion. To this burden is added the excess cost of compliance, which specifically in the case of Brazil, at 2,600 hours a year, is the highest in the world, resulting in an uncompetitive position in the global landscape. The dramatic nature of this cost is highlighted by the fact that the next most costly country in South America is Bolivia, at 40% of the time of Brazil.

The informal economy is a persistent and serious challenge to Latin America's economic performance and growth, making up 38% of GDP on average and

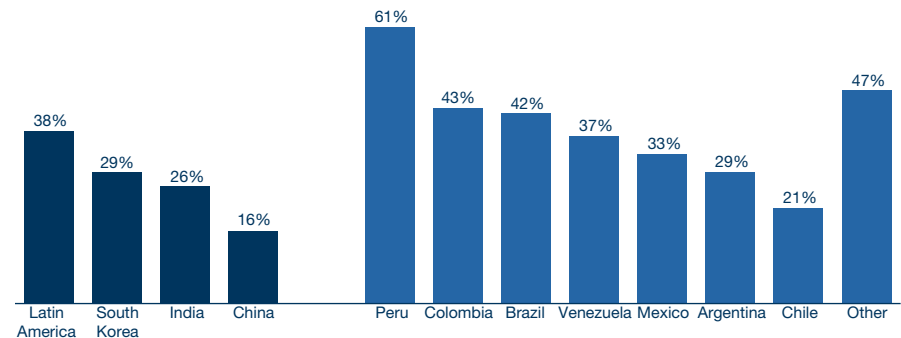
no less than 42% in Brazil, compared with 16% in China, according to the McKinsey Quarterly newsletter.*

The concern with the inadequacy of basic infrastructure continues to be comparatively higher in South America, and particularly so in Brazil and Argentina. The higher concern in Brazil is coherent with the comparatively higher level of confidence in business growth whilst the gap in infrastructure investments in the last five years in Argentina is an already well documented phenomenon.

The apparent lack of serious concern on the part of U.S. CEOs as to global warming and climate change contrasts noticeably with their counterparts in other regions of the world, particularly in Asia

* "What Executives are asking about Latin America", by Heinz-Peter Elstrodt, The McKinsey Quarterly, 2007.

Informal economy in 2008 - % GDP

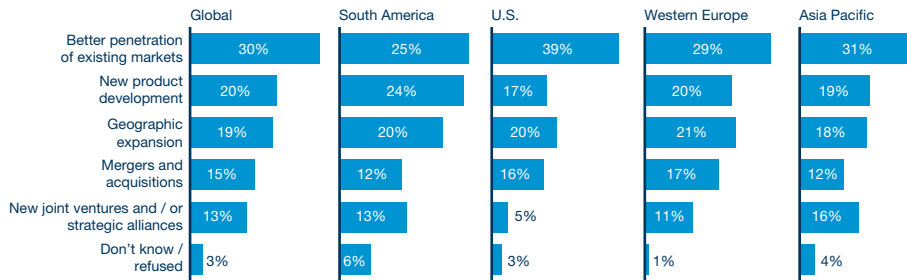


Source: Center for Research in Economies, Management and the Arts (CREMA)

Growth opportunities

South American CEOs see major growth opportunities through better penetration of existing markets, new product development and access to new markets through geographical expansion.

Which one of these potential opportunities for business growth do you see as the main opportunity to grow your business in the next 12 months?



The four key sources of competitive advantage in the minds of South American CEOs are the ability to adapt to change, improved customer service, access to and retention of key talent and technological innovation. This contrasts with results emanating from Asia Pacific where ability to adapt to change, technological innovation and ability to implement successful collaborative partnerships are rated much lower as key sources of competitive advantage than in South America.

Cross cultural experience in the U.S. and in Asia Pacific is not ranked as a

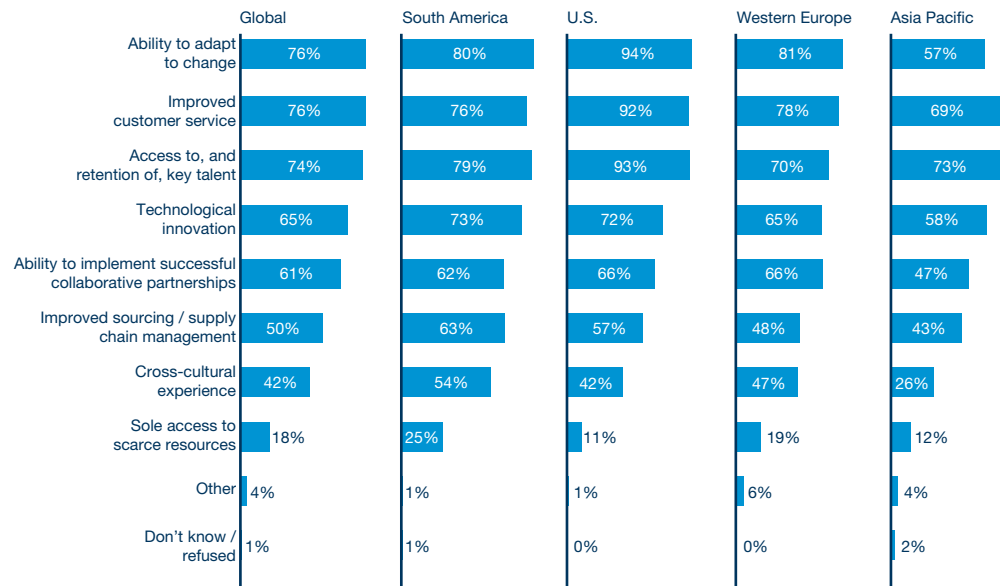
key source of competitive advantage to anything like the same extent as it is in South America.

South Americans are used to dealing with different cultures. Consider the different European countries that colonized and/or contributed to the formation of the region: Spain, Portugal, Holland, Italy, Germany, among others. Not to mention the strong Japanese influence in Peru and Brazil. All these cultures have mixed with the culture of the native people of the region. The result is that, for many countries, miscegenation of cultures and blood is a reality. This is one of the factors that

has positively contributed to make the average South American open to new experiences and cultures.

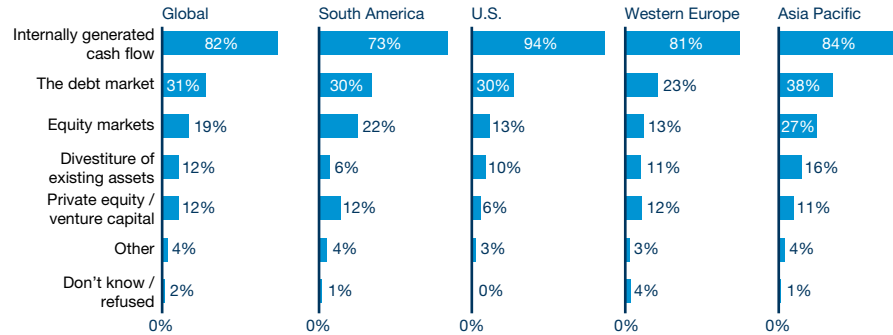
Technological innovation and improved customer service rank significantly higher in South America than in the U.S. In the case of technological innovation it is possible that executives perceive that there is still much to do in this area. On the other side of the coin, access to and retention of key talent and ability to adapt to change are seen by U.S. executives as higher ranked sources of competitive advantage than in South America.

What are your key sources of competitive advantage in achieving this growth?



All four regions saw an increase in their ability to finance growth through internally generated cash flow compared with the previous year, whilst the debt market was seen by South American executives as a significantly higher source of financing compared with last year's results. Given the credit squeeze of the last months of 2007 it is natural that private equity is expected to play a less important role in the near future than in the recent past.

How do you expect to finance this growth?

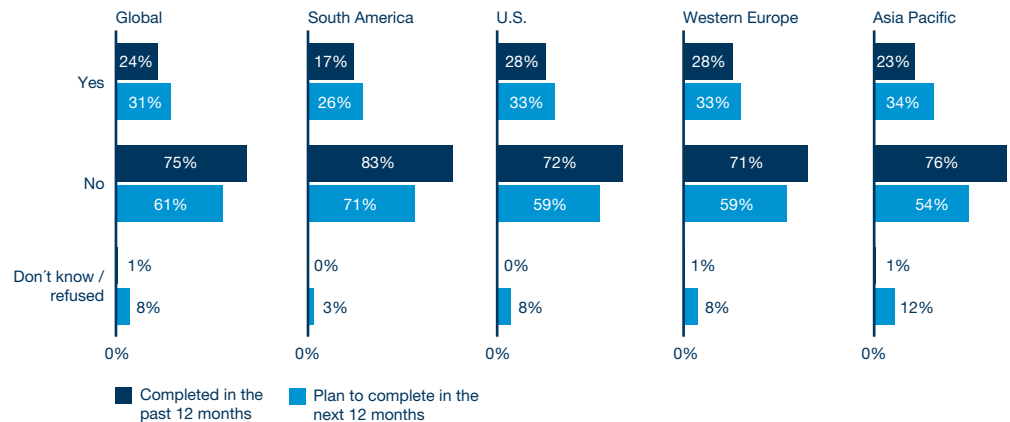


Cross-border M&A

Western Europe and the U.S. (both of them at 28%) and Asia Pacific (at 23%) have completed a significant number of deals through cross-border mergers or acquisitions in the past twelve months. With the exception of South America, 1/3 of all interviewed CEOs are planning to complete a cross border deal in the next 12 months. Argentina detracts from the South America average, whilst Brazil is in line with the global average.

The “nearest neighbour effect” is the case here – all regions are mainly planning to do deals in the same region where they are located. Consistent with previous surveys, the level of interest on the part of the other three regions in investing in South America is lower than it is for the remaining regions.

Have you completed a cross-border merger or acquisition in the past 12 months or are you planning to do so in the next 12 months?



Multilatinas and the “South-South” connection

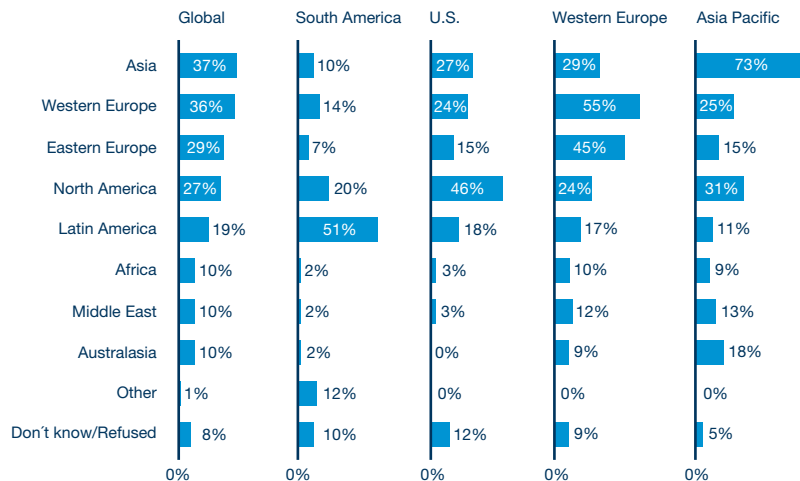
Multilatinas are Latin American based companies which have expanded their operations into other territories in the recent past. They have thrived in a challenging business environment and have been on our radar screen since the first South American CEO Survey report, five years ago. Since then, their relevance to the region as well as to the world scene has radically increased.

According to the Deutsch Bank paper “The Emergence of Latin multinationals”, by Javier Santiso, multilatinas have emerged in two stages, the first being the trade expansion phase and the second an investment phase, in which these companies started acquiring assets abroad. Multilatinas have normally initially followed the “nearest neighbour” effect, similar to other MNCs around the world, having acquired assets of almost US\$ 110 billion in Latin America from 2000 to 2006, the so-called “South-South” flows, but are now either in or are entering the globalising phase.

These moves are symptomatic of one of the major changes taking place in the global economy. The renowned ECLAC (Economic Commission for Latin America and the Caribbean) “Centre-Periphery” thesis is becoming less and less valid today. What we used to call the “Centre” is becoming less and less the nucleus of global trade and capital flows, while the “Periphery” is becoming less and less peripheral.

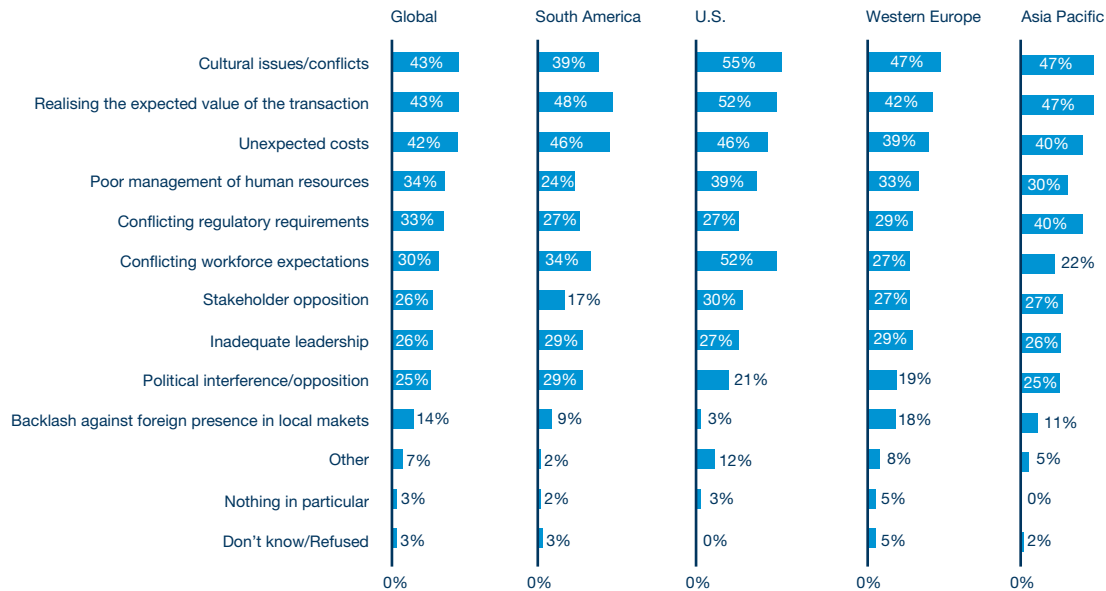
As a consequence, it is becoming increasingly complex to make the distinction between developing and developed countries.

Where are you planning to make this merger or acquisition?



The main obstacles the interviewed CEOs anticipate encountering when performing a merger and/or acquisition are realising the expected value of the transaction, unexpected costs, cultural issues/conflicts and conflicting workforce expectations.

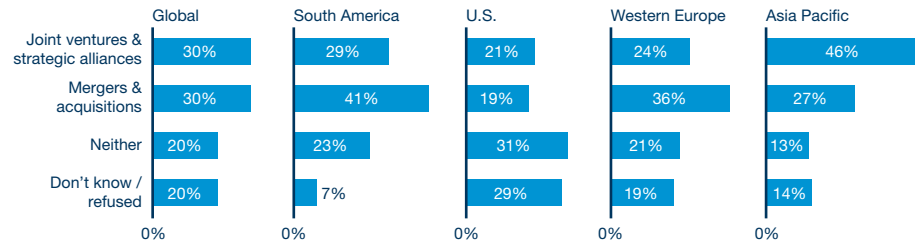
What obstacles do you anticipate encountering from this merger and/or acquisition?



South America leads the way with 41% of the interviewees expecting that merger & acquisitions will play a greater role in the growth of their business over the next three years, with particular emphasis on Brazil (57%).

Significantly, outbound investment by Brazilian companies exceeded inbound FDI for the first time in Brazil's history in 2006.

Over the next 3 years, do you think that cross-border mergers & acquisitions or joint ventures & strategic alliances will play a greater role in the growth of your business?



Climate change

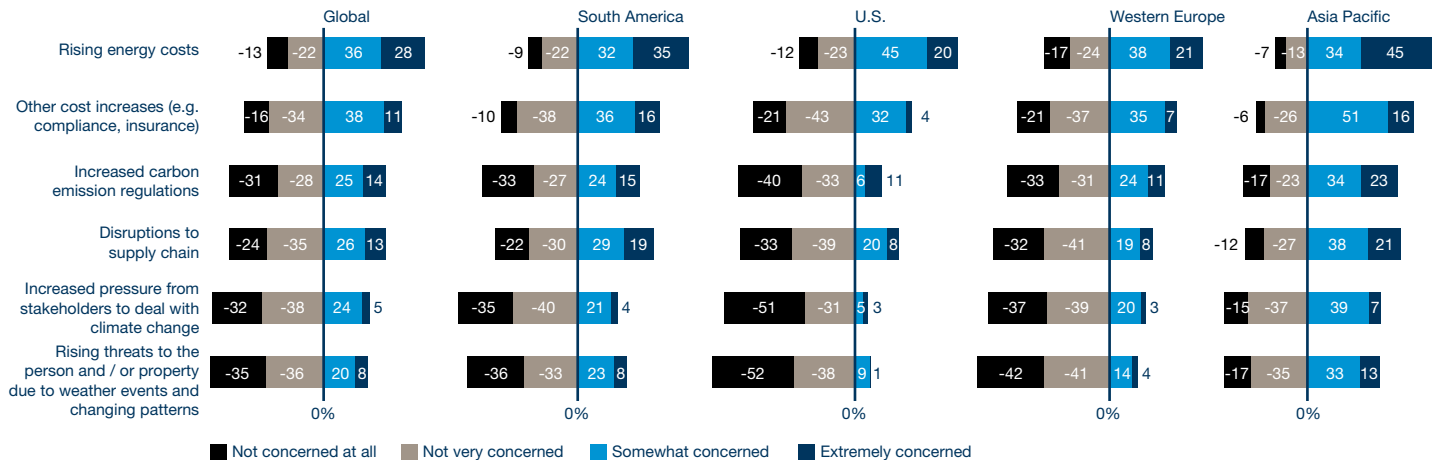


South American and Asia Pacific executives reveal greater concern over the potential threats of rising energy costs than their global counterparts.

CEOs from Asia Pacific and the U.S. have diametrically opposed positions regarding the potential threat from increased carbon emission regulations. Curiously, both are significant contributors to global carbon emissions.

As a result of the energy crisis in Argentina, more than 50% of the interviewed CEOs are extremely concerned with this question.

How concerned, if at all, are you about each of these potential threats that could impact on the growth of your business?

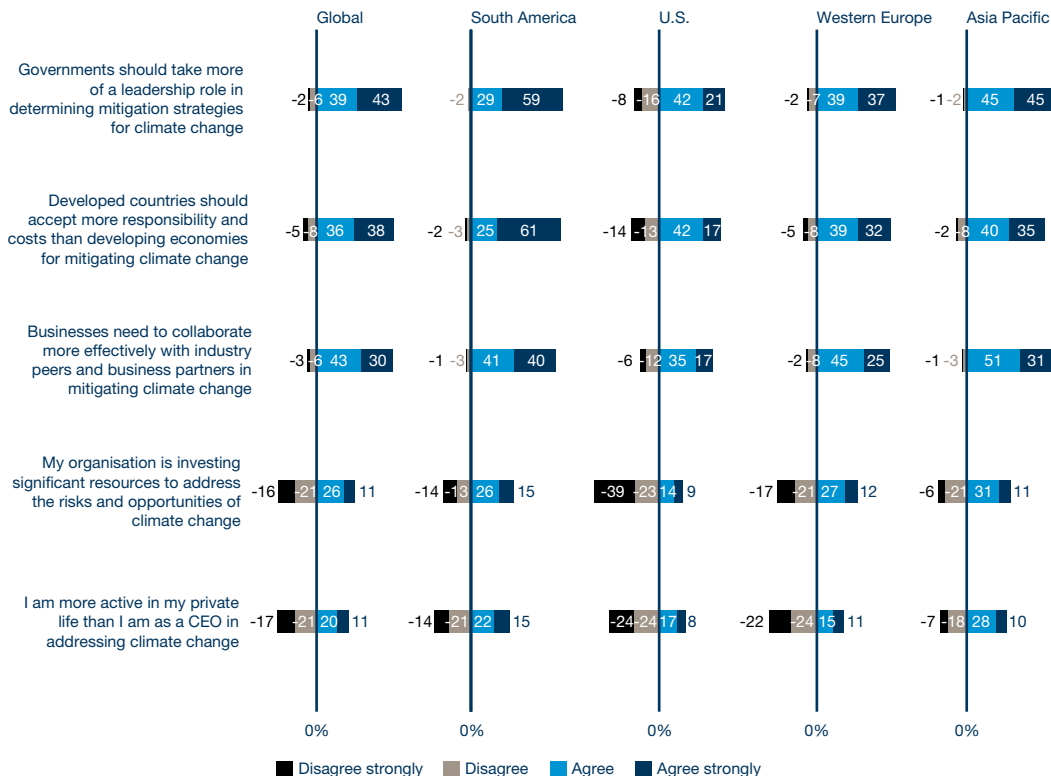


In contrast to the concerns regarding over-regulation, globally 43% of CEOs strongly agree that governments should take more of a leadership role in determining mitigation strategies for climate change. This rises to 59% in the case of South America. South American CEOs also consider that developed countries should accept more responsibility and costs than developing economies for mitigating climate change, in marked contrast to all the other regions, and especially the U.S.

South America leads the way at some 40% in strongly agreeing that businesses need to collaborate more effectively with industry peers and business partners in mitigating climate change, compared with the global average of 30% and the U.S. at 17%.

None of the regions is investing significant resources to address the risks and opportunities of climate change, and this is especially noticeable in the U.S.

To what extent do you agree or disagree with each of the following?

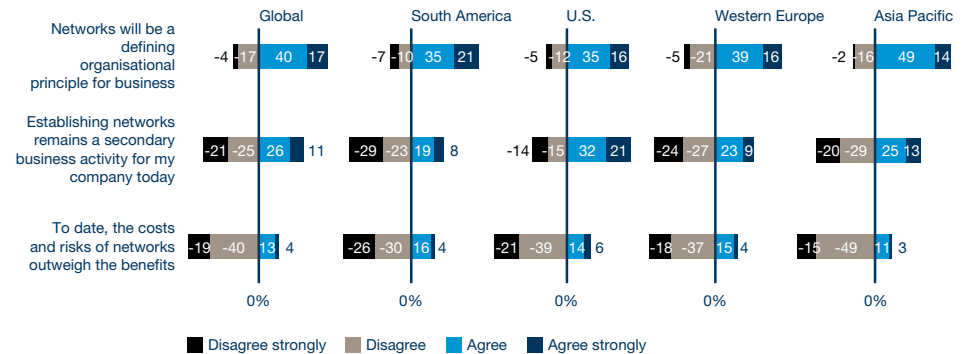


Collaboration across business networks

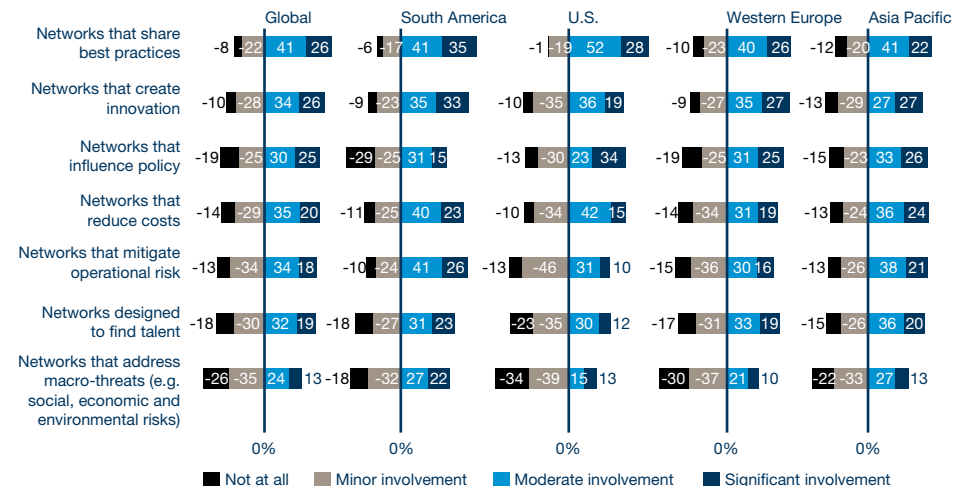
On balance, CEOs consider that networks will be a defining organisational principle for business in the future. However many still consider that establishing networks remains a secondary business activity, whilst the vast majority considers that the benefits outweigh the costs and risks of networks to date.

South American executives report significantly higher involvement in networks that share best practices, that create innovation, that mitigate operational risk, networks designed to find talent and networks that address macro-threats, compared with their global counterparts, whilst the U.S. CEOs report significantly greater involvement in networks that influence policy.

To what extent do you agree or disagree with each of the following network statements?

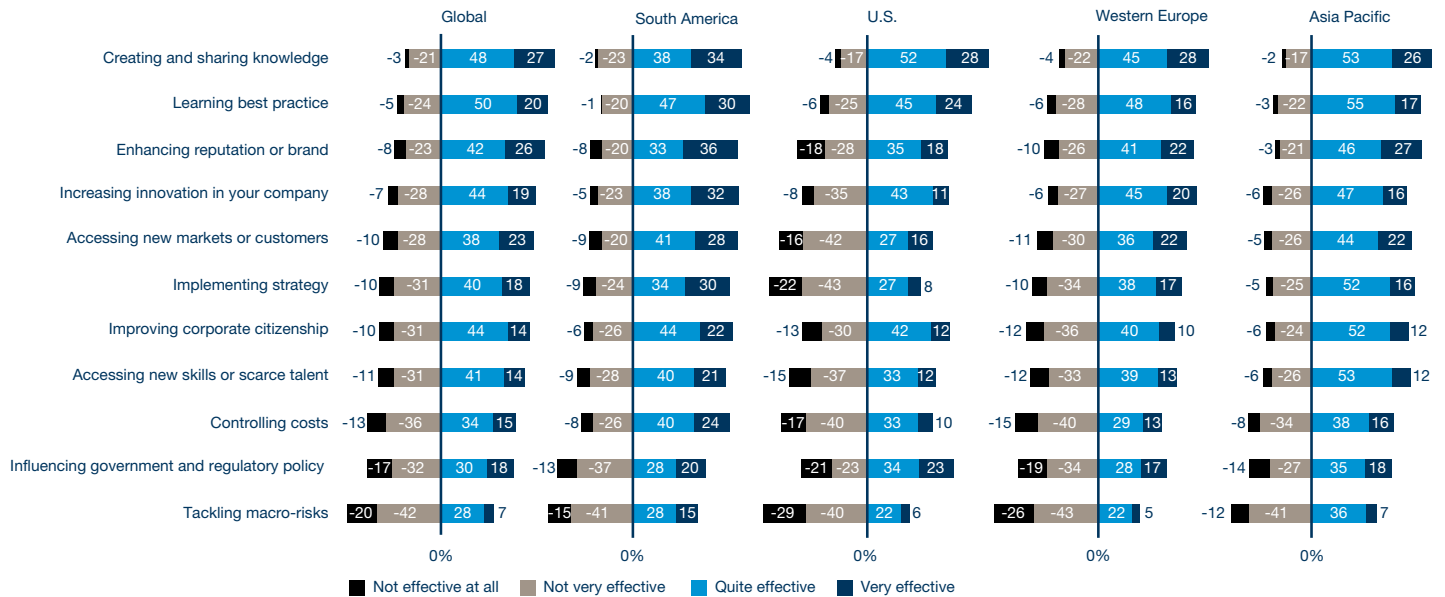


To what extent does your organisation participate in each of the following types of collaboration across business networks?



South American executives are far more enthusiastic than the other regions as to the effectiveness of collaborations across business networks in ten of the eleven categories below, the exception being influencing government and regulatory policy.

How effective are collaborations across business networks in achieving the following range of objectives?



Regulation, government and competitiveness

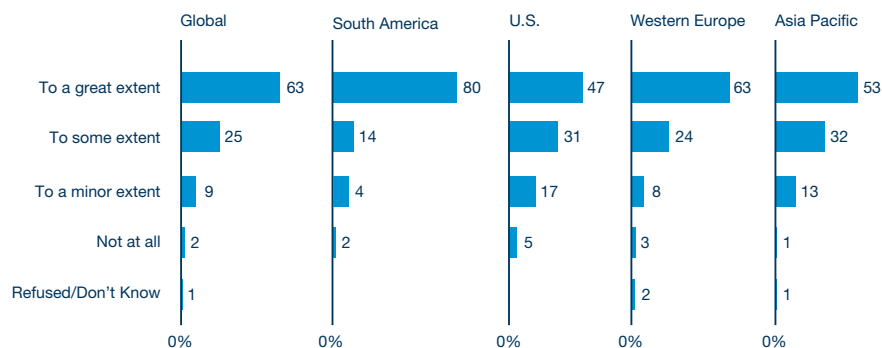
The well known perception of over-regulation among South American CEOs manifests itself clearly in the fact that 80% of them factor in the regulatory framework when making business decisions, compared with 63% globally and 47% in the U.S.

Our region was the one with the lowest implementation of business environment reforms in 2006/2007. In fact, Latin America lags behind Sub-Saharan Africa in this respect.

The good news is that Colombia stands out – it was ranked as one of the top ten reformers in the same period.

The bad news is that Venezuela was worst placed globally in negative reforms, considering the 178 countries tracked by the ranking on the ease of doing business by the World Bank/International Finance Corporation.

To what extent do you factor in the regulatory framework when making business decisions?



Rankings on the ease of doing business

Country / economy	2008 ranking
Argentina	109
Bolivia	140
Brazil	122
Chile	33
Colombia	66
Ecuador	128
Paraguay	103
Peru	58
Uruguay	98
Venezuela	172

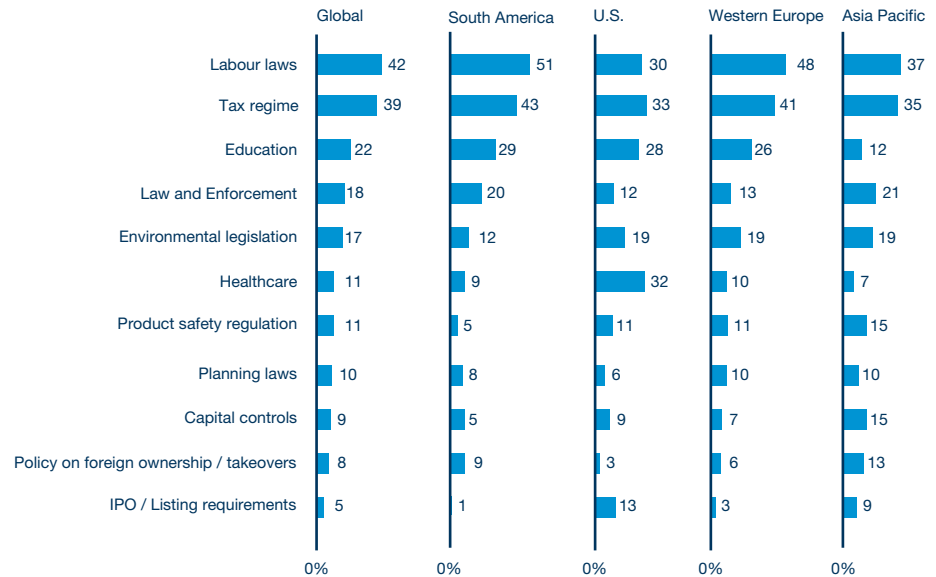
Source: World Bank / International Finance Corporation

Given the results from previous surveys and of the Paying Taxes 2008 study, it is hardly surprising that South American executives rank in first place with regards to potential improvements on the part of governments of labour laws and the tax regimes. South America labour legislation is among the world's most restrictive, particularly in the areas of hiring and firing workers.

Somewhat surprisingly, education ranks equally high in the U.S. and Western Europe as it does in South America.

Thirty-two percent of U.S. executives consider that government could potentially improve healthcare, three or four times the percentage in other regions, reflecting a major ongoing concern in that country.

Which of the following areas in which the Government could potentially improve, would you consider to be the most important ones?



In the Global Competitiveness Index, Brazil places 72nd and Argentina 85th out of a total of 131 countries surveyed. What is most striking is that with the sole exception of Chile, all South American countries have slipped down the Global Competitiveness Index, some very significantly. When it comes to labour market efficiency, the situation is even worse with Brazil placed 104th and Argentina placed 129th.

Global Competitiveness Index 2007 and 2006 comparisons

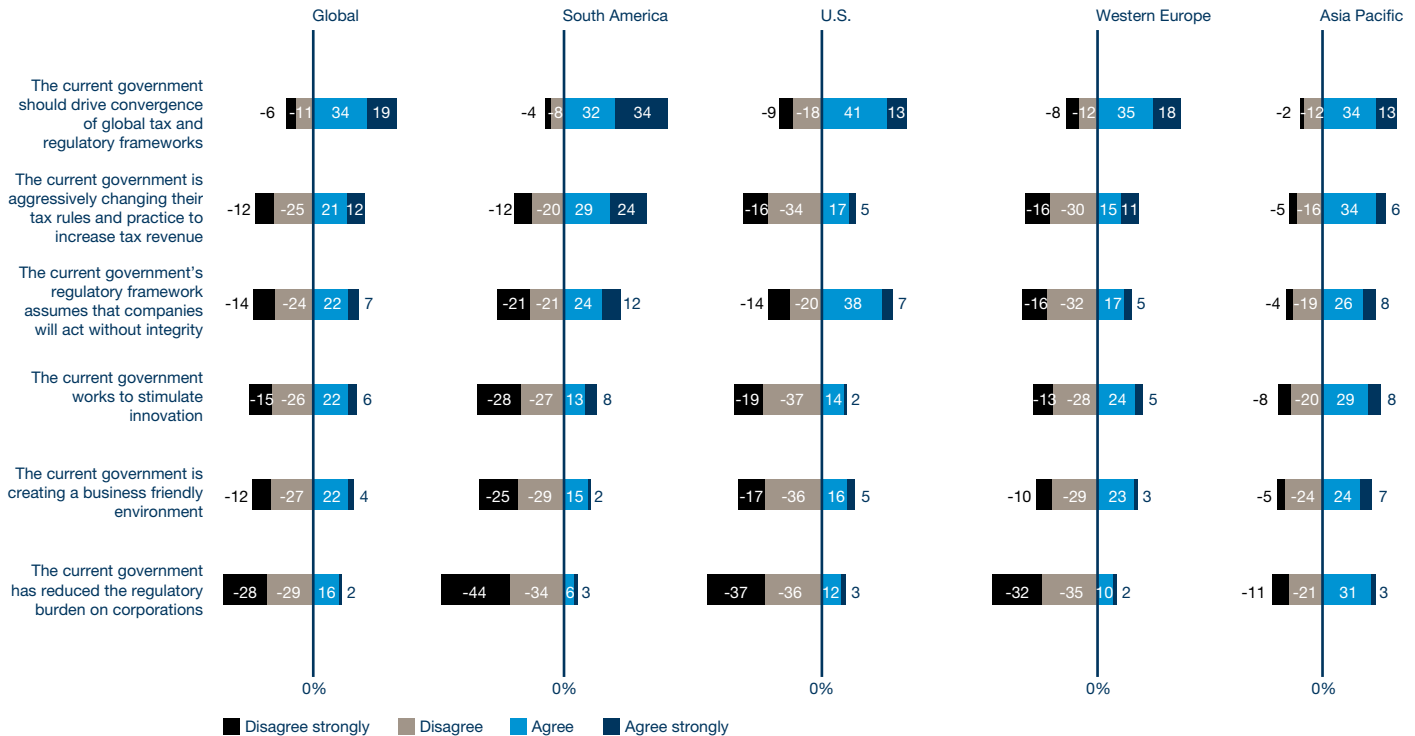
Country / economy	GCI 2007	GCI 2006	Changes 2006 - 2007
Argentina	85	69	-16
Bolivia	106	97	-9
Brazil	72	66	-6
Chile	26	27	+1
Colombia	69	65	-4
Ecuador	103	90	-13
Paraguay	121	106	-15
Peru	86	74	-12
Uruguay	75	73	-2
Venezuela	98	88	-10



In a similar vein, South American executives lead the way in strongly agreeing that current government should drive convergence of global tax and regulatory frameworks and also that the current government is aggressively changing their tax rules and practices to increase tax revenue.

On the other side of the coin, globally none of the regions consider that the current government is either creating a business friendly environment or has reduced the regulatory burden on corporations, the second presumably biased by the impact of SARBOX over the last five years.

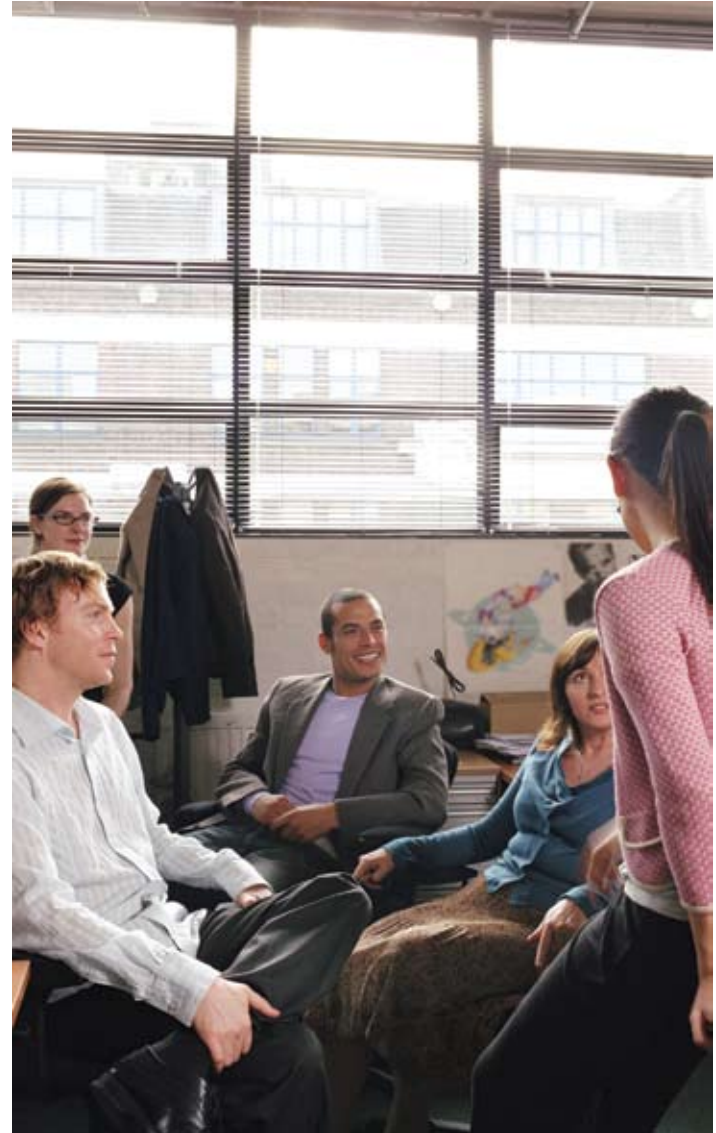
How strongly do you agree or disagree with the following statements regarding the role of the Government in the country in which your headquarters are located?



The people agenda

Whilst globally CEOs consider that the people agenda is one of the top priorities and leadership has the capability and confidence to lead significant change and that their time is best spent on the people agenda, they also largely express the opinion that the HR organisation is less than adequately equipped to handle the changes required to compete for talent. There is also strong consensus among the CEOs that their organisation needs to change the way it recruits, motivates and develops employees.

Based on the results, U.S. executives leave the clear impression that they are more concerned about people issues than other regions.



The fundamental importance of education

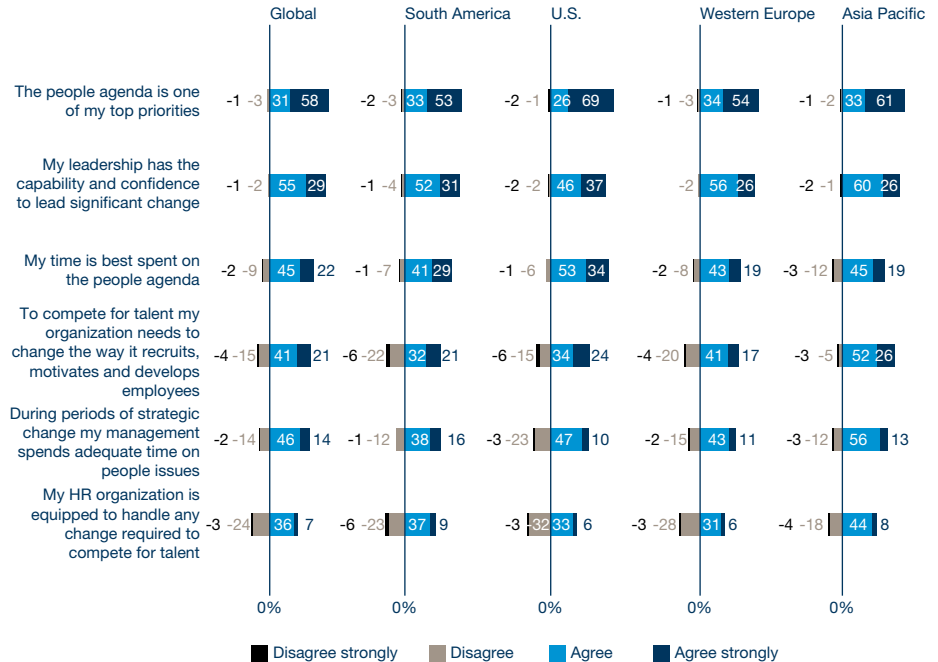
As Thomas Friedman, the author of “The World is Flat” book, so insightfully wrote in his New York Times column on June 21, 2006: “Countries that get addicted to selling their natural resources rarely develop their human resources and the educational institutions and innovative companies that go with that. So after the ore has been mined, the trees cut and the oil pumped, their people are actually even more behind”.

Although much progress has been made in the recent past with the rapid emergence of multinationals, one of the ongoing challenges for South America is to continue the process of reducing its dependence on exploiting its commodity and natural resources related potential.

The region needs to take advantage of this positive moment of heavy demand and use the resources created to focus on providing quality education to its citizens (a sector which in all countries of

the region – including Chile – have only been relatively successful). According to Mr. Gabriel Rozman, president of Tata Consultancy Services Iberoamérica, who was one of the senior executives of our region interviewed for last year’s Regional CEO survey report: “The wealth of nations lies more than ever in their development of knowledge, in their capacity to realize their potential...Right now I have 500 job openings I can’t fill, and the problem is education”.

To what extent do you agree or disagree with each of the statements regarding people issues in your organisation?

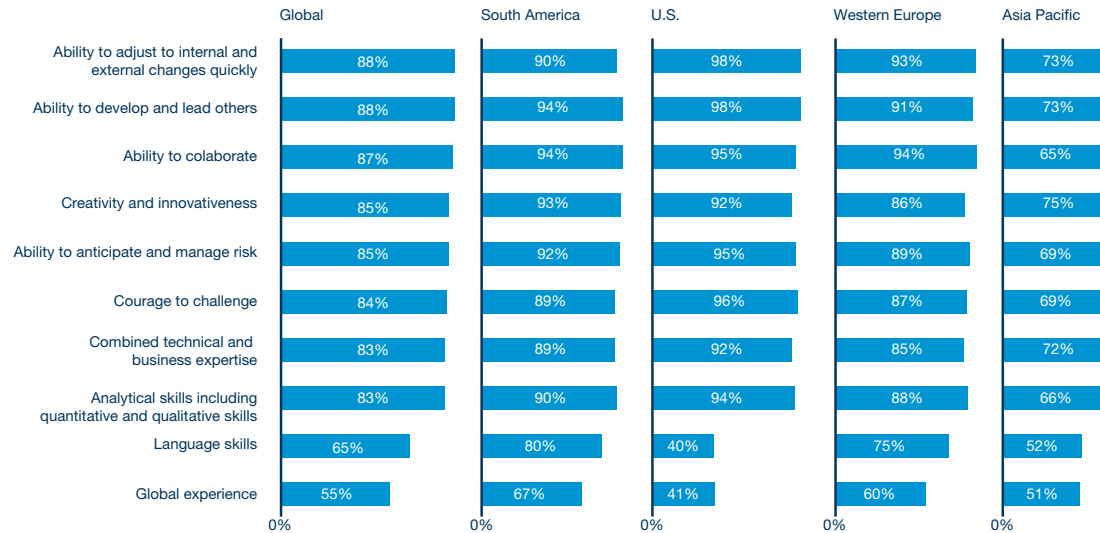


Of the ten skills and characteristics listed below, only language skills and global experience score relatively low globally as to their critical nature. Noticeably, this results from disinterest principally on the part of U.S. CEOs but also of those in Asia Pacific regarding these skills

and characteristics. In South America, language skills score double the critical rating in the U.S.

CEOs in Asia Pacific rate all of the other eight skills as significantly less critical than their counterparts in other regions.

Are the following skills and characteristics critical to your organisation?

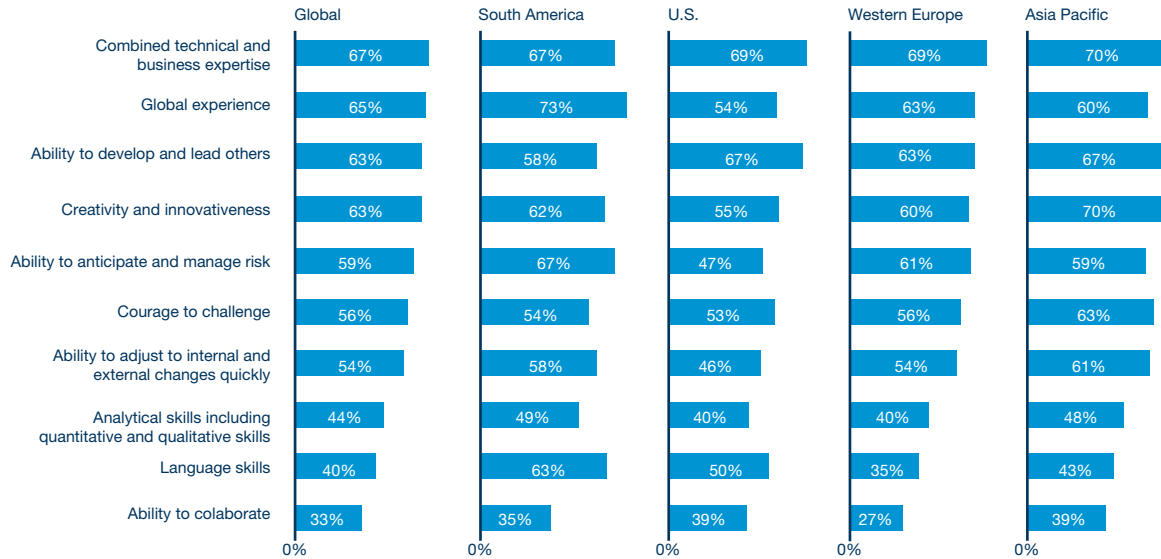


When asked whether they were experiencing difficulty recruiting people with these skills and characteristics, globally CEOs ranked combined technical and business expertise and global experience as their two main challenges.

By region, the U.S. is clearly less concerned with recruiting people with global experience, ability to anticipate and manage risk and ability to adjust to

internal and external changes quickly than the world average, whilst South American executives are concerned with difficulty in recruiting people with global experience and language skills. The South American concern, which manifests itself in a very expressive form in Brazil, would appear to derive from the increasing insertion of Brazilian companies into the global context via the Multilatinas phenomenon.

Are you experiencing difficulty recruiting people with the following skills or characteristics?

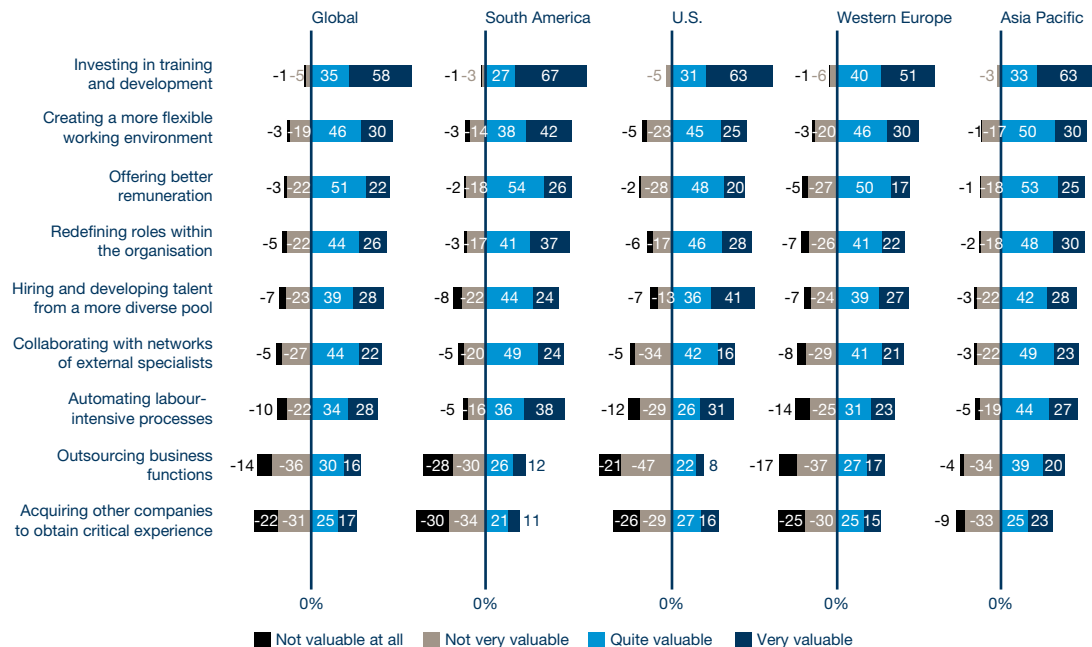


Investing in training and development is considered by far the most valuable method of addressing skills or talent shortages and continues to have the same relevance displayed by CEOs as a result of our second survey some three years ago.

This is particularly noticeable in the statistics relating to Brazil, which indicate a 75% level.

South American CEOs also cite creating a more flexible working environment, redefining roles within the organisation and automating labour intensive processes as more valuable than the other regions, whilst in the United States hiring and developing talents from a more diverse pool is markedly higher than the global average.

How valuable are each of the following methods in addressing skills or talent shortages in your organisations?

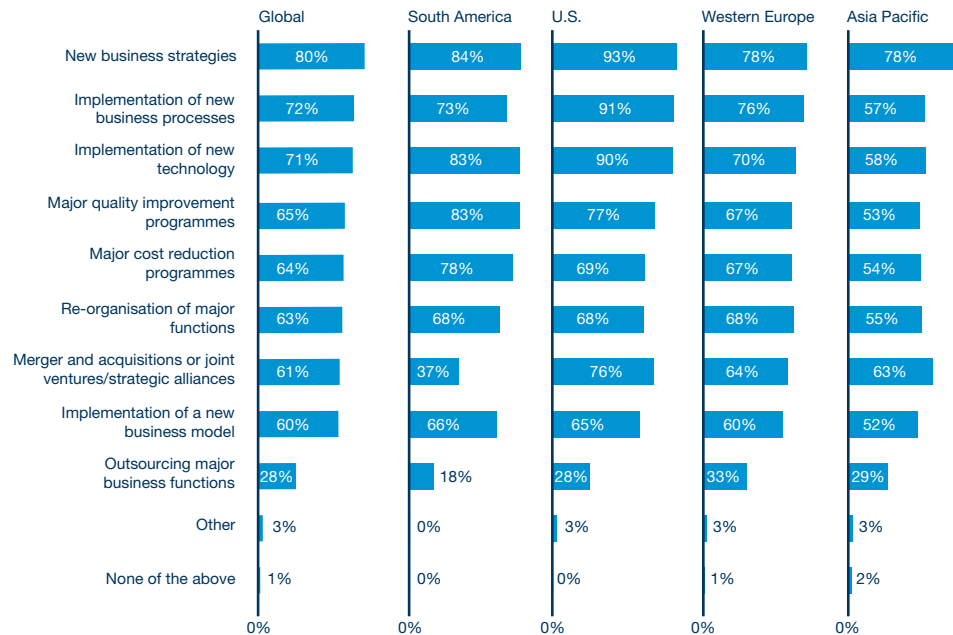


It is inevitable that whilst multinationals are able to dictate entry level terms from a large pool of young, low cost talent, there is generally going to be a shortage of professionals with both local and international experience at middle and senior management levels with the business and language skills necessary to handle ever increasing international operations.

When asked which of the changes their organisations had implemented in the past three years, new business processes led the way, followed by implementation of new business strategies and technology. Interestingly Asia Pacific trailed the other regions in virtually all categories, with the U.S. leading the way in half of them. In South America major quality improvement and major cost reduction programmes scored higher ratings than other regions particularly in the case of Brazil, whilst mergers and acquisitions or joint ventures/strategic alliances were significantly lower.

It is also relevant that 84% of the CEOs surveyed in Brazil cited the implementation of a new business model compared with the global average of 60%, far outstripping the other regions.

Which of the following changes, if any, has your organisation implemented in the past 3 years?



When asked which of the changes had the most positive impact on their business, globally new business strategies and mergers and acquisitions or joint ventures/strategic alliances led the way by some considerable distance. Noticeably the response level in Brazil of 31% was 50% higher than the global average with regard to new business strategies.

With regard to the implementation of new business processes, the U.S. was double the global average at 14% with 10% of Brazilian CEOs also citing this as an important positive impact.

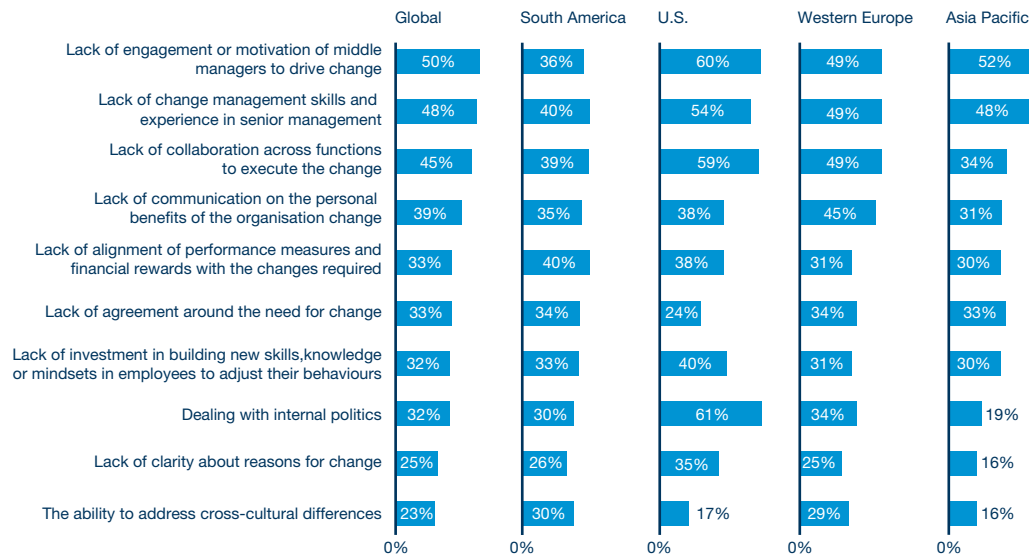
Overall, the three people challenges considered as the most critical barriers in terms of achieving the desired benefits are lack of engagement or motivation of middle managers to drive change, lack of change management skills and experience in senior management and lack of collaboration across functions to execute the change.

These three challenges were significantly more pronounced in the U.S. than in the other three regions surveyed as were dealing with internal politics and the lack of clarity about reasons for change.

There may well be a correlation between the perceptions of U.S. executives with the fact that the people agenda is rated as a top priority by more U.S. executives than any other region.

Interestingly, the ability to address cross cultural differences ranks very low in both U.S. and Asia Pacific, compared with Western Europe and South America, quite possibly because these regions are less concerned with cross cultural questions than they are with their business agenda.

Which of the following people challenges were critical barriers for your organisation in terms of achieving the desired benefits?

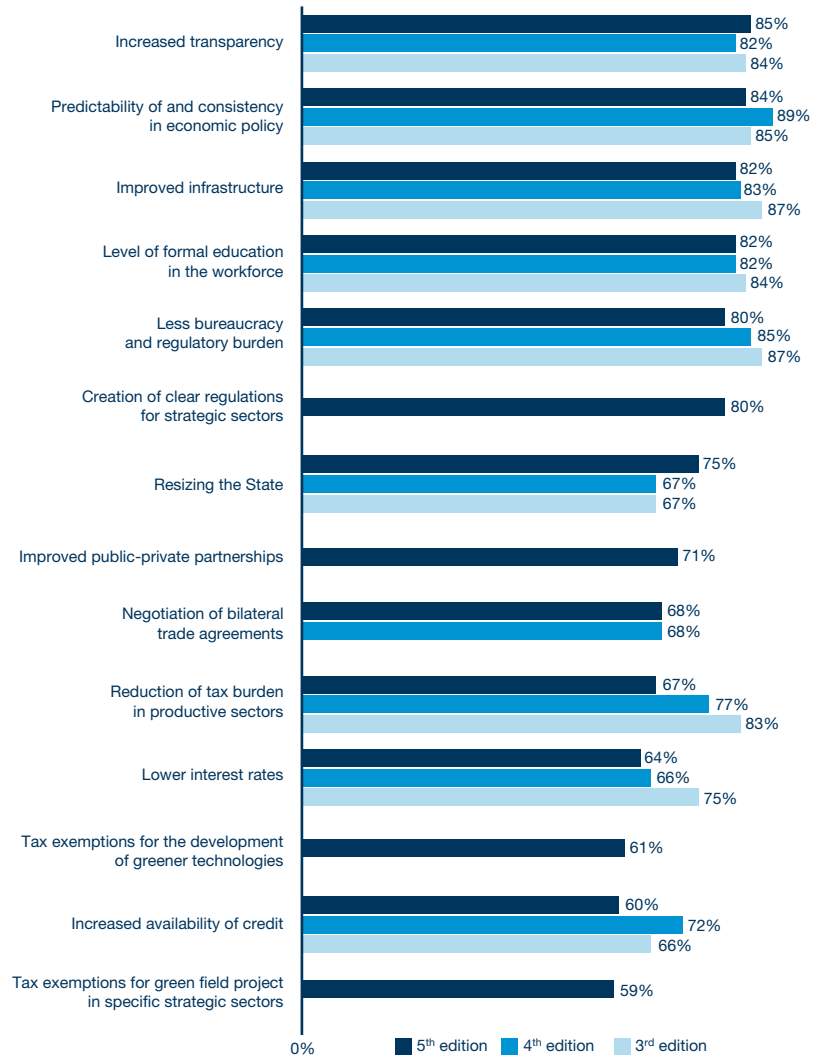


The usual suspects

Comparing the results of the last three Regional CEO survey reports regarding the items which are key to accelerating sustainable business development or growth in South America, the following items have been consistently considered key by at least 80% of the regional CEOs interviewed during this three-year period:

- Increased transparency
- Predictability of and consistency in economic policy
- Improved infrastructure
- Level of formal education in the workforce
- Less bureaucracy and regulatory burden
- A new issue, included for the first time, was the creation of clear regulations for strategic sectors.

Which of the following do you consider are key to accelerating sustainable business development or growth in South America?



These are all well-known problems/barriers to CEOs who operate in the region, driven by a lack of quality in much of the political arena. Currently, according to a global survey performed in 2007 for the World Economic Forum by Gallup International, Latin Americans are the most critical of their politicians regarding honesty compared with the rest of the world. More than three-quarters (77%) of the people interviewed in this region manifested the opinion that political leaders are dishonest.

With regards to the items individually:

Increased transparency

With regards to transparency, in the 3rd edition of the regional CEO survey report we asked the South American CEOs how they rated the level of transparency of the public sector in the region: it was rated low or very low by 70% of the respondents. Additionally, corruption was considered as the major ethical issue impacting the region by 94% of the region's CEOs.

With the notable exceptions of Chile and Uruguay, which stand good comparison with the developed world, the 2007 Corruption Perceptions Index continues to corroborate this view.

Transparency International's Corruption Perceptions Index*

Country	2007 score	2006 score
Argentina	2.9	2.9
Bolivia	2.9	2.7
Brazil	3.5	3.3
Chile	7.0	7.3
China	3.5	3.3
Colombia	3.8	3.9
Ecuador	2.1	2.3
Germany	7.8	8.0
India	3.5	3.3
Paraguay	2.4	2.6
Peru	3.5	3.3
Russia	2.3	2.5
UK	8.4	8.6
Uruguay	6.7	6.4
U.S.	7.2	7.3
Venezuela	2.0	2.3

Score ranges between 10 (highly clean) and 0 (highly corrupt)
Source: Transparency International

The predictability of and consistency in economic policy

In the 2007-2008 Global Competitiveness Index (GCI), Chile again scores as the star of the region, at a high 12 globally. The other South American countries unfortunately do not show the same positive results.

Improved infrastructure

Lack of infrastructure is a recurrent theme in our regional CEO survey reports. Latin America is investing only 3.5 percent of annual GDP in infrastructure, while Asia's high-growth economies are investing about 6 percent of their annual GDP.

Considering the infrastructure pillar of the 2007-2008 Global Competitiveness Index (GCI), published by the World Economic Forum, the only South American country reasonably ranked is Chile, at 31. The next country of the region ranked is Uruguay, which appears at 64 in the index.

We believe that private investment in infrastructure is of fundamental importance for the region. There has been some successful experience of improving infrastructure with private capital in the region, as has been the case in Brazil.

The level of formal education in the workforce

There has been a failure, despite significant expenditures, to significantly improve and provide quality education.

The previously mentioned lack of infrastructure, large informal economies and macroeconomic instability are obstacles to the increase of productivity in the region. The productivity of the Latin American worker has not improved significantly during the last ten years. According to the World Trade Organization (WTO), the average annual productivity growth rate was of 0.6%, vs. 2.1% in the rest of the world and more than 6% in Asia. One of the corrective measures suggested by the WTO is the increase of investment in education, an area in which, as already commented, South America has not been particularly successful in achieving advances.

Less bureaucracy and regulatory burden

The excess bureaucracy and regulatory burden manifests itself in the example of paying taxes discussed earlier in this report, whilst excessive government intervention undoubtedly drives the perception of regulatory burden.

Weak institutions and regulatory burdens are partly responsible for a business environment that tends to stifle entrepreneurship and for the persistence of poverty (which affects approximately 40% of all Latin Americans). The large informal economies of the region also contribute to the difficulty of building strong institutions.

Creation of clear regulations for strategic sectors

The perception of the lack of clear regulations of strategic sectors will have its consequences in a lower level of willingness on the part of business to make strategic investments and therefore of lost opportunities to take leadership positions.

Economic freedom

In addition to all the factors already discussed, in terms of economic freedom, the only South America country included in the list of the top 10 in the world is Chile, ranked at number 8 (according to the 2008 Index of Economic Freedom, by the Heritage Foundation / Wall Street Journal). Uruguay is the next South American country, ranked in 40th, followed by Peru, in 55th. The other countries of the region follow in steep descending fashion.

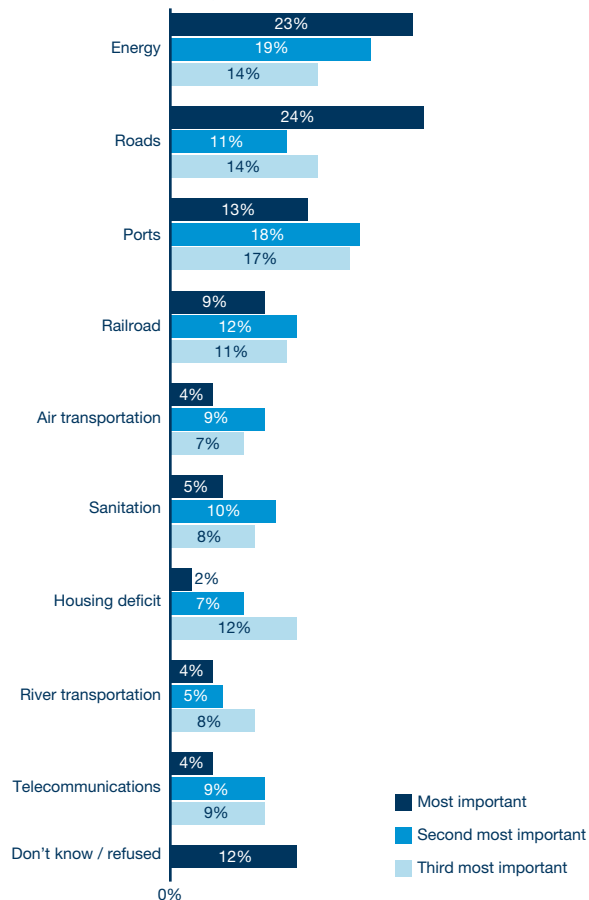
2008 Index of Economic Freedom World Rankings*

With 100 being most free

Country	Overall score	Change from 2007
Argentina	55.1	0.1
Bolivia	53.2	-1.1
Brazil	55.9	-0.2
Chile	79.8	0.8
China	52.8	1.0
Colombia	61.9	2.3
Ecuador	55.4	-0.2
Germany	71.2	-0.4
India	54.2	0.1
Paraguay	60.5	1.6
Peru	63.5	1.0
Russia	49.9	-2.5
UK	79.5	-0.5
Uruguay	68.1	-0.7
U.S.	80.6	-0.3
Venezuela	45.0	-2.9

Source: Heritage Foundation / Wall Street Journal

In relation to infrastructure, which area is most important in relation to receiving investment?



The friendliness of the business environment to Venture Capital and Private Equity investments continues to vary sharply across the region – according to a study prepared by the Economist Intelligence Unit for the Latin American Venture Capital Association, Chile ranks 74 on a scale of 1-100, being followed by Brazil (65).

Noticeably, venture capital and private equity flows as a percentage of GDP in Brazil are less than half of those in Argentina and Chile.

The 2007 scorecard reveals the potential for growing venture capital/private equity in the region. Latin American fundraising rose from US\$ 1.3 billion in 2005 to

US\$ 3 billion in 2006 and investment levels quadrupled to US\$ 4.3 billion in 2006.

The 2007 scores demonstrate progress, but reveal that the region as a whole is held back by the broader problems of weak judiciary systems and international perceptions of corruption.

2007 Scorecard on the Private Equity and Venture Capital Environment in Latin America and the Caribbean

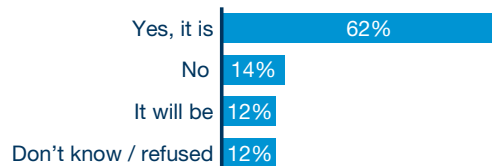
Overall score - Ranked by 2007 scores

Rank	Country	Score		VC Flows
01	UK	90	-3	0.79%
02	Israel	82	+3	0.93%
03	Spain	75	+6	0.33%
04	Chile	74	-3	0.15%
05	Brazil	65	+6	0.06%
06	Trinidad & Tobago	62	+18	0.02%
07	Mexico	60	+6	0.03%
08	Taiwan	59	0	0.14%
09	Uruguay	56	+16	0.30%
10	Costa Rica	49	-4	0.03%
11	Colombia	47	+4	0.01%
12	Argentina	43	+1	0.14%
13	Ecuador*	43	0	0.00%
14	El Salvador	41	0	0.02%
15	Peru	41	-6	0.01%
16	Dominican Republic*	37	0	0.00%

* = First year in study. No comparative score for 2006

Overall score is the weighted total of all scorecard indicators, ranging from 0-100 where 100 = best / strongest environment.
Source: Economist Intelligence Unit / Latin American Venture Capital Association

Do you think that private equity is currently or will become an effective mechanism for financing business growth in your country?



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South American survey participants and method

The 11th edition of the Global CEO survey is based on 1,150 interviews with CEOs from all over the world.

The 5th edition of the regional report, derived from the Global one, is based on 227 interviews with CEOs in all South American countries, conducted between September and November 2007. The entire research effort was coordinated by the PricewaterhouseCoopers International Survey Unit based in Belfast, Northern Ireland, in close cooperation with local teams of PricewaterhouseCoopers project managers and partners throughout South America.

By country there were 56 interviews in Argentina, 11 in Bolivia, 85 in Brazil, 10 in Chile, 10 in Colombia, 11 in Ecuador, 12 in Paraguay, 10 in Peru, 10 in Uruguay and 12 in Venezuela. By broad industry grouping, 74% of the companies belong to the products sector (consumer and industrial manufacturers, distributors and retailers), 16% to financial services and 10% to telecommunications, technology and media.

In terms of profiling the participants, 10% of the South American respondent companies earn annual revenues in excess of US\$ 1 billion, 5% earn US\$ 500 million to US\$ 1 billion, 65% have revenues of less than US\$ 500 million and 20% offered no information.

In some graphs “don’t know / refused / neither / nor” were not computed.

pwc.com/southamericanceosurvey

South America: Opportunities & Challenges

New opportunities - but the same
challenges - in a connected world.

In-depth interviews

Interviews

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José María Zas

CEO and General Manager
of American Express Argentina
Argentina

José María Zas is the CEO and General Manager of American Express Argentina since September 2004 and President of Establishment Services Latin America. Previously he held a number of regional positions in marketing and sales. At the beginning of his career in the Company he was Director of Human Resources and he continues to be enthusiastic with the subject of talent management.

As a keen observer of world changes, he is of the opinion that the economic crisis currently affecting the market is different from previous ones, as a result of the globalisation effect it causes. He believes that, faced with this situation, the United States has an important future opportunity and he considers that, in future, the regulatory issues will become more important and complex, as well as the issues related to the development and retention of talent, which are high on his agenda as CEO.

He considers the global warming problem to be an issue on which corporations and governments must work together in close cooperation over the long term.

Connectivity

Let us talk of the connectivity of crises. What is your view on the current economic situation?

Regarding the situation of the United States, I think that, basically, there is a different issue as they are in an election year, which adds an additional ingredient to the perspective of their economic situation. While there is a certain economic problem in the market, it is not as yet possible to have a final diagnosis of the situation. However, in today's world, these instabilities are becoming increasingly frequent.

On the other hand, just mentioning the possibility of the United States going into recession generates a great uncertainty in the majority of markets as a result of the related impact on the global economy.

The advantage I see in all of this is that the United States has now the opportunity of making a significant transformation of its economy.

Obviously there will be a period of some adjustments, but I believe that, thereafter, the United States will begin a new and vigorous phase of economic development.

Do you think that this global lack of liquidity can affect our Government, hampering financing?

Looking at the increase in the GDP and at the dual trade and fiscal superavit as well as at the Central Bank reserves, I would say no. The Government is in a very sound and solid position.

Does the business sector already have an idea of the risks that are appearing, of the problems that may arise, or is it necessary to continue adapting to circumstances as new threats appear?

We are a global company and the formula we adopt to maximise opportunities and minimise risks is to develop a flexible strategy which synergises our potential in all the countries in which we operate.

How you handle innovation? Do you have a strategy which says: "We place our bets on innovation with each agency, with each branch being encouraged to launch their own projects"?

No, innovation is centralised. Last year, the Chairman of the company made a significant investment in the company's innovation project. A committee was formed and projects were sent in from our companies all over the world, the majority related to the new technologies, contact cards, payments by phone and to the future of payment methods and their relation to the value of our products.

Collaboration

How does collaboration function between your branches, with suppliers and with other companies?

There has been another important change in this area. For the first time in its history, the Company has reorganised itself to manage the global business. There had always been a geographic organization for the U.S. and another for International.

This is the first time that business has been organized basically on two structures by types of customer, but both on a global basis. We did so because we believe that globalisation represents an enormous opportunity for the development of both our business and for our employees. We have now a very important competitive edge: the use of our talent on a global basis, as well as the opportunity to exchange the best product practices of each market.

Regulation

Is regulation still an item of growing importance on your agenda?

Yes, it is still increasing worldwide. Perhaps what we need is to continue talking to the regulatory authorities to guarantee market transparency and competition and to ensure that the regulators understand the differences of our business model.

As regards regulatory issues in Argentina, I think that we must continue to work together and continue encouraging

dialogue. We need to agree on an agenda of medium and long-term issues.

In which of the regulatory areas are Amex's greatest problems and threats?

In perspective, I would say they are in the area of distorting taxation on bank debits and credits which affects the payments sector. In the rest of the world, this type of taxation does not exist.

People

Do you have problems finding people with the profile you are looking for?

No, Amex is a highly attractive company. We recently placed an advertisement in the newspaper for young professionals and we received 8,000 replies in three days. Our working conditions are very favourable, we are well placed in the rankings and the average age of our employees is 26 with 90% of our people starting their careers here. We offer supplementary pension plans, a fitness center for all our employees and we provide a number of other incentives such as educational grants. We aim to

be a leading company in balancing the personal and working lives of our people.

Do you have any type of service center?

Yes, we do. We are the promoters of this. Following the crisis, instead of downsizing we put our people to work for Europe and Latin America. The results have been magnificent and our competitiveness in terms of the quality of our human resources is outstanding.

Region

Does the country have any systems in place to promote business activity?

Yes, but in some instances it would be necessary to reinforce long-term policy in the country's strategic interest areas.

What should be done to improve this model?

Education is the country's strategic investment for guaranteeing its long-term global competitiveness. Education must be our differentiating factor in the new globalised world.

Where do you think education is failing? At high school level, at a higher level?

Education has an opportunity to continue improving and adapting to the new global trends in terms of technology and changes in social dynamics.

Do the issues surrounding the global warming phenomenon affect your business?

No, not significantly. However, in our case, we are making a contribution to this key issue, for example, by sending out our statements of account via e-mail, to avoid using paper and ink.



Gerardo Garrett

Corporate Vice President
of Minera San Cristóbal S.A.
Bolivia

Minera San Cristóbal S.A., a subsidiary of the U.S. company Apex Silver Mines Limited, operates a silver-lead-zinc opencast mine in Bolivia, the country's most important mining development and one of the largest of its kind in the world. The Company commenced operations in the country in 2007 and the estimated useful life of the project is some 17 years.

Gerardo Garrett joined the Company as Corporate Vice President in June 2006. Previously, he occupied the positions of Vice President and General Manager of Andean Silver Corporation (predecessor of Minera San Cristóbal).

Connectivity

The world is increasingly interconnected. To what extent do you feel that your company is exposed to risks or trends that did not affect it before or that affected it to lesser extent?

Yes, the company is subject to the permanent changes in the global markets and to the particular tendencies of the international mining industry.

What type of risks are these? Do you feel that you have a good mental map of these risks, or are they still something very new, something your organization is still just beginning to understand?

The company is fundamentally subject to the variations and volatility of the prices of minerals that have an impact both in the revenue and in the operating costs. This is a business risk that will continue to exist throughout the life of the company. Being a company that recently entered into production, many of these factors are going to be understood and appropriately administered as time goes on.

Do you think that there are risks or opportunities that the business community in your country still has not fully internalised? Do you think that multinational companies have an advantage compared with the local companies?

There is an enormous investment potential in Bolivia, particularly in the mining sector. The country does not yet perceive that, especially foreign investment, is crucial for incorporating technology, knowledge, experience and capital. The national and foreign companies can both anticipate risks and opportunities. Nevertheless, foreign companies can face these opportunities better because of the experience and exposure to technology that come from other parts of the world.

How concerned are you about the global warming phenomenon? Do you believe it will have any direct or indirect impact on your business?

We are all very worried about global warming. It is a phenomenon that will affect, in one way or another, all living beings on the planet. Recognising the

risks of this effect is key for finding solutions, but they are not easy. Global warming will have an indirect impact on the company because we will have to learn to do business with a concept of mitigation and handling of the effects that this phenomenon will eventually have in places where we operate.

How do you all intend to take advantage of opportunities or prepare yourselves for future threats? Do you have defined, formalised and measured innovation processes, or do you all see innovation as something spontaneous that is stimulated but is not managed?

The company does constant analysis of the risks and opportunities that confront it. We have processes for mitigating risks and we employ techniques and modern and certified processes for the administration thereof. Evidently we have to work a great deal in innovation processes and promote the culture of innovation as a strategic tool with all of our employees and with the communities in which we work.

Collaboration

Today, many pioneering companies are focusing on collaboration as a way of producing competitive advantage. What meaning or importance does the concept of collaboration have for your business today and how does it affect or how will it affect your company?

The participation of the communities in which the company operates has been and will continue to be an essential element in the fulfillment of this. We promote and execute sustainable development projects in which members of the communities are both the principle actors and beneficiaries. We try to make the collaboration between the company and community permanent and mutually beneficial. Although we feel proud of our relationship with the communities, this tight relationship of support and collaboration must last and improve with time. It will be a learning process and a deepening of this relationship that will bear fruit and must come mainly from a basis of mutual trust.

Where do you see the greatest opportunities for beneficial collaboration for your company: suppliers, clients, distributors, communities, NGOs, authorities, academic institutions or competitors?

Without ignoring the importance of each one of these interest groups for the company, the communities, authorities, suppliers and clients are the groups with which a beneficial collaboration should be achieved.

What does your company need to do in order to take advantage of these opportunities for collaboration?

Continue improving the communication and collaboration ties for mutual benefit.

Do you think that there are barriers that limit collaboration between the entrepreneurial sector, the State and civil society organisations (NGOs, universities, etc.)? Do they affect your competitiveness or your capacity to share knowledge, innovate and solve common problems?

The business sector, the State and civil society organisations have visions and goals that, many times, are different. A

common effort must be made to promote the fact that, within the role that each one of these groups must carry out, the development of the country is everyone's work. These different visions evidently difficult competitiveness and innovation which would help solve the countries problems.

Regulation

In what measure do you feel that regulation is an important factor when considering your strategic decisions?

Prudent and efficient regulation is key and necessary for the development of any activity, particularly in the private sector. Clear rules, legal security, and efficient regulatory entities that are transparent and respectful of the rules promote new projects and strengthen business ventures and companies already operating.

Which is the regulatory area that concerns you most?

In the mining industry, the most important regulatory areas are mining itself, as are taxes, labour, environmental questions and free competition.

Is there a particular regulatory area emerging that you see as a potential limitation to business?

In the mining industry in Bolivia, environmental regulations are perhaps the most difficult. In any case, the topic of the environment is not a limiting factor, but, to the contrary, a strategic element of the company for the harmonious development of the company and the communities in which it operates.

As to taxes, to what extent do you feel that your company's total fiscal load is an obstacle for growth or for doing business? Have there been decisions or initiatives that have been affected or frustrated because of the tax costs?

The question of taxes is currently the company's biggest problem. The tax load in Bolivian mining is too high as a result of a recent reform to the mining tax regime. Compared with the countries that Bolivia competes with, we see that large scope investment is being limited in the country with this new tax regime.

How would you describe your company's relationship with the government: collaborative or confrontational? What can be done to improve the relationship?

Thanks to constant intents and rapprochements our relationship with the government has improved substantially lately. That is why today I would qualify it as "collaborative". Nevertheless, there is much room for improvement so that it can remain sustainable over time. To improve this relationship, we need to insist on constant communication, in clear and open discussion about the problems and in the presentation of proposals and of mutually beneficial solutions. We also have to incorporate other areas of our industry and not concern ourselves exclusively with areas that require a political decision.

Does your company look to have influence on regulation through participation in debates, forums and public discussions? Do you think this is effective? What initiatives could you implement to improve the business atmosphere?

Yes, to achieve efficient regulation it is necessary to participate in debates

and discussions that are ample and transparent. These exchanges of criteria are definitely effective. I am not aware of a better mechanism. The business environment improves with clear proposals and, above all, with the willingness of the parties to achieve a regulatory system that, again, benefits both the state and the private operator.

People and change

In our last survey with CEOs it was clear that the scarcity of talent and qualified personnel is a growing problem and cause for concern. Is this presently a problem that is a priority for your company? At what level (management, specialised, operational)?

Finding talented, qualified, trained and motivated personnel is a constant task for the company. This goal exists at all levels of the organisation. This is not a priority topic; it is a normal way of working.

How is this affecting you (scarcity of people to grow, to lead innovation initiatives, to renew teams or management plans, etc.)?

Being a company that has just entered into production, the training of our personnel, principally in the operating areas, is essential. We try, as far as possible, to bring forward our decisions in order to avoid scarcity of resources in different areas of our business.

What initiatives have you put into place to minimise problems created by the scarcity of talent?

I do not believe that the company lacks talent. Sure, we are a company that has just entered into production, our personnel is being trained in activities that they did not know, or that they were not used to.

What profile do you think that the people who work in your company will have five years from now? What type of people will your business demand and how will they be different from the type of people that your business demands today?

Within five years (or much before) we will count on a work force that is well trained and knows its job, its company and the challenges it will face. We would like to strengthen the operating and middle controls, and, as far as possible, work with Bolivian personnel. We will attract Bolivian professionals and technicians, while always respecting the commitments made to the communities.

Do you believe that the education system is a limiter for obtaining the quality of personnel necessary for competitiveness? What things can your company do to overcome this obstacle?

Yes, the educational system is fundamental for counting on professional and technical staff who are well prepared and who create value and competitiveness for the companies. The company has a scholarship programme and will underwrite agreements with

institutes or universities in the country to promote academic programmes that provide incentive for competitiveness, innovation and the use of technology.

What do you think will be the main changes that your company will undergo in the next five years?

Bolivia will face significant changes in its legislation in the next five years. A constitutional reform is approaching as are new laws and rules that will accompany the new political State Constitution. These changes will have an enormous effect and impact on private sector activity, in the mining industry and, therefore, in this company.

Is your company prepared for these changes? How do you look to make your company more flexible, more able to adapt to these changes?

Our company has to adequately prepare itself to face, and, as far as possible, adjust to these changes.

How do you perceive the flexibility and adaptability to change of the companies in your country in comparison with multinational companies?

In general, there is resistance to change in every human activity. Nevertheless, all companies must be flexible and adaptable to the changes and challenges and work on mechanisms that avoid the rejection of these. Perhaps the multinational companies can better adapt to changes, but the local companies also are able to do this adequately.

Region

How would you evaluate the quality of infrastructure in your country? Is it an obstacle for business competitiveness?

In Bolivia, the main obstacle for growth in all production activity is the lack of infrastructure (roads, electrical, railways, communications, access to borders and ports). The government is attending to the road infrastructure, which is the priority. The other areas are the responsibility of private initiative, but the investment in these sectors is totally limited or delayed.

Do you believe that the participation of private capital through PPP schemes would be important for the improvement of infrastructure in your country?

Yes, the PPPs are efficient mechanisms for development and formation of infrastructure programmes. Bolivia does not have experience in this.

What do you think about the efforts of the State to improve competitiveness and stimulate entrepreneurial activity? Are they moving in the right direction?

Today there is a distancing between the government and the private sector and different visions. Both sectors should work to unite efforts to achieve wide business activity within a regulatory framework that is efficient and transparent and which stimulates private initiative.

Is there an entrepreneurial incentive programme in your country?

Yes, in Bolivia there are various programmes and entities which promote entrepreneurial culture. Even though the majority are new programmes or enterprises, up to now the experience has been successful but, of course, it can be improved and expanded. There is enormous entrepreneurial potential in this country, especially at the small and medium sized company level. This is maybe one of the innovative ways to modernise Bolivian business activity.



Roberto Setúbal

CEO of Banco Itaú Holding Financeira
Brazil

Banco Itaú is one of the largest retail banks in Brazil and operates on the financial and capital markets in Brazil and abroad. It has more than 13 million clients and has structures, products and services which have been developed to meet the needs of small and medium-sized companies, public authorities and institutional investors, private individuals (branches), affluent individuals and high net-worth clients.

A graduate from Escola Politécnica, at São Paulo State University, and with a Master's degree in engineering management from Stanford in the U.S., Roberto Setúbal joined Banco Itaú in 1981 and in 1982 took up an internship at Citibank in New York to learn more about the intricacies of the international financial market.

After returning to Brazil, he worked in several areas at Itaú. He became CEO in August 1990, accumulating the position of Chairman of the Board in 1994 and was twice elected head of Febraban, the Brazilian Bankers Association.

Connectivity and sustainability

How can a local company in today's interconnected world benefit from globalised operations?

Banco Itaú does not have global access to foreign investors, nevertheless we have achieved major penetration of the Brazilian business community by serving as a financial intermediary between global investors and businesses in Brazil. Our foreign competitors, on the other hand, intervene in the opposite manner, because they have broader access to investors and a relatively low level of penetration of the Brazilian market. Every party uses its particular advantages in order to compete - regardless of whether they operate globally or not.

How is Brazil able to attract foreign investments?

Brazil has stirred investors' interest because of its market size and economic stability. The number of initial public offerings on a country's stock exchange and the overall success of those operations are a good indicator of the

country's attractiveness. For Brazilian businesses with growth potential there is capital available globally. This is beneficial for companies because it reduces their cost of capital and makes it possible for them to invest in new projects. In the fixed income business the major challenge for Brazilian banks is achieving a strong foreign distribution arm because people are now looking toward Brazil as an investment destination.

How are you doing that?

Several years ago, Itaú opened a new business called Itaú Securities, via a company that has its registered office in New York. Itaú Securities basically operates as a broker. The timing was perfect and we have achieved tremendous success with this initiative.

One of the things we do each year is organise a major meeting in New York of Brazilian CEOs who wish to meet global investors. Obviously, the more a company is familiar to investors, the better their capacity to attract interested parties. Our annual meeting provides these CEOs with

opportunities to gain liquidity for their shares, lower their capital costs, and get a head start in raising resources for future projects. We see our role as bringing together investors and companies. As a result of our efforts, Itaú is recognised as an important player for global investors interested in Brazil.

Is climate change and global warming becoming a business issue for Itaú?

In addition to what we do as a company in the areas of recycling and energy conservation, we subscribe to the Ecuador Principles. Itaú will not finance any investments that lead to pollution, or that lack certain minimum standards of quality in terms of atmospheric emissions.

Climate change is also part of the larger issue of sustainability. What is Itaú doing in this regard?

Of course, when we are in the process of developing a new business, we think about the long-term. We do not do well excessively on the immediate term opportunity of earning a little bit more or less profits, because if we do this we will

not be building a foundation for sustained growth. With our customers, Itaú aims to establish long-term relationships, not opportunistic ones. Take for example the credit recovery process. Five or ten years ago, the way we handled clients who were unable to meet their debts was quite different than it is now. Then, it was more confrontational and frequently led to litigation. We were not concerned so much with creating the conditions - such as granting longer repayment periods - that could enable the customer to recover financially. Today, that has all changed. Sustainability goes together with business development and long term value creation. We are completely integrated within Brazilian society, and cannot ignore the consequences of our actions.

Are you referring to social issues?

Yes. For example, on the outskirts of São Paulo, where the bank is very well integrated into the community, we have special social programmes in place. We began by establishing one-off initiatives, which then evolved into a broader programme. Before long, we decided to set up a foundation to coordinate all of our social programmes and demonstrate

our long-term commitment to the community. Itaú's donations were the starting basis, but today the foundation has accumulated a substantial investment portfolio and its revenue serves the social programmes. Our major focus is education. One of our programmes, which I personally developed, is called, [Writing the Future](#), and aims to create incentives to help children learn how to read and write - an essential tool for exercising one's citizenship. There is a tremendous difference between becoming merely literate and the real capacity to read a text, understand it, and write about it. In this sense, we aim to encourage the use of language. This will have an impact not only on our business activities but on Brazilian society as a whole. The basis of a working democracy is an informed citizenry that understands the issues and knows what they are voting for. I believe that many of the problems we see in Brazil - such as politicians who flagrantly disobey laws and are then re-elected - are ultimately linked to ignorance because many Brazilians do not possess the level of literacy required to make informed judgements.

[Does the government encourage companies such as Itaú to give back to the local communities?](#)

Yes - and in fact, the government does more than just merely encourage it. There is a law in Brazil that obliges companies to ensure that at least five per cent of their employees are persons with special disabilities. Given Itaú's size, this is a very difficult requirement because in absolute terms, five per cent of our workforce represents a very large number. To fulfil our obligation, we initiated a proactive campaign of recruitment which included alerting NGOs of our recruitment goals. The campaign has been very successful; today we employ more than 2,000 employees with special disabilities. It is interesting that when we began the campaign we experienced resistance from some of our managers. But today, our people with disabilities are completely integrated into the company and the work environment is extremely hospitable for them. It has been a learning experience for all concerned.

People and change

Many companies these days cite a shortage of qualified talent. Are you finding that to be the case in Brazil?

Yes, we are beginning to experience shortfalls in all areas, particularly with regard to engineers. However, I imagine this is true for all countries experiencing high growth rates. Furthermore, it appears that this problem is not going to go away any time soon. So, it is likely that we will have to recruit less experienced people and invest more in training to close any skill gaps.

What is Itaú doing to attract talent?

To start, people want to earn a fair salary. But they are also looking for a working environment where employees can learn, grow, and develop their own ideas. That kind of environment has to be created almost from scratch. It is quite different from the more formal, hierarchical way companies have managed in the past where the executive issued instructions and the subordinates simply carried them out. Today no one finds that model attractive. You can not recruit talented people and expect them to be content to

sit around waiting to be told what to do. Young people want to participate and contribute to the discussion right from the start.

How can this be encouraged?

We work in integrated teams that seek input from all team members. It is not always easy though. Older staff members tend to find it more difficult to work in teams, to share information, and discuss things openly.

In part, Itaú has grown through merger and acquisition. Is it difficult to merge teams from different businesses with different management approaches?

Like everything in life, some people adapt and some do not. You can not make everyone happy. Those who are unable to adapt end up, one way or another, simply leaving. But when we merged with BankBoston more than 80 per cent of the staff remained. That proves that it can be done.

What do you expect of your employees?

Each person must be fluent in English, must have an open mind, and be far

more informed about the world than the average person. They must also be well-versed in international business issues, not just in their own specialty area.

Regulation

What is the regulatory environment like in Brazil?

First of all, the dream of everyone in business is to be completely free of any kind of regulation. But in the modern world, this is obviously impossible. I naturally accept regulatory controls and am less disturbed by them than the majority of my colleagues, because regulation is necessary to avoid abuses. Clearly, there is no business sector that is subject to as much regulation as banking - and in my opinion that is perfectly justifiable given its broad interaction with society. But from a competitive perspective what bothers me is that while we are subject to substantial regulation here in Brazil, our foreign competitors are subject to a different regulation and this situation can create competitive advantages for those who can select where to book business.

Do you collaborate at all with regulators?

We attempt to collaborate, but it is not easy. To be honest, I am not very optimistic about reducing regulation. Perhaps things have to get worse before they get better. What we sometimes can achieve - depending upon the degree of openness of the regulatory authority - is to establish an ongoing dialogue during which we can explain how things operate in practice. That is a much preferable situation than having a regulator who sits at his desk producing regulations without any input from the marketplace. After all, regulations need to address both the benefits and costs sides of the equation. Too often, regulators look only at the upside. But there is always an associated cost to any piece of regulation and the person who pays that cost is, ultimately, the consumer.



Gonzalo Bofill

Chairman of Empresas Carozzi
Chile

Gonzalo Bofill Velarde has been the director of Empresas Carozzi for 27 years and its Chairman since last December, after the death of his father who had been the Chairman of the company for 32 years. In recent decades, Carozzi went from being a single-product company to being the most important Chilean food company. The company operates in different food markets in the region. In this interview, the new head of the company explains his vision for the future of his business, as well as the economic and regulatory environment.

Connectivity, innovation and collaboration

The world is increasingly interconnected. To what extent do you feel that your company is exposed to risks that did not affect it before, or that affected it to a lesser extent?

The level of connectivity, which is greater and greater every day, allows us to be informed about all news and tendencies faster, and this has an almost immediate impact on all markets. Chile and Carozzi are not isolated from this new reality. From this perspective, and even when Carozzi actively participates in the international market, yes, we are exposed to risks, but on the other hand, this higher level of connectivity also serves to create great opportunities. It allows us to learn about the new tendencies and specific tastes of each culture, which has been a determining factor in the growth of our company as we enter into new markets, through an innovative strategy of new products development. Part of the role of our International Management team and the executives of our operations abroad is precisely this, to be attentive in order to identify new investment opportunities.

Do you think there are risks or opportunities that the business community in your country has not internalised yet? Do you think that multinational companies have an advantage as compared to the local companies?

Chile needs to maintain a climate of confidence in order for the investment flow that is necessary for obtaining the expected growth rates to be achieved. I am very concerned about the environment of labour effervescence that has been promoted by radical groups, some of which are closely tied with people of the very government. This has translated into violent worker mobilisation, taking hold of and paralysing industries illegally without a firm or opportune reaction by the authorities. This permissiveness may lead to a state of significant instability, which ends up discouraging investment and the creation of new companies. I have the impression that this problem is not completely internalised by the political world or by the government authorities.

On the other hand, the greater connectivity has allowed for an acceleration of the processes of change, and I mean all types of change, such as the tendencies in eating habits, distribution systems, production technologies, etc. And this obviously represents opportunities for businesses that are attentive to them, and are prepared with structures to implement them.

If multinational companies have the ability to participate in many markets directly, which consequently gives them an advantage in terms of acting in advance, the local companies, on the other hand, have the great advantage of knowing their markets in depth, which allows them to better interpret and adapt themselves to the local tastes and habits.

What meaning or importance does the concept of collaboration have for your business today and how does it affect or how will it affect your company?

I am a strong believer in the concept of collaboration; it is essential not only to provide incentive for innovation, but also for making business projects sustainable. In this respect, Carozzi has translated

collaboration into a close relationship with suppliers, which ends up being something like a cluster, incorporating, in this way, other visions. This also has the great advantage of contributing to an easier identification of areas in which there are opportunities for all of the participants of the collaborative group. This undoubtedly results in important savings and better services for our customers and consumers, but above all, it allows for the development of companies around us with a high level of specialisation and with the consequent advantages for the country.

The company, since its beginning, has promoted these collaborative relationships with its customers and suppliers. In the past we provided technical and financial support for national durum wheat farmers, an essential grain for the production of high-quality pasta and which was not cultivated in our country. More recently we have aided in the development of organic cultivation in order to supply markets which demand the absence of pesticides, achieving, what is more, the complete traceability of the production processes. We have

participated in projects for the substitution of fossil fuels for biogas and for the wastewater treatment through earth worms, a project that was carried out with the direct support of a local university. On the other end, we have invited our consumers to propose innovations in our products to us through the company's Web page.

Regulation

To what extent do you feel that regulation is an important factor when considering your strategic decisions?

It is clear that today in Chile - and in the region - we are experiencing a reality in which the regulations are greater than those we had had for a long time, during the years in which our country developed in a sustained fashion with high growth rates. I have no doubt that the greater the liberties to operate, the greater the level of economic development and growth, as regulations invariably lead to lower efficiency in the allocation of resources, which will affect the country in the long term.

I think this reality is present in other countries of the region as well, where current regulations have a strong populist orientation. This has generated a distortion in the performance of the economies in these countries, which will lead to negative repercussions in the future. Unfortunately, many of the countries in the region have followed this tendency, momentarily sustained by the strong increase in the prices of the commodities produced by these countries, and by an international financial liquidity which, up to only a few months ago, seemed indifferent to the risks of the emerging markets.

Which is the regulatory area that concerns you most?

In the specific case of Chile, labour is the most concerning area; laws and resolutions are constantly being generated with the result of taking away more and more of this market's flexibility.

An example of these regulatory rigidities is the recently promulgated subcontracting law, which even arrived at the extreme of involving the Courts of Justice which resolved the dispute involving the main

state-owned company, Codelco, with an agency dependent on the Minister of Labour, which intends to make the gigantic state mining company incorporate a strong contingency of outsourced workers into its staff.

I believe these regulations affect the competitiveness of Chilean companies in an important way, which, paradoxically, rather than benefiting the workers and people who are presently unemployed, is actually going to end up harming them.

Is there a particular regulation area emerging that you see as a potential limitation to the business environment?

I think that the question of the environment needs to be everyone's concern, since we must be responsible regarding the environment.

Our country has environmental protection laws and regulations which are very similar, more demanding, even, than those in developing countries. This is why I do not agree with the extreme visions of many NGOs which oppose a great number of projects and developments, without serious studies that support their

positions and without considering the great benefits that these projects will create for the country as a whole, and, specifically, for the closer communities, as in the case of the salmon industry and the hydroelectric power plants in the south of our country.

Developed countries have a fundamental role in this regard, since they should promote the use of renewable sources of energy through important incentives for developing countries, rather than imposing commercial sanctions on those who do not conform to their environmental regulations. Even more so is the case when barriers to the world free trade are maintained, causing imbalance in competitive conditions, especially in the agro-industrial sector.

As for taxes, to what extent do you feel that your company's total fiscal burden is an obstacle for growth or for doing business? Have there been decisions or initiatives that have been affected or frustrated because of the tax costs?

I do not think that the tax burden in Chile is an important factor impeding the realisation of business, but it is clear

that an incentive in this regard will be a strong driving force for greater activity and growth, as it was a few decades ago, when profits used to reinvest in the business were not taxed. This stance facilitated the renovation of technology in Chile enormously, truly favouring production efficiency, without which it would have been impossible to transform Chile into a more competitive country that is open to the international market.

Nevertheless, considering the region, we believe that yes, the tax rates as well as the complexity of the tax regimes in some countries of the region do indeed constitute serious obstacles for business activity.

People and change

In our last survey with CEOs it was clear that the shortage of talent and qualified personnel is a growing problem and cause for concern. Is this presently a problem that is a priority for your company? At what level (management, specialised, operational)?

The truth is that I do not see this as a widespread problem. To the contrary, I think that Chile has many people who are able and well-prepared, particularly at the level of managers and university professionals. I think that the greatest difficulty is in the intermediate operational positions, where you need personnel that have completed a technical career in specialised institutes.

What is encouraging is that by far the largest education institution in our country, with more than 60,000 students and a very good level, is one that offers technical careers.

Do you believe that the education system is a limiting factor for obtaining the quality of personnel necessary for competitiveness? What things can your company do to overcome this obstacle?

I think that the big problem with the Chilean education system, from the point of view of how it prepares people to work in a company, is that it does not teach students to value technical careers, as is the case in developed economies. This makes everyone want to be an engineer, and since there is a wide offering through private universities, today there is a large number of these professionals who cannot find work, or who are working in posts unrelated to their profession, which results in a high level of frustration. And, worst of it all, we continue to lack qualified technicians.

In Carozzi we have tried to resolve this problem through training, which we fund with a significant amount of resources. In fact, we have even been recognised as the company that has offered the most training to its employees in Chile. And we also work closely with the largest technical education institution in the country.

How do you perceive the flexibility and adaptability to change of the companies in your country as compared to multinational companies?

I think that this is the big difference between local companies and multinationals; the locals are much more flexible and adaptable to change.

On the other hand, it is difficult to explain why there are local companies that are relatively small in comparison with their international competitors and are very successful in this competition that is so unequal in terms of resources, both financial and technical, as well as those related to investigation and development. The retail industry offers various examples, since local companies like Falabella, Home Center or D&S and Cencosud have displaced or lead market developments competing with multinationals like JCPenny, Home Depot or Carrefour. By way of example, our Company has conquered the leading position in the cookies, chocolates and candies market in Chile competing with international giants like Nestlé and Arcor.

Business environment

How would you evaluate the quality of infrastructure in your country? Is it an obstacle for business competitiveness?

One of the largest developments in Chile lately, has been the infrastructure. Although there have been great improvements in this concern, it is still not enough, which unfortunately affects the competitiveness of our companies.

If we want to fulfil our national challenge, which is to transform ourselves into a food power and be among the ten largest food exporters in the world, then we must still improve the entire exports-related infrastructure, such as roads and ports. The country must also advance firmly in all that relates to a reasonable and stable energy supply, since lately the problem of energy rationing has affected the production of companies and, as such, we have lost competitiveness.

Do you believe that the participation of private capital through PPP schemes would be important for the improvement of infrastructure in your country?

I firmly believe in the participation of private capital in any area of the economy. An example of this is, precisely, the participation of private companies in the construction and operation of the large-scale road works that have taken place in Chile in recent years, which has created a better and cheaper service.

I think that the concept of normal privatisation is more effective than a public-private partnership, but this also seems a viable option to me, if it were the only option for obtaining infrastructure improvements.

Is there an entrepreneurial incentive programme in your country?

There is a lot of discussion about this matter, and a disputed royalty was even established for the mining companies for R&D projects. This fund, today of more than US\$ 1.2 billion, has still not been assigned to specific projects, which is unfortunate because our country loses competitiveness. In fact, our development

of patents, as compared to developed countries, is extremely low.

There are some incentive programmes, but they have not been very effective, or sufficiently communicated, which is why a large majority of the people are not aware of them. The best way of providing incentives to entrepreneurship is to facilitate the process of creating companies, which today is too long and cumbersome, since it requires the fulfillment of more than 500 formalities, and by delivering technical and financial support to new entrepreneurs, as the tax incentives can help finance everything related to Research & Development of new technologies, and the venture capital industry existing in other latitudes.



Gonzalo Restrepo

President of Almacenes Exito Department Stores
Colombia

Almacenes Exito S.A. is Colombia's leading retail business with US\$ 3.3 billion in sales. The Company operates from a platform comprising various commercial formats including hypermarkets, supermarkets and discount stores, selling brands with the highest recall levels among Colombians. At present, the French Group, Cas no, is the Company's controlling shareholder. Gonzalo Restrepo L pez has been President at Almacenes Exito S.A. for 17 years. He is a graduate (BSc-Management) from Syracuse University in the U.S. and has a Master's degree (MBA – Marketing) from the University of Georgia, also in the U.S.. Mr. Restrepo is a member of the Latin America Coca-Cola Retailing Research Council and sits on the Board of Directors of the Food Marketing Institute.

Connectivity

The world is increasingly interconnected. To what extent do you feel that your company is exposed to risks or trends that did not affect it before or that affected it to lesser extent?

First, connectivity is a fact and it marks the differences between various countries and regions; I do not think it necessarily as a bad thing, because the aim is to level out the economies through trading exchange and, obviously, this creates wealth for everyone; this makes for a whole and what happens to one affects the others and it is clear that we are subject to these type of risks.

What type of risks are these? Do you feel that you have a good mental map of these risks, or are they still something very new, something your organization is still just beginning to understand?

For example, situations like the ones you point out, especially the mortgage crisis, affect our shareholders through share prices, which is their investment, and there is not much the companies can do in the face of this type of exogenous variables. Our administrative mandate

is to design and rigorously apply our business plans in such a way that we keep our company's fundamentals attractive, even in moments of instability, like the present.

As for whether we have a good mental map of the risks, this has been evolving as the company has become more complex. For example, as a result of the risks that we identified, the company developed and implemented the necessary contingency plans to deal with two accidental fires that we suffered last year, which allowed us to not affect significantly our operational capacity. Nevertheless, we consider this to be a constant effort and there is still work to be done.

Do you think that there are risks or opportunities that the business community in your country still has not fully internalised? Do you think that multinational companies have an advantage compared with the local companies?

I believe that Colombia has progressed and that the country has undoubtedly modernised a great deal. The current generation of executives, the young

men and women who are starting now, are more prepared than the previous generations, but it seems to me that the country still really suffers from the closed economy syndrome, and that, in general, it needs to open its mind to the world; it seems to me that, let's say, on a scale of 1 to 5, we might be at 2.5 but there is still a long way to go in order to take advantage of the opportunities that an open and globalised world offers.

I do think that there are large companies which are truly international, such as the companies that make products for mass consumption, that understand these differences, that take advantage of these types of changes and that know how to read and understand them very well and quickly; I think that being exposed to all types of economies and to all types of problems makes them more resilient and allows them to understand the swings of the economies and the changes - and the risks as well - that globalisation presents.

How concerned are you about the global warming phenomenon? Do you believe it will have any direct or indirect impact on your business?

In our case, it worries us in the sense that it is a global problem. We are a company that is sensitive to environmental protection; we are the only retailer in the country that uses biodegradable bags to package products for our customers. We have energy conservation programmes with our commercial partners. A good example of this is our programme with Philips through which we changed more than 90,000 incandescent light bulbs with energy saving bulbs. Our foundation's recycling programme allowed for the manipulation of more than 13,000 tons of recyclable material, avoiding, in this way, cutting down 180,000 trees, saving more than 316 million liters of water, and the non-use of a landfill area equivalent to 40,000 m³. On our scale of priorities, we identify environmental problems where we can exercise a positive influence and make an impact; we talk about very-short-term topics which are very harmful and we are concentrating on them. This does not mean that global warming is not so important, but that there are other

problems that are higher in our list of priorities, like, for example, food safety, especially for the infants of the country.

How do you all intend to take advantage of opportunities or prepare yourselves for future threats?

I believe that we have been innovative over the course of the years, but the innovations have gone hand in hand with the financial capacity we have; I think that Exito is indeed a company that is doing strategic exercises, structural changes to improve business, on an ongoing basis; it is a company that has advanced in what it has done, that has almost always had a vision to do things five or six years before; a company in which executives have been trained to study, to read, a company that, in spite of being very Colombian, has travelled constantly to see the markets, the best practices belonging to the best associations, that participates on those boards of directors, that is up-to-date, that is innovating, that is bringing the best.

Collaboration

Today, many pioneering companies are focusing on collaboration as a way of producing competitive advantage. What meaning or importance does the concept of collaboration have for your business today and how does it affect or how will it affect your company?

We believe that business collaboration is very important, and we collaborate closely with a large number of suppliers, on many fronts, in either the logistics field, sale points, development of new products, sharing information that we gather through our data base, etc. which supports them in the creation of new products or to give different display systems, or for the development of their sales channel in the modern sector in a more efficient way. On the other hand, the company has entered into business alliances such as Financial Retail, Travel, and Insurance with leading companies in the market, and, as such, there is transference of knowledge and technology in each business.

Where do you see the greatest opportunities for beneficial collaboration for your company: suppliers, clients, distributors, communities, NGOs, authorities, academic institutions or competitors?

With the academy, a great deal; for example, when we faced the difficulty of change in conception or in politics, from one that was very paternalistic to another in which you had to compete harder, Fedesarrollo helped us a lot, carrying out studies about practices in other countries, and this was the basis that served us when we were negotiating, because it gave us concrete examples.

Regulation

To what extent do you feel that regulation is an important factor when considering your strategic decisions?

Yes, I believe that the Colombian legal system works, but it has many judicial stages; it is independent, but it is complex, some times the rules go against simple things; for example, the barriers that we set-up against capital, when we

all know that the only thing they do is to stop good investments, initiatives such as obtaining resources abroad, etc. We are still lacking a great deal of, for example, regulatory stability.

Which is the regulatory area that concerns you most (tax, labour, stock market, money laundering, intellectual property, free competition, customs, etc.)?

We have had problems in all of these areas. For example, in labour legislation, in capital control; also, there are a lot of legal barriers; we have never measured it, we do not talk about this every day, but we are still far behind.

Is there a particular regulatory area emerging that you see as a potential limitation to business?

It is not the case of a particular area; it is the continuous change; that is, some rules need to be enacted, even if they are tough; some rules of the game that everyone knows, and let us all play this game. The constant change of rules slows things down.

As to taxes, to what extent do you feel that your company's total fiscal burden is an obstacle for growth or for doing business? Have there been decisions or initiatives that have been affected or frustrated because of the tax costs?

We certainly would have made a great deal of additional projects if tax rates were different; on the other hand, there are many tax exemptions. I do not think this is the road to take; I think we should have taxes that are more transparent, permanent, and a little bit more universal. As for income tax, I think it should be lower, and it should be reduced considerably for companies that generate employment; I think that the companies would develop much faster.

Does your company aim to have influence on regulation through participation in debates, forums and public discussions? Do you think this is effective? What initiatives could you implement to improve the business atmosphere?

Generally, our conversations are directly with the ministers and, in the case of this government, with the office in charge of contact with businessmen. It seems to me that this office has really facilitated investment, that it gets close to the ears of the President and the ministers.

People and change

In our last survey with CEOs it was clear that the scarcity of talent and qualified personnel is a growing problem and cause for concern. Is this presently a problem that is a priority for your company? At what level (management, specialised, operational)?

As competition has increased, it is now a problem that is a priority and we are not managing to fill top positions in the company with local talent, and we have to go out and look for talent abroad. This became a priority as a consequence of the competition, of the rapid development of this business and of the changing business scenario.

How is this affecting you (scarcity of people to grow, to lead innovation initiatives, to renew teams or management plans, etc.)?

Within the dynamics that our activity has acquired, and keeping in mind the new businesses that the company is developing, we are sometimes affected in the timetables for implementing our initiatives due to the lack of people with the skills we require. A concrete example is our commercial center development plan.

What initiatives have you put into place to minimise problems created by the scarcity of talent?

The company uses, as a recurring practice, the services of head hunters. In the same way, we try to identify young talent within the organisation and provide them with experiences that permit the development of a solid personal and professional education process. Among these activities, we send them to stay in France, where our parent company is located, and where these young protégés, in addition to learn to use best practices, perfect a second language and come back to the company with important cultural experiences.

In the fields in which we are pioneers, such as logistics, we have an excellent team; we believe that we are already the best in Colombia, but we are not the best in the world, and then, how do we take the next step? We have to go out and find it in the world.

What profile do you think that the people who work in your company will have five years from now? What type of people will

your business demand and how will they be different from the type of people that your business demands today?

I think that in the top positions, as for instance the president of retail, there will be people with a good technical education, who speak at least three languages, but I think they will be people with a wide range of knowledge, with a great humanist education; I truly believe that the top executive, and particularly in a country like Colombia, shall have a humanist basis that is very wide.

Do you believe that the education system is a limiter for obtaining the quality of personnel necessary for competitiveness? What things can your company do to overcome this obstacle?

It seems that there is a very large distance in the intermediate part of the pyramid, in all of the middle management, technical and technological careers; and so I would invest much more there, maybe with a better-quality and less-quantity approach in the traditional university majors, and would make a quite strong investment in basic education.

What do you think will be the main changes that your company will undergo in the next five years?

I think that the business has to develop new channels; retail has many forms; it is possible that the Internet is going to grow exponentially, and it is going to; I think that as channels and hardware start to reach a number of people, these are things that are going to impose themselves, as they have in other parts of the world. We will certainly need to work with other formats that respond to the always changing consuming habits of the population.

Is your company prepared for these changes? How do you look to make your company more flexible, more able to adapt to these changes?

We believe that we are indeed preparing ourselves for these challenges. Looking at the past, I think there is not much reason to think that we would not be able to face the future; it is likely that the people who are going to make the new changes are different from those who made the previous changes, because there is always a need for change and the most important thing is to incorporate a new generation of young people who will have

passion for the business, but who will have the knowledge and open minds to discover new paths. I believe that the company is finding them and will continue to find them; it has the material resources and it has the minds and the corporate intelligence, as well as clear direction from shareholders to do this.

Region

If the company is expanding in the region, what do you see as the main obstacles in the expansion process?

We already have a majority foreign shareholder; by ourselves, we, alone, are not thinking of growing internationally, unless we do it together with our partner, with our majority shareholder, that is, we need to coordinate precisely these cross-border growth plans.

How would you evaluate the quality of infrastructure in your country? Is it an obstacle for business competitiveness?

I consider Colombia's infrastructure to be very poor. I think that our road, port and other transportation systems are ten years behind where they ought to be for the level of development that the country has

reached and for the amount of investment that is being received from abroad. The experts consider that Colombia needs to make 4 - 5 important central highways, needs to double or triple the size of the good ports it has, needs to construct at least two additional ones, and that is before we even talk about airports: the three or four main airports need good cargo and passenger terminals, with really important investments.

Do you believe that the participation of private capital through PPP schemes would be important for the improvement of infrastructure in your country?

I love it and I believe in the set-up of public and private investment for constructing the country's infrastructure. No one can do everything alone, not even the State; so I think that concession systems, well administered, are good.

What do you think about the efforts of the State to improve competitiveness and stimulate entrepreneurial activity? Are they moving in the right direction?

The efforts are excellent and the country has really improved; there is still room for improvement, and the businessman

feels like he is being listened to; we do not always agree with the policies, but the policies come both from the President and the congressmen. Nevertheless, the continuous changes, the lurches resulting from urgencies every year still occur.

Is there an entrepreneurial incentive programme in your country?

It seems to me that yes, the country has progressed a great deal in this respect. I do not think that the State is responsible for creating business schools, but rather for creating conditions in which entrepreneurship happens naturally and by itself in all fields: farming, aviation, retail, even in the textile industry, but we have to learn that to be more competitive, not everything has to do with the cost of the peso in relation to the dollar - this is a part - but it has to do with efficiency as well, of which we are still lacking a great deal. Not all industrial and commercial problems can be fixed by calling on the government. I do not think this works. I think that we should focus on our current reality and that means considering what we can do to be more efficient. There is always room for improvement.



Luis J. Bakker

CEO and founder of Procesadora Nacional de Alimentos C.A. - PRONACA Ecuador

PRONACA has been a market presence for 50 years in Ecuador, having created more than 6,500 direct and 60,000 indirect jobs. In its home country the Company provides products for use in the home, professional use and use in agriculture. PRONACA owns the three most recognized brands in Ecuador. In the international market it provides sea food products, processed foods and bottled and canned vegetables.

Luis J. Bakker, CEO and founder of Procesadora Nacional de Alimentos C.A. - PRONACA and his partners act responsibly carrying out business and creating innovative products; they promote ongoing research, seek creative ideas for future development and rely on their time-honoured principles to forge relationships with the different interest groups.

Connectivity

The world is increasingly interconnected. To what extent do you feel that your company is exposed to risks or trends that did not affect it before or that affected it to lesser extent?

The risks of the capital market in the U.S. create a situation of incidental reduction of global economic activity. In this way, the company that I represent could be indirectly exposed to the risk of a decrease in business, but the Ecuadorian situation has distinct and much more important elements for our production activity than what you are pointing out.

What type of risks are these? Do you feel that you have a good mental map of these risks, or are they still something very new, something your organization is still just beginning to understand?

We have a clear understanding of the global situation and the risks related to it are not specific but, rather, of the international business environment that, in one way or another, impacts the local production units.

Do you think that there are risks or opportunities that the business community in your country still has not fully internalised? Do you think that multinational companies have an advantage compared with the local companies?

The Ecuadorian exporters understand perfectly that a possible recession in the U.S. will reduce their sales opportunities. As for the difference between multinational and local companies, I think that the most important differences are related to the lines of business, more than being local or multinational.

How concerned are you about the global warming phenomenon? Do you believe it will have any direct or indirect impact on your business?

Global warming is a phenomenon that deserves everyone's attention. In the case of agro-industrial activity, it is making us multiply programmes to reduce the impact of our activity on the environment and, particularly, in the processing of organic waste.

How do you all intend to take advantage of opportunities or prepare yourselves for future threats? Do you have defined, formalised and measured innovation processes, or do you all see innovation as something spontaneous that you stimulate but is not managed?

The innovation of products and processes is an essential and permanent characteristic of our company. Our innovation programmes attend both to the local and to international circumstances. For example, we are promoting the increase of national production of corn and rice given the international rise in prices.

Collaboration

Today, many pioneering companies are focusing on collaboration as a way of producing competitive advantage. What meaning or importance does the concept of collaboration have for your business today and how does it affect or how will it affect your company?

Historically we have had the concept of business correlation and chain as focal points for development. An important percentage of the products that we

process come from medium sized associate companies for whom we guarantee prices and supply technology. We proceed in the same way with corn and rice farmers. Basically, the idea of collaboration has a constant influence in our business.

Where do you see the greatest opportunities for beneficial collaboration for your company: suppliers, clients, distributors, communities, NGOs, authorities, academic institutions or competitors?

Our best collaborative experience has been with suppliers and customers. To a lesser extent with competitors and academic institutions with which we maintain excellent relations to take on and study common problems, as was the case of the avian influenza false alarm. Another more current example is the international rise in the price of raw materials.

What does your company need to do in order to take advantage of these opportunities for collaboration?

This is a constant practice and a building of confidence that needs to be worked on over time.

Do you think that there are barriers that limit collaboration between the entrepreneurial sector, the State and civil society organisations (NGOs, universities, etc.)? Do they affect your competitiveness or your capacity to share knowledge, innovate and solve common problems?

There are not any formal barriers but there are cultural barriers. Ecuador is a country of people that are distrustful, and without trust it is difficult to collaborate. Nevertheless, our experience has been that this cultural barrier can be overcome with a demonstration that you need to reach a win-win relationship and to maintain good faith, come what may.

Regulation

In what measure do you feel that regulation is an important factor when considering your strategic decisions?

Regulation is a topic of vital importance, without any exaggeration, for a company like ours because its activities are connected to State authorisations, in market matters, particularly in the importation of raw materials. What is more, there is a relationship because of standards that have to do with the

environment and the different operational licenses. There is also the problem of a lack of continuity in the public sector and the absence of a sense of urgency concerning production times.

Which is the regulatory area that concerns you most?

The most complex problems come from market regulations, for example, for importations that fill the lack of national production and the rules for the establishment of new installations that require processes with the community. Here the problem comes fundamentally from the politicisation of these topics, in which obscure interests can interfere with the good joint practices of the public and the private.

Is there a particular regulatory area emerging that you see as a potential limitation to business?

No. There is no regulation that is a limiter to the business environment, but yes it can complicate things, like, for example, with the processes for environmental operational licenses. The problem comes from a lack of public policies and from the improvisation of workers who change

constantly, impeding the processes from flowing in appropriate timeframes.

As to taxes, to what extent do you feel that your company's total fiscal load is an obstacle for growth or for doing business? Have there been decisions or initiatives that have been affected or frustrated because of the tax costs?

The new rules of the so called Ley de Equidad Tributaria [Tax Equity Law] can affect our operations in various areas, such as in the limitations for recognising interest on loans coming from abroad as costs, the decrease in incentives to reinvest profits and, in general, a tax system in which there exists enormous discretion for establishing penal responsibility for the taxpayer.

How would you describe your company's relationship with the government: collaborative or confrontational? What can be done to improve the relationship?

In general, it is a collaborative relationship, but this does not mean that it is easy because, without being confrontational, bureaucracy presents too many difficulties.

Does your company look to have influence on regulation through participation in debates, forums and public discussions? Do you think this is effective? What initiatives could you implement to improve the business atmosphere?

We believe that companies should have a voice in the creation of public policies for production and, as such, we continually express our opinion, even though, unfortunately, little is taken into consideration.

People and change

In our last survey with CEOs it was clear that the scarcity of talent and qualified personnel is a growing problem and cause for concern. Is this presently a problem that is a priority for your company?

The selection of qualified personnel is a central topic in the management strategy in our organisation and thanks to the levels of remuneration it offers normally it succeeds in appropriate recruitment, even though it is not easy due to large holes in the education system.

How is this affecting you (scarcity of people to grow, to lead innovation initiatives, to renew teams or management plans, etc.)?

There is not an abundance of qualified personnel but thanks to a selection and internal promotion policy, in many cases the problem can be resolved by means of promotions within the company.

What initiatives have you put into place to minimise problems created by the scarcity of talent?

An intensive training programme, especially at the management level. We have financed and imposed studies and postgraduate levels for those at the management level.

What profile do you think that the people who work in your company will have five years from now? What type of people will your business demand and how will they be different from the type of people that your business demands today?

The profile of people five years from now will be people who are young, creative and entrepreneurial with a post-graduate education in executive positions. The differences between the future and current profiles are probably the formal education level and age.

Do you believe that the education system is a limiter for obtaining the quality of personnel necessary for competitiveness? What things can your company do to overcome this obstacle?

Without doubt the quality of the education system is a very serious limiting factor. The company can respond with internal training.

What do you think will be the main changes that your company will undergo in the next five years?

The company will look more to markets abroad, will give more importance to marketing activities and will offer new products closely following the needs of the consumer.

Is your company prepared for these changes? How do you look to make your company more flexible, more able to adapt to these changes?

Yes. The changes correspond to a long term strategic plan.

How do you perceive the flexibility and adaptability to change of the companies in your country in comparison with multinational companies?

National companies have fewer resources for adapting easily to changes in comparison with multinationals. Nevertheless, they have demonstrated great flexibility in the face of challenges, as has been the choice to work with the dollar which is a type of fixed exchange, and the dynamic force against the competition of imported products, as a consequence of the constant lowering of tariffs.

Region

If your company is expanding in the region, what do you see as the main obstacles in the expansion process?

In spite of the general tendency to reduce tariff barriers and to facilitate the expansion of economic activity, there is still protectionist attitude against regional investment and, often, the commercial difficulties due to competition or prices become retaliations to supposedly favour the national over the foreign and serve the politicians more than true, healthy economic growth.

How would you evaluate the quality of infrastructure in your country? Is it an obstacle for business competitiveness?

The high costs of electricity, the bureaucratic complications, the lack of understanding of the times and dynamism of productive activities, for example, when you need licenses to import raw material that is not available in the country, this results in a loss of competitiveness. In the case of Ecuador, the main question is energy and the second is a clear, long term alliance between the public and private sectors for economic growth and the creation of jobs.

Do you believe that the participation of private capital through PPP schemes would be important for the improvement of infrastructure in your country?

In many cases, and in theory, the arrangement could serve for this end, but the worry of the businessmen is the consequent politisation of business that could be generated from these alliances.

What do you think about the efforts of the State to improve competitiveness and stimulate entrepreneurial activity? Are they moving in the right direction?

Ecuador is in a moment of transition where the rules of the game have still not been defined, so it will be necessary to wait a while before having a clear reply to this question.

Is there an entrepreneurial incentive programme in your country?

I am aware of various programmes in Ecuador that are mainly promoted by regional governments. Nevertheless, there is still little done to support entrepreneurs.



Gloria Ortega

CEO of TELECEL
Paraguay

Since the start of its operations more than 15 years ago, Telecel S.A. has been Paraguay's pioneer and leading company in mobile telephony. At present, it offers the most extensive coverage and service quality available mainly under the Tigo brand. Telecel S.A. and Tigo belong to the same multinational group, Millicom International Cellular S.A. (MIC). The Tigo community has more than 13 million users in 16 countries in Latin America, Africa and Asia.

Our interview took place with Gloria Ortega de Arza, CEO for Paraguay and Senegal, responsible now for replicating in the Senegalese market the successful business model implemented in Paraguay.

Connectivity

The world is increasingly interconnected. To what extent do you feel that your company is exposed to risks or trends that did not affect it before or that affected it to lesser extent?

This is a very interesting question. Ten years ago I was the educational and training director at IBM and I used to give a course called “Trends of the Future”. During this course, I claimed that within five years a computer without connectivity would be just as useless as a disconnected telephone. It was at a time when PCs were used for transactional processing via local terminals and people did not understand why it would be indispensable for computers to be interconnected. Today it is completely unthinkable that an office would be able to work with computers which are not interconnected. The truth is that, in only a few years, things have completely changed. If a company does not remain alert and is unable to predict radical change in its environment, it could suffer serious consequences. That is why today, rather than analysing isolated risks, companies have to monitor all fronts on a

permanent basis; regulatory, ecological, competitive, legal, etc. to identify those which could bring about change in their environment and which could have a significant impact on their results. Today, companies are exposed to change in their business models by events which they are obliged to forecast using mechanisms for prevention and analysis.

Do you think there are risks or opportunities that the business community in your country still has not fully internalised?

The freeing up of the economy in Paraguay has brought about enormous change in the business community, since today only successful companies can survive and to achieve this success they have to learn to observe and try to anticipate change and negotiate with the influential players in their environment. That is why companies are especially watchful of trends, risks and opportunities.

Specifically, I think there are a lot of opportunities both for Paraguayan companies and individuals in Paraguay. For companies I can see opportunities in the technology area, in software system

development. The level of technology degree graduates in Paraguay is good and there are a number of companies taking advantage of this talent to export software and achieve world class efficiency levels in this area. I am talking about people who get together and form small companies, selling client-server technology developments. For example, there are already a number of Paraguayan companies offering software to multinational companies on a global basis in multiple languages adapted to the local needs of each country.

For those Paraguayans who are qualified and eager to achieve international success, I also see innumerable opportunities. Our case (Telecel) is a good example: at present we have 24 Paraguayans in different international Millicom operations, occupying management positions, replicating good practices and transferring their experience built up in Paraguay. I myself am one of those cases, at the moment, I am working for the Senegal operation.

Collaboration

Today, many pioneering companies are focusing on collaboration as a way of producing competitive advantage. What meaning or importance does the concept of collaboration have for your business today and how does it affect or how will it affect your company?

Clearly, key knowledge factors have to remain inside the company, but it is also clear to us that there is a part of the value chain whose center and knowledge does not necessarily have to be inside the company and that is why we have an aggressive approach of developing associations which allows us to collaborate and share knowledge with associates to achieve business models which are successful for both parties. We ourselves are completely open to people who invite us to take part in new business using telephones as a tool. A clear example of this is our cooperation with companies developing value-added software in mobile telephony for us. These companies bring us their ideas and knowledge and we work together providing a channel to turn them into value-added solutions for our customers. There is also a vast amount of valuable knowledge outside Telecel relating to the different uses of mobile phones

which require new services and software developed by us in conjunction with other companies and which can be integrated with our customer solutions.

What is more, this represents an important opportunity for the companies cooperating with us. For example, one of the companies which develops value-added solutions for mobile telephony created a very effective messaging system, with high transactional results per second which together with a full understanding of the customer's activities, achieved success not only in Paraguay but also in other countries, including Africa.

Do you think there is a trend in Paraguay towards adopting more collaborative business models or is it still too premature?

Today, many companies still think that knowledge should not be shared. Among the companies I know that have designed and implemented collaborative models, I know of none that have failed. I have witnessed collaborative business in banks, insurance companies and laboratories, but I still think it is a slow process today although I can see it happening more in the medium term.

Regulation

In what measure do you feel that regulation is an important factor when considering your strategic decisions?

What usually happens in most sectors is that technology advances at a much faster pace than regulation. Mobile phone companies issue billions of invoices and our dream is to issue these invoices electronically. We know that this method is more efficient and secure and we are working together with the authorities to adapt the regulation to include the facilities offered today by leading edge technology. Today, there are technically feasible processes which cannot be put into place through the lack of legal provision. I think this happens all over the world and it is our responsibility as companies to create the framework necessary to ensure that regulation keeps abreast of the process of technology innovation permitting maximum efficiency both in companies and the related regulatory controls.

However, in general, regulation in Paraguay seems fairly predictable which means that the regulatory agencies work to inform the markets of their intentions, communicating and receiving

suggestions and comments from those most affected, as well as establishing a consensual implementation schedule. I often think that it is not so much the type of regulation but the way in which it is introduced that is important because this allows the companies to project the impact and make the appropriate adaptations. Consequently, I do not think regulation is a major obstacle to business carried out by companies in Paraguay.

People and change

In our last survey with CEOs it was clear that the scarcity of talent and qualified personnel is a growing problem and cause for concern. Is this presently a problem that is a priority for your company?

It is a significant problem for us. The key combination of talents in this business consists of knowledge, capacity to learn and positive attitude, the latter two of which are the most important. It is not easy to find people with this talent mix. Technology changes so fast nowadays that experience in technology is no longer so essential, more important is the capacity to learn and a curious mind, keen to learn new things, collaborating and sharing knowledge with others. We can make up for the lack of experience by

on the job training, distance learning via internet, manuals, etc. But if we can not find people with this mix of attitude and learning capacity, we are severely limited.

What initiatives have you put into place to minimise this problem?

We are constantly seeking new talent, identifying high potential people in our organisation early in their careers with us. Once they have been identified, these employees receive ongoing training and are allocated to special projects where they can demonstrate their potential. For example, in Paraguay, we had a colleague working in the call center who was finishing her degree in information technology; she was identified as a high potential person and was given the opportunity to take part in projects outside of her normal working environment and today she is in charge of a global implementation project for a new software of the company.

We have put into place other initiatives designed to motivate our people, explore their creativity, seek out new work methods and generate more effective results. For example, we are now putting an “open office” policy into place,

whereby nobody works in a closed space and we are all together in one large room where we can see each other and interact more easily. We are against e-mails which copy everybody and in favour of one to one conversations, setting up teams spontaneously without restricting the decision-making process with red tape.

Region

How would you evaluate the quality of infrastructure in your country? Is it an obstacle for business competitiveness?

Paraguay has improved its infrastructure enormously but there is still a key factor missing, private access to the international internet cable connection, at present a monopoly run by the state-owned incumbent. This means that when the system crashes we lose our connection to the internet and are isolated from the rest of the world. This situation restricts much of our online business and processes. For example, it means we can not book air tickets online and companies whose servers are outside of the country are frequently left without a connection, etc. all in all, jeopardising an enormous volume of business transactions which are carried out today via internet.



Oscar Espinosa Bedoya

Chairman of Ferreyros
Peru

Ferreyros is Peru's leading company in the commercialization of capital goods. It has been Caterpillar's representative for 65 years and with the addition of other brands, the company now has a comprehensive portfolio enabling it to supply diverse economic sectors, including the mining, construction, power, agriculture, fishing and transport areas, among others. Oscar Espinosa Bedoya was appointed CEO at Ferreyros in 1983, and recently Chairman of the board. During his time in office the company has experienced a number of important changes. For example, Ferreyros was one of the pioneers in establishing good corporate governance practices in Peru, as well as developing a commercial offer which transcends the mere sale of machinery and ranges from financing to after-sales solutions and services designed to meet the needs of each customer.

Connectivity

The world is increasingly interconnected. How does this affect your company in practice?

The world is advancing, cutting down the distances between countries and new dimensions are emerging in business, increasing its complexity. As markets become integrated, customers take on an international dimension creating a demand for goods and services which must be met with the same standards as those the customers are used to receiving in more developed countries. Financial markets are also becoming more integrated, which is a significant factor for companies like ours. In general, the greater interdependence between economies does have an effect on us but not necessarily a negative one. After all, at the same time opportunities arise from which we can take advantage, risks also appear and must be mitigated. For example, the explosive growth in China has different effects, which range from the opportunities offered to the producers of raw materials, served by our company to the growing demand for machinery and equipment to meet this demand, exerting

pressure on the factories and as a result on supply. However, at the same time this gives us an opportunity for increasing our company's sales and our growth. Finally, greater connectivity produces a concrete opportunity for effectively integrating our customers' value chain, giving us an incentive to develop comprehensive solutions with greater added value.

How do you react to this greater complexity and the increased risks?

I am sure that the companies use a number of different means. For us, it has been important to invest in sophisticating and increasing the efficiency of our risk management area. This is a very important matter and about which we learned an important lesson in the past, when a sudden economic crisis left us with high inventory levels and landed us in a difficult financial position. To avoid a repeat of this situation, we have put into place an integrated risk management system which covers from global risks such as an international economic recession, to very specific risks such as the lack of qualified personnel. Our risk management area has assumed the responsibility for identifying and mapping the main risks and preparing risk mitigation actions. For this, we are

now using rigorous methodology such as Six Sigma, among others.

Another way of responding to this greater complexity is to identify the opportunities arising as a result of connectivity. To counter the risk of the shortage of supplies, connectivity can be used to immediately locate in which countries the machinery we require is available and we can then place our orders immediately. In the same way, if the investment projects in Peru begin to dry up, we can locate distributors in other parts of the world which need machinery and subsequently export our excess inventories.

What risks concern you most?

In the medium term, our greatest concern is an economic recession, i.e. the end of the bonanza. We must protect ourselves and ensure that we are not taken by surprise. Today, given our market position, we are under considerable pressure to offer goods and services which require increased inventories and more people and this could cause serious problems if there were to be a general recession tomorrow and investments projects are cancelled.

In the short term, our main worry is how to secure qualified personnel. More than 1,000 mechanics work at our company and given the level of our after-sales service, we still need more highly qualified people.

How concerned are you about the global warming phenomenon? Do you believe it will have any direct or indirect impact on your business?

Yes, we are concerned, both as responsible citizens and as a company that values social responsibility. After all, selling machinery which runs on diesel oil means that we have to be particularly careful, although we do feel that we are at the vanguard as regards this matter. Caterpillar has developed the best clean fuel technologies. They spent five years studying how to reduce carbon emissions in diesel engines and developed an engine which is revolutionary. Two years ago they began introducing this engine into their machines. We could be affected by new regulation and that is why we are looking ahead and I am sure that in a world of clean fuel we would have an important competitive edge.

Are the new risks you face driving you to make changes in your company? How do you deal with these changes and innovation?

Change is ongoing in our company, as it is in the majority of companies who need to survive and grow. Sometimes you have to accelerate these changes to face specific situations or introduce innovations. We are constantly renewing our products and services, motivated chiefly by the technology improvements in machinery. Additionally, in terms of management, the changes in our company are supported by important innovations such as the adoption of Six Sigma project management methodology and EVA (Economic Value Added) methodology to measure efficiency and the creation of value of each manager and each business unit.

Collaboration

Today, many pioneering companies are focusing on collaboration as a way of producing competitive advantage. What meaning or importance does the concept of collaboration have for your business today and how does it affect or how will it affect your company?

For us, cooperation on all fronts is vital, for example, our relationship with Caterpillar is extremely close. We try to repeat this relationship with our customers. A few years ago, we began developing a service philosophy centered on customer satisfaction and this includes highly collaborative behaviour, to the extent that today we do things which would have been unimaginable before. Based on the assumption that our objective is to increase our customers' productivity, we believe that we should do everything possible to ensure that these customers achieve success, including, for example, repairing machinery made by competitors. In the same spirit that we offer value-added after-sales services, we also offer other services in financing, logistics and others. In order to do this, you need to have a collaborative attitude with your customers which allows you to increase your understanding of their problems and adapt your solutions accordingly.

There are other areas in which we promote collaboration among the different agents, including our competitors and trade unions to implement greater social responsibility and the professional training schools to improve the training of mechanics, etc.

Where do you see the greatest opportunities for beneficial collaboration for your company?

Collaboration with our customers. At present, we are focused on managing customer relationships as a distinguishing feature of our company. We want to be strategic partners allied with our customers and to train our people to think and feel like those customers. As a result, we need to work together, share information and know each other well and this can only be achieved through collaboration. As I mentioned before, our collaborative attitude transcends the after-sales service areas. For example, when a foreign company set up its operations here in Peru, we helped that company in terms of human resources, local legal and commercial requirements, etc. We also give assistance to other companies interested in implementing Six Sigma methodology and whom we have helped by recounting our experience with this system. Finally, we have started working with certain customers on projects for ongoing improvement. By adopting a collaborative attitude we can resolve problems together, we can gain a better understanding of our customers and we can improve and develop our services.

People

You mention that you are concerned about the lack of qualified personnel. What level concerns you most and how are you dealing with this matter?

All levels concern us, but especially the technical level. Six years ago, we had around 400 mechanics and today we have more than 1,000. This is a very rapid expansion for a market like Peru, especially when you consider that technical personnel, require not only theoretical but also practical on the job training to ensure that they are able to work efficiently and resolve the problems.

To deal with this situation we have invested heavily in capability building and training. We have just recruited a large group of mechanics who are now undergoing intensive training over a number of weeks, before qualifying to be able to attend customers. On the other hand, we also help prestigious technical training schools to develop programmes which are specially focused on our needs.

Do you believe that the education system is a limiter for obtaining the quality of personnel necessary for competitiveness?

Yes, it is a limiting factor, but it has not affected us too badly because we recruit from the top of the pyramid, securing the best students from the best schools. However, if this growth continues, we might have problems with the quality of the technical personnel. For the moment we are very satisfied with our personnel and we recently received a certificate of excellence for our workshops from Caterpillar, which very few representatives in Latin America have received.

Regulation and competitiveness

To what extent does regulation limit or affect your business?

We have not had any major problems with regulatory agencies. The regulator with whom we have most contact is that responsible for the stock market, which is doing a good job. On the other hand, the tax authorities are very demanding and sometimes we have to give very detailed explanations of how our business

works to clarify certain transactions, which is very time consuming. However, we consider this is something which is inevitable.

In general, I think there should be very good regulators, a large number of private companies and little or no business activity carried out by the State. The regulators should have ample autonomy, staff with an excellent academic track record and appropriate salaries. This is the only way to ensure that they are both competent and honest and that they can supervise market activities efficiently.

What other business factors do you think affect competitiveness?

The most important factors are those related to infrastructure and excessive labour costs. The lack of an adequate transport infrastructure is also a serious obstacle to business activity. The dire state of the country's ports imposes additional costs and restricts foreign trade. Fortunately, the authorities are now working to resolve these problems. The other major limiting factor is the excessive cost of labour which poses a serious problem especially for small companies.



Matias Campiani

CEO of PLUNA
Uruguay

PLUNA, the Uruguayan state-owned airline, now has a private shareholder: Leadgate. And although the government is still very much involved, the new investor partner has been given the task of transforming the Company. Matias Campiani, investor and now PLUNA's CEO has taken up this challenge. He knows that a different position and new management is not enough; history must be changed, a new labour culture must be forged allowing the Company to offer high quality and reliable services. PLUNA is preparing to leave behind its crushing history of loss and in five years time expects to turn Montevideo into a regional hub, connecting secondary cities, within a radius of 3 to 6 hours flying time, to the region's main cities and to the world.

Connectivity

The world is increasingly interconnected. The U.S. real estate crisis and its financial impact are threatening world economies. The international business community, according to the findings of our worldwide survey, seems more pessimistic. However, the situation in Latin America, Eastern Europe, Asia and the Pacific is more encouraging. How do you see things from your viewpoint? Is this crisis affecting you or does distance afford some kind of protection?

Interconnectivity is a fact. We are part of a global economy and we cannot ignore this reality. If there is a recession in the U.S. it will affect the whole world...

Our region is experiencing a boom in commodities but we have to prepare for what is to come because, in reality, it is already having an effect on us. Companies seeking credit will find that the situation has changed.

From a regional standpoint, our perspective is very insular and, as result, we might not be preparing ourselves properly for what we know is coming. Whether we like it or not, it is going to affect us.

In order to face up to this situation in the best way possible, we need to optimise our cost structure. We must ensure that our cost basis is as low as possible to achieve the flexibility required to cope with the impact of lower sales revenues, or the price cuts designed to attract more sales. We need to monitor the cost basis and start preparing ourselves, so that rather than be taken by surprise by recession, we are sufficiently organised to react with intelligent answers.

How can this be reconciled with an innovative internal strategy and environment?

They are independent. Innovation, which is an essential factor for every company must continue. Our sector is committed to developing processes which allow us to offer the best services with maximum economy. From the moment you first think about travelling until you arrive at your final destination, there are innumerable processes which do not add value and which should be eliminated to provide a more efficient value chain. As a result, we need to resort to innovation, simplicity and reliability.

Collaboration

In terms of the relationship formed as a result of the development of a business network, what levels of integration and commitment are there between the players?

In our sector, we have a strong network formed with the competition. The reason for this is our mutual interest in lowering costs and increasing safety standards, because what benefits our sector as a whole will benefit all of us individually: increased quality and lower prices stimulate greater traffic and as a result we all fly more.

Ours is a sector which learns fast. Each accident, every error is studied to ensure that it does not happen again in the future and serves as a basis for introducing new shared protocols, which establish higher levels of safety and reliability. Basically, it means defining best practices.

Could you please tell us about your experience with local suppliers?

We have two types of negotiation here. The first in which the airline has to choose the aircraft model it wants to use. These negotiations are tough, you have to have two options and take care not to damage

the shared interests arising once the deal has been done.

As regards the second, in this sector we look not so much for suppliers but for partners, with whom we can develop a long-term relationship, integrating them with our processes, increasing their efficiency and making them a part of our customer relationship strategy. And that is why I stress that we have to have a low cost structure. By integrating our processes with those of our suppliers, we can work together eliminating expenses which do not add value.

[How do you think that the Uruguayan business community is reacting to this phenomenon? Do they regard it as a good thing or with misgivings?](#)

I think they still see this type of cooperation with certain misgivings. They are reluctant to open up, to provide access to their plants and to integrate suppliers with their corporate value chain.

PLUNA now requires its suppliers to conduct audits in accordance with IATA-IOSA standards to provide assurance regarding their process quality; 158

in all. Each supplier received specific manuals instructing them how to offer their services or products, informing them about company requirements and controls so that they understand PLUNA's needs.

Regulation

[Previous worldwide surveys carried out by PwC revealed considerable concern by CEOs in South America regarding what they see as excess regulation. Which is the regulatory area that concerns you most?](#)

Our sector is over-regulated. We are regulated by the Aeronautical Code and Uruguayan Aeronautical Regulations (RAU). All cabin crew at PLUNA must be Uruguayan and resident in the country. This restricts the management and development of our human resources policy. For example, this rule means that we are obliged to send out an additional crew member on every flight in case someone gets sick.

There are other barriers too. There is no open skies policy in place in MERCOSUR, the southern cone common market. It is

extremely difficult to obtain a license to fly to other countries or for our aircraft to be based in other countries. This is a problem for PLUNA because we have a number of destinations outside of Uruguay.

[Could you please tell us about PLUNA's relationship with the government? Tell us about your experience, the cooperation and confrontation resulting from this mutual knowledge process which began in 2007.](#)

Today, our relationship is undoubtedly one of considerable cooperation and understanding. We are aware of each other's responsibilities and obligations and today the government is more of a partner rather than, as it was in the beginning, an obstacle to development.

People and change

[You mentioned a topic which is on the agenda of all CEOs, the need to secure and retain talent, which requires actions and strategies designed to offer attractive wages and a competitive and friendly work environment. How do you live this at PLUNA?](#)

There are two aspects involved: one, attracting talent and the other, change. Investing in people is vital. They make the difference and that is why I would never skimp on attracting the best people for PLUNA. It is certainly worth it from a cost/benefit standpoint.

In our sector it is very difficult to attract new talent. We are the only airline based in Uruguay so we are unable to hire locally developed talent. In the regional context, we are a very small airline in a highly complex environment. We need to attract people who understand the significance of what we are doing, people who have experienced a transformation process giving them greater depth.

We look for people from Chile, Mexico, Panama and even Australia. Because of the specific work requirements. It has not been easy and we still have not been able to hire all the staff we need.

To attract staff, we offer the following arguments: one, the quality of life in Uruguay. And two, not just the salary, but our stock option plan which helps to secure a successful commitment.

As for change, I can tell you that this is PLUNA's greatest challenge. We began by setting down our vision and our mission. We drew up our business plan and then defined the strategic pillars for 2008. The basis is a cultural change programme which will serve as a tool for our people to attain their targets. Experience has shown me that you have to invest in and support the change process to prevent the return to old habits after the initial drive.

The cultural change programme involves three dimensions: people, processes and communication.

The first change is individual. You have to break down paradigms, show clearly that decisions will be taken, that errors may occur and that they will be corrected.

The second dimension involves our processes. They must be reviewed and made simpler and more efficient. You have to be careful not to become obsolete. Technology must be replaced, processes changed and new services introduced. If you do not do it, your competitors will.

The third dimension is communication, which for us is a significant problem. This change must be backed up by ample information which is disseminated at ground level through a top-bottom and bottom-top and even lateral process.

How does PLUNA see itself five years from now? What human resources will be required and where and how will they be trained?

Five years from now, I can see Montevideo as a regional hub, connecting secondary cities within a radius of 3 to 6 hours flying time to major cities throughout the region and the rest of the world. This is the model we are pursuing. And also the innovation introduced by us. Up till now PLUNA has always been a point-to-point airline. PLUNA has tried all routes and none worked because there just is not enough traffic.

As a result, we plan to give people connectivity. We have studied the market and we see this is a great opportunity for us, as well as a challenge considering the current situation at Aeroparque and Ezeiza. We can close the gap between these two points: we can bring them to Montevideo and connect them from here.

But to make this happen you have to be reliable, credible.

Yes, that is first and foremost. And that is why our value proposal has three pillars: the first of which is reliability. This is all about operational safety and service consistency and punctuality. In order to make this work, all our processes need to be reviewed.

The second pillar supporting our value proposition is simplicity which works hand in hand with quality, our third pillar. The human factor is essential; we transport people and as such we must recognise and be recognised for our quality. A journey always provokes strong feelings. A good organisational climate is immediately felt by passengers and produces a calm environment.

Region

What stands in the way of the development of your business today?

Besides the price of fuel, the current regulatory framework puts an important brake on progress. But this problem is not exclusive to Uruguay, it happens all over Latin America.

The countries in our region protect their skies, their domestic airlines and there is no opening for non-national enterprises. We need to devise an open skies policy for the MERCOSUR countries and Chile.

Another major problem is access to capital. At present, financing is scarce and it is very difficult to obtain credit. And out of this problem comes another: the risk of recession. This could pose a risk to our business plan.

How would you evaluate the quality of infrastructure in your country?

It is bad today but it will be excellent in the future. However, the greatest challenge in 2008 will be to interconnect people from the current terminal. We are working together with Carrasco International Airport to optimise the system. The challenge for 2008 will be to achieve an interim situation with the old Terminal.

In addition, the government is receiving consultations from foreign airlines who want to operate in Uruguay. The government is managing the situation well. Introducing change gradually,

gives PLUNA the time to strengthen and become self sufficient, without neglecting regional integration through connectivity with other countries.

On a final note, has Leadgate channeled all of its energy into PLUNA or is it looking for new investment opportunities?

At the moment, all of our energy is concentrated in PLUNA, which has never been profitable. It is very important for Leadgate that PLUNA achieves success.

Our strength lies not in capital but in management. What we do is combine capital with talent. Our objective is to make this company profitable and that is why we are committed from the start to achieve this objective.

For more information, go to: pwc.com/southamericanceosurvey

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