

3rd South American Edition of the 9th Annual Global CEO Survey

Globalization and Complexity in a challenging environment*



This is the third edition of PricewaterhouseCoopers South American CEO Survey, derived from our global CEO survey, now in its 9th edition.



We have the pleasure of presenting our 3rd South American edition of the 9th Annual Global Survey. This particular issue covers not only the South American perspective of our global survey, but also includes an interesting focused approach on the so-called BRICs (Brazil, Russia, India and China) considered to be emerging economic powers. Possibly the most interesting aspect of this survey is that it indicates that whilst South America is progressively viewing globalization as an opportunity rather than a threat, it also indicates that we in South America need to make profound changes if we wish to capture some of the opportunities.

Take for instance Brazil, vis a vis the other BRIC countries, because it enables us to draw some conclusions which are valid for the whole of the region as regards competing for foreign direct investment. As shown on page 15 Brazil is only clearly competitive regarding the interest of foreign investors in accessing existing and future customers. Unfortunately, that doesn't mean too much because the size of the investments to be made in China and India to access new customers in those countries is going to be multiples of the investment to be made in Brazil. If Brazil wishes to dispute a larger share of investments, it will need to capture it from the other BRICs countries and will have to be competitive beyond a mere offering of a customer base. The fact that India shows 3 times more appeal than Brazil in the item "Access to a high skilled talent pool" (China shows 2 times) gives an idea of the size of the challenge we have ahead on the education front.

I have stressed and will stress again my firm belief that if we in South America do not promote a true "revolution" on the educational front, we will not only lose the new opportunities presented by globalization, but we are more than likely to slide back in relative terms vis a vis other emerging regions which are far ahead of us on this front. If we do not progress fast in educating our citizens we will be threatening the sustainability of what we have already achieved. It is as simple as that.

To become more competitive in our region and be able to secure a larger share of FDI, besides the previously mentioned priority regarding education, we need to boost the effectiveness of the State. We need to move from the concept of the State as an end in itself to one of the State as a means. One focused on delivering justice, safety, sound public policies, health and education. One that, through reducing corruption and non-core costs and expanding the tax basis through economic inclusion, would result in a lower tax burden per capita, greater returns on expenditure and still enhance its fiscal soundness. It is amazing to see how "The Survey" clearly lays down the basis for what could be a sound regional "consensus" around principles for boosting the integration and progress of South America in this new world of global opportunities. Just this aspect makes us very proud to be able to share this Survey with you.

Luis Eduardo Frisoni Junior
Chief Executive Officer
PricewaterhouseCoopers, South and Central America

Table of Contents

- 5 The inexorability of globalization
 - 8 South American CEOs

- 11 The BRIC countries (Brazil, Russia, India and China)
 - 14 China
 - 15 Brazil
 - 16 India and Russia
 - 17 BRICs view of themselves
 - 18 The inevitability of complexity
 - 21 External drivers
 - 22 Internal drivers
 - 23 Managing Complexity

- 27 Looking Inward
 - 28 Getting out of the way of business development in South America
 - 29 Foreign Investors
 - 30 Talking about clarity

- 33 In depth (inter)views from around the region
 - 35 Argentina
 - 41 Bolivia
 - 47 Brazil
 - 57 Chile
 - 63 Colombia
 - 69 Ecuador
 - 75 Paraguay
 - 81 Peru
 - 87 Uruguay





South American survey participants and method

The Global CEO survey is based on 1,410 interviews with CEOs from all over the world.

This regional report, derived from the Global one, is based on 301 interviews with CEOs in all South American countries, conducted between September and November 2005.

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 60 interviews in Argentina, 4 in Bolivia, 79 in Brazil, 46 in Chile, 35 in Colombia, 11 in Ecuador, 9 in Paraguay, 30 in Peru, 6 in Uruguay and 21 in Venezuela. By broad industry grouping, 71% of the companies belong to the products sector (consumer and industrial manufacturers, distributors and retailers), 18% to financial services and 10% to telecommunications, technology and media.

In terms of profiling the participants, 32% of the South American respondent companies earn annual revenues in excess of US\$ 1 billion, 14% earn US\$ 500 million to US\$ 1 billion, 49% have revenues of less than US\$ 500 million and 5% offered no information.

32%

of the South American respondent companies earn annual revenues in excess of US\$ 1 billion



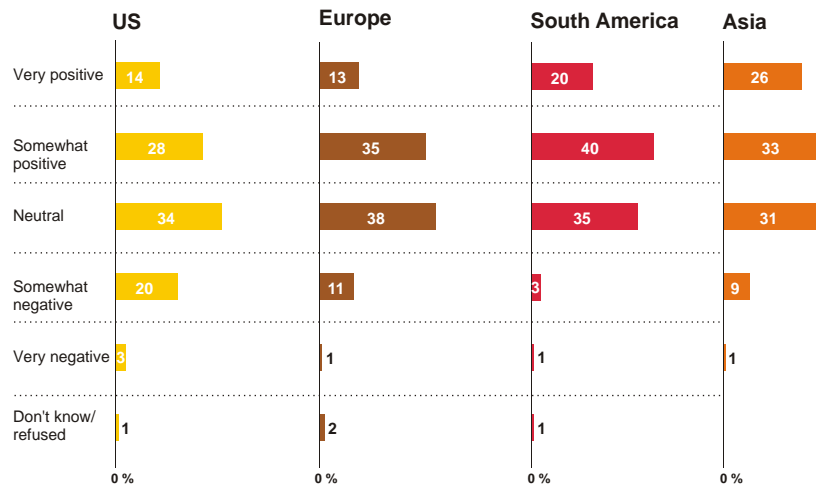
The inexorability of globalization

Whilst US and European CEOs surveyed appear lukewarm about the impact that globalization has brought in the last three years to their organizations, those in South America and Asia are significantly more enthusiastic, which is an interesting change from past paradigms.

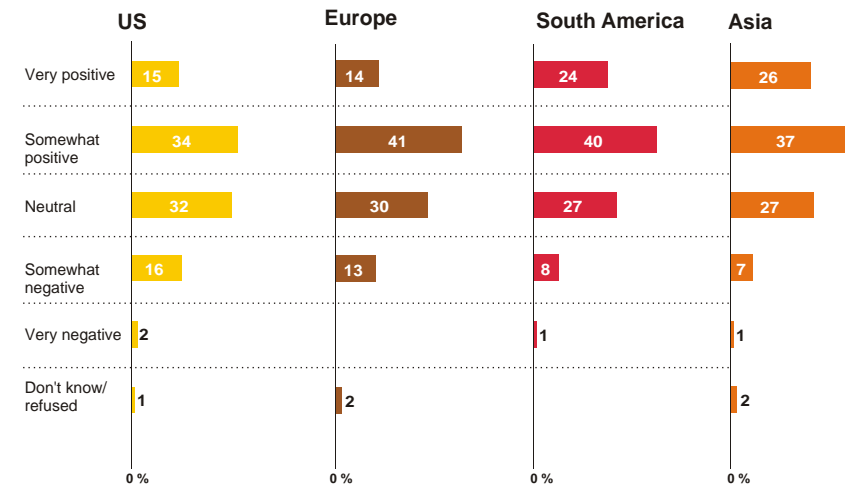
There does seem to have been a significant shift in thinking in two important aspects from the prevailing myths of the recent past: firstly, that globalization only serves the interest of large multinational corporations in developed countries.

CEOs from all regions are more positive as to their expectations about the impact of globalization in the next year.

What impact has globalization had on your organization in the last 3 years?



What impact will globalization have on your organization in the next year?



This feeling of optimism continues to pervade the CEOs view of the impact of globalization on their business in the three year horizon as well.

The second myth, that the rationale for globalization was driven in the vast majority of cases by a desire on the part of corporations in developed countries to reduce costs through access to lower cost labor, has now shifted to a new paradigm of accessing new customers or serving existing customers more adequately.

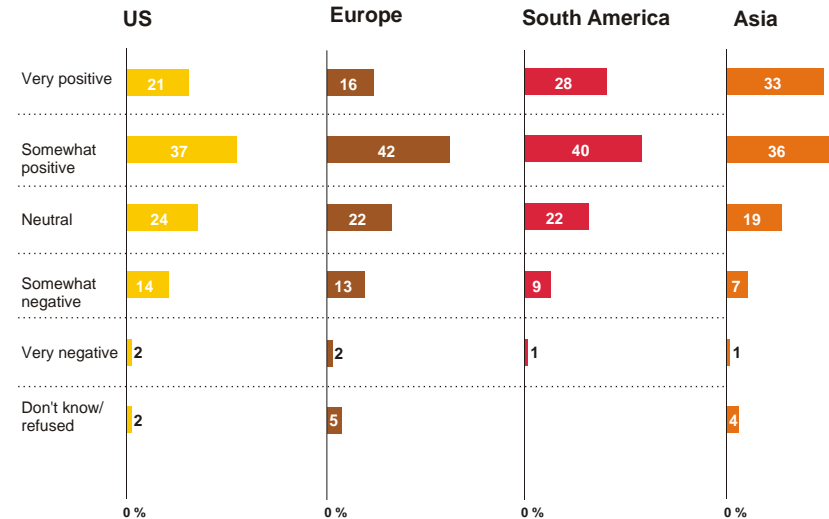
This tendency would appear to be driven by the perception of the emergence of improved consumer purchasing power and a new consumer class.

This provides opportunity to the BRIC countries and to the rest of the developing world to grow their own economies, and cease to be mere factories for a developed world.

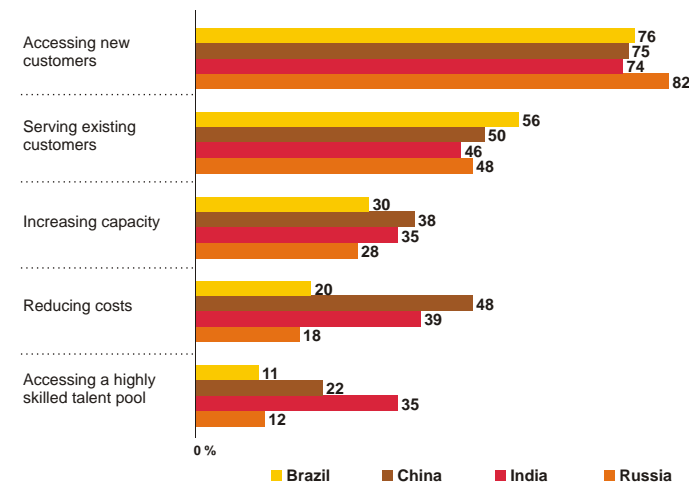
"Globalization is a reality and instead of analyzing if it is good or bad, what we should is get ready to face-up to it. This phenomenon also brings a window of opportunity and we have to work hard to use it to our advantage."

Armando Gumucio, SOBOCE, Bolivia

What impact will globalization have on your organization in the next 3 years?

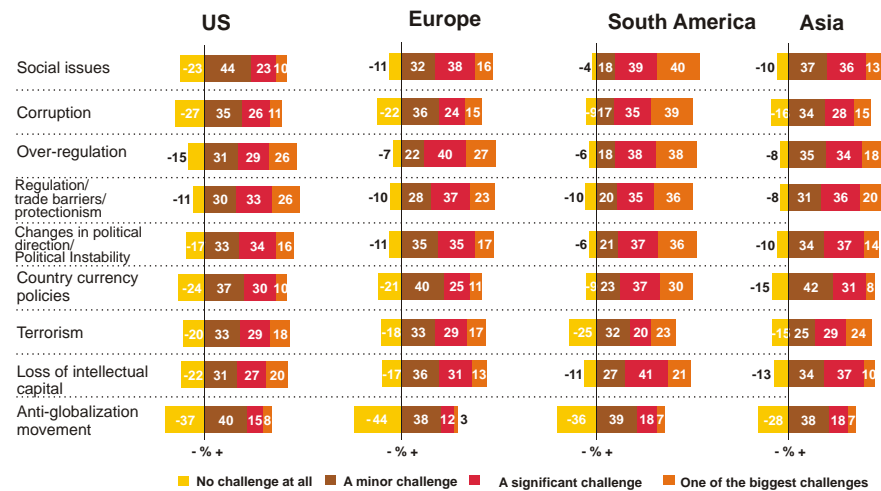


Which of the following business objectives are driving your decision to do business in...?



Base: All respondents, except Brazil, China, India and Russia (331-674)

How challenging do you consider the following to be in terms of globalization?



South American CEOs rate globalization as representing bigger challenges than the rest of the world by a wide margin.

CEOs in our region have a clear, standout concern in considering globalization issues to be greater challenges than CEOs in the other regions.

Of the nine categories of concern asked of CEOs, those in our region rated first in the "one of the biggest challenges" category in no less than seven. Social issues, corruption and over-regulation led the way, with some 40%, closely followed by trade barriers/protectionism, lack of political stability and further back, currency policies.

This evaluation indicates that fundamental issues of overriding importance still remain to be resolved in our region, despite the economic progress in most countries in the last year or two.

“It is necessary to understand that the world's industrial geography, in almost every sector, is being redesigned at this very moment.”

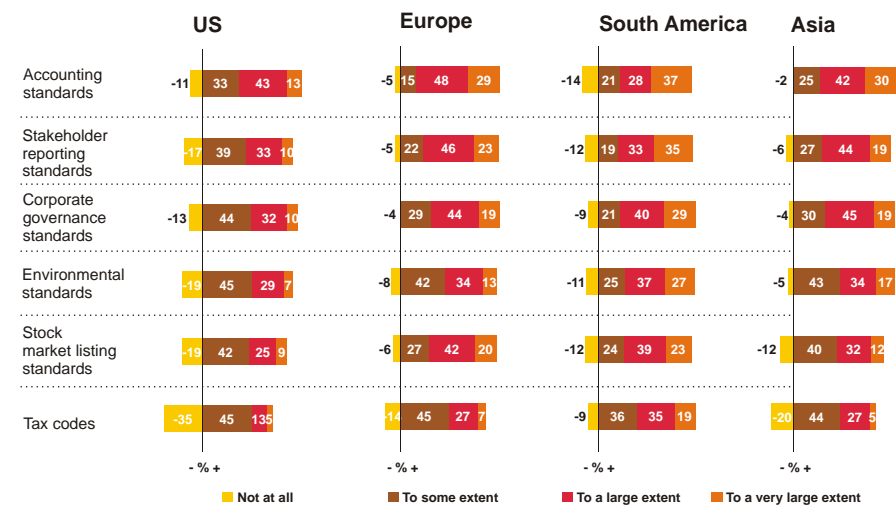
Eugenio Staub, Gradiente, Brazil

South American CEOs lead the way in the belief of convergence of standards driven by globalization.

Our region clearly believes to a far greater degree than the other regions in the world that globalization will lead to a convergence of standards across the board.

In the case of tax codes, this may be driven more by hope than realism, out of frustration with the complex tax structures that they perceive to exist around the region.

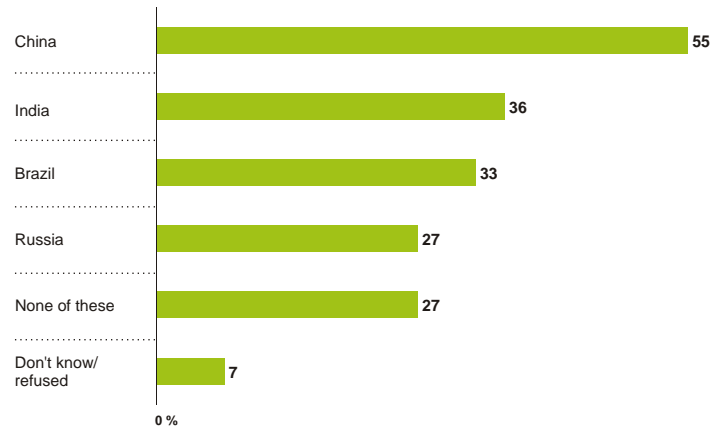
To what extent will globalization lead to a convergence of...?





The BRIC countries (Brazil, Russia, India and China)

Do you plan to do business in any of the following countries over the next 3 years?

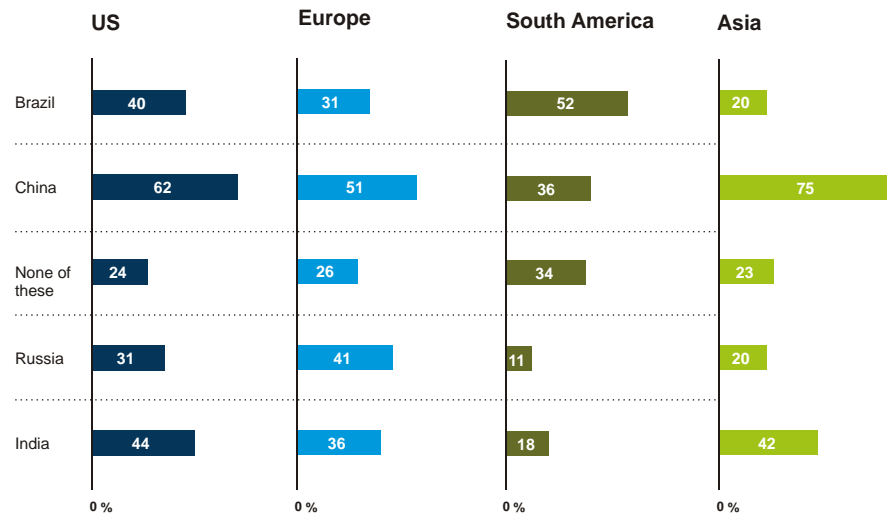


Base: All respondents, except Brazil, China, India and Russia (1220)

The survey also examines the growing economic power of four emerging economies (the BRICs) where companies are rapidly becoming outbound trading enterprises.

China leads the way, but unsurprisingly Brazil is the favorite among South American CEOs.

Do you plan to do business in any of the following countries over the next 3 years?

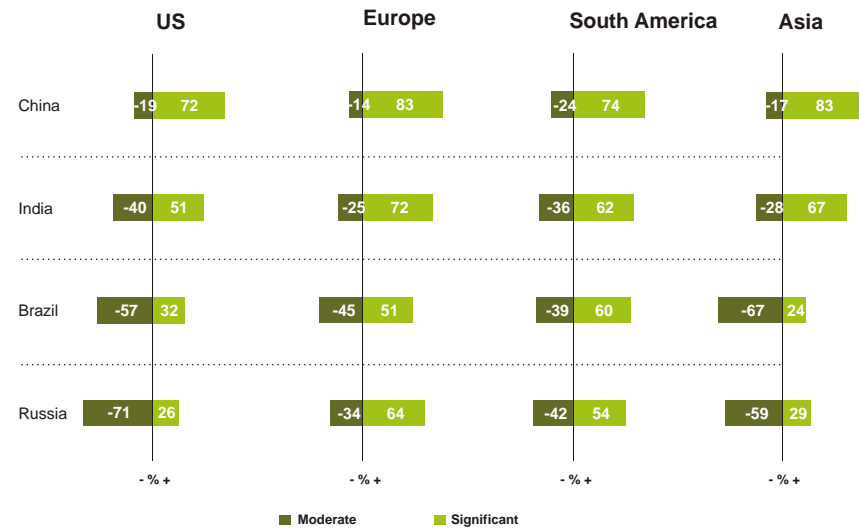


China is the leading emerging economy where CEOs plan to do business in the next three years. India and Brazil are a distant second.

There is a very strong “nearest neighbor” effect with regards to doing business in emerging economies where 52% of South American CEOs plan to do business in Brazil in the next 3 years compared with 36% in China.

Market opportunity is considered to be most significant in China, which is consistent across all geographic territories. The South American CEOs think that India (62%) and Brazil (60%) are the second best choices.

How would you describe the market opportunity in...?



62%

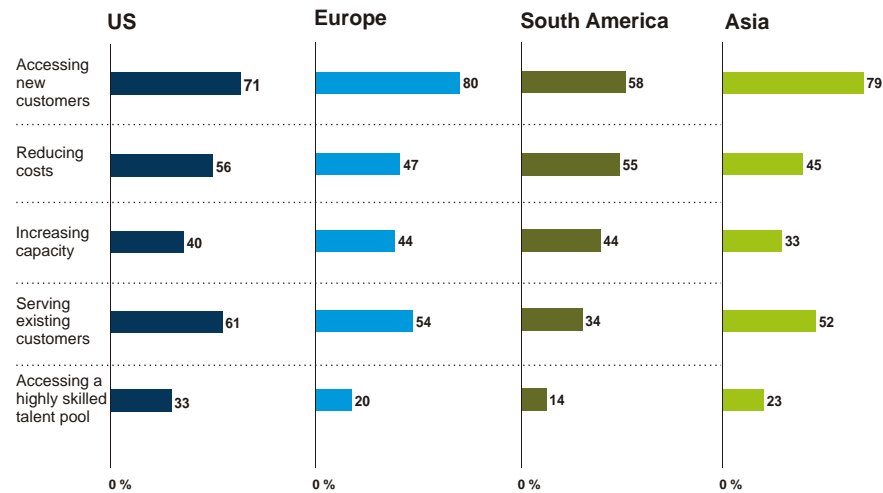
The South American CEOs think that India (62%) and Brazil (60%) are the second best choices.

China

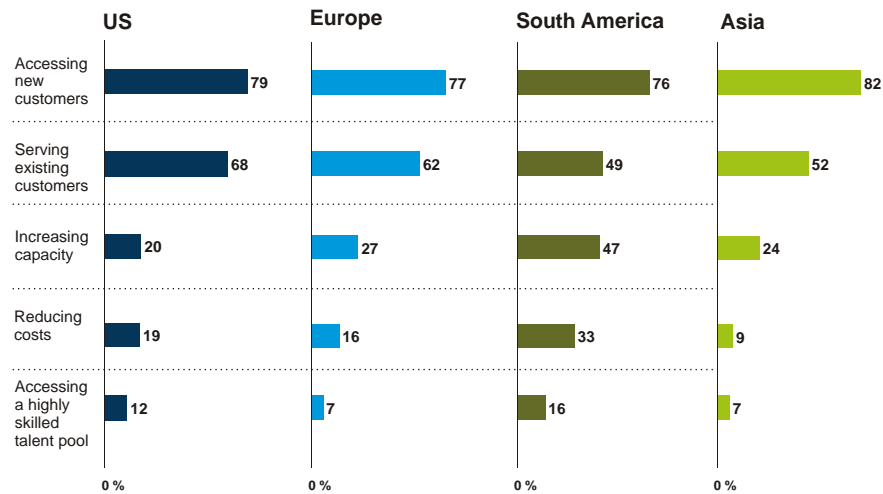
Doing business in China mainly results from a desire to access new customers, followed relatively closely by a desire to reduce costs, according to the South American CEOs.

The unusually low rating in “serving existing customers” probably derives from the current low customer base.

Which of the following business objectives are driving your decision to do business in China?



Which of the following business objectives are driving your decision to do business in Brazil?



Brazil

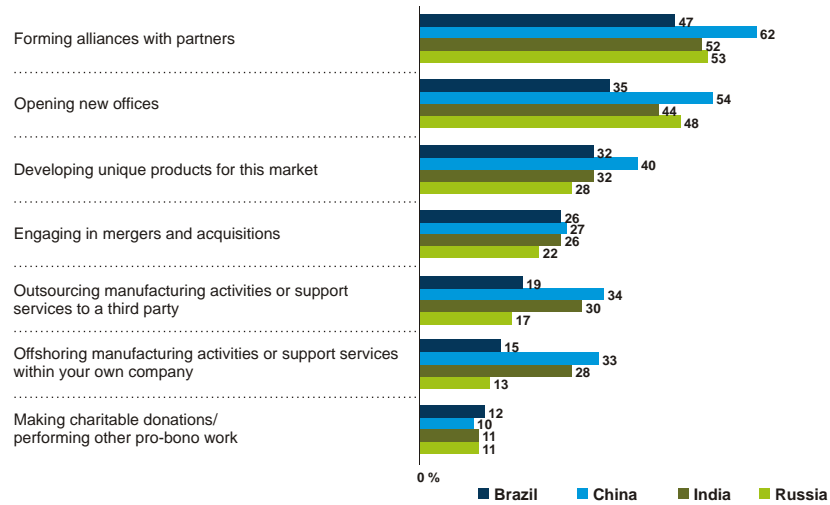
The principal reason for investing in Brazil is to access new customers, followed by the need to better serve the existing customer base. The need to serve existing customers in Brazil is the highest among the BRICs at 49%, next is China with 34%, and this result may well be influenced by the fact that many multinational companies already operate in the country and can envisage the potential advantages of a growing economy and consumer base.

Among the South American CEOs, increasing capacity was heavily cited as one of the objectives for doing business in Brazil. This almost certainly derives from the fact that Brazil is by far the largest consumer market in the region.

49%

The need to serve existing customers in Brazil is the highest among the BRICs at 49%, next is China with 34%.

Which of the following actions is your organization taking or planning to take in...?



Base: All respondents, except Brazil, China, India and Russia (331-674)

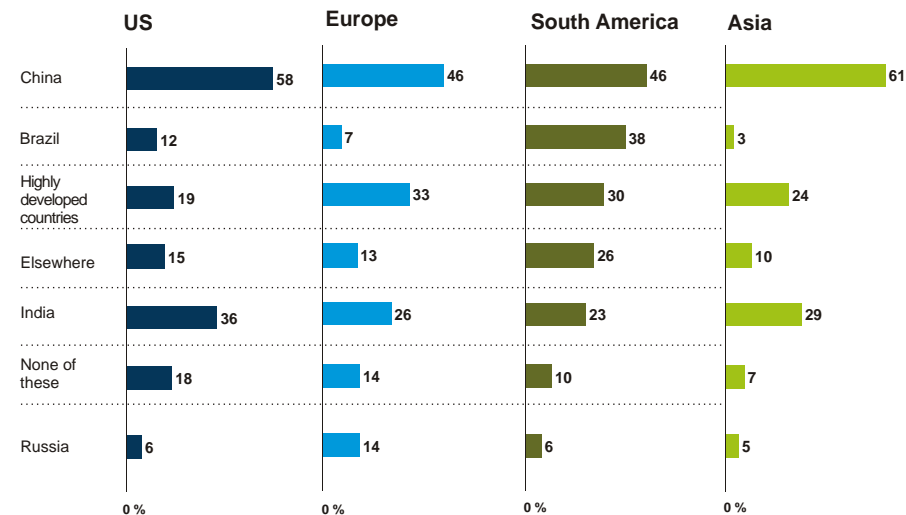
India and Russia

Accessing new customers is the main business motivation for doing business both in India and Russia expressed by the South American CEOs. Forming alliances with partners and opening new offices are the main actions that CEOs are taking/planning to take in emerging economies. And again, China leads the way. The vast majority of the CEOs prefer alliances with partners, understandably the sensible port of entry into lesser known environments, rather than engaging in mergers and acquisitions.

“The role of the CEO in managing complexity necessarily includes forming alliances with partners and learning from this experience, which is always complex.”

José Graña, Grupo Graña and Montero, Perú

From which countries do you expect significant new competitors to emerge in the next 3 years?



Base: All respondents, except Brazil, China, India and Russia (1200)

In the next three years, China is the place from which new competitors are expected to emerge. Similarly, China is also considered to be the biggest new competitor in the next three years by **South American CEOs (46%)** followed by **Brazil at 38%**. No other region in the world considers Brazil to become a serious competitor of any magnitude in this timeframe. This is curious given the emergence in recent years of a number of Brazilian companies expanding their operations both within and outside of South America. One example is Votorantim Industrial, whose managing director, Raul Calfat, was interviewed for the global edition of this year's CEO Survey.

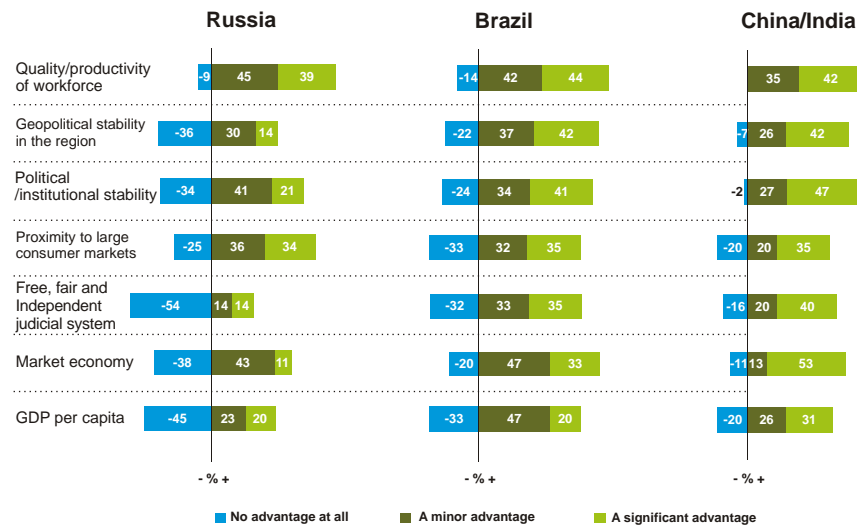
“Business environment is very much associated with trust, which is subjective. Therefore, we need clear rules (policies) in order to be able to accelerate business development in South America.”

Javier Gutierrez, ISA, Colombia

BRICs view of themselves

In general, BRICs view quality/productivity of the workforce as their main source of competitive advantage. In the specific case of Brazil, political/institutional stability, geopolitical stability and market economy also receive high marks.

Compared to other emerging economies how big a competitive advantage do you consider each of the following to be for your country?

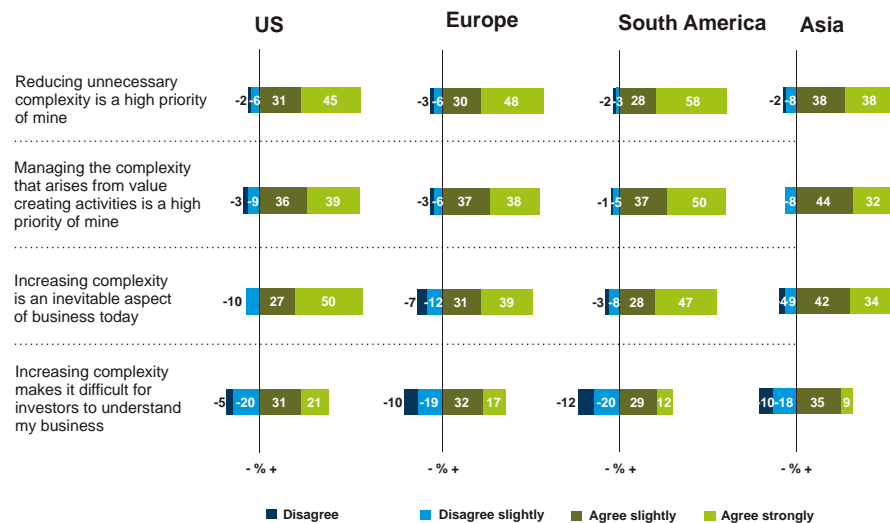


The inevitability of complexity

Whilst all regions believe that increasing complexity is an inevitable aspect of business, CEOs from South America lead the way as to the necessity of reducing unnecessary complexity as a high priority. They also rank managing the complexity that arises from value creating activities as a greater priority than any other region, probably born out of the challenging regional environment.

This would appear to be consistent with the previously expressed opinions regarding over-regulation, trade barriers/protectionism, political instability and corruption.

How strongly do you agree or disagree with the following statements about the effect of complexity on doing business today?



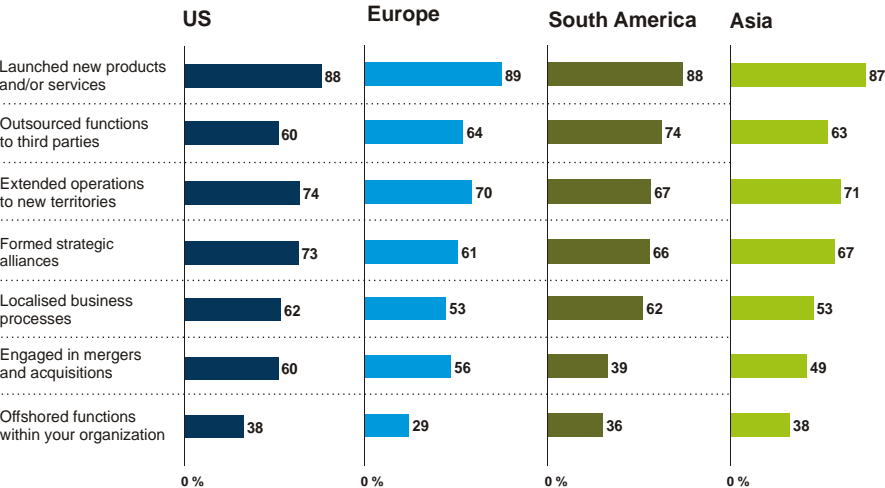


The launching of new products is clearly the leading action that has been taken in the last three years to create value. However, outsourcing functions to third parties, the extending of operations, forming of strategic alliances and localization of business processes have also been of generalized popularity and are consistent across all regions.

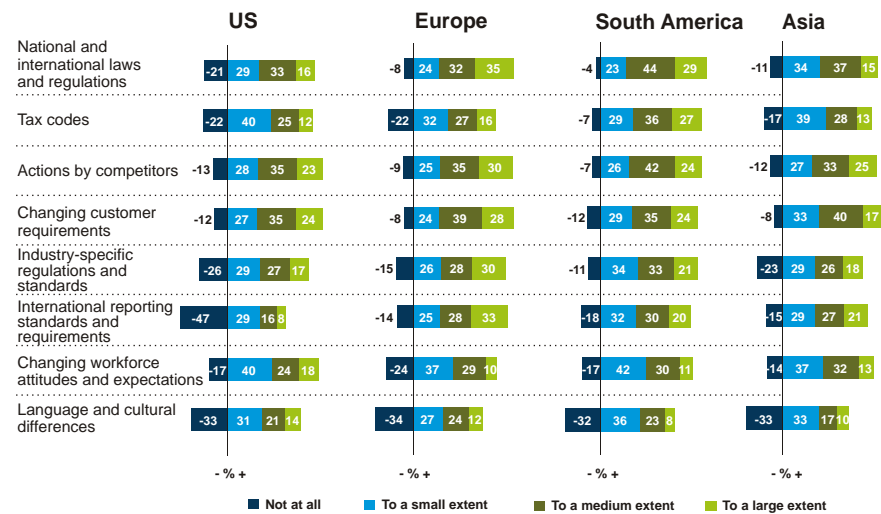
“There is no business without innovation in the industrial and commercial sectors.”

Guillermo Caballero Vargas, Grupo las Palmas, Paraguay

Which of the following actions have you taken in the past 3 years to create value?



To what extent has each of the following increased the level of complexity in your organization over the past 3 years?



CEOs from our region consider that national and international laws and regulations and tax codes have increased the level of complexity in their organizations over the past three years, more so than any other region.

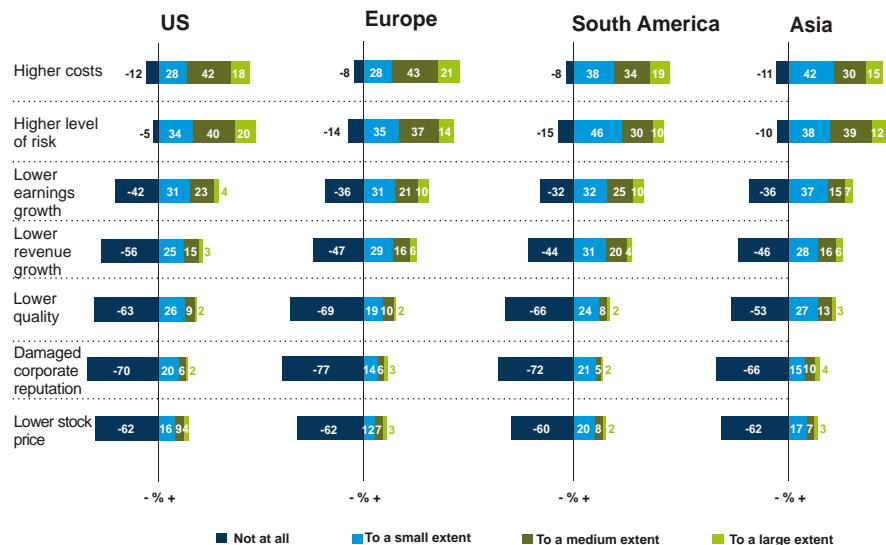
Actions by competitors and changing customer requirements are also high up on the agenda of South American CEOs as causes of increased complexity.

External drivers

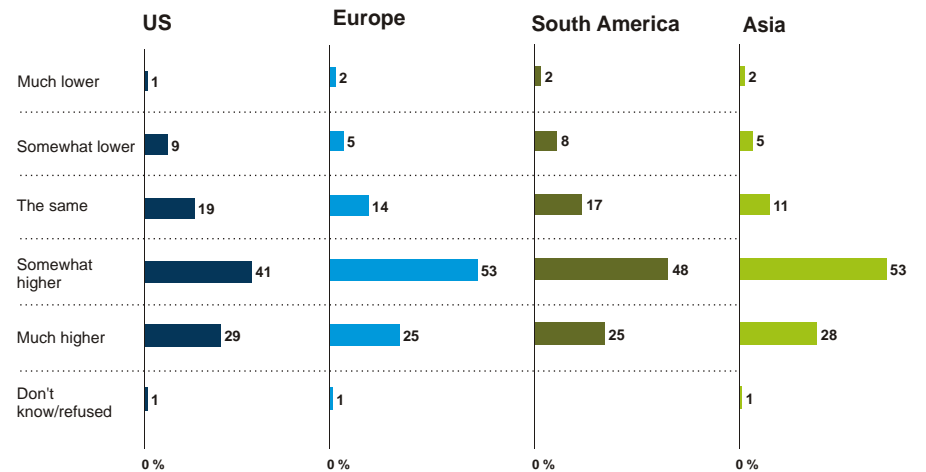
Other than higher costs and higher level of risk, the external drivers of complexity are not considered to seriously impact business. In both of the above cases, curiously, these appear to be less of a concern in South America than other regions.

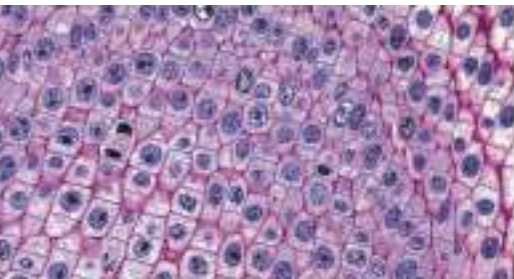
Consistent across all regions, more than three quarters of CEOs believe that the level of complexity in their organization has increased over the course of the last three years.

To what extent has the external drivers of complexity resulted in...?



How would you compare the overall level of complexity in your organization today, to the overall complexity 3 years ago?





Internal drivers

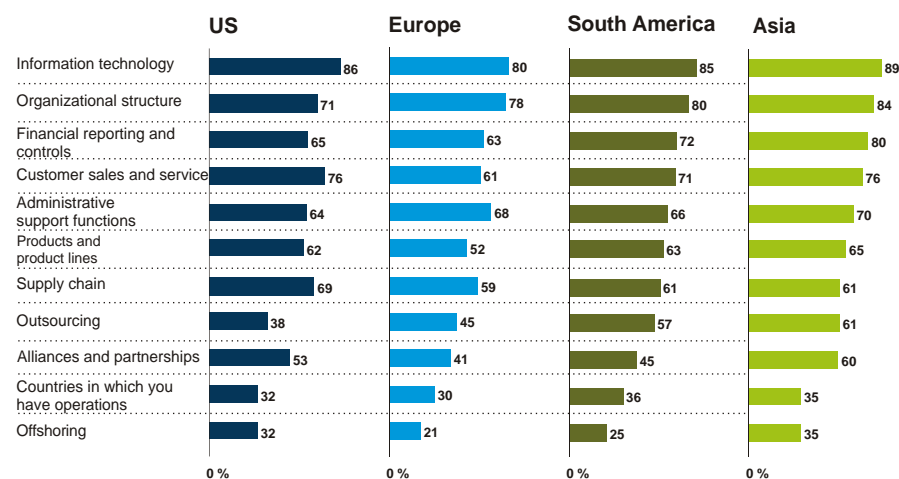
Three quarters of CEOs are engaged in five or more programs to reduce the level of complexity in their organizations. Information technology leads the way in all regions as the top project. In all regions, except the US where the focus is on customer sales and service, organizational structure is the second most cited.

Financial reporting and controls and customer sales and service, together with administrative support functions, are also treated as high priority projects.

“I believe that technology is one of the most promising optimization drivers since it allows us to reach the client in more imaginative ways.”

Gerardo Werthein, La Caja, Argentina

Are you currently engaged in any programs to reduce the level of complexity in each of the following areas?



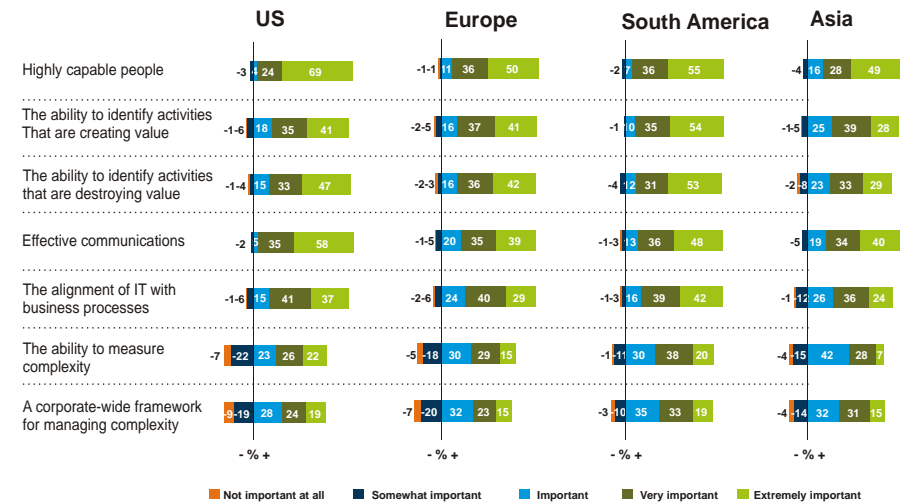
Managing Complexity

CEOs across all regions consider highly capable people as the key factor in managing complexity.

South American executives rank the ability to identify activities that are creating or destroying value and the alignment of business processes with IT more highly than any other region. It is also worth mentioning that effective communications are considered extremely important by nearly half of South American CEOs (48%), second only to the US (58%) in this regard.

The ability to measure complexity and a corporate wide framework for managing complexity are viewed as least important by CEOs across all regions, which would clearly indicate a focus on reducing complexity rather than attempting to control or institutionalize it.

How important do you think each of the following is for managing complexity?



48%

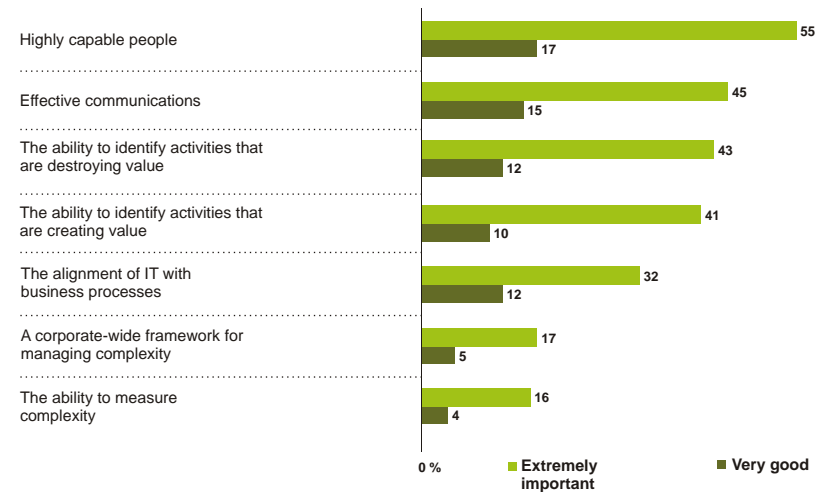
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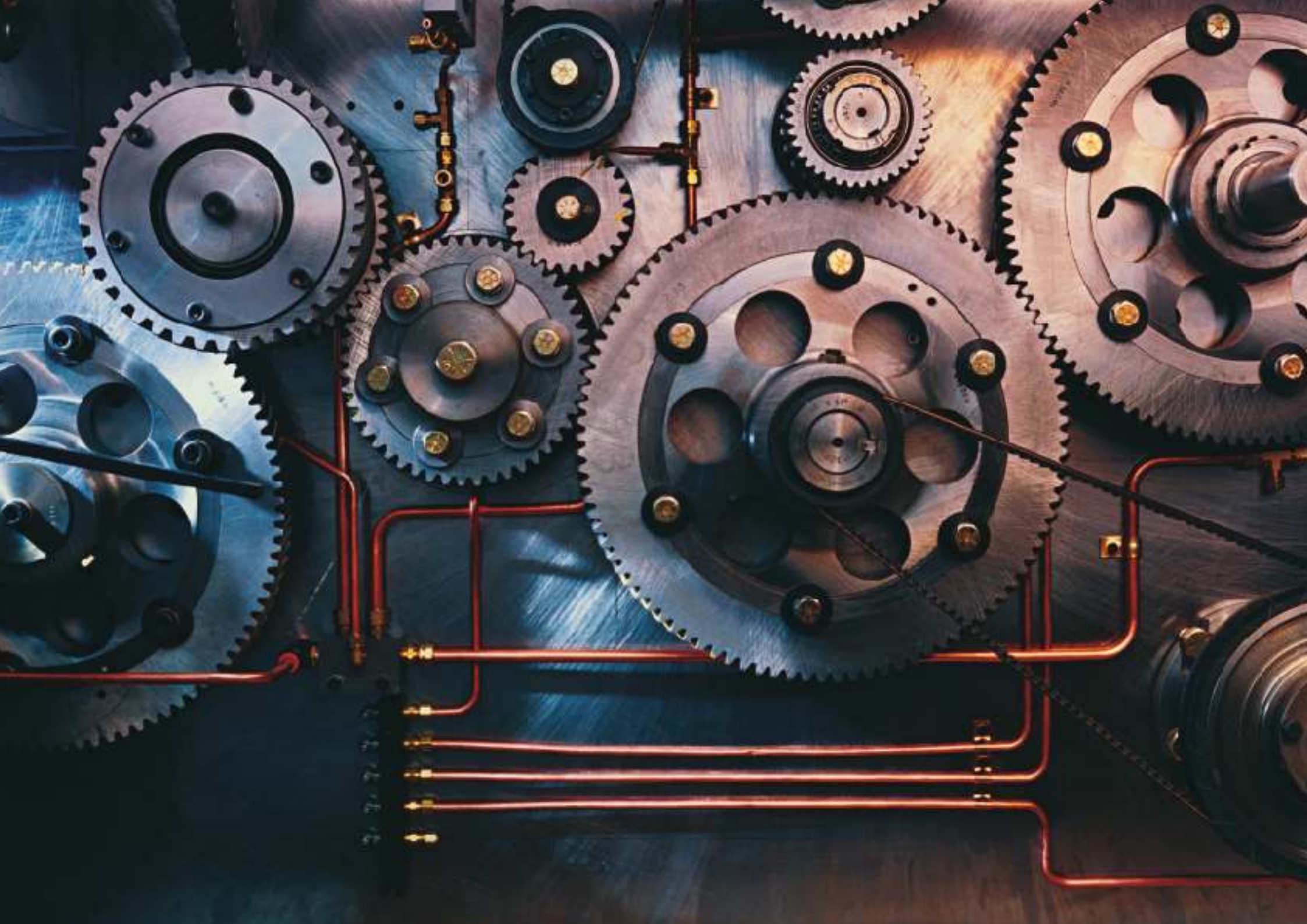
Generally, CEOs feel that their organization is “good” rather than “very good” at managing complexity in all areas, and this is consistent across all regions.

However, there is a significant gap between the importance and effective management of complexity in a number of areas, especially in those of highly capable people, effective communications, the ability to identify activities that are creating or destroying value and the alignment of business processes with IT.

This to our minds represents a finding of some importance and would indicate the urgent strategic necessity to focus management attention and specific projects designed to narrow the gaps.

**How important do you think each of the following is for managing complexity?
How would you rate your organization's capabilities for managing complexity in each of the following areas?**





Looking Inward

Getting out of the way of business development in South America

Crucial Factors

A number of factors are clearly crucial in the eyes of the South American CEOs to accelerating business development in our region. Over 80% of the respondents cited improvement in infrastructure, reducing bureaucracy, predictability and consistency in economic policy, increase in transparency, improved levels of workforce education and reduction of tax burden in productive sectors.

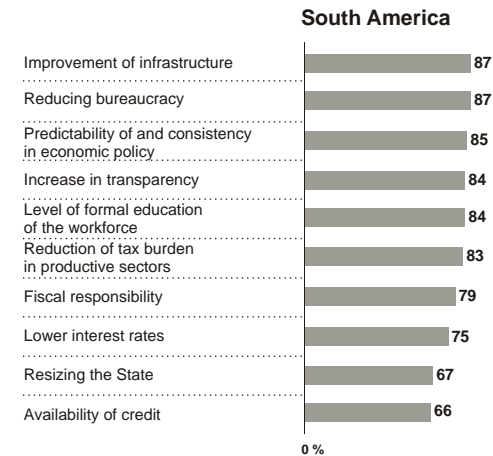
The perception of the CEOs leaves no doubt that government action is required on many fronts across the region in order to effectively facilitate the acceleration of business development and to permit the region to grow at rates approaching those of other emerging markets.

“There can be no shortcuts when it comes to economical development. Things have to be done with persistency.... looking for shortcuts only makes it all worse.”

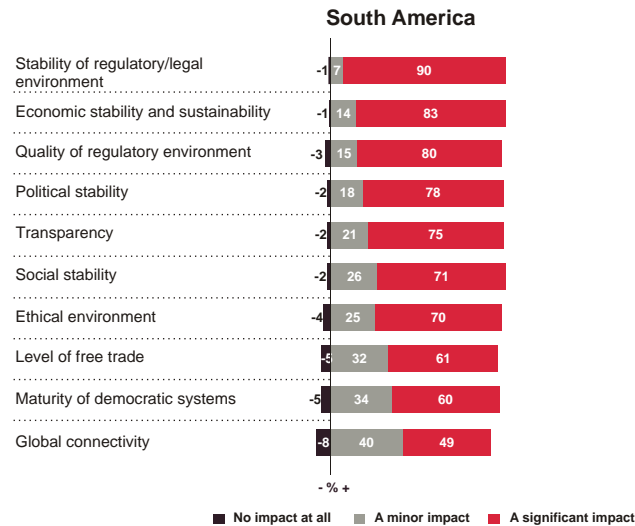
Fernando Pozo, Banco del Pichincha, Ecuador



What are the crucial factors to accelerating business development in South America?



What impact do the following factors have on the interest of foreign investors?



Foreign Investors

Business development is obviously conditioned by the interest of foreign investors in the region. The survey indicates that the most crucial factor in this regard is the stability of the regulatory and legal environments. Understandably, predictability is the “name of the game” in the mind of management responsible for making investment decisions.

The question of predictability was a predominant feature of the interview two years ago with Henrique Meirelles, the president of the Brazilian Central Bank, which formed part of the 7th Global CEO Survey.

Economic stability and sustainability, the quality of the regulatory environment and political stability also ranked as highly significant factors.

Curiously, the maturity of democratic systems and level of free trade rank comparatively low on the list of factors.



Talking about clarity

Unsurprisingly, transparency in the public sector is considered very low or low by 69% of the respondents in our region.

In the private sector, although the results are better, only 35% of the respondents consider the level of transparency in their respective countries to be very high or high.

Whilst corporate governance has made advances in several countries in the past few years, the lack of enthusiasm with regards to the level of transparency indicates that much has still to be achieved.

The generalized low level of transparency was one of the key factors cited as causing or encouraging corruption in the region (85% of the respondents).

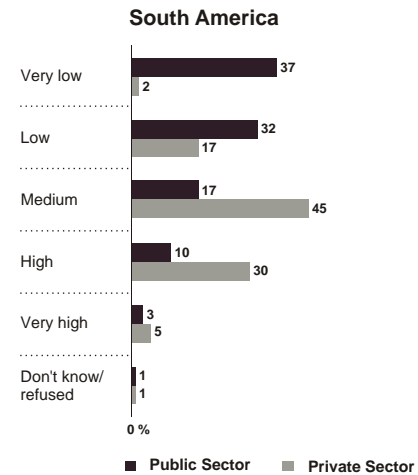
Other factors behind corruption include an ineffective legal system which results in a sense of impunity, politically motivated civil service appointments/structure and excessive bureaucracy. Again, government has much to answer for in the eyes of the CEO.

Bottom of the pile in terms of factors is the size of the state, indicating that it is not the size, but the efficiency, manifesting itself as “non-delivering”, which is a problem in the minds of the CEOs.

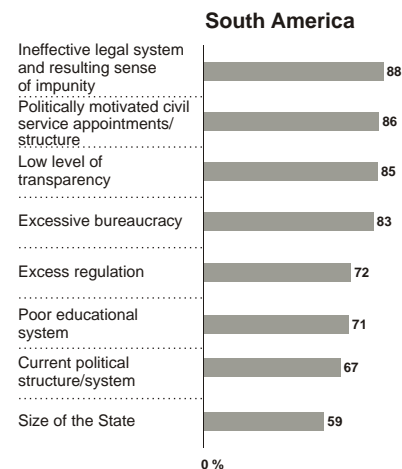
"When there is no transparency, many investment decisions will be made based on criteria that bring benefits in the short term only."

Ramón Monell, BBVA, Chile

How would you rate the level of transparency within the public and private sector in your country?



What are the key factors that cause or encourage corruption in South America?



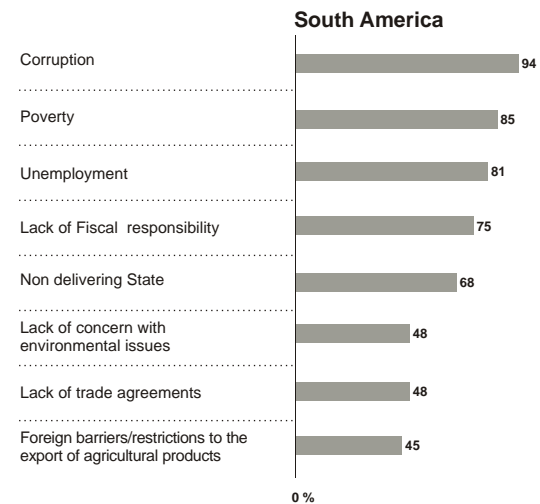
“When we establish a realistic integration policy with clear consolidation parameters, great trade opportunities will arise within the region.”

Daniel Martinez, ANCAP, Uruguay

Corruption was also cited by 94% of the respondents in the region as the **major ethical issue**.

Poverty and unemployment were importantly the next two major ethical issues cited. Important, because in treating them as ethical issues, the mindset applied to their reduction becomes radically different.

What are the major ethical issues impacting South America?





In depth (inter)views from around the region



Caja de Ahorro y Seguro S.A. Argentina

Gerardo Werthein

CEO and shareholder

The insurance group CAJA DE AHORRO Y SEGURO S.A was created in 1994, with the privatization of Caja Nacional de Ahorro y Seguro, a company established in 1915, and that obtained wide acceptance in Argentina. It was during the privatization process that the Werthein group, one of the most important and prestigious family-owned corporations in Argentina, invested in Caja de Ahorro y Seguro. The Caja group offers nationwide coverage in property, individual and group life, retirement, and labour risk, thus covering virtually all types of insurance. With net premiums of approximately US\$ 260 million and about 1,900 employees, it is the Argentine market leader. In 1999, Assicurazioni Generali, one of the largest European insurance groups in the world, joined forces with La Caja contributing to the consolidation of its leadership in the Argentine insurance market.

Gerardo Werthein, besides being the CEO, Director, and shareholder of the insurance group Caja de Ahorro y Seguro S.A., has an ample trajectory as a businessman in Argentina, is a shareholder of Group Werthein, one of the most renowned corporate groups in this country, with important activities in the agribusiness, banking, insurance and communications industries, and notable for its participation in recent investments of the group in BankBoston and Telecom.

Globalization

What has been the impact of the globalization process in your industry and/or particularly on your business?

Originally we were a family business that spanned several generations and stages of development. At the beginning of the 90s we carried out a review based on the assumption that if the company was not professionalized there would be no future. Compliance required from globalized businesses requires a high level of professionalization, especially in the case of family businesses.

On the other hand, we made the strategic decision of not getting into any more businesses alone. We handle any new business through alliances: foreign companies, experts, operators, etc. In the case of Citicorp, we partnered with Citibank; when La Caja was privatized we partnered with an American company.

Deep down, I think that each Group assimilates globalization in its own manner. If we, for example, sell a company in Argentina we buy another one in Argentina.

It is clear for us that we want to live here, that this is our country, that we will invest here, and we will convince our partners that this is the best alternative.

Sometimes we see hasty decisions by people that do not have appropriate knowledge of a country, who are pressured by circumstances to make inappropriate decisions to protect the capital invested.

When the group decided to buy Telecom, the rest of the country was only thinking about selling. We always believe in recovery.

Does anyone think people will stop using the phone? We believed that the country was capable of overcoming the crisis and invested beforehand. Looking back, it is now clear that we made the correct decision.

Note that in the 90s growth was based on debt while now growth is based on investment. In addition, there are other encouraging aspects such as the fiscal surplus and more austere public spending than in the 90s.

“It is not easy to invest in a country such as Argentina without a deep knowledge of how to do it; these are more volatile countries, exposed to regional crises.”

Complexity

To what extent does business development in a volatile region increase the level of complexity of Your organization?

It is not easy to invest in a country such as Argentina without a deep knowledge of how to do it; these are more volatile countries, exposed to regional crises.

In a global economy, young executives may take over the management of significantly voluminous and volatile funds.

At the first unfavorable sign, many of them transfer their assets from developing countries to more mature marketplaces, without necessarily being aware of the problems they leave behind.

At a particular point in time, we also divested in Argentina, but since this Administration took office, we decided to invest and capitalize on the growth opportunities that have unquestionably been created here.

From 2002 through to today, the growth rate has been impressive, we are no longer in default after an unprecedented negotiation, and we are repaying multilateral organizations leaving only a very small debt - the reserves have increased significantly and the financial system has been cleaned-up.

Therefore, in my opinion, the complexity in the finance industry - in particular with regards to strategic alliances - is more exposed to national and regional scenarios than any other industry.

“I think that the technology driver is one of the most promising focal points of optimization, since it allows us to get closer to the client in more creative ways.”

“We do not have to be afraid of change but we have to know how to implement it.”

What type of initiatives have you recently undertaken to create greater value? Have these actions affected the level of complexity?

I think that the technology driver is one of the most promising focal points of optimization, since it allows us to get closer to the client in more creative ways.

For example, there is already a bank which, in association with a telephone company, has made it possible for all transactions to be made via cellphone. I am convinced that there are still many synergies to discover and exploit in this type of partnership.

Our experience with La Caja is somewhat similar. We started experimenting with telemarketing with just one telephone and a fax machine, in the offices of the General Manager.

“Rebuilding our relationship with society is one of the main challenges of this industry.”

I remember that around 1994 this became a strategic issue: link the existing systems or develop a new system.

We chose the second because it allowed us to develop a new product line and processes that differentiate us from the competition until today. Smart investments tend to increase business complexity but if the reward is significant, as it was in our case, we have to be willing to confront and assimilate this complexity.

What is the role of the CEO in managing complexity?

I have always thought that in large organizations changes have to emerge from within to generate credibility.

La Caja worked hard in internal communication and training.

When we understand why we want to promote change, it acquires its own identity and it becomes its own champion. We do not have to be afraid of change but we have to know how to implement it.

This was the strong point of La Caja in the 90s, when we promoted a profound change in the corporate image. We took all the precautions to ensure change was a focused and participative process. Having said this, I confess that I do believe in management. I am convinced that companies without good management teams do not progress. I believe that management, even more than other levels, should be capacitating itself permanently. The rules of the game change and if you sleep on the job, the company will certainly soon lag behind competition.

Industry challenges

We commented that after the crisis people turned to more tangible things. How do you think public trust and public interest in the financial system will be regained?

Rebuilding our relationship with society is one of the main challenges of this industry and I think the only way to obtain it is by working with it. We should get closer to the customer through new

technologies, innovative strategies to gain or recapture clients, and innovative channels or mechanisms to disseminate or offer information.

Regional themes

What measures should South America take to increase foreign direct investment levels?

Investors are starting to look more for physical assets. Investors in hedge funds or in some funds which are difficult to understand want to be closer to their assets. Therefore, there is today a boom in agribusiness and real estate investments. Funds are largely present in, for example, land transactions, because they are obliged to invest part of their assets in tangibles. Monetary and market instability, as we see today in Europe, greatly influences the flow of FDI. There is a big question mark that investors have not yet answered: to stay in more mature marketplaces or to invest part of their capital in emerging markets. I believe that the current situation favors countries like Argentina. These are countries with a wide offer of primary goods. With a little technology and capital, more and more marginal zones become integrated with agricultural development or food production, generating returns for investors that know where to put their

“With a little technology and capital, more and more marginal zones become integrated with agricultural development or food production, generating returns for investors that know where to put their money.”

money. Currently, there are many more opportunities for investors than there are investments, because the world is flooded with cash, but investors do not know where to put it. Foreign investors want to be proactively associated with Argentine capital. Besides Argentina, however, I note that production industries have a regional vision. In the case of agriculture, Rio Grande do Sul, Uruguay, Argentina, Australia and New Zealand form a center of large producers in the southern hemisphere. Probably, partnerships will be formed among Rio Grande and Argentine producers, for example, and more companies will consolidate at the regional level. We have no doubt that regionalization is advancing. In other businesses like, for example, telecommunications, there are players with very clearly defined regional strategies and others that look for niches to specialize and attain higher penetration. Both strategies have been successfully implemented.

“Monetary and market instability, as we see today in Europe, greatly influence the flow of FDI.”

What are in your opinion the unsolved issues of the business community and management in your country?

If we believe that private enterprise is a driver of the economy and a fundamental growth factor, we should look beyond our own assets and think also about how revenues or profits should be shared. The unsolved issue is, therefore, developing a more critical vision of our role in social problems, in order to become players in addressing existing imbalances. When we have a certain level of expertise to work in a market or industry, this experience should be used to the benefit of your country as a whole and not only for a group of shareholders.

At Government level, the unsolved issue is precisely the same: involve the private sector in the discussion of social problems, facing the problems and

“If we believe that private enterprise is a driver of the economy and a fundamental growth factor, we should look beyond our own assets.”

implementing projects together. I always say: in a country of abundant food, no one should starve to death. If this is happening, we are doing something wrong. ■





SOBOCE Sociedad Boliviana de Cemento S.A Bolivia

Armando Gumucio Managing Director

Armando Gumucio Karstulovic, 43, is an Economist, a graduate of Universidad Católica Boliviana and has completed many specialization courses, with emphasis in the Strategy and Finance areas. He has 18 years' experience in different management positions in the private sector.

Currently he is the Managing Director of Sociedad Boliviana de Cemento S.A., which he joined in 1988 and where he has held many different positions, ranging from Sales sub manager from September 1990 to July 1992, Administrative Manager from August 1992 to January 1993, Administrative and Finance Manager from February 1993 to July 1998, National Administrative and Finance Manager from August 1998 to February 2002, and Managing Director from February 2002 to date.

Currently and since 1995, he is also Secretary to the Board of Sociedad Boliviana de Cemento S.A., since 1998, Vice-President of the Board of Bolivian Foods S.A., since 1996, member of the Board of Compañía de Inversiones Mercantiles S.A., since 1998, member of the Board of La Boliviana Ciacruz de Seguros y Reaseguros and Zurich Boliviana de Seguros Personales S.A., since 2003, member of the Board of Ferrocarril Andino S.A., since 1992, member of the Board of the National Council of Industries, since 2001, member of the Board of the Bolivian Institute of Cement and Concrete.

SOBOCE is the leading company in the Bolivian market, engaged in the production and sale of cement, as well as the production and distribution of ready-mixed concrete. Additionally, it engages in the exploration of the mineral deposits of the raw materials used in the production process (limestone, clay, gypsum, iron oxide, pozzolan, etc.).

Globalization

What has been the impact of the globalization process in your industry and/or particularly on your business?

Worldwide, the process of globalization has resulted in an accelerated consolidation of the cement industry. The world production capacity controlled by the six largest companies went from 9% in 1988 to 45% in 2004. It is clear that these companies are trying to achieve sustainable growth, and an essential component of their strategy is oriented to emerging countries with interesting growth perspectives but higher risk.

Globalization is a reality and instead of analyzing if it is good or bad, what we should do is to get ready to face-up to it. This phenomenon also brings a window of opportunity and we have to work very hard to use it to our advantage. Bolivia is no exception.

The cement industry has also undergone a consolidation period reducing the number of players from seven to four in the last five years, two of which involved important cement groups such as Votorantim and Camargo Correa from Brazil, the main shareholders of Itacamba and Grupo Cementos de Chihuahua de México, an important shareholder in Sociedad Boliviana de Cemento (SOBOCE).

What do you consider are the main risks when competing with foreign companies, both those from developed economies and those from emerging countries?

The highest risk is to compete with companies based in stable countries since they are more aggressive, searching for other markets to grow and diversify, and that have the advantage of using well the economies of scale and operating with proven management models.

From which countries do you expect to face more competition in the medium term?

I don't think there will be significant changes compared to the current situation in the cement industry but the consolidation process will continue.

“Complexity is reflected in the need to invest more resources and time in order to be better prepared to respond to the changes in the business environment.”

What role can trade agreements have on the region's development in the context of a more globalized world?

When such agreements are fair and appropriately negotiated, I think they play an important role since they encourage companies to become more competitive, allowing countries to exchange products, services, capitals and technology in a more efficient way.

Complexity

To what extent does business development in a volatile region increase the level of complexity of your organization?

Complexity is reflected in the need to invest more resources and time in order to be better prepared to respond to the changes in the business environment, etc. It is fundamental that the end result between creating value to the company and increasing costs because of increased complexity be favorable.

Would you say the sources of complexity in the organization are basically internal or external, or is there a balance between the two?

Due to the dynamism of the industry, complexity in our organization is a balance between both.

Internally we have had to adapt to the demands of growth and market requirements and demands.

What type of initiatives have you recently undertaken to create greater value?

We have carried out an aggressive investment and consolidation strategy that has allowed us to expand our operations to all regions in the country and lead the industry in Bolivia.

Sociedad Boliviana de Cemento currently has a 45% market share and holds a

“In the private sector, companies have not yet managed to understand the value of transparency which will permit them to access more effectively the financial and capital markets to grow and expand.”

33.34% interest in Fábrica Nacional de Cemento, which in turn has a 25% market share.

In recent years, we made investments of over US\$ 130 million, built plants such as the Warnes plant in Santa Cruz and expanded the Viacha plant in La Paz, acquired through privatization processes the El Puente cement plant in Tarija and 33.34% of the shares of FANCESA in Chuquisaca, and acquired through a public offer the EMISA plant in Oruro.

At the financial level and in order to support the consolidation strategy, we have counted on an excellent risk rating (AA-) and we lead the Bolivian securities market in volume of issues which exceed US\$ 100 million, we have contracted subordinated debt, financed resources with local banks, as well as major international financial institutions such as Corporación Andina de Fomento, CITIBANK, Ing Bank, CDC Capital Partners, etc.

Together with the consolidation process, we have developed entry barriers into our markets and managed to ensure demand by replacing asphalt with rigid pavement

in the construction of the majority of the roads in the country.

During this entire process, it was very important to join up with a strategic partner that has enabled us to quickly access new knowledge and technology in the cement industry.

With this and other strategies, our company's value has tripled over the last ten years.

Have these actions affected the level of complexity?

Complexity has undoubtedly increased since some years ago we only had one operation located in the city Viacha, in the La Paz region, while today we also have industrial facilities in Santa Cruz, Tarija, and Oruro and our products are sold in 8 of the 9 regions in Bolivia.

Some years ago we only sold cement but currently we sell concrete, coarse aggregate, and we have the technology to lay rigid pavement on roads.

To face these challenges, we have implemented world class ERP technology tools of J.D.Edwards.

We have also rolled out efficient communication and management control systems, redesigning processes supported by specialized international firms.

We have an internationally certified integrated management system and currently we are committed to the implementation of a modern, high performance system for all our operations.

In order to meet the needs of reporting more information and follow international standards, we created benchmarking systems, implementing good Corporate Governance systems and ISO 9001 and 14001, OHSAS 18001 certificates, and we are about to be granted a certification in corporate social responsibility.

What is the role of the CEO in managing complexity?

Clearly identify which activities create value for the company, have the capacity to execute plans and strategies, and create a good team.

Regional themes

How would you rate the level of transparency of the public and private sectors in your country?

The level of transparency in the public sector is low.

Despite the progress in institutionalization processes, such as in the Internal Tax Department, the National Road Service, the Bank superintendency, etc., we are still far from achieving desirable transparency.

At other government levels, such as in city halls, municipal councils and other central administration levels, including the ministries, not much has been done.

In the private sector, companies have not yet managed to understand the value of transparency which will permit them to access more effectively the financial and capital markets to grow and expand, evidenced by the fact that transactions with variable income securities on the Bolivian stock exchange are minimal.

What are the principal factors that stimulate corruption in South America?

From a long-term standpoint, the main causes of corruption in South America

“I consider one of the essential issues concerning foreign direct investment is to have the legal security that allows investors first to make the investment decision and afterward realize long-term plans.”

Are inequality and poverty, but from a more immediate viewpoint, causes are associated with the previous question since, as there is no transparency in either the public and private sectors, there are no appropriate control mechanisms to avoid corruption.

There is also a lack of values in citizens and the incapacity or unwillingness of government to effectively fight corruption.

What are the major ethical issues in South America?

Poverty and corruption.

And what do you consider is crucial to accelerate corporate development in South America?

Get efficiently inserted in globalization and take advantage of the competitive advantages of world trade.

What measure should South America take to increase foreign direct investment levels?

Implement appropriate laws and regulations to foster investment, by achieving a fair balance between incentives to companies and national interest.

However, I consider one of the essential issues concerning foreign direct investment is to have the legal security that allows investors first to make the investment decision and afterward realize long-term plans.

In what way would an increase in transparency encourage an increase in levels of foreign direct investment?

The link is very close since, as transparency increases in the public and private sectors, the incentives to attract investments also increase.

“Implement appropriate laws and regulations to foster investment, by achieving a fair balance between incentives to companies and national interest.”

What are the main obstacles in South America to sustainable economic growth?

Legal security, clear investment rules, macroeconomic stability, appropriate investment incentives. ■





Gradiente Eletrônica Brazil

Eugenio Staub

CEO and Chairman of the Board

Gradiente is one of the largest producers of electronic consumer goods in the Brazilian market, leading the audio and DVD segments, and one of three largest TV set manufacturers in Brazil, after the acquisition of Philco. It is also the largest Brazilian electronics industry company.

Founded 42 year ago, Gradiente's stock is traded on the São Paulo Stock Exchange (Bovespa), and it has approximately 1,800 employees. Its industrial center, located in Manaus, Amazonas, produces over one million products a year. Gradiente annual sales exceed R\$ 2 billion.

Responsible for the rise of Gradiente, which started as a small family component import and resale business, Eugênio Staub is one of the most influential Brazilian businessman and one of the founders of IEDI (Institute of Studies for Industrial Development). Graduated in Business Administration, his entire career has been dedicated to his family business, where he started to work at the age of 15.

Globalization

What has been the impact of the globalization process in your industry and/ or particularly on your business?

Globalization, needless to say, impacts all industries, including ours. In the case of consumer electronics, the effect is, to a certain extent, mitigated by the fact that we moved, 32 years ago, to the Manaus Free Trade Zone, thus with tax incentives.

Gradually, in the 70's and the 80's, the entire Brazilian industry - those already operating in Brazil and newcomers - went there. Consumer electronics production concentrated in Manaus protected artificially by a range of incentives that with time have decreased.

Even so, it protected the industry against imports and the globalization process.

However, the main Brazilian players disappeared in the last years because of global competition. Gradiente is the largest Brazilian capital company in the industry and one of the largest in Brazil; so, we have been able to adapt.

Generally speaking, the panorama was one of the disappearance of domestic companies and multinationals entering the tax-incentive zone. In the other segments of the electronics industry, including telecommunications and IT, globalization swept local companies away. Only the major global players remain in the market. The effect of the globalization process was very large.

We need to understand that the world industrial geography is being redesigned right now, not only in our industry but in almost every industry.

There is a strong trend in industries all over the world to move to the Far East, especially to China, and I believe that the consumer electronics industry, despite the Free Trade Zone, will lose space and we will become importers of these products.

What do you consider are the main risks when competing with foreign companies, both those from developed economies and those from emerging countries?

“Brazil has a solid industrial tradition and good entrepreneurs, as well as a recognized capacity in the private sector, whether local companies or international companies.”

Brazil has a solid industrial tradition and good entrepreneurs, as well as a recognized capacity in the private sector, whether local companies or international companies. Where are we not competitive? In the Brazil cost.

This cost is basically a result of the deficiency of our infrastructure, our tax system, and the high interest rate. Even emerging countries like China and East Asian countries, for example, have a very low interest rate.

The biggest production problem in Brazil is an outrageous interest rate that burdens the whole economy.

From which countries do you expect to face more competition in the short term?

50 years ago, the consumer electronics industry in Brazil was sturdy, as well as in the 60's and even in the 70's.

There was a multitude of Brazilian businesses. There were over 100 TV manufacturers, hundreds of radio and component producers.

Each basic component of the industry was manufactured by two or three local or multinational producers. This scenario changed with the globalization process, the creation of the Manaus Free Trade Zone, and with technological change.

Brazil faced, in the 70's and 80's, the wave of the Japanese presence; in the 90's, there was the Korean wave; all of them came to Brazil and two remain here.

Now, obviously, competition comes from China, the country that now concentrates the industry's international production.

What role can trade agreements have on the region's development in the context of a more globalized world?

There are two types of trade agreements we should analyze; the first is with producing countries, especially China.

Our industry is not on the agenda for this type of agreement and it is not even very productive to enter into them. The concentration of the industry in China, over the next decade, is inexorable.

“The complexity of economic volatility affects both the domestic and the foreign markets. One of our permanent exercises is to look for greater efficiency, focus on results, and adding value, and consequently focus on cost reduction.”

The second category of trade agreements is the regional agreement, which are more efficient since they open a market to the Brazilian production surplus in Latin America, for example.

Such agreements have the important role of strengthening the Latin American block. Trade agreements tend to reduce the protection of Brazil and the region against large producers, especially China.

Complexity

To what extent does business development in a volatile region increase the level of complexity of your organization?

It is a relevant factor. On the one hand, it challenges the competency and generates capacity to deal with it, but it is undoubtedly a cost driver, weakens companies and renders competition more difficult.

Would you say the sources of complexity in the organization are basically internal or external, or is there a balance between the two?

The complexity of economic volatility affects both the domestic and the foreign markets. Take foreign exchange, for example. Exporters were organized to work with foreign exchange of R\$2.70 and now they have to live with the dollar at R\$2.10/R\$2.20.

This is a significant challenge for the exporting sector and also for the productive sector in the domestic market because foreign competition became 30% cheaper in a few months. As we can see, economic volatility is a challenge with which we have to deal on a daily basis. Economic volatility weakens the companies.

What type of initiatives have you recently undertaken to create greater value? Have these actions affected the level of complexity?

Gradiente is going through a big transformation to adapt to this constantly changing situation, whether in terms of foreign exchange, conjunctural, economic or even the change in the world industrial geography.

We are about to complete an important change in our product lines, which includes the acquisition of our competitor Philco to increase production scale and to be able to face this challenge.

This scenario, for our industry, is permanently challenging because there are continuous technological innovations, and this signifies unexpected changes in product profile and consumer habits. Add to this peculiarity, in the case of Brazil, volatility and the uncertainties of the economy. This, without doubt, increases complexity.

What is the level of complexity in your company? Is there a constant commitment to any program to reduce it?

Undoubtedly. One of our permanent exercises is to look for greater efficiency, focus on results, and adding value, and consequently focus on cost reduction.

What is the role of the CEO in managing complexity?

It is an extremely important role, difficult but rewarding. Gradiente completes 42 years in 2006; during this period we went through several scenario changes in the Brazilian economy: opening to imports in 1965, one year after the creation of the company; closing to imports between 1975 and 1990; the creation of the Manaus Free Trade Zone, changing everything in the 70's, 80's, and 90's; the opening of the Collor administration; the Real Plan; the energy crisis at the beginning of this decade, which seriously undermined our industry; the turbulence of 2002 because of the political uncertainty and the unexpected maintenance of the economic policy by the current administration.

We are immune to volatility, complexity, and things like this. Gradiente has shown that it is capable of dealing with such changes.

But it is not easy. Either our hair turns grey or we lose our hair. In my case, both.

What are the main challenges for the future of your business?

The challenge for the future is the reduction of local production. As a consequence, Gradiente is no longer

“The challenge for the future is the reduction of local production. As a consequence, Gradiente is no longer considered just an industrial manufacturer but a technology company, a brand company.”

considered just an industrial manufacturer but a technology company, a brand company.

There is the challenge of dealing with this scenario and it is a challenge everyone faces: the increasing presence of Chinese players.

In addition to the pressures coming from the globalization process in several parts of the business world, there is the expectation that companies commit to social responsibility and sustainable development policies. What do you think of these efforts? How is your company committed to it?

Our industry is non-polluting. In this case, it has more to do with the well-being of society.

It is the joy of a family with a TV set, a stereo, a DVD player, with entertainment, information, and communication. This is an essential industry for social well-being, especially in view of our current reality.

Specifically in the social responsibility area, Gradiente recognizes that this is an increasingly important requirement for the growth of Society and brand respect.

We try to get involved in existing programs. The big challenge is to build one's own social responsibility program, dedicate oneself to that, adopt some activity that can be legitimately recognized as social.

We are trying to do this. We recognize this is an important issue for the company's development.

As capital evolves, in an unjust society like Brazil, this is a question which acquires increasing priority in the management of the company.

What is the impact of the convergence between technology, telecommunications and media companies in your company?

Gradiente is highly involved in this process as it has always been at the leading edge of this convergence.

“This is never planned. Acquisitions are the result of opportunities that show up in the market.”

Our company was a pioneer in Brazil in the launching of a series of products that resulted from the integration of these industries. Gradiente, therefore, has managed to take advantage of the benefits of such convergence.

What is your position in relation to this convergence?

Convergence is a word that has been used for so long that it is even a little misunderstood. But it is happening and will get intensified through digitalization in all segments. The last step to complete this process is the launching of digital television.

The advance of technology produces structural changes in products, in the way we use them, in consumer demands. The great umbrella to describe all this is convergence.

In effect, it is a technological evolution through which many more services are offered to the consumer.

Has your company been involved in mergers and acquisitions in the last three years?

Gradiente is the result of a series of acquisitions. It used to be a family business, dedicated to imports until the early 60's.

At the end of this decade, it started to produce electronic components and became an industry. In 1970, Émile H. Staub purchased Gradiente, a small business. It was the beginning of a series of acquisitions: in 1972, Selectrix; in 1979, the British company Garrard and Polyvox; in 1989, Telefunken; and in 2005, Philco, which belonged to Itautec.

The current challenge is to maintain Philco as an independent brand, which was not the purpose with the other acquisitions. Now it is different. We want to do what Staub did with Gradiente, maintain this brand alive and present in the market.

Are there plans for mergers or acquisitions in the next three years?

This is never planned. Acquisitions are the result of opportunities that show up in the market. There is no continuity policy for mergers and acquisitions. It did not happen that way with the previous opportunities. When other opportunities arise, we will look into them carefully.

The protection of intellectual property, the fight against piracy, and the breach of patents have become extremely important for companies. How would you assess the effects of such actions and what are the policies and the procedures of your company as regards these issues?

These problems have not affected us much because our production process does not involve intellectual property, software, or other piracy exposed products. What hits us is another type of crime, smuggling. Or “importgglng”.

The word smuggling clearly defines what it is. “Importgglng” is the importation with a 'legal shell' but with extremely low prices. “Importgglers” pay very low or no taxes on the product and compete unfairly.

This is the major problem Gradiente and our industry face, and the Federal Police and Federal Revenue Service have not managed to deal with the large capacity

several Brazilian companies have to operate under these illegal practices. Throughout the history of Gradiente, we learned that the best way to face this type of unfair competition is through low prices and good service to consumers.

Regional themes

How would you rate the level of transparency of the public sectors in South American countries?

Throughout our history there has always been a concern with transparency and ethics in the relations with the public sector.

Some administrations have been more open to dialogue and others less so. Evidently, we cannot imagine that the Government will abdicate its right and obligation to decide, but it is advisable to listen to the private sector.

The current administration has done that. The decision is not always, in our opinion, the best one but the administration listens to the opinions of businessmen. It is essential that there are ethics in this relationship.

Recently, our board of directors approved a rule that prohibits funding election campaigns.

“Throughout our history there has always been a concern with transparency and ethics in the relations with the public sector.”

Gradiente has never been greatly involved in campaigns and when it happened it was always with the highest transparency and officially.

There have never been “slush funds” in the company, nor “under the table” funding. From now on, we will not do it even officially.

We will no longer participate in election campaigns because we believe that it is not correct that the private sector influences elections by using its economic power.

How would you rate the level of transparency of the private sector?

I think there is a bit of everything. Companies that handle the issue like us.

And companies that Congressional Investigation Committees have proven to use the informal channel, the “slush funds”, to try to influence public policies to their own advantage. We reject that.

What are the principal factors that stimulate corruption in South America?

Firstly, I do not believe that this is a privilege of South America.

Sometimes we see it happen in developed countries. Without mentioning any names, some of the biggest economies in the world have recently had corruption scandals.

I also think that in South America, this process is being reversed thanks to the press, the indignation of society.

It will always happen but it is important to fight it so that the situation is prevented and minimized.

Which are, in your opinion, the best ways to minimize such problem?

I think a radical political reform, as the one being proposed by some, is the way to go. Auditing of funds by courts, in particular in election campaigns, is essential.

“I think a radical political reform, as the one being proposed by some, is the way to go.”

Many times what a politician reports is ridiculous compared to what we know he or she spends to get elected federal representative, senator or even to Executive Power offices.

There has to be more control. The so-called 'external signs of wealth', considered for income tax purposes, is an important source for the Federal Revenue Service and should also be used by Electoral Courts.

Try to find out how much a campaign cost after it is over is very difficult. But while it is happening it is easy to discover the cost of t-shirts, banners, paid propaganda on the radio and television, etc.

Which factors do you consider crucial to accelerate business development in South America?

Until the end of the 70's, South America grew faster than the world economy and that development was led by Brazil, the country that grew faster in the first 80 years of the last century and, to a certain extent, was followed by neighboring nations. In the next 25 years, since the

early 80's until today, South America practically sunk and gradually lost its share of the world economy. That is why several social problems occurred, such as the lack of security.

In all countries of the region, we face the same problems, because of the weak economic performance.

The issue is how can we recover that growth pace? The first answer, for Brazil, for example, is to operate with interest rates that foster productive investment, job creation, exports, and a larger share of the world economy.

A more aggressive but positive posture must be adopted in the negotiations with the main world economic blocks, to access these markets, and this is already under way. And, above all to have strategic planning for development.

In the last 25 years, the only objective of these countries was to protect economic and financial goals around the Consensus of Washington. It took 25 years to realize that this was not a solution for anything. It was concluded that the desenvolvimentista (state interventionism) model was better for society. There is no

way out for South America other than economic growth and better distribution of income.

This has to be achieved through changes in economic policy, the attitude in relation to negotiations with international players, and in strategic planning for each of the countries, that will inevitably be the strategic planning for the region.

As regards to regulatory frameworks, do you believe Brazil is moving at the correct pace to adopt rules that will improve the business environment and attract direct investments?

We are lagging behind in this respect. In fact, in many things. In the definition of clear, stable rules to attract investments. There are many actions in this regard, such as PPPs (Public Private Partnerships), but we still do not know how this will work.

There is a lack of ability in handling the issue. I insist, however, that our main deficiency is not to know where the country, and therefore the region, is heading because the world scenario is changing constantly.

Countries with a clear panorama are successful, such as Japan in the second half of the past century. As more recently East Asia countries have done, the famous tigers, and China is doing.

They know what they want for their country and pursue this goal, not only in terms of economic policy, but also in their international relations.

In what way would an increase in transparency encourage an increase in levels of foreign direct investment?

There is no growth in direct investments if there is no transparency.

We do not have a goal for the country. Back to the beginning of our interview, do we need to have a consumer electronics industry or not? If it is necessary, what is its profile? How will we promote it without breaching the rules imposed by globalization?

Brazil is a blessed country, it has a large number of very positive qualities and it is not impossible to do strategic planning for this country, to know how it is inserted in the world, and how it will be in 20, 40, 60 years.

This is not done. Until now, the belief is that it is enough to take certain macroeconomic measures and the market will resolve the rest. This is not how it happens.

What are the main obstacles in South America to sustainable economic growth?

“Brazil is a blessed country, it has a large number of very positive qualities and it is not impossible to do strategic planning for this country, to know how it is inserted in the world, and how it will be in 20, 40, 60 years.”

I think we are in process of political evolution. The election of President Lula removed from the scenario the “political risk”, which was permanent in Brazil.

In the last 20 years, this risk was the election of the Workers Party, PT.

Regardless of what happened in Brazil in 2005, the election of the PT, even if the party had been successful in its objectives, and in part it wasn't, changed this scenario. I think that despite the economic stagnation in the last 25 years, there has been great progress in the awareness, political knowledge and capacity of society to demand.

The media had a major role in this and that's why citizens today are much more conscious, indignant, demanding. This promotes a political evolution that I would like to be faster. However, unfortunately it is slow, but it is happening.

We are in an election year. Do you believe in the possibility that constitutional reforms, such as the tax reform and the political reform, will be made?

Unfortunately, no. The ideal would be to create the conditions whereby such reforms could occur at the beginning of the next term of office.

I see no possibility now. What I expect is that Brazil will wake up to take advantage of the good world scenario. The great problem in recent years was the fact that the country was not able to take advantage of an extremely favorable world economy.

We did not have the courage to do what needed to be done in terms of reforms and other changes.

Should there be some mechanism to ensure that the legislative process proceeds with some level of normality during an election year?

This is typical of the democratic process. I do not think it is different in other countries. The problem is that the President's term in office is short.

It should be five or six years (without reelection) so that stagnation occurs at

“Without the reforms, Brazil should be in a position to grow 4% to 5% in 2006. If the reforms were approved, it would grow 7%. This is what it needs to grow, as it already grew in the past.”

larger intervals. It is inherent to the political process, the power process, and at this time it is not the moment to rock the boat by making big reforms. It is a characteristic of the system.

Without the constitutional reforms, is the Country in a position to grow in 2006?

Without the reforms, Brazil should be in a position to grow 4% to 5% in 2006. If the reforms were approved, it would grow 7%. This is what it needs to grow, as it already grew in the past.

We have been slipping for too long, in this dichotomy of exchange rates and interest rates. Interest is too high because if it is lower there will be inflation, because there was no investment.

And on the other hand, there is no investment because the interest rate is too high. We are living this dilemma and only a new, more courageous government can take on this reality.

The fear of inflation and the lack of knowledge of all drivers that generate it

have made us extremely conservative, to the point of having the highest interest rate on the planet. It is a matter of life and death for our country.

This interest rate unbalances public finances, prevents productive investment, pushes capital to fixed income, and locks the economy.

This can be unlocked by an act of political will. Additionally, it has never been calculated how much of this rate is embedded in product prices.

In other words, by reducing the interest rate, one can reduce cost and prices fall. Production volume increases.

Our industry shows that. In the last two years, industry grew at a very fast rate because of the expansion of consumer credit, we are talking of 20% to 25% a year, and prices fell.

It is a fallacy to say that an increase in demand will cause price hikes. Every case is different.

There is no national understanding on this issue, an understanding of the problem on what really influences prices.

Do you believe in the reelection of President Lula?

We cannot predict this. The President's image was tarnished by the scandals but he has many positive qualities, such as a good dialogue with a large part of the population. However, the economy is crucial in an election. It is hard to make a very precise prognosis on this. ■





Banco Bilbao Vizcaya Argentaria Chile S.A. Chile

Ramón Monell CEO

Ramón Monell Valls studied Economics and Business Administration in Barcelona and Madrid. In 2002, he took office as CEO of Banco BBVA Chile and remained in that function until December 2005, when he was appointed Director of Systems and Operations of the Group BBVA.

During his time in Chile, he implemented a strategic plan to double the size of the bank in just three years with excellent results. In this period, the value of the bank increased by 550 million dollars.

The BBVA Group is present in 32 countries, with over 35 million customers, one million stockholders, 92 thousand employees and more than 7 thousand branch offices under the same flag. Currently, about 64% of their employees work in Latin America, a region that accounts for half of the profits of Grupo Financiero BBVA. The BBVA Group also manages BBVA Provida AFP in Chile, the largest private pension fund in the country, with 3.1 million subscribers and 24 billion dollars in managed pension funds, which accounts for a market share of 42.3 and 31.2% respectively.

Globalization

How has the globalization process impacted the financial sector in general and particularly BBVA Chile?

In the last decade, we have experienced an accelerated liberalization that has enabled us to create entities that intentionally define their markets in a much broader way with regard to geography culture and finance. Much deeper and liquid financial markets have been created, which have allowed the generation of economies of scale and given rise to greater competitiveness with all the challenges and benefits this brings. The BBVA Group has written a story of success (in reality several), that is recognized through its presence and leadership in 14 Latin American countries: 11 banks, 10 private administrators of pension funds and 8 insurance companies.

What kind of companies pose fiercer competition: those located in developed economies, or those coming from emerging markets?

What really matters is devising and implementing the right strategies, a relentless effort to implement them and an untiring generation of new initiatives that create more value than your competitors, and that this difference is perceived by the market.

Globalization is diluting the differences between local and global players.

From which countries do you expect relevant competitors to emerge in the medium term?

The most relevant financial groups that have defined Chile as a strategic market already enjoy a certain level of presence in the country.

More than new competitors, we foresee a certain degree of consolidation and a level of reorganization of the positioning of current competitors.

Can Free Trade Agreements help the region in this process of globalization?

“More than new competitors, we foresee a certain degree of consolidation and a level of reorganization of the positioning of current competitors.”

Free Trade Agreements are acting as a sort of tangible reflex of the globalization process. They allow us to visualize the advantages of doing away with protectionist barriers; reducing transaction costs, sharing the transfer of knowledge, taking into account the inherent differences between markets and cultures.

Complexity

To what extent does business development in a volatile region increase the complexity of your organization?

The possibilities of fast growth are greater in emerging markets, however the crises of the last decade produced higher susceptibility to risks, which increases the complexity of managing companies located in these regions. Often, an incorrect or exaggerated perception of risk causes companies to turn down good investment opportunities.

Our current leading position in Latin America, especially in Mexico, through

BBVA Bancomer, arises out of our continued and increasing belief in the region, including in somewhat unfavorable moments. Our protection lies in investment diversification. Our investment portfolio is quite diversified and proportionally distributed among developed markets in Europe, Mexico and the rest of Latin America.

What kind of initiatives have you recently undertaken to create more value? In what ways have these measures affected the level of complexity?

In the last three years, we have developed a fairly ambitious project to improve quality, which has proved to be profitable and has added value to all our stakeholders, with highly satisfactory results.

Our managed assets have sustainably grown from 3.5 to 7 billion dollars in terms of market share and profitability, expanding our activities and improving results more quickly than the rest of the system.

“We have ratified our Corporate Culture to ensure compliance with strict ethical and integrity principles in all our activities.”

We have changed the image of the bank. We were the first bank to introduce mortgage loans at variable rates, with currency, terms and amortization flexibility, dramatically reducing interest rates; we were the first to remunerate current accounts; we were the first bank to reduce interest on credit card balances by some 40%; in launching sophisticated financial products for global customers supported by Grupo BBVA.

We also were the first bank to segment our distribution networks, according to our customers' needs and create transnational networks for mass consumption and for a higher level of commercial attention, because not all customers require the same level of attention.

What is the CEO's role in addressing such complexity?

The CEO's role basically consists in cultivating and channeling existing capabilities in the team, dynamizing around a common objective and involving all individuals we have developed within the organization in a project that generates enthusiasm, uniting common interests.

Industry challenges

What do you think about the future of the financial services industry?

The local presence of major international financial groups, in addition to the general trend of locally incorporating international criteria and standards give rise to a slow but sustainable tendency of diluting the differences between consolidated and emerging financial markets.

An increasingly sophisticated and in-depth knowledge of customers and the access that has been made available to funding sources and financial services from abroad further accelerates this convergence, even more so in emergent countries which have robust and solid financial systems, as Chile.

In addition to intensifying these effects, we will certainly see in Chile and in Latin America in general, an outstanding deepening in the level of banking and a greater level of competition.

Which strategies have you adopted or intend to adopt to foster further growth?

The process I have just described and which was concluded in 2005, attempted to make use of the advantages of belonging to a world renowned financial group like BBVA, by developing an intelligent and adequate tactical approach to our position in the local market, and a specific development plan for each type of business.

Which strategies have you adopted or intend to adopt with respect to the challenges brought about by regulation and increased reporting requirements?

In Grupo BBVA, greater regulations and additional information requirements are inherent to our management styles.

Besides, BBVA established an advanced and demanding Corporate Governance system, with the strictest international norms and recommendations, and we have ratified our Corporate Culture to ensure compliance with strict ethical and integrity principles in all our activities, orient our activities towards customers and promote innovation in a more determined fashion.

What is the position of the company with respect to corporate social responsibility policies?

We are conscious that our decisions and actions affect not only direct interest groups, but may also have a major impact in the social and environmental context.

Grupo BBVA executed a number of different international agreements: The United Nations Pact, UN Program for the Environment and the Principles of Ecuador fostered by the World Bank. We have been awarded various honors in the field of Social Corporate Responsibility: FTSE4Good and Dow Jones Sustainability; “Best in Class” and an “AA” rating by Innovest for our social and environmental practices. At the same time, we have been granted recognition for our Global Report Initiative and for our Annual Corporate Social Responsibility Report.

Has your company taken part in any mergers and/or acquisitions?

Locally, in Chile, we have not realized any acquisition or merger.

Not so at the group level in Latin America, where we have realized several in the last three years, both in the banking and the insurance and pensions areas.

“We are conscious that our decisions and actions affect not only direct interest groups.”

Regional themes

How would you rate transparency in the public and private sectors in Chile?

The level of transparency in the public sector is relatively high, even by international standards, despite the existence of areas of concern, as in the case of contracting by public companies.

Comparatively, transparency in the private sector seems to lag behind, mostly as a result of the small size and concentration of the Chilean economy. In the last few years, we have observed the emergence of civil groups that demand a greater degree of transparency and have started influencing corporate practices, and companies are now much more sensitive to these issues, similar to what is taking place at the global level.

What are the principal factors that stimulate corruption in South America?

The intense influence of State in economic activities, both in terms of direct participation and through regulations that give rise to a high degree of discretionality on the part of civil servants.

The isolation from external competition as a result of the closed economy is another factor that also contributes to corruption in certain countries.

Which are the most relevant ethical issues for South America?

The most important factor is the gap between private and public interest, not only in the governmental sphere, but also in some areas of entrepreneurial life and other areas in certain countries.

Although some countries have managed to achieve important progress, reducing poverty levels is another relevant aspect.

“The level of transparency in the public sector is relatively high, even by international standards, despite the existence of areas of concern, as in the case of contracting by public companies.”

Which factors do you consider crucial to accelerate business development in South America?

A significantly stronger integration in the world economy and an exhaustive review of laws and regulations to make it more attractive to the market and less vulnerable to pressures from interest groups.

Which measures should Latin America adopt to increase the level of direct foreign investment?

The most important measures are reducing barriers to foreign trade and foreign investments, in addition to a determined support to geographical integration to foster trade and investment in the whole region.

To what extent would an increase in the level of transparency give rise to an increase in the level of direct foreign investments?

In the long run, yes, there is a relationship, but not necessarily an immediate return. When there is no transparency, a large number of investment decisions are based on opportunistic criteria seeking short term benefits.

What are the main obstacles to sustainable economic growth in South America?

The lack of ability to ensure stability in the rules of the game, with respect to property and contracts and, generally speaking, to guarantee that the law is applied.

In some countries, there is little understanding, particularly among political leaders, of the phenomenon of globalization and the challenges and opportunities that this process brings. ■





Interconexión Eléctrica S.A. Colombia

Javier Gutiérrez P. General Manager

Grupo ISA is one of the most important players in the electric power sector of Latin America, with operations in the entire Andean Community and is responsible for the operation of 48% of transmission networks with a voltage equal to or higher than 220 kV. In Colombia, the Group accounts for 84% of the transmission network with a voltage equal to or greater than 220 kV, 79% in Peru and 53% in Bolivia. Grupo ISA operates in and manages the Colombian electric power market and coordinates short term International Electrical Transactions (Transacciones Internacionales de Electricidad - TIE) between Colombia and Ecuador. In Colombia, the Group also has an important share in the telecommunications sector. With 59.3% of its assets owned by the government, in February, 2006 it completed five years of having its shares quoted on the Stock Exchange.

Javier Gutiérrez P., a civil engineer by profession, with post-graduate courses in finance and industrial engineering, has been the ISA General Manager since 1992, and has worked there since 1975. He has had a number of different positions in this company, always in the planning area.

Globalization

What has been the impact of the globalization process in your industry and/or particularly on your business?

It has favored the internationalization process in which we have been involved and offered more funding options. However, at the same time, it has forced us to compete with international players and raise our standards as a consequence.

Most countries in South and Central America, including North America, adjusted their regulations to facilitate this market liberalization process, but standards are increasingly more demanding. For this reason one has to become very competitive.

What do you consider are the main risks to your company when competing with foreign companies, both those from developed economies and those from emerging countries?

Companies like ours are finding themselves in open competition with larger sized companies. However our better knowledge of the region and its idiosyncrasies gives us greater flexibility to adjust to conditions that are often complex in our countries. But this fact does not avoid one having to compete with top players in terms of performance and funding options.

What role can trade agreements have on the region's development in the context of a more globalized world?

In our countries, we have a problem of focus. We should take advantage of those areas in which we have a greater possibility of being more competitive, and trade agreements may be of help in this aspect.

However, I support the maintenance of moderate protection measures in the economic segments that would be more likely to suffer serious impacts or in certain population groups that could be severely affected.

“We have worked a great deal in benchmarking strategies, always endeavoring to reach the highest standards with respect to technology, human resources, financing arrangements and approach to the capital market.”

Complexity

To what extent does business development in a volatile region increase the level of complexity of your organization?

I believe that there are clearly two very different types of complexity. The first occurs as a result of raising standards to more competitive global levels. Here, the difficulty lies in the change processes within the organization, which are greater depending on the age of the company. The second type may appear as a result of the still fragile political and regulatory institutionalism that exists in most of our countries, a fact which is not only complex but uncertain as well. In spite of existing improvements in some countries, we still come across surprises that could sink any business plan. The manner of approaching business by resorting to lobbying strategies, as adopted by some international companies, is not the best way to contribute to the development of an adequately balanced and predictable business environment over the course of time.

What type of initiatives have you recently undertaken to create greater value?

We have worked a great deal in benchmarking strategies, always endeavoring to reach the best standards with respect to technology, human resources, financing arrangements and approach to the capital market. In the institutional field, we are trying to develop transparent communication channels.

As we are a public company with multiple owners, we need to adopt highly transparent strategies to be able to respond to the owners and the commitments we have with different interest groups. At times we may encounter obstacles, but it has permitted us to generate an adequate perception with regard to the way we approach the themes.

“We are looking at opportunities, especially in Mercosur and Chile, which are currently the most promising regions in terms of growth potential, with fewer possibilities in the Andean Community, and we have started looking a little at Mexico and North America.”

Have these actions affected the level of complexity?

We have started developing models of business intelligence to be able to approach more efficiently the entry into new markets. We are also putting a great deal of emphasis on incorporating technology generally to improve our levels of efficiency.

We have continued with our efforts to improve our access to capital markets, because this issue is of critical importance to competitiveness nowadays.

Finally, we are working hard on the subject of corporate governance.

Industry challenges

What strategies have your company adopted or intend to adopt to foster further growth?

We have to fulfill three important goals: to achieve international standards of quality, reliability and costs, access to capital

Markets under the best possible conditions and be able to count on the necessary human resources to overcome new challenges, improving the development of our people.

What strategies have you adopted or are you considering adopting in relation to the regulations and increased reporting requirements?

On reviewing our own development in the capital market, it is clear that a company like ISA, whose principal stockholder is the federal government, should continue demonstrating that we honor our commitments. This strategy has enabled us to achieve attractive liquidity and profitability indices. There is no doubt that one of the keys has been the compliance with good corporate governance practices.

What challenges do you foresee or regard as the most important for your company at this time?

Our most important challenge is to ensure growth at expected levels, based on improved competitiveness. Growth

obliges us to be able to arrive at markets with greater levels of competence.

What is the position of your company with regards to corporate social responsibility policies?

We look at social responsibility within a much wider context, which regards society by looking at all its elements. We cannot act as if we were a bubble in the midst of the society in which we operate. We have established an integral social responsibility model that is oriented towards the fulfillment of our commitments with different interest groups. For example, as far as our stockholders are concerned, we have committed ourselves to create value; with regard to our employees, we have committed ourselves to value their contribution and support their development; concerning our customers, we have committed ourselves to establishing sustainable relations and offer them quality, opportune and competitively priced products; with respect to our suppliers, we have committed ourselves to establish a clear, transparent and equitable business environment; where the State is concerned, to fulfill our duties and strengthen the institution. With respect to society, we have committed ourselves to providing quality and efficient services, supplying timely information and contributing to its sustainable development and welfare. Accordingly, we have established an environmental management model with a

preventive focus and a social management model that contemplates programs related to research and development, involvement in regional development processes and peace, and the establishment of good neighbor relations with communities bordering our infrastructure.

We endeavor to create a sustainable environment for company growth, based on coherence and consistency with the commitments we have undertaken, the reason why we issue an annual report rendering account to our interest groups, though our Social Responsibility Report.

What is your position regarding mergers and acquisitions or strategic alliances in your industry?

Thanks to these processes we can currently count on two companies in Peru, ISA Perú, and “Red de Energía del Perú REP”, a company in Bolivia, ISA Bolivia, and we have become a partner of “Empresa Propietaria de la Red EPR”, which is expected to setup an electric interconnection in Central America. At the moment we are contemplating a number of investment opportunities that would create the possibility of investing in project development or acquiring other companies, as, for example, in the case of Brazil.

“The lack of institutionalization of political parties in the entire region is a concern.”

Generally speaking, would you say that these mergers and acquisitions or investments have been successful?

Definitely, we have experienced problems, but they have been satisfactorily addressed, and we have been able to generate profitable results. We intend to carry on with them. As a first priority, we are looking at opportunities, especially in Mercosur and Chile, which are currently the most promising regions in terms of growth potential, with fewer possibilities in the Andean Community, and we have started looking a little at Mexico and North America.

Regional themes

How would you rate the level of transparency of the public and private sectors in your country?

I would say it has gradually improved, to the extent that it is a permanent issue on the agenda and that there exist an increasing number of instruments to measure it.

What about the level of transparency in the private sector?

The fact that there are currently many more institutions and private enterprises entering the capital markets, through the stock market, is a clear sign that nowadays there is a higher level of trust on the part of the public and those who invest in the management of companies.

What are the major ethical issues in South America?

Generally speaking, the corruption issue. However, this issue involves a great deal of other matters. People do not trust politicians or the way they carry out their activities. The lack of institutionalization of political parties in the entire region is a concern. I also believe that the issue of contracting people and services in the public service, which also implies responsibility by the private sector, requires much attention, just as arbitrariness and lack of transparency in the decision-making process. All these circumstances create enormous distrust and hinder the

“The phenomenon of higher levels of South American investment in other countries in the region looks interesting to me. It is important to create favorable conditions to facilitate investments rather than concentrating investment coming from a specific source.”

business climate and economic activity. Naturally, it is necessary to strengthen educational processes on values, because our society is relatively permissive, and this contributes to aggravate the problem. Nevertheless, in view of the fact that societies have become stronger and that younger generations have a more critical capacity, some important advances have been made, as diverging opinions can now coexist, as in the religious field.

Which factors do you consider crucial to accelerate business development in South America?

Strengthening institutions: having clearly defined rules. The business climate is closely associated to the issue of trust, which is subjective by its own nature. In Colombia, for instance, president Uribe, took office in 2002 and, despite the efforts made, one could not say that there has been a dramatic change, because of structural problems that are difficult to resolve.

However an atmosphere of great tranquility and confidence has been established with a high favorable impact on economic growth and development.

What measures should South America take to increase foreign direct investment levels?

In the last few years, most countries have experienced a significant increase in the level of investments in the private sector. Institutionalization and stability of the rules of the game is the central theme. The phenomenon of higher levels of South American investment in other countries in the region looks interesting to me. It is important to create favorable conditions to facilitate investments rather than concentrating investment coming from a specific source.

What are the main obstacles in South America to sustainable economic growth?

A low rate of institutional development of South American governments, with the

corruption phenomenon; the limited development of the capital markets and human capital and, above all, greater stability in the direction we are going. On the other hand, most of the social problems our countries are confronted with arise from disproportionate income levels. These problems stand as a combination of interrelated issues, however some countries have managed to successfully overcome these problems, and once they have achieved this, they take off with much greater energy and consolidate. ■





Grupo Financiero Pichincha Ecuador

Fernando Pozo

Managing Director

Grupo Financiero Pichincha (GFP) is the leading financial group in the Ecuadorian financial system. The group consists of 13 companies that provide services in the insurance, investment funds, security brokerage, microcredit, and other segments. The Group operates in Peru, Colombia and Panama through four subsidiaries.

During 2005, the productive assets of GFP increased by 7.3% reaching a total of US\$3,383 million. The current portfolio is the asset representing the largest share, reaching a total of US\$2,070 million. Management and risk management controls achieved a gross default rate of 3.3%.

Cash deposits, savings and time deposits totaled US\$931.8 million, US\$740.5 million and US\$876.1 million, respectively. On the other hand, GFP's equity increased 18%, reaching US\$270.7 million. This increase has permitted a technical reserves index of 11.8%. During 2005, after tax profits were US\$40 million, against US\$34.6 million reported in 2004, corresponding to ROE and ROA of 17.1% and 1.3%, respectively.

Fernando Pozo, Managing Director of Banco de Pichincha C.A., studied economics in Ecuador and completed several post graduation courses in the most prestigious universities in the United States. Currently, he is also the chairman of the Private Bank Association of Ecuador.

Globalization

What has been the impact of the globalization process in your industry and/or particularly on your business?

The 1995 reforms have marked the start of a finance industry deregulation in Ecuador. This has permitted free flow of capital, almost all the Basel standards have been adopted, and there is reasonable freedom in the management of interest rates. However, this deregulation has not managed to attract new foreign investments, as in other countries in the region, which in my opinion is due to a combination of political instability and the relatively small size of our market. In Ecuador, only Citibank and Lloyds operate, serving very punctual needs in particular niches. Consequently, deregulation has not resulted in the presence of more players to impose different dynamics on the industry.

What do you consider are the main risks when competing with foreign companies, both those from developed economies and those from emerging countries? From which countries do you expect to face more competition in the medium term?

Deregulation means that the best companies, the best credit clients in Ecuador, have access to international funding.

Private funding is eight billion dollars and is equivalent to almost all the credit granted within the system.

Generally speaking, I would say that we compete with regional banks as well as banks from developed countries to finance the best and largest corporations.

From a funding standpoint, in Ecuador there is full capital mobility, whereby we compete with banks from developed countries, which send their employees to Ecuador to raise funds, in particular with private banks.

As regards the competition with countries in the region, the only case is Banco de Crédito del Perú, which serve specific cases that they have managed to establish at their own initiative.

In the future, if we do things relatively well, maintain a relatively stable economy and sign the Free Trade Agreement with

“There are people that go in search of political support by deliberately attacking the industry or certain banks.”

the United States, I would think that some banks from Spain and other countries in the region may become interested in entering our country.

What role can trade agreements have on the region's development in the context of a more globalized world?

I think they represent a commitment to create a regulatory framework more consistent and in accordance with international standards. This is for me the most important quality leap forward created by the treaties. The FTA drives you to do things that you cannot do if you remain a closed economy and fosters the process of investment.

For example, even though Ecuadorian products are currently entering the US market free from import duties through ATPDEA, companies have not made any major investments to increase capacity and productivity because its renewal is not assured.

With the FTA, prospects are consolidated, as is the stimulus to investment.

Complexity

To what extent does business development in a volatile region increase the level of complexity of your organization?

Currently, banking in South America, and especially in Ecuador, is highly complex. We have emerged from a very complicated crisis, in 1999 and 2000, the epicenter of which was a financial system that comprised twice the number of banks currently in operation. The capital flight that was produced was equivalent to half the total size of the system, something very significant.

Additionally, here people frown if the industry has profits. In a poor country it is easy to make political use of technical matters.

There are people that go in search of political support by deliberately attacking the industry or certain banks.

We waste too much energy anticipating the attacks that we will suffer and

“Know that you have a magnetic north, a strategic plan, understand that you cannot go in a straight line.”

preparing the response. Sometimes, this makes us overlook strategy to make up for some threat related to business activities.

What is the role of the CEO in managing complexity?

I believe it is mainly to try and understand the full dynamics of things, try to anticipate the future, try to have all possible information to anticipate events and take preventive decisions, with a long-term vision. The key for a CEO, in my opinion, is the following: know that you have a magnetic north, a strategic plan, understand that you cannot go in a straight line; sometimes, to meet our goals, we have to get there in a roundabout fashion. I think this is the major challenge of a CEO.

Industry challenges

What do you think is the future of the financial services industry? How do you characterize the future of financial services in Ecuador?

Before dollarization, the treasury departments of all the banks had important revenue from foreign exchange.

Currently, the major change imposed by dollarization was that we had to discuss the real economy.

It is essential that institutions search for higher efficiency levels, since the indicators in Ecuador have to improve a lot to reach global competitiveness.

Additionally and because of low income per capita and low access to banking services in emerging countries, the financial services industry should rethink traditional banking to give access of the population to urban and rural microcredit and find access channels to the public according to the characteristics of these markets.

What strategies have you adopted or are planning to adopt to improve bank growth in this environment?

We have made a considerable effort to segment current clients and prospects to

deploy a business model that permits new segments by delivering (selling) the products and services these clients demand, at reasonable prices and rates, and through reliable distribution channels, so that we maintain a cost structure and efficiency levels that allow us to be profitable.

We have focused our strategy on improving efficiency levels. We have made a complete operating change because the bank was outdated.

We have created the most efficient matrices possible without overlooking client service.

The financial industry requires a substantial amount of technology. We have handed this issue to others; we let them deliver results while we manage our business. In my opinion, one of the most common mistakes is to be “all rounders”; you have a financial institution and you think you know about technology or software.

What you have to do is buy the best solutions and dedicate yourself to your core business, which is already sufficiently complex if we want to expand our scope to other market sectors.

What strategies have you adopted or are you considering adopting in relation to the regulations and increased reporting requirements?

At the end of the day, much of this - everything introduced by Basel II, for instance - simply increases the industry's capital requirements. The best way to face - up to this trend is automation and, to do so, technology support is essential. The other thing is that to meet such need we have to have larger critical mass and to have larger critical mass in an economy that is not growing at the pace it should, we have to enter other niches.

What are some of your new niches?

On one hand, everything around the concept of microcredit. We still work a lot in urban microcredit, while rural microcredit requires a different type of knowledge. Microcredit does not go through formal banking but through informal banking, where you enter using certain non-traditional strategies. You have to look for different formulas that lead to alliances with retail chains, suppliers, media, etc. It is a different paradigm.

On the other hand, we have to pay attention to the economic dynamics. Ecuador suffers from what is called

“We lack corporate solidarity, that businessmen understand and assume the role that they must play in a poor country.”

“Dutch disease”. We have two very important sources of capital flow which are oil and emigrant remittances. This generates a large flow of funds but as there is no economic stability or confidence, this capital disappears through importing consumer goods. When such funds are channeled to investment, development will be different.

An important issue is to understand our emigrants and incorporate them into the economy. One can try to securitize such remittances and raise funds at a lower interest rate than the funds raised in Ecuador because, in thus doing, we would be outsourcing the Ecuador sovereign risk. Interesting things can be done with these resources.

Regional themes

How would you rate the level of transparency of the public and private sectors in your country?

Unfortunately, it is low because there is no institutionalism and I think the private

sector also has its share of responsibility in this issue. Taxation is very high but the informal economy is very extensive. In the finance industry, for example, the profits for the financial year are almost the same as we pay in taxes and other contributions to the State. This is absurd and shows how much the formal economy is burdened when many players are outside the formal economy.

The finance industry is overregulated: there are external audits, internal audits, risk ratings, mandatory disclosure of financial statements, etc. Every one sees us and this is good, but this is not the case of other industries. In Ecuador some companies do not go public or issue shares or bonds partly to avoid having to open their books.

In the public sector there is not much transparency either.

The best Ecuadorian state-owned companies do not have open books. This creates a big mystery. Accountability is extremely low.

“I believe that sometimes what people expect is everyone to be rich or that inequality does not exist, but this is not achieved overnight and looking for shortcuts only worsens things.”

What are the major ethical issues in South America?

I think that, as everything in life, the tone at the top of an institution is what matters. When respect is lost at this level, one can assume everything is permitted. I am talking about governments, from presidents of the republic to their cabinets and obviously the shareholders and the management of private companies.

It is also important to start to work with children. We should create from an early age, a set of fundamental values, which obviously should be born within the families.

Do you consider the shift to the left that we see in some countries of the region is also related to a perception that the system is corrupt?

More than the left, what worries me is populism, both from the right and the left. If, for example, we qualify as left wing the two last administrations in Chile that really would not worry me. But I worry with the populism that abuses of poverty

and ignorance, and I think one of the reasons for its presence in Latin America is the wave of corruption that remains in the eyes of the people. On the other hand, poor countries have not managed to reduce poverty, despite having done some things right. We lack corporate solidarity, that businessmen understand and assume the role that they must play in a poor country.

Unfortunately, many only look for quick returns because they do not know if the next day such country will still have a clear direction.

And how do you see Latin America today?

I see it different in many ways. I am worried with what is happening in some countries, such as in Venezuela. Bolivia is also a big doubt.

We can see very different situations in countries that are handling things clearly, such as Chile or Mexico. In Brazil, it seems to me that despite the problems, there is a much clearer direction.

In economic development there are no shortcuts. Things have to be done with perseverance. I believe that sometimes what people expect is everybody to be rich or that inequality does not exist, but this is not achieved overnight and looking for shortcuts only worsens things. ■





Manufactura de Pilar S.A Paraguay

Guillermo Caballero Vargas CEO

Mr. Guillermo Caballero Vargas, a lawyer, heads in Paraguay one of the most important corporate groups in the country, operating in the textile industry and in agribusiness.

The company Manufactura de Pilar S.A., flagship of the group and of which Mr. Caballero Vargas is the president, is a vertically integrated textile company, from the purchase of raw cotton from farmers, to the manufacture of finished dyed and printed fabrics, as well as the manufacture of garments under its own or third-party brands. Founded in 1930, it is currently the largest textile company in Paraguay, and sells its products in the domestic, regional, and international markets.

The company favors clean production by using low pollution chemicals and dies and insures the renewal of resources through a wide-ranging reforestation program to mitigate the use of local trees to generate steam.

Mr. Caballero Vargas, was involved in his own personal political project that resulted in running for president in 1993, and later to occupy the position of Minister of Industry and Trade of Paraguay. Currently, he presides over the Cotton - Textile - Clothing of the Investment and Exports network (REDIEX), an agency of the Ministry of Industry and Trade. In addition, he is the President of the Textile Chamber (CATEX) of Paraguay.

Globalization

What has been the impact of the globalization process in your industry and/or particularly on your business?

The case of Paraguay has some particulars in respect of its neighboring countries, like Brazil, Argentina and Uruguay. In terms of imports, I would say that Paraguay has been globalized for at least twenty years. Our frail customs controls have permitted since that time the entry of large scale amounts of smuggled or grossly underinvoiced goods, overriding tariff protections and driving us into global markets without protection. With regard to exports, as from the advent of Mercosur, Paraguay has been regionalized, which has permitted us to access larger markets.

Thus, the advance of globalization has forced us to identify a number of new channels and products to reach both end

consumers and small handcrafting industries, which have made a significant contribution to our strong growth in the last few years.

In the current circumstances, the Paraguayan textile industry is facing the challenge of competing with a massive entry of textiles, principally from Asia. In our case, our main strategy is to orient production toward textiles with high cotton content, such as thicker fabrics for slacks instead of lighter fabrics for shirts, taking advantage of the higher competitiveness we have achieved by being near our supply source, cotton, which is purchased directly from farmers.

On the other hand, we have developed products for end consumers, which allow us to compete in terms of quality, style and service, but not pricewise. We are currently exporting these kinds of finished products to neighboring countries, mainly Brazil and Argentina, in higher volume than that which we could trade domestically. Similarly, with regard to distribution channels, our strategy has consisted in getting closer to end consumers.

In this way, without discarding the five or six major distributors, which for many years built our main trading channels, we decided to setup our own chain of stores, which have been a marked success.

“I believe evaluating innovative alternatives in relation to their cost is one of the main responsibilities of the CEO.”

Finally, we developed a line of handcrafted products which has achieved remarkable growth. Our sales in this local market segment have tripled because we face no competition from goods coming from Asia. We should stress that our handcraft industry stands as an activity of a far-reaching social scale, with a strong impact on the generation of jobs.

In summary, globalization has led us to create products and channels that would have been unimaginable fifteen or twenty years ago, perhaps because there was no need to create them at that time.

What do you consider are the main risks to your company when competing with foreign companies, both those from developed economies and those from emerging countries?

With respect to competing with companies located in developed economies, the main risk lies in subsidies these companies receive from their governments.

Regarding the companies located in emerging markets, a competitor from a company located in Asia relies on labor costs four or five times lower than ours: our cost per worker is not less than 300 dollars per person, as compared to the 70 or 80 dollars an Asian worker is paid.

At the regional level, trade agreements are a second determining factor. Mercosur has practically no agreements of this kind, while Central America, Mexico and some countries like Colombia, Peru and Bolivia have signed a number of treaties which, in our opinion, produce equality in trade with the First World.

As a result of this situation, Mercosur is forced to enter into special agreements to be able to export to the United States or to Europe.

“I believe that we all have to address it with the best possible coordination, because there is very little transparency in the public sector but, above all, in the private sector.”

Complexity

To what extent does business development in a volatile region increase the level of complexity of your organization?

In the first place, complexity levels have increased as international trade regulations have become stricter. Add the volatility of our markets to this general factor, and the result is that we are permanently forced to innovate and differentiate ourselves. Although innovation boosts our productivity, it is always associated with new challenges and costs.

What is the role of the CEO in managing complexity?

I believe evaluating innovative alternatives in relation to their cost is one of the main responsibilities of the CEO. At least in the industrial-commercial sector, without innovation there is no business, especially in the textile industry where a

tenacious demand for new designs, stamps, garments and other products make the ability to generate different products a continuous requirement in competing for the market.

Industry challenges

What is your position regarding mergers and acquisitions or strategic alliances in your industry?

Well, acquisitions and mergers account for a significant amount of the existing complexity. In spite of being convinced that we are facing a new development cycle as there have been changes in macroeconomic management, volatility still persists in our markets and forces us to take more cautious decisions.

A clear example of this risk occurred with Manufactura de Pilar S.A, which decided to seek an alternative to expand its own installed capacity, when the economy started perking up again in 2003.

That company had undergone a difficult situation from 1997 or 1998 to 2002, to the point that, in 2002, immediately after the Argentine crash, we were on the verge of closing the company down. In late 2002, the market started growing again, but Manufactura de Pilar S.A. was operating at half of its capacity. Recently, in 2003, it started operating at full capacity and, as from 2004, its product placement potential has significantly exceeded its production capacity, especially in fabrics.

Due to the volatility of our market, we resisted the temptation to invest in capacity expansion and decided to outsource our production by subcontracting small local textile companies, providing them with thread in exchange for crude fabric.

Then, we started outsourcing in Argentina by exporting yarn to the province of La Rioja in exchange for crude fabric. Now we are studying something similar in Uruguay and have just started importing crude fabric from Pakistan. Ten or fifteen years ago, we would have expanded our factory facilities instead of creating this outsourced network. Although we believe that this kind of economic collapse will not happen again, at least in the near future, there may well be a slowdown in growth.

The idea is to develop a network that allows us, first, to stop importing from the Far-East; second, to put an end to outsourcing and, last, reduce the amount of overtime to gain more flexibility and reduce extra expenses. Had we been located in a more predictable region, we perhaps would have invested in the expansion in the number of machines instead of having to resort to such a variety of initiatives that increase business complexity. Unfortunately, this is our reality, and we have to operate in it.

What challenges do you foresee or regard as the most important for your company at this moment?

Well, with regard to my own company, the main challenge is to attain an increasingly higher efficiency to be able to reduce costs without sacrificing quality.

From a more strategic standpoint, we intend to give our brand a stronger national identity to meet the competition posed by imports.

Regional themes

How would you rate the level of transparency of the public and private sectors in your country?

This is a vital issue for our region, and I believe that we all have to address it with

“Although I believe that we have made significant advances (in transparency) in the last few years, the process advances slowly.”

the best possible coordination, because there is very little transparency in the public sector but, above all, in the private sector.

Although I believe that we have made significant advances (in transparency) in the last few years, the process advances slowly. Twenty-five years ago, corruption in Paraguay used to be managed directly by the Executive Branch; that corruption was at least more organized, but perhaps less participatory. As of the democratic transition, this centralized management disappeared and with it all the controls.

Currently, the countries in this region provide a better response to this problem, and their institutionalized controls are improving, but we have a long journey ahead of us.

With respect to the private sector, as long as good examples come from above, I believe it is possible to achieve a better alignment of society as a whole.

There is no need for major campaigns: with more clearly defined rules in the public sector, a stronger determination to comply with contracts and a formalization on the part of private initiative, it is possible to improve the situation.

Which factors do you consider crucial to accelerate business development in South America?

I believe that we should prioritize a true integration of our geography, if South America is to develop more quickly as a region.

Currently, among so many other things that we need to achieve integration in the continent as a whole, we still lack a railroad network that crosses the continent coast to coast, from the Atlantic to the Pacific.

An interconnection between the Orinoco river, in the State of the Amazon, Paraguay river, the State of Paraná and Rio de La Plata, which is technically feasible, would be another ambitious project in terms of investment, but of transcendental importance because it would give rise to extraordinary trade development in the interior of the subcontinent.

“We would need to have solid institutions and macroeconomic stability.”

What measures should South America take to increase foreign direct investment levels?

Well, as we have already mentioned, we would need to have solid institutions and macroeconomic stability. However, I believe that we have learned from our own mistakes and, therefore, important changes are taking place. As a result of the 1981 crash, Chileans realized that they could neither use the currency exchange as an anti-inflationary anchor nor play with an overvalued currency, because this only gives rise to massive and irresponsible indebtedness. Currently we are working with our own resources and we are not increasing our indebtedness and, in addition, we are paying-off our debts. Countries like Argentina, Uruguay, Brazil and Paraguay have shown a relative consistency in their growth. Brazil is attracting an enormous amount of investment, as is also now happening with Argentina. Paraguay is beginning to benefit from the inflow of foreign capital. ■





Grupo Graña y Montero Perú

José Graña Miró Quesada

CEO

THE GRAÑA Y MONTERO GROUP is the most important Peruvian corporate group in the construction industry. The group consists of five engineering and infrastructure service companies: GYM (operating since 1933 and the oldest construction company in Peru), GMP (provides oil and terminal operation services), Concar (operates and maintains roads under concession), GMI (provides engineering consulting services and is the major shareholder of Ecotec, a firm specialized in environmental engineering) and GMD (information technologies and systems outsourcing). The group operates in four Latin-American countries, employs over 1,200 professionals, and in 2004 and 2005 its revenues exceeded US\$250 million a year.

The Graña y Montero Group is headed by architect José Graña Miró Quesada, who is a graduate of the Universidad Nacional de Ingeniería, the Escuela Superior de Administración de Negocios para Graduados (ESAN) and the Top Management Program from Universidad de Piura.

Graña has been the president and officer in important Peruvian companies in the transport and telecommunications, mining, electric energy, and banking industries, among others. In addition to heading the Graña y Montero Group, he is also a member of the executive committees of Empresa Editora El Comercio, Empresa de Generación Eléctrica de Lima (EDEGEL), and Minera Hochschild.

Globalization

What has been the impact of the globalization process in your industry and/or particularly on your business?

In construction there has always been competition with foreign companies but in the past this had a more traditional focus, between building constructor and building constructor. Today, large transnational companies are more sophisticated and have gone beyond construction: engineering, purchase services, full project delivery services, project finance, etc.

For local companies it is harder to compete, in particular with companies from developed countries. Competition among Latin American companies is more manageable, but to compete with global companies is a very big challenge because they have other contractual arrangements.

A phenomenon that has occurred in Peru, in the case of large investments from foreign mining companies, is that they arrive with a Project Manager who already has an EPC (Engineering, Procurement and Construction) contract that basically leaves room only to work as subcontractor. They do not contract workers - they run the whole operation: engineering, procurement decisions, and builders. Project managers know a lot about the business and are experts in contracting and transferring tougher responsibilities to subcontractors.

I am convinced that we have to transform challenges into opportunities with a realistic view. First of all we have to meet the new standards required by global companies, which go way beyond work quality. On the other hand, we have to learn to apply the new model in areas where we can use it, but on our own scale. Sometimes, for medium-sized companies, project finance can be made easier if our company participates in it, and this also creates new opportunities.

From which countries do you expect to face more competition in the medium term?

Most of the competition comes from Chilean construction companies, and after that from Argentina and Brazil. However, this still happens under the

“First of all we have to meet the new standards required by global companies, which go way beyond work quality.”

traditional model. The biggest problem is how to compete with European or American companies, which arrive here with all those standards and capabilities that I have mentioned.

What role can trade agreements have on the region's development in the context of a more globalized world?

I think they are fundamental. The main advantage of a free trade agreement is not so much its commercial side but what it represents with regards to private investment, resulting from the stability of the rules of the game, regulations, country integrity when it comes to political fluctuations, etc.

This creates a stable country and it is the only way to ensure that in the future crucial regulations are not changed, such as customs duties or monetary policy.

Complexity

To what extent does business development in a volatile region increase the level of complexity of Your organization?

By definition, construction is very cyclical; not so much for political reasons but for economic reasons. We are highly impacted by international crises. We have been here for many years and know that every seven or ten years there is a downturn.

Normally these downturns last a couple of years, followed by three strong recovery years, and thereafter stabilization. These cycles, obviously, do not simplify business management.

What type of initiatives have you recently undertaken to create greater value?

From a strategic standpoint, we decided to stabilize revenue flows, which were too volatile, through a strategy of diversification.

“We decided to stabilize revenue flows, which were too volatile, through a strategy of diversification.”

The simplest example is concessions: we are focusing on long-term contracts to be able to produce more accurate forecasts and plans. We have managed to ensure that stable gross revenue flows from contracts are sufficient to cover debt service and general costs.

Another issue is corporate governance. In 1997 we listed our shares on the Stock Exchange; however, the crisis came in 2000.

Therefore, two years ago we started to work harder on the company's corporate governance. We therefore believe that this will generate important and positive changes in the long run, which will reflect on the results and in the satisfaction of all stakeholders.

What is the role of the CEO in managing complexity?

Obviously, I believe it is to reinforce leadership, pinpoint globalization trends, and change in time. From the management side, I believe the main role is to define strategies.

A diversification strategy entails giving executives freedom of action at each of the companies in new activity cycles, and with different styles. Our role is to encourage and make these styles compatible. It is also indispensable to look for partners and learn from their experiences, which are always invaluable.

Industry challenges

What are the main challenges that you perceive for the industry?

It is important to see that future development of construction will need to undertake greater investment in infrastructure.

It is increasingly necessary that infrastructure be financed by the private sector because it is clear that the Government cannot do it alone.

Financing is another important challenge. The capacity to properly finance is not simply to have enough support to manage large projects but to have the knowledge to implement the most appropriate financing arrangement for each project.

What is the position of your company with regards to corporate social responsibility policies?

We have always had responsibility programs. We are now structuring them better and applying them in an integrated fashion with the communities. In recent years we have rationalized and systematized our programs; we have established a social responsibility policy and we are working on implementing it.

Entering new activities also adds complexity to this issue. A relatively new aspect for us is how to manage this focus in the long term, as in concessions, since we are used to establishing relationships with the communities during periods that rarely exceeded two years.

On the other hand, social responsibility programs are getting more technical and standardized at international level. However, I think that if they miss uniqueness, the idea that you are doing something different from others, it does not make much sense to have such programs.

In construction, for example, when we arrive at a distant community to build a road, we design the camp so it can also be used as a medical centre for the village.

At the end of the day, what is done in practice is to donate the medical center. However, this does not apply much to other cases and we are looking for ways to adapt this idea.

Regional themes

How would you rate the level of transparency of the public and private sectors in your country?

I think the transparency and corruption issue in Peru is extremely complex. It is not the only issue or even the worst in the world. We have a good working relationship with the State, although currently Government contracts account for only ten percent of our project portfolio. In the privatization processes in which we were involved we never found corruption issues. However, several scandals have seriously undermined the Government's image.

“We have established a social responsibility policy and we are working on implementing it.”

What about the level of transparency in the private sector?

It is unquestionable that it is not sufficient, but I wouldn't say this is because of bad intentions but the result of the slow development of institutions. Companies that are getting listed on the stock exchange obviously have to be more transparent and it is true that in some cases they do not want that, but I believe that this is more due to weakness or the wish to act more independently.

How has the increase in outside regulations impacted your business?

Basically through the standards to obtain international funding.

Companies that have already had to raise funds internationally have had to comply with a number of requirements, including

good corporate governance, social responsibility, environmental care, etc.; in addition to the traditional quality control systems. New rules are coming basically to support the previous issue, transparency.

What are the main obstacles in South America to sustainable economic growth?

Well, I think that it is clear for all of us: clear rules of the game and overcome the image of instability that haunts us. I think this is the most important issue. Also the corruption or transparency issue, but I think this is overrated. The most important thing today, in my opinion, is strong institutions and macroeconomic stability. The signature of an FTA would be a big contribution to generate clear investment rules.

“Companies that are getting listed on the stock exchange obviously have to be more transparent.”

“The most important thing today, in my opinion, is strong institutions and macroeconomic stability.”

How do you envision the region in the coming years?

I do not think we will progress much and I would even say that probably there will be some setbacks. It is essential to differentiate oneself, as is the case of Chile, which has already signed a free trade agreement. Chile and Mexico should remain as they are. Mexico also faces problems but the situation will never be as unstable as it is in Bolivia. The countries that sign an agreement with the United States or Europe will be different from those that do not sign one. This is to differentiate oneself. I hope Peru and Colombia sign such an agreement. ■





ANCAP Administración Nacional de Combustibles, Alcohol y Portland Uruguay

Daniel Martínez

President of Directory

ADMINISTRACIÓN NACIONAL DE COMBUSTIBLES, ALCOHOL Y PORTLAND (ANCAP), Uruguay's state-owned oil company was born, as the country, without oil reserves. Company annual revenues are US\$1.3 billion and it employs approximately 2,000 people with an average age of 48. ANCAP is the company with the largest revenues in Uruguay, where it operates under a monopoly. The activities of the company are as follows: petroleum refining and sale of petroleum products; manufacturing and sale of lubricants; prospection and extraction of hydrocarbons overseas; sale of fuel and petrochemical activity abroad; import, transportation and sale of natural gas; manufacturing and sale of alcohols and alcoholic beverages; production and sale of Portland cements and related products.

This state-owned entity is managed, since March 2005, by Engineer Daniel Martínez, part of whose career was at ANCAP. He graduated as an Industrial Mechanical Engineer from Facultad de Ingeniería de la Universidad de la República Oriental de Uruguay, Martínez had an important career as a businessman and consultant in Uruguay and abroad from the early nineties on until he was appointed President of ANCAP. Currently, he is also Vice-president of the Uruguayan Engineers Association and the Latin American Work Safety Engineers Association.

Globalization

What has been the impact of the globalization process in your industry and/or particularly on your business?

The main challenges are the volatility of crude oil and refined oil products, a complex issue that absorbs most of our attention; the emergence of new markets with large demand capacity; the weight of investment funds to determine international pricing; and the introduction of technologies that were not profitable some time ago and that after a certain critical value, become attractive.

Despite the fact that in the oil and oil products market distance is a major issue, globalization has rendered business activities complex, presenting countless alternatives for the same product, with significant price differences.

This requires more professionalized trading departments and access to more information. In other words, the traditional business development vision of extraction, refining, distribution and sale became more complex, and the possibility of developing new business, as well as intermediation opportunities, requires a change in mentality and attitude.

We need, for example, to have a new professional trading structure and, at Management level, our focus is on this. We do not discard even exploiting and building up partnerships, without abandoning our own internal development in this area.

This requires human resources which currently we do not have, but we are working on this.

Concurrently, to ensure that this effort makes sense, we have to streamline our response capacity to meet the business demand generated by trading.

It is necessary to add value more dynamically, render our production capacity more flexible, and act based on clear principles. This is fundamentally a cultural issue.

“Our main regional competitors are companies headquartered in Brazil and Chile, companies with solid strategic vision to consolidate their positions, which represent serious challenges.”

What do you consider are the main risks when competing with foreign companies, both those from developed economies and those from emerging countries?

Even though companies in emerging countries are usually more flexible, because of cash volumes managed in each transaction and the advantage of having several alternatives for the same product, companies in stable economies represent a greater challenge to ANCAP.

Our main regional competitors are companies headquartered in Brazil and Chile, companies with solid strategic vision to consolidate their positions, which represent serious challenges.

The complexity of globalized business, however, generates the possibility of partnering, both for ANCAP and its competitors. Partnering is not only the sum of spot business actions, it is also building up longer term alliances.

What role can trade agreements have on the region's development in the context of a more globalized world?

If fully complied with, bilateral and multilateral trade agreements can be positive, by setting more stable and predictable rules of the game.

The creation and operation of arbitration courts are signs of the maturity of the integration process, as are the new conflict resolution mechanisms.

One of the most important problems that the region needs to solve, at the continental level, is the establishment of clear, consistent long-term rules that define the framework in which business is developed.

In other words, it is not enough to have the tools, they have to be effective and reliable.

“One of the most important problems that the region needs to solve, at the continental level, is the establishment of clear, consistent long-term rules that define the framework in which business is developed.”

Complexity

To what extent does business development in a volatile region increase the level of complexity of your organization?

The sophistication of business management does not yet reflect at our level of organization, which should occur when we complete our strategic plan and implement the actions necessary to reinforce the levels of institutional commitment. The level of complexity of the industry obliges us to operate at different levels, from a local, regional, and even global standpoint. In addition to the limitations that are imposed by the scale of our company, we will adopt a new organizational reality, aiming at streamlining its structure, flexibility and agility of its capacity of adaptation.

We do have, however, to focus on a greater degree of sophistication in our reactions and initiatives. In other words, increased business complexity, increased management sophistication, increased organization streamlining and flexibility.

In brief: think freely to act dynamically. Sophistication and complexity especially in two areas: trading and production structure.

Industry challenges

What are the main threats faced by ANCAP?

In the oil business, globally and at each horizontal level, there will always be better or worse partners, but there is no such thing as a free lunch. We have to add value but especially we have to generate value from a strategic standpoint.

The only constant is to have a strategic vision. We, both as a country and as a company, are very small in the global context.

To think that we can survive without business alliances, under a win-win constructive spirit, maintaining our management independence and control, and even other conditions, is unthinkable for us.

To be precise, we need to project ourselves starting from our limitations in order to add the potential which will give us strategic projection. This is one of the crucial elements on which we are working, not only at the ANCAP management level; we have involved the entire company. It is fundamental that all feel involved, as part of the process.

To do so, we have created new discussion and participation forums to involve our people and build up a new sense of belonging.

Regional themes

How would you rate the level of transparency of the public and private sectors in your country?

There are clear problems regarding transparency in organizations. This is not exclusive to state-owned companies, but it reflects a broader reality.

Throughout decades we have established bureaucratic mechanisms to conceal problems, but that must go. I think this is a reality of the Uruguayan State and the entire region: we lack monitoring and control, feedback that results in the compliance of goals, indicators that allow assessing the compliance of such goals.

ANCAP is and will continue to be state-owned company, but may lose its monopoly. For this reason, we should adopt transparency as a fundamental control-element value.

What measures should South America take to increase foreign direct investment levels?

Generally speaking, investors always look for long-term signs. Our countries, in general, never had and still do not have long-term policies, nor have we started to fully think of ourselves as nations.

In reality, business development has depended on a kind of creation of very original solutions, including in cutting edge industries, but the dominant vision is a kind of “scarcity engineering”, where many resourceful, very creative, much cheaper things are done than by our competitors.

But if this had resulted from the effort of applying a method, a stable system and policies, many resources and frustrations would be spared.

With stable policies and skilled professionals results are enhanced. We see these problems today, when we try to consolidate progress in political intentions.

“It is fundamental that all feel involved, as part of the process. To do so, we have created new discussion and participation forums to involve our people and build up a new sense of belonging.”

Additionally, there are no definitions to negotiate within South America. The day we have a realistic integration policy and develop clear consolidation lines, we will open-up fabulous trade opportunities inside the region.

This requires more than immediate political will, not being subject to the problems of each player. We should focus on the future, and build supranational arbitration forums to solve conflicts.

Which are the main challenges that the region imposes on a company like ANCAP?

The first challenge for ANCAP is its own transformation. It is fundamental to define a broad strategic plan, covering all units and areas, with clear objectives and goals, and a dashboard of management indicators to monitor and guide the company as a whole.

We should also work to attain a better understanding of the civil servant concept.

Part of the cultural change of the organization entails understanding, from the first to the last company employee, that we are civil servants. We are not an abstract entity but an entity at the service of the country, and our actions, by conditioning company results, also condition our people and the national productive system.

It is major conditioning for energy companies; we should have a strong social commitment and, therefore, a solid environmental policy.

A second challenge consists in developing business alliances with the objective of vertically integrating ANCAP in the oil business.

The oil industry is essentially a vertically integrated industry: extraction, refining or value adding - since refining is not the sole integration that we can obtain distribution and sales. For us and given our reality, forming oil and gas reserves on the banks of the Orinoco can be determining in the long run.

“As regards exploration, for a company such as ANCAP it is difficult to define a precise field of action.”

A particular step within this set of challenges is the need to prepare ourselves to reach the capacity to refine the sort of oil that begins to dominate the market. If our refinery only processes light or medium oil, we should prepare for a transformation that allows us to adjust to this offer. Nowadays in the world, the largest offer and reserves are concentrated in heavy oil. So, to have appropriate technology to process heavy crude oil is one of our strategic objectives. or medium oil, we should prepare for a transformation that allows us to adjust to this offer. Nowadays in the world, the largest offer and reserves are concentrated in heavy oil. So, to have appropriate technology to process heavy crude oil is one of our strategic objectives.

Additionally, and as a result of this, idle capacity would be generated to initiate and develop a trading role in the region. Uruguay can and should develop this role from a logistics standpoint.

I do not want to forget biofuels, which should be integrated into this set of fundamental definitions of an energy ANCAP.

How does ANCAP see its growth in the region?

For ANCAP, it is fundamental to get projection in the Orinoco basin to obtain oil raw materials. We are also considering gas on the Brazilian border. The region from the Argentine Mesopotamia region to Paraguay also represents an area we are considering commercial viability. As regards exploration, for a company such as ANCAP it is difficult to define a precise field of action. We face limitations due to our scale; this is patent. We observe with much interest the development that certain companies are obtaining with decision and projection. There are some that, with similar characteristics to ours, are looking at the world in a more integrated fashion. I do not discard this, but given our starting point, I see it as a secondary strategic priority level. ■



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