

Crisis and Opportunities

THOUGHTS AND LESSONS

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Preface

BY PETER FUCHS / PRESIDENT, VIVA

While working in the war zones of conflict-torn Nicaragua and El Salvador as a delegate of the International Committee of the Red Cross (ICRC), I had to face a permanent state of crisis.

In Argentina, I lived side by side with AVINA's representatives from the beginning of the great crisis through the transition from a state of normality to a state of disturbances, uncertainty, and insecurity. Finally, during a recent visit to AMANCO Argentina, I learned how the company had been able to weather the storm and overcome the crisis.

In all the many years that I have known Latin America, the continent has never been crisis-free, a state of affairs that, apparently, will continue to exist in the foreseeable future. GrupoNueva, AVINA, and VIVA will always live under the shadow of looming crises. That is why I believe it is worthwhile to reflect on this issue, to determine whether opportunity lies hidden behind every crisis, and to learn from our experience.

The word *crisis* comes from the Greek, *krisis*, meaning "choice" or "decision." It refers to a regular, customary process in which we suddenly come to a fork in the road and are forced to choose the path we will follow. In the 16th century, physicians included the word in their vocabulary to describe the turning point in a fever, after which the patient would either die or recover. Later still, the word came into common, non-specialized use to describe a difficult situation, fraught with danger.

The idea for this publication, "Crisis and Opportunities, Thoughts and Lessons," is probably to be found in

the original meaning of "crisis," that is, "the time to judge and decide." Human beings have a tendency toward inertia, immobility. While things are more or less working out, we are happy to let them be, not aspiring to make sweeping changes and seeking solace in the comforts of routine. Under these circumstances, we are not forced to constantly innovate or adapt. However, this comfortable state of lassitude does not allow for extraordinary achievement, as no creative effort is demanded. Oftentimes we fail to recognize the first symptoms of a crisis, or attempt to sweep them under the rug, lest they disturb our peace and quiet. Behind this apparent calm, however, the crisis continues to brew until it finally crashes upon us with all its might.

We have, therefore, only two options: either we remain inert and lament our sad fate when crises eventually overtake us, or we mobilize our resources, change, become creative, and make decisions. By choosing the second option we suddenly overcome inertia and find new and probably better solutions that the long indolence of our halcyon days had kept hidden from us. Or, to put it differently, the uncertainty of the crisis is treated as an opportunity. It is at these crucial times when the true operational efficiency of a business or the social acceptance of a philanthropic organization is put to the test.

VIVA has taken advantage of the Argentine crisis to invite several key players to tell us about their experiences and to share with us their thoughts on the general issue of crises and the opportunities they generate.

We should be very pleased if this helps all of us be more aware of the crises surrounding us, avoid inertia, and constantly foster creativity, instead of only doing so only in times of crises. This would indeed be the greatest service that GrupoNueva and AVINA could render VIVA.

Here history may teach us some important lessons. In a nutshell, it suggests that things won't ever turn out as well as people hope during the cycles of optimism and euphoria, but likewise they hardly ever become or remain as bad as they looked at the bottom of the crisis.

The human nature of crises

BY STEPHAN SCHMIDHEINY



Ever since the Spanish *conquistadores* discovered abundant sources of gold in the early 16th century, Latin America has been a continent of wild dreams, highflying hopes, and truly unique opportunities. At the same time, war and conflicts of all sorts, political and economic mismanagement, natural disasters, and economic cycles made crisis an omnipresent feature of life and civilization in Latin America. Thus, the past five centuries of the history of this vast continent represent an endless series of lurches between extremes of crisis and opportunity.

The past two decades have again shown an accentuated pattern of the cycles that characterize Latin America's development. After the *decada perdida* of the 80s and the collapse of the Soviet empire, a new wave of optimism and promise swept through the continent. Markets were opened up; government intervention in economies was reduced; military regimes were abolished, and processes of democratic participation strengthened.

During the 90s, Latin America seemed to glow in a bright light of almost unlimited opportunities. While the Internet bubble was producing a huge amount of new capital up north, investors were bold enough to channel hundreds of billions of dollars into Latin American economies. Returns appeared promising and risks limited as these young nations seemed to finally grow up and behave like young adults. That, in retrospect, was a treacherous hope. For a variety of reasons, both home-grown and originating in other countries, many Latin countries have not been able to sustain the positive growth of the 90s, and indeed some have fallen far behind.

Argentina, perceived as a rolemodel of the

new economic era, was embarking on a massive campaign of privatization of state enterprises and public utilities. Encouraged by the IMF, the government fixed the value of the national currency to the US dollar. There continued to exist a significant interest rate differential, but the exchange risk was supposedly eliminated. The result was that international investors of

all kinds made investments and loans almost without limits. Only part of the abundant inflow of money was applied to improve the quality of infrastructure and the competitiveness of productive equipment, while probably the bigger part was spent on consumption sprees and fueled a system of corruption that grew cancer-like.

By the mid-90s, the macroeconomic figures began to show a potentially fatal imbalance between the country's wealth-generating capacity and its burgeoning mountains of debt. Yet short-term gains were all too tempting; weak signals of looming risk were overlooked or discarded, and what was dubbed the *champagne and pizza fiesta* continued beyond economic reason. The breaking point came as a consequence of a devaluation by the main trading partner, Brazil. The shock was profound at all levels and has had lasting effects. Political and economic paralysis settled in; Argentina lost in hard currency terms almost two-thirds of the value of its national patrimony. With it went the hopes and the famous self-esteem and confidence of the Argentine people. Two years after the worst months of crisis, one can only be surprised at the low level of civil unrest and violence that accompanied such a dramatic fall.

Our business group, somewhat contrary to our anti-cyclical investment rhythm, was caught in the worst of the crisis. As part of our strategy

to become the number-one provider of pipes on the continent, we bought out the market leader in Argentina in the spring of 1998 – at a time that proved to be the very peak of an overheated economy, inflated expectations, and prices to be paid for companies. What followed was a disaster for the group, mirroring the crisis of the country. The pipe market shrank to one-third of its previous volume. Laying off employees, closing plants, and massive losses and write-offs were the bitter consequences.

A distant observer could comment – in keeping with the first paragraph of this essay – that such a collapse is a perfectly “normal” occurrence in Latin America; it has happened often and doubtless will happen again. But is there any reward for those who took the risks, who had the chance and the stamina to survive the crisis? What promise does the future hold for the Argentine nation and people after such heavy suffering and losses?

Here history may teach us some important lessons. In a nut-shell, it suggests that things won’t ever turn out as well as people hope during the cycles of optimism and euphoria, but likewise they hardly ever become or remain as bad as they looked at the bottom of the crisis.

In fact, the history of our own group holds such lessons. We invested in Chile in 1982 in the middle of a severe economic crisis (like the Argentine crisis of 2001, the consequence of an overvalued currency due to a fixed exchange rate) when almost everyone tried to take whatever money he could out of the country to place it in a “safe haven”. It took Chile several years and comprehensive economic policy reforms to get back on a path of sustained growth, but it did happen, and it certainly rewarded those who had the stamina to see the crisis through.

The big opportunity inherent in crisis, I think, is a renewed consciousness of some basic values and virtues. When things are easy, money is made by speculation rather than by producing

added value; loans to finance consumption are readily available, and big, internationally funded projects present serious temptations to those in power. The basic virtues required for sustainable forms of economic development are easily forgotten. When the chances for improvement in one’s standard of living and status in society are more a function of personal and political relations, the focus of people’s interests naturally shifts away from serious work and enterprise to less serious social networking and power plays.

A severe crisis such as Argentina’s is a painful wakeup call. Suddenly government, business, and individuals all seem to remember a well-established fact of life: over the long run you cannot spend more than you make. The wealth of a nation and its people is not a God-given natural endowment but rather something that human creativity, skills, and hard work produce and keep growing. The miserable fate of most of the countries with big petroleum reserves is a telling example. Consider Venezuela, one of the biggest petroleum producers and exporters in the world, where arguably the most severe political, economic, and social crisis of the continent is in the making.

The fundamental opportunity of a nation sobering up after a crisis is a renewed notion of the value of serious work and production and of the necessity to create adequate framework conditions to encourage people to work and to invest. The main ingredients of the recipe are so well known and often documented that enumerating them sounds like citing the commonplace. They are the very elements of a program promoting sustainable development. The rule of law and protection under the law for all, democratic processes and transparent and accountable government administration, sound economic and budgetary policies, broad access to healthcare and quality education, and the efficient use of natural resources are among those ingredients that first come to mind.

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The opportunities inherent in such a program of new direction and resolve are much more than just hollow promises for a better future. They can turn around a country with spectacular results, as many success stories of the recent decades on all continents have proven. Most of the success stories were the result of the productive work of industrious people being motivated to work hard and guided by good government to invest in their own future.

Over the years, I have found surprising parallels in the crisis-opportunity cycles of nations and of companies. My experience seems to show that it is more difficult to keep a highly successful company creative, cost-conscious, and competitive, than to turn around a business that is going through a deep crisis. I think this has to do with one of the strongest forces of human nature: inertia, defined as resistance to change. As long as things are going well, people resist change, even when it becomes obvious that change would be in their best interests. In times of crisis, when it becomes obvious beyond a doubt that a change of course is needed to avoid disaster, almost anything goes in terms of breaking molds, shedding excess baggage, and abolishing established prerogatives. In times of crisis, the human spirit seems to free itself from those many encumbrances that we all carry with us that keep us from doing what we know is best.

Crises always lead people to speculate as to whether there are certain rules for avoiding crises. The success of these rules would be hard to prove, because if they were successful, nothing much would happen, and there are always periods of history during which nothing much happens. While I would not venture to lay out any such rules, I do think one can see patterns in national catastrophes.

Crises of nations normally do not simply happen (except those caused by natural disaster). They are the consequence of collective human action or lack of action. There are generic models of behavior that imply the opportunity – and the subsequent loss thereof – to avert crisis as in the following, all-too-often repeated story. A country that

experiences growth and prosperity shows the typical early warning signs of economic overheating and of political abuse, often accompanied by a growing social divide. Assuming that such trends are readily recognizable, we can expect some concerned people to raise their voices and point out the need to change course. What needs to be done may be fairly obvious, e.g. limiting the pile-up of short-term foreign debt to finance consumption and fiscal deficits. But if those in power and those benefiting from the current regime accepted the threat as real, they would have to alter their own behavior and impose discipline onto themselves. Such discipline is usually too much to expect of human nature. Rather, every effort is undertaken to maintain the status-quo for as long as possible. Facts and trends are ignored, and corrections are not made, even early on, when corrections would be both relatively painless and effective.

Such opposition to change wastes opportunities. As time passes, the unresolved problems grow to a point where the crisis seems to explode overnight. The opportunity for mild and effective corrective action has passed; widespread suffering and losses become inevitable and require measures that are much more drastic.

Those who are responsible for the crisis – first through their actions and then their lack of timely actions – often have a chance to take their own profits and to hide away during the subsequent times of turmoil. (Sometimes, however, egocentric individuals are bold enough to plan a return to political power. Closing the door against such a return certainly is one of the opportunities brought with crisis.)

Making use of opportunities to prevent crisis requires first of all strong and committed leadership based on the right values. The wisdom to invest during the good days in the capability of people and institutions to handle challenging circumstances, the courage to recognize and publicly denounce an impending crisis when the *fiesta* is still in high gear, and the skill to design and implement corrective action with a fair and equitable sharing of the burden will bring success in terms of avoiding

the worst evils.

These elements apply to those carrying responsibility in business and organizations of civil society as well as to those in public office. They characterize the kind of leadership that AVINA is willing to support. With joint efforts, we

shall manage to take better advantage of opportunities to avoid crises and to get out of crises. As a result, the amplitude of Latin America's cycles of boom and bust will gradually be reduced, and thereby patterns of development will become more sustainable. VMA

Open roads of Latin America

“... and with his hand resting on the sheet of ice, as if giving testimony on the holy writ, he exclaimed: ‘This is the great invention of our times!’”

Gabriel García Márquez, One Hundred Years of Solitude

As with the ice in Macondo, in Latin America that which is normal turns out to be extraordinary. The region is not in a crisis; it is a crisis. And if every crisis is an opportunity, then Latin America is the land of permanent opportunity.

The first requirement for anyone wishing to do business in Latin America is to accept this reality. One must always expect the unexpected. This means that, in doing business, one must exhibit strategic clarity and tactical flexibility – a great deal of flexibility. This includes being ready to review strategy itself on an ongoing basis. In a way, everything is tentative.

After long years of operating in such a context, Latin American business leaders are developing a new capacity to adapt and open themselves to existing trends, not only in the economic field, but also in the social, political, and cultural arenas.

In this permanent crisis, Latin American society grows and matures. One feature of this maturation process is that today it is more sensitive to the need to bring about deep seated changes. New leadership is mushrooming everywhere in civil society, business, the political class. There is a renewed willingness to explore new avenues. In a way, this is perhaps the most significant of the opportunities the permanent Latin American crisis is generating for everyone.



In this context, Latin American businessmen are beginning to open up to new ideas, to rethink the roles and the purposes

their businesses play and pursue in society. Over the last few years, organizations such as Ethos in Brazil or Fundación Prohumana in Chile have been successfully promoting the concept of corporate social responsibility.

A keener interest in “public” affairs is becoming evident among business people. They are looking for ways and means to become involved and make positive contributions to change as a way of improving their society.

NATURA, a successful Brazilian corporation, has become a good example of the emerging new corporate paradigm. Its goal is to integrate

economic, social, ethical, and environmental aspects in order to create value, not only for its stockholders but also for its 300,000 saleswomen throughout the country; for indigenous communities maintaining the sustainability of the primary forests that are the source of raw materials for the company's beauty and health care products; and, in general, for Brazilian society, by providing an exemplary corporate role model.

Latin American business leaders are today better prepared than their German, Swiss, or Austrian counterparts to understand and deal with social and political issues, to look, from their businesses,

for a space where they can contribute to the creation of a project for a sustainable society.

If the first angle from which to tackle the opportunities afforded by the Latin American crisis is that of sensitizing society in general to bring about necessary changes, the second angle is that of the opportunities the crisis affords business in particular.

For businesses, the great opportunity presented by the permanent Latin American crisis is the chance to move ahead, more quickly and in depth than in the United States or Europe, towards the creation of a responsible corporate citizenry.

The great opportunity for businesses operating in Latin America is the chance to be more competitive, more efficient and productive, more successful in global markets while, at the same time, making a more significant contribution to the improvement of the societies in which they operate.

We are doing it at GrupoNueva. Our companies are implementing a business strategy that integrates the economic, social, and environmental fields into one single management system. And we are doing it in the midst of one of the worst economic recessions the region has endured in many years. Results have been encouraging; they tell us we are headed in the right direction. During the past three years, we have improved our EBITDA by more than US\$100 million.

There is still a lot to learn, a long way to go. But cases like that of AMANCO Argentina – covered at length in this brochure – encourage and inspire us.

GrupoNueva recently acquired MASISA, a Chilean concern. As part of the integration process, its executives began to learn and implement our Vision and Values, our Principles, and our business strategy based on the concept of triple results (economic, social and environmen-

tal). After being acquainted with the group's philosophy, one of MASISA's executives had a comment that made us proud: "We couldn't be in better hands."

We were also encouraged to see that at their

last annual meeting in Cuzco, AMANCO managers discussed their strategies and plans of action, taking up environmental and social issues in the same professional man-

ner they had always used to discuss economic matters. What a difference four years make! They are beginning to see that the adoption of a responsible management model is an important element that helps us differentiate ourselves in the market-place; that work climate surveys show that our workers feel more motivated and satisfied in their jobs; and that initiating a process of dialogue and consultation with their main stakeholders helps identify new business prospects, reduce risks, and strengthen reputation.

Latin America's permanent crisis is not only giving us the opportunity to develop new and more efficient ways to serve our customers, to develop new distribution channels, and to try to diversify the products and services we offer. It is also providing the opportunity to learn to relate to civil society.


Thus, in 2002, Terranova earned the "National Citizenship and Local Management Innovation Award," bestowed by the National Foundation to Overcome Poverty, the Ford Foundation, the Ministry of Government, and the Public Affairs Institute of the University of Chile, for its program to support the development of the community of Menque, in the southern VII Region of Chile.

In Ecuador, AMANCO is involved in a successful program to develop micro and small businesses together with other organizations, including AVINA.

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In our search for business success while helping to improve people's quality of life, we turn to AVINA as a natural and strategic partner in our efforts to get business and civil society organizations to learn to work together, to overcome old prejudices, and to find new win-win formulas for all.

We live, work, and dream in a permanently convulsed Latin America, always engulfed in

crisis. We are learning to accept that this is a risk that will be with us for a long time to come. And so, instead of growing discouraged, we are developing a positive and optimistic attitude that will allow us to discover the myriad opportunities our region offers. We are convinced that none is greater than the opportunity to become a successful model of what a responsible business should be. 

¹ EBITDA: Siglas en inglés de "Earnings before Interest, Taxes, Depreciation, and Amortization". En español, "Ganancias Antes de Intereses, Impuestos, Depreciaciones y Amortizaciones".

The crisis and the one percent

BY BRIZIO BIONDI-MORRA / PRESIDENT, AVINA

No one enjoys a crisis. If they did, they'd call it a boom. A crisis is the destruction of economic, social, and environmental value. And, to the extent that it generates violence and division, a crisis is also the destruction of moral value. A crisis wastes decades' worth of toil. It forces us to go back in time; it erases hard-won victories.

But, wise men say, we have had crises in the past and we will have them again. So, in addition to overcoming crises and ensuring our survival, why don't we try also to make the best of them? The reasoning is logical, positive. Who can argue with it?

It seems to me, however, that if we simplistically adopt this optimistic, almost axiomatic attitude – akin to “there is a silver lining in every cloud” – there is the danger that we may also embrace its sense of resignation and the fatalism that follows as its inexorable corollary: “Crises are inevitable; all anyone can do is attempt to minimize their effects.” Unwittingly, we might forget that there exists a deeper creativity, one that has to do with preventing crises and doing away with their destructive effects, a creativity that has to do with a fully functional collective learning system. According to some, the Argentine crisis was foreseeable and, therefore, avoidable. What have we learned from it that will help us avoid future crises?

What is actually at stake here is the capacity to initiate an enduring virtuous circle, without reversals that take us two steps forward and three backward. From this standpoint, a crisis, when unleashed, affords us its greatest opportunity. A crisis signals that the existing rules of the game are no longer viable, if indeed they ever were. A crisis, then, is the moment when receptiveness to new ideas is at a peak. If the opportunity is not wasted, systemic improvement is achieved.



The French Revolution was a great human tragedy. Yet, paradoxically, it allowed the establishment of human rights as a universal social principle. The Bolshevik Revolution was another great tragedy. But who is prepared to favor today a world of excluded majorities, when such revolutions show us that on the day of reckoning the majorities will bring down the privileged few? This is not to say that the guillotine and

the gulags are justified by the computation of long-term benefits, nor that it is only through tragedy that people can learn. It does mean, however, that some social models are more viable and beneficial than others, and that an ongoing quest for constant improvement is our main guarantee of stability. Such constant improvement would bring about systemic progress with no need for revolutions and their costs.

Personally, I am convinced that a Latin America open to incremental and continuous improvements, without periodic crises and their wake of destruction, is within our reach. I believe that if we could achieve this goal, the benefits would be immense. It would entail nothing less than a change of paradigm.

At first glance, asserting in our Latin American context that crises are avoidable sounds like a joke. With few exceptions, our experience, our history, tell us otherwise. It is not for nothing that Latin America is known as the land of booms and busts. In recent times, other regions have been known for their regression, as is the case with parts of Africa, or for their progress, as has happened with parts of Asia. But Latin America clings to its fame as the land of booms and busts, to put it in Wall Street parlance. The costs are enormous. The heaviest of all, transcending economic and social considerations, lies in the belief, gradually taking hold, that what is systemic – what determines the rules of the game

– may not be changed.

An economist told me once that: “The world is divided into three categories. One percent creates the rules of the game. Four percent play the game. And the remaining 95 percent don't even know there is a game to be played.” As with all such sayings, this too contains a kernel of truth. I am trying to make the point that we must choose the category in which we wish to operate. I strongly suspect that very few in Latin America have

internalized the rules of today's game. To attempt to explain them in this brief article would take me to another subject. But there is the impression that, like Don Quixote, many are tilting against the rules of a world that no longer exists. They, like the Man of La Mancha, mean well but are clueless. Learning the new game would be only a first step. The next would be to succeed in improving the rules, so that a game hitherto reserved for the elite may now be played by the huge majority.

The cruel reality is that our region has had few experiences – and those mostly bad, at that – in the business of creating the rules of the game. When it tried its hand at economics, it invented a losing game: substituting imports. When it attempted to create them in the political sphere, the result was dictatorships, of the right and the left, another losing game. Only during the last few decades have a few players finally begun to learn which is the winning game today. But if we wish not only to play at the table but also to shape our own future according to our own priorities and values, we must learn to build viability. And this implies developing skills that we were not taught in school but are within our reach.

One important skill is the art of overcoming fatalism without falling into utopianism. To do this, one must be profoundly realistic. The task demands an intellectual discipline and a sustained, long-term effort for which we have not

been trained. John Maynard Keynes, to cite one example, when creating new rules of the game, did so less as a theoretician and an idealist than as a man of great experience. As the negotiator for Great Britain at, and the major architect of, Bretton Woods, he complained of US power: “We

have the brains, but they have the money.” Latin America doesn't have the money either. Is it betting on educating its brains?

Another element is the awareness that

no one is sentenced to play in the bush leagues forever, but that in order to step up to the majors, one must first win at the minors. Wishing to do away with league playoffs would take us into the realm of Utopia. In this regard, Latin America faces double trouble. On the one hand, the privileged ones, those who could provide the means to take us to the major leagues, frequently seek refuge in subsidies and other perks, an easy way to win pennants without having to play. Or as a well-known economist has put it, a Latin American businessman's strategy oftentimes goes no further than “taking the Minister out to lunch.”

On the other hand, most people don't even have the possibility of learning how to play. If given a chance, though, they could become successful players. This reminds me of the extreme case of the tribesman I once ran into in the middle of the Kalahari Desert. Up until a few years ago, his people, like some tribes in New Caledonia, lived in the Stone Age. Through an interpreter I asked him: “How do you manage to get water in the middle of this vast desert?” His answer was: “Give me your glass.” With the cane he held in his hand he began to dig a hole in the sand, following underground the thin roots of the stubby grass that grows in that region. Three feet below the ground, the roots ended in a big onion-like bulb. He pulled it out and began grating it against a rock. Squeezing bulb bits with his finger,

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AMANCO Argentina: Creativity and innovation at a time of crisis

BY BRIZIO BIONDI-MORRA / PRESIDENT, AVINA

he filled my glass with water.

He might have been untutored in our ways, but he was shrewder, more alert, and more creative than any college graduate I ever met. His problem was that he didn't know how to apply his skills to the modern game. When I visited with him, his tragedy was that the government had offered him a subsidy – two pounds of beans a day, free of charge – “because the poor Bushmen need help.” The results of this compassionate policy? His people began migrating to the cities to get and eat free beans; their children lost the skills needed to perpetuate the thousand-year-old traditions of life in the desert, and when the government ran out of money to pay the subsidies – and the money always does run out – all that the handful of incompetent and well intentioned managers of the free bean program had achieved was in one single generation to transform a people with a long tradition and a rich culture, accustomed to living free amid majestic landscapes, into slaves and miserable slum dwellers, without food, without jobs, without a future, without an identity.

Something similar occurred five centuries ago in Latin America. As Jared Diamond persuasively explains it, the shocking contrasts evidenced by Pizarro's fabled victory at Cajamarca – 169 Spaniards against 80,000 Incas – were not the result of the former having been a handful of courageous warriors and the latter a cowardly rabble, but rather of the Incas' failure to understand that the conquistadores were playing a different game.¹ The same thing is happening today to the Sahara Bedouins. Wilfred Thesiger, the great explorer, a graduate of Eton and Cambridge, a grandson of a Viceroy of India, and in many respects the archetypical representative of the British Empire in its heyday, wrote in 1946: “On previous journeys in Africa I had the prestige of an Englishman. But now in the desert I was humbled by my illiterate Bedouin companions who possessed in so much greater measure generosity, courage, endurance, patience, good temper, and light-hearted gallantry. Among no other people have I felt the same sense of personal inferiority.”² Today, the children of those same noble Bedouins chew gum and watch soap operas on their dish-equipped color TV sets. They know, of course, that they have lost something. But they don't have the slightest idea what happened or why. They are

part of the remaining 95 percent.

Reflection on the experience of crisis creates the possibility of a change of paradigm, a qualitative jump – not one based on a single heroic act but rather on the power of ongoing incremental improvements. Let's take an economic example. A difference of barely an annual two percent growth in the GNP between two countries – so trifling a figure as to seem boring – makes a radical difference in the span of a single lifetime.

Such is the case of Central America and South Korea. Forty years ago, Central America was a richer region than South Korea. Today, in spite of having a much greater natural wealth, Central America has less than half the per capita income of South Korea. Growth with ups and downs – as outstanding as the annual six percent of Nicaragua in the 60s and 70s, and as dismal as the minus 10 percent of the 80s – can average out to stagnation or regression. But a more or less constant three percent rate of growth, without the abuses of a dictatorship and without the abuses of the ensuing revolutions, more than triples income in the course of an individual's life span.

The difference is so great and so swift – a few decades – that it is no longer a matter of sacrificing oneself for the welfare of future generations. It is a question of achieving radical improvement during one's own lifetime. But to achieve a goal like this we need to reinforce the ethics of day-in, day-out effort, to understand the value of one day after another, to appreciate sustained effort. We need to bet on the mustard seed.

We could give other examples, in other fields. But it would be more of the same. One of the truly genial features of AVINA and its founder is that we associate ourselves with others' visions, not with our own! The true leaders are others, our partners, the ones we back and support. The appreciation of innovative perspectives invented elsewhere, the participatory process as a collective learning mechanism, and the respect for others that is implicit in both approaches, are at the core of our values. AVINA does not covet the leading role; it seeks to support and to facilitate. Although in a small dose, what a powerful antidote to the crisis this is! VIVA therefore captures a double effort, one of creating wealth and opportunity, and another of investing for social return, in a mutual and completely open process of learning and benefiting. Viewed from this standpoint, crises are more than opportunities in disguise. Their existence and the need to go beyond the conditions that created them are at the core of our reason for being.

VIVA

¹ Jared Diamond, “Guns, Germs and Steel”, Norton 1997

² Wilfred Thesiger, “Arabian Sands”, Longmans 1972

BY GERARDO OURRACARIET / GENERAL MANAGER, AMANCO ARGENTINA

A Country in Crisis

Almost without realizing it, by early 2002 we found ourselves involved in the detailed analysis of a series of possible scenarios ranging from overcoming the crisis to terminating AMANCO operations in Argentina.

It was hardly surprising. The de la Rúa government had just come crashing down, a victim of the ineffectiveness we have come to expect from the Argentine political class. It was followed by a parade of five presidents within the span of ten days, and a spiraling devaluation that caused the currency to drop by 350 percent in three months. The country came to a standstill; people flocked to neighborhood meetings hoping to find a quick way out of the political, economic and social collapse of Argentina. Banks closed their doors for several days, in the hope of preventing a run triggered by the pervasive lack of trust. As regards the government, the steps it adopted in quick succession were far from inspired: default, *corralito* (i.e., the holding of bank deposits in a pen, as it were, denying accountholders access to them), and, to top it all off, repression.

Business in Crisis

At AMANCO Argentina we mourned for the country as we would for our best client who had to declare bankruptcy. Sales dropped to unimaginable levels; production had to be cut back to a minimum; for the first time, our workers began to feel that the situation was so dire that perhaps we would not be able to pull out of it.

And then there were the robberies. Groups of at least ten people, all of them armed, broke into the plant not once but five times. Not only was valuable merchandise stolen, but all workers and their families were intimidated.



The labor climate was not good. A few months earlier, on June 28, 2001, we had closed down the Rosario plant and cut salaries back 20 percent in order to be able to continue operations. The closing of the Rosario plant deserves separate treatment. It was done responsibly, on an assisted severance basis and with help from FUNDES. This program continues its work to this date. However, the fact

still remained that one of the country's leading and most modern industrial plants had closed down. I recall a 30-year veteran worker telling me when we announced the closing: “I fear that the country is going to be in much worse shape now that AMANCO has decided to shut down the Rosario plant.” Time proved him right.

As a result of this avalanche of bad news, the annual survey of the labor climate at AMANCO Argentina was one of the worst in the entire Group. Against a goal of 80 per-cent, we were barely able to reach 72 per-cent. At the annual meeting of top managers (RAAGA) held in September, 2002, in Curitiba, Brazil, to review the results of the 2001 climate survey, I hung my head in shame when our ratios were announced. But my shame was nothing compared to the deep concern that I had felt as soon as I saw the figures.

It was February and March, 2002, and our survival (or closing) scenarios were about to be played out. We were prepared to act. On the personal level, I had two goals. The first was to lead the company the same way I would if I were the owner. I would respect each and every one of the corporate principles, the vision, the values and the mission. But I would do nothing to show my superiors a good indicator if that would mean threatening our performance in the medium term. Sales plunged even further as we

decided to sell only to those who were able to pay or who, even though they faced financial problems, behaved seriously and honestly during the crisis, showing us that we could rely on these AMANCO “partners.” My second personal goal was to prove to my superiors that their trust in us had not been misplaced.

Survival, Our Strategy

Long distance calls were made every week in March 2002. On this side of the line, a group of anxious operations officers; on the other, concerned corporate leaders. Out of our talks emerged a definition of the indicators that would support the survival strategy. We were going to work with four country indicators and no more than ten company indicators. Depending on how the country indicators performed, we would make the more far-reaching decisions (the closing or staying scenarios), while the company indicators would determine the elements to support the survival strategy. The truth is that only an unfortunate combination of both groups of indicators could have led us to failure. This was something we never seriously envisioned, considering the hard work we had done. The entire team was betting on success and survival.

Once the country indicators (Argentine trade balance, consumer price index, Central Bank liquid reserves, and government revenue) and the company indicators (invoicing, sales volume, price, overhead, contribution, mark up, collections, days the money was out, stock turnover, and cash flow) were in place, we began fine tuning. We had to scale back the management team (theirs are the highest salaries) and succeeded in transferring some Argentines to the corporate team in Costa Rica (the logistics manager and the marketing and new products manager) and to other operations (a plant manager in Peru). We defined essential steps geared to giving priority to cash flow and to generating liquid reserves in the company in case the crisis

took a turn for the worse.

On the other hand, the impossibility of importing certain products (irrigation, infrastructure and plumbing accessories) afforded us the opportunity to develop relationships with small local providers. Taking advantage of the volume (critical mass) AMANCO meant for them, these small providers began to be interested in entering into business and industrial alliances that would save them from bankruptcy and allow us to replenish our stocks. These alliances have been – and continue to be – of great benefit to these suppliers. Not only have they stayed afloat but are now implementing environmental and product standards similar to those in place at AMANCO.

Our Customers, Our Allies

We soon came to realize that those customers who had survived the crisis had suffered serious financial impact. Paradoxically, small customers were better at weathering the storm, but they lacked (and continue to lack) the resources to stock merchandise in their businesses or to be considered creditworthy by big companies. This made us think of a service that would reach out to this type of customer. AMANCO Mobile Sales (AVM), the end result of this idea, goes back to the basics of street sales, the concept that kept our grandparents in business during the Great Depression of the 1930s.

AVM reaches out to the small customer and provides limited amounts of our products. Promotion, sales, shipping, invoicing, delivery, and collection are all done in one single transaction. The small customer avoids the need to keep large inventories, replenishes only what he needs, and pays cash (at a fair price to him that still returns a profit to us, as there is no middleman). The cost of service is very low – and the devaluation of the peso has been helpful in this regard – and we build customer loyalty based on our service and

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providers. Taking advantage of the volume (critical mass) AMANCO meant for them, these small providers began to be interested in

our product (and not on price).

In August, 2002, we started the program with two AVM units in the federal capital and in Metropolitan Buenos Aires, with the expectation of having four by 2003. Today we have seven (five in the federal capital and Metropolitan Buenos Aires, and one each in Córdoba and Rosario). They allow us to reach more than 1,000 customers who, because of their small size or insufficient financial resources, had previously done business with distributors or redistributors.

Initial Results: Our Workers and the Community

Indicators began improving in the first quarter of 2002. All we needed then was for our people’s attitude to take a turn for the better. With AVINA’s support, we began a volunteer program. We invited workers and their families to become involved in projects resulting from a presentation by the leaders of Asociación Evalú. This is a non-profit organization engaged in providing job training to residents of Villa Puerta 8 in Podestá and feeding 94 needy children. Evalú was identified in our immediate community thanks to the services provided by AVINA through a partner organization, Chaco Defenders.

The volunteer program provides Evalú with the labor of our workers and their families. The company contributes time, *i.e.*, it makes it possible for volunteers to help Evalú on their work time, up to five full days a year. To date, we have worked on eight projects. Some have been completed, others are still in progress, still others are on the drawing board. Projects include: building

bathrooms in the organization’s dining room; remodeling the dining room; collecting non-perishable foodstuffs from suppliers and customers; a sewing workshop; a family garden; sex education for teenagers; mediation in domestic violence situations; leisure activities, etc.

We believe that this bridge to our immediate community is a very significant contribution. The wives and children of some of

our workers go to Evalú for services, as they come from large, low-income families, still needy in spite of the fact that the men hold jobs.

Community work also allowed our workers to feel better about themselves and about AMANCO. The labor climate improved significantly, from 78 percent to 82 percent, according to a survey in late 2002. Other indicators also improved; they were not part of our survival strategy but are an integral part of AMANCO’s strategy. We are proud to report that indicators for energy yield, water use, number of accidents (there have not been any in 2003), employee turnover, and waste of raw materials, among others, have dropped.

We do not know what percentage of these improved figures is attributable to the responsible behavior by AMANCO Argentina in facing the crises that by now have become commonplace in our country and our continent. It may take us some time to find out. But we are sure that we are able to tell the story today because we never swerved from the Group’s vision, values and mission. This behavior gives us peace of mind today and prepares us to tackle the future with renewed energy and determination. The life experience we have earned fills us with confidence as we face medium – and long-term challenges.

VMA

But we are sure that we are able to tell the story today because we never swerved from the Group’s vision, values and mission.

¹ mark up: es el “Margen de Beneficios” que surge entre el costo de la materia prima y el precio de venta.

² Fidelizar: Esta palabra es un argentinismo que significa “lograr la fidelidad de alguien”.

Interview with Gerardo Ourracariet

General Manager of AMANCO Argentina

BY SIBYLLE FELTRIN

Following a four-year recession, the Argentine crisis took a turn for the worse in December, 2001. One of the measures the government adopted to stem the drop in deposits was to limit bank withdrawals to 250 pesos per week, the so-called corralito (little corral or pen). At the same time, unemployment peaked at 2.53 million, or 18.3 percent of the economically active population. Argentines protested with strikes, looting, and street demonstrations that left more than 30 dead. Five presidents succeeded one another in less than two weeks. Finally, on January 1, 2002, Eduardo Duhalde, a peronista, was appointed acting president. To stop capital flight, Duhalde immediately did away with the dollar-peso parity established in 1991 by former president Carlos Menem to hold back hyperinflation. The peso suffered a strong devaluation and, as a result, people lost a substantial portion of their savings and were unable to pay their debts, many of them in dollars. In this context of financial, political, and social crisis, poverty and hunger soared as the Argentine people sank into a deepening crisis.

SIBYLLE FELTRIN: *The crisis did not actually begin in December 2001. Already in June of that year AMANCO had been forced to shut down a plant in Rosario. How did you experience this process? How was that plant closing done?*

GERARDO OURRACARIET: These situations are always very hard. To prevent mistakes, we retained a company specialized in crisis handling in order to jointly prepare a detailed plan and decide on how and when to announce it to the affected people. According to communications specialists, the greatest risk came from news coverage that could trigger violent acts by people in the neighborhood. We must remember that Rosario is an area of high unemployment (in excess of 50 percent) and prone to violence. In addition, the decision to close down the plant had to be communicated to and discussed with the local labor union whose leaders had always held the Rosario plant as a model of union activities.

Everything went very well in this context, and I do not think we made any communications errors.

In addition, we took specific steps to support our people. A group of psychologists, for instance, was charged with the task of psychological management. We also provided all involved with a rather generous severance package (in excess of what the law requires) and helped them use and invest it wisely. FUNDES advised us throughout the “assisted severance” process with its “Start Your Own Business” program. This program taught laid-off workers how to start their own businesses. At present, some of them sell pizza or cookies, own children’s nurseries, etc.; 53 people signed up with the program, while others declined to participate. We also offered a “personal marketing” workshop to help workers better sell their talents. In addition, 13 workers were offered jobs at the Pablo Podestá plant. Though

it is rather far from Rosario, all of them accepted the offer and to date not one has quit. AMANCO provides them with room and board from Monday through Friday, and transportation to go back home on weekends.

SF: *How did the December 2001 crisis manifest itself at AMANCO Argentina?*

GO: The crisis had a significant impact on company sales and production. A comparison between sales volumes in 1999 (28,000 tons) and 2002 (7,270 tons) shows a sharp drop of 74 percent!

The labor environment could not have been worse in 2001. I could feel the change as I walked down the hallways. As a result of the crisis, people were not interested in talking to management. They feared bad news and preferred to blend in with the herd in the hope of going unnoticed. A gap had opened up between labor and management. By year’s end, the indicators in the “organizational climate survey” were bearing out my perception; the 72 percent overall indicator was one of the lowest in the entire Group! Only 63 percent of employees had “confidence in the company;” a mere 43 percent thought that “the company was achieving the expected results.” Barely 53 percent sensed “stability and future possibilities in the company,” and only 55 percent believed that “the company afforded opportunities for personal development and a professional career.”

Considering the crisis the country was in, plus some unpopular steps we had to take in order to survive after the closing of the Rosario plant, these indicators were understandable. However, they were far from satisfactory!

SF: *What steps did you decide to take in this difficult context?*

GO: Difficult situations require difficult decisions in order to survive. Firing workers is one very difficult decision. I had to do this several times. In its heyday, AMANCO Argentina had a total of 450 employees in three plants. As an assistant manager, I had to lay off 70 to 80 people at once. With the closing of the Rosario plant, we went down to 130 employees, which is our

present payroll. Since I know all employees by name and know their family situations, my job became an even more difficult one.

Another immediate step was to reduce “fat” salaries to cut expenses. I decided to have a personal talk with the people affected. This way, the employee gets his information directly from the decision maker. This is very important, as it gives you the moral standing necessary to face any future situation where you may be called upon to make a similar decision. In most cases, people understood and appreciated the steps that were taken.

These were very difficult decisions, but one thing was very clear in my mind: I wanted to give back to the Group as much as possible of the effort and the millions of dollars invested in Argentina. My priority was to salvage the operation and many of the jobs it provided. This was the light shining at the end of a very rough and difficult tunnel.

SF: *What other business measures were taken?*

GO: In general, the crisis forced us to be creative and innovative. For instance, we have leased space in our plant to a small family-owned plastics business; this helps us generate a little extra cash. We export some of their products and guarantee their quality. They, in turn, have the opportunity to learn about our values, our neatness culture, etc.

Something else we have done – and are very proud of – is that some technicians and workers transferred from the Rosario plant have developed on their own a machine that uses plastic waste materials to manufacture three-layered pipes. This is a very profitable business for us, and it was made possible only by the vast experience and knowledge of our Rosario employees. In other words, we have already made up one thousandfold the additional costs involved in transferring those 13 employees from Rosario to Pablo Podestá.

A problem we were facing in the plumbing fixtures sector was that we could no longer count on big clients as solid partners. To make up for this, we looked for different, non-standard kinds

of customers. We looked, to put it plainly, for customers nobody else wanted, and created a risky sort of marketing. But we were in a crisis, and risks had to be taken. We did not invent anything new. We simply remembered the Great Depression of the 1930s and what our grandparents had done back then: they used to buy their daily needs from street merchants, getting only small amounts they could pay for. And so we developed AMANCO Mobile Sales (AVM). This service offers AMANCO customers over 50 different items and the possibility of buying, invoicing, shipping and delivering in one single transaction. To develop this new project, we used a fleet initially made up of two medium-size trucks in the federal capital and Metropolitan Buenos Aires. Today, we have five trucks in that region, plus two more in Córdoba and Rosario. AVM is generating very tangible results. We have doubled, for instance, the number of our plumbing fixtures customers. These customers are generally very prompt in their payments, and late or bad accounts are virtually unknown. This is the kind of business where all parties benefit from the absence of intermediaries: customers get a better price and we get more contribution to our revenue. At the present time, AVM represents 15 percent of our total sales, but 40 percent of our revenue, twice the rate of a traditional activity.

In addition, in late 2002 we used AVM and our distribution network to deliver food to the truly needy in our community through a volunteer program with customers and workers. Customers would collect food supplies and trust us to deliver them to the people in need. It was a heart-warming experience.

In the infrastructure sector, we moved to direct sales and dispensed with distributors. In the agricultural sector, we initiated direct sales to “good-paying” growers. Growers do not exhibit some of the problems affecting city customers; when their crops are in, they pay cash.

The lack of funds forced us to be creative in the marketing area as well. We stopped going to big fairs and exhibitions and instead sought direct contact with our customers and distributors. And instead of sponsoring a first-division football team, we now distribute jerseys with the AMANCO logo to our customers. There is no

doubt that this outreach strategy has earned us more customers, although we do not know exactly how many. What we do know is that the satisfaction index stands at 96 percent!

SF: What steps were taken to improve the labor climate?

GO: I felt something in the company. It was something you could sense in the hallways and in the dining room when talking to people. The fact that they were fortunate enough to have a job made them want to do something for others, but they had no free time in which to do it. This is something I clearly felt. This gave rise to the volunteer program. Fabián Ferraro, an AVINA leader, conducted a leader identification analysis in the neighborhoods near our plant and suggested that we link up with Evalú, a non-profit organization. Eva, the founder, is a teacher who devotes all of her free time to provide job training for people in the area. In addition, it serves hot meals to 94 needy children every evening. Budget restrictions prevent AMANCO from financially supporting Evalú, but there are other big, socially committed corporations in the area that do so. Eva always says, however, that we won Evalú’s heart. Through the volunteer program, AMANCO employees and their families contribute their labor and their expertise to support a whole range of Evalú activities, from building the dining room and the bathrooms to training local residents. In addition, AMANCO allows each employee to devote up to five working days to volunteer activities. Obviously, our people often engage in community work more than the five days a year we allot them.

In addition, we organized a Support Day at the company for employees and their families. Activities included a play, a tour of the plant, and an introduction to Evalú. Admission was a donation of non perishable foodstuffs, intended for other community dining halls.

SF: How important was AVINA for AMANCO at that time?

GO: The relationship with AVINA was – and still is – essential from the standpoint of crisis management. AVINA is a benchmark in our work

with stakeholders, including employees, the immediate community, and suppliers. AVINA’s support is crucial for our volunteer program. It is there that AMANCO’s management and I get the most out of AVINA. Sometimes AVINA doesn’t even notice it.

We started off with Pedro Tarak and Carmen Olaechea and their teams. We got together with other interested business people, and I began implementing some of the ideas that came out of these meetings, such as the volunteer program. Results were immediate. What happens when people see the general manager becoming involved in social issues, working responsibly with customers and others, and trying, in addition, to give back to them that 20 percent of their salaries that had been rolled back? Well, all of this generates a feeling of peace and harmony. Silence is lifted from the hallways, and the labor climate improves. Volunteer work is a common subject in the company today, one that allows me to discuss something really important – our involvement in community activities – with the lowest ranking worker. I would say that recovery has been made possible by this close cooperation with AVINA.

SF: How are the company’s community activities reflected in its bottom line?

GO: I am fully convinced that the rise in our indicators is partly due to our Corporate Social Responsibility (CSR) commitment. Let me tell you an anecdote. We have customers who are prepared to pay up to 10 percent more for our products because they are aware of our socially and environmentally responsible behavior. In other words, the competitive edge in today’s business environment is not limited to the quality of one’s products. It also includes socially responsible behavior on the part of the company.

When comparing 2001 indicators to those for 2002, it is immediately apparent that EBITDA (Earnings Before Investments, Taxes, Depreciation, and Amortization) went from –US\$2.2 million to +310,000; energy savings were achieved; accidents dropped from eight to zero; and work days lost through accidents went from 54 to zero. This is pure cash! To reduce the number of acci-

dents, we have followed a rather engaging approach. We secretly invited the wives and children of some workers and took pictures of the kids playing with the pipes, toying with spare parts, and wearing protective goggles. We prepared posters saying: “Dad: Follow safety procedures, and hurry home for dinner.” When the workers reported for duty the following day and saw their children’s pictures and captions throughout the factory, the impact was incredible.

SF: And how did this impact the labor climate?

GO: Labor climate indicators are significant. While the average in 2001 was 72 percent, by 2002 it had gone up to 82 percent. At the present time, the highest indicators include mission, which went from 70 percent to 85 percent; motivation, from 73 percent to 85 percent; safety and environment, from 77 percent to 85 percent; values, from 73 percent to 85 percent; and teamwork, from 75 percent to 86 percent. We are very pleased with these figures; I see that CSR makes people happier and also makes money!

SF: Did you ever think that you would not succeed?

GO: No. First and foremost, I was sure that we would not close down. Half of this belief was due to the trust I have in the people working with me; the other half was pure intuition. Having to go through a phase like this is very painful. The comptroller and I had worked out very detailed plans for each possible closing scenario (Chapter 11, gradual exit, etc.) At that time, the priority goal was to generate cash flow. But I could not share this with anybody else in the company. I did share it with my wife, though.

SF: Did you feel the Group supported you?

GO: I felt supported by everyone, in every way. Losing my job was one possible outcome of this crisis. But I’ll be frank with you: I have always had the strongest support from the Group’s management, and I never felt alone. The discussions about the possible closing of the company

¹ EBITDA: Siglas en inglés de “Earnings before Interest, Taxes, Depreciation, and Amortization”. En español, “Ganancias Antes de Intereses, Impuestos, Depreciaciones y Amortizaciones”.

were very difficult, but no one doubted the truthfulness of the data I submitted. This gave me confidence and peace of mind. I always tried to be as objective as possible and do the best for the Group and for ourselves. If we have to close down, let's close down! If we have to improve marketing operations, let's do it! I admit that I approached the closing scenario in a professional way. But my professionalism and my heart were committed to the recovery scenario, my original proposal.

I think my superiors appreciated this attitude. Most comforting is the feeling that they believe in what I am doing. I never sensed any mistrust, and this is essential.

SF: Other than the financial crisis, which was the biggest obstacle you encountered?

GO: The armed holdups at the company, without a doubt; they had a very severe impact. Ten people walk into the warehouse holding rifles; you don't know how it is all going to end; your life is on the line. The situation was really tough then. Corporate instability was made worse by the lack of personal safety. The first holdup was on Christmas Day. The administration of President Fernando de la Rúa had collapsed two days earlier; the streets were swarming with people armed with sticks and guns. These were not the regular armed forces but rioters hoping to take advantage of the situation. I wanted to go to the plant and see what had happened. My wife didn't think about it twice: "I'm going with you," she said. Along the way we saw burned out vehicles. I had to drive on the sidewalk and get out of my pickup truck before arriving at the plant. My personal feeling – and the feeling of all the people I talked to the following day – was that if this lasted very long there would be no solution. To be unable to go in or out of the plant was a problem beyond our control that greatly worried all of us. Fortunately, holdups tapered off, and the situation was brought under control. At this time, and with the help of the Group's security specialists, we have a new security strategy. People realize this and feel safer. The rest of it, running the company without this threat, became a lot easier.

SF: What lessons have you learned from this crisis?

GO: This crisis has taught us two or three very sharp lessons. Firstly, that we can behave with corporate social responsibility during a crisis, however severe it may be. Secondly, that we can improve the labor climate if we share with our workers and their families the concepts of vision, mission, and group values, and work with other sectors of the public impacted by us that also have an impact on us. This gives rise to volunteer projects, preferred community providers, preferential treatment to workers from the immediate community whenever necessary, certification of ISO 14000 standards despite the crisis, etc. Lastly, we can introduce innovations in the way we do business and generate new customers with projects such as AVM, which allows us direct access to small customers.

SF: If a new crisis were to occur today, would you react the same way? What would you do differently?

GO: That is a tough question. But I would like to make one point: the crisis is not over yet and continues to be very severe. This is what I intend to make clear to the Group also; some indicators have improved, but still they are not where they should be. The company is at the break-even point, or slightly below it. Am I happy with this? No, I am not.

The crisis has to be managed on an ongoing basis. The crisis creates vertigo, and this had to be offset with other things. It is very important to be consistent, to act according to certain criteria, and to help train and mentor people, come what may. Yes, there are some things I would do differently. Crisis management generates very valuable experiences. But my relationship with the Group has matured. AVINA has played a very significant role; it has really allowed me to understand the vision and the mission of GrupoNueva and AMANCO.

SF: How did this crisis affect you as an individual? What was it like for your wife?

GO: Throughout this difficult period I have

received a great deal of support from the AMANCO Group, from my wife, from my family. This was essential.

At the personal level, my life did not change. My wife was very concerned over my personal reaction to such a difficult situation. But I had no health or stress-related problems. Nor did I spend any sleepless nights; when things get very tough, I grow calm. That's just the way I am. So the crisis was not something terrible for me personally.

But what always makes me uneasy is having to let people go. In crisis situations, however, difficult decisions have to be made in order to move on. They are necessary in order not to have to shut down plants and jeopardize everybody's job.

Perhaps the trick is not to lose your cool and devote all your efforts to do what has to be done, what is inevitable. I give a lot of time to defining the criteria and the consistency of my personal strategy. It is only after I do this that I implement it. I should like to underscore in this context that I only started to understand the Group's vision over the last three or four years, and I admit that this understanding makes the job a lot easier. The duty of every general manager is to have a wide vision. I am responsible to our people and to the community at large. Carrying out CSR activities then becomes something logical and uncomplicated. If you believe in the Group's values, and they are consistent with your own, you go on to the end.

SF: When did you feel certain that you would succeed?

GO: When indicators began to climb. In October, 2002, I realized that things were getting better. I remember a meeting of leaders in Pirámides; Stephan Schmidheiny told me: "It looks as if we are in the black in Argentina!" I had not known that he was following things, and it was then that I felt good for the first time. We were indeed in the black again, but you spend so much time on the front lines, as it were, that

you don't realize it. His comment did me a lot of good; it gave me peace of mind. Now I can't wait for things to get even better.

This reminds me of something that happened last year, in November, 2002, while I was in Patagonia. My son, a friend of his, and I went boating on a lake. My wife took a picture from the shore. All of a sudden, an unexpected wind blew us into the deepest, darkest part of the lake. I turned to the boys and told them: "Kids, let's row for shore!" We began rowing, head down, trying to keep out of the cold water as much as possible. Suddenly I heard my wife's voice from the shore: "You can stop rowing now; you can walk the rest of the way." When I got out of the boat, the water barely came up to my knee. What had happened? Sometimes you're rowing for the shore with your head down and do not realize that you are out of danger. That's what happened to me when Stephan made his comment.

SF: How do you see the company's future at this time?

GO: This year we still will not reach profitability; this is as foreseen. But I think we will return a small profit next year. The priority was to generate a positive cash flow to keep from having to close. Now we once again have profitability as our goal.

For me, the biggest achievement was emerging from the crisis without sacrificing CSR. It is important not to wait to weather the storm to integrate CSR into the company's policy. For me, that's the big difference. I think both can be done at the same time. For instance, we had thought of interrupting the ISO 14000 certification process and letting it all go. How are you going to worry about ISO 14000 when you are about to go bankrupt? We decided to continue working with the certification, scaling back our activities a little, but we never gave it up altogether. I am convinced that this is the right thing to do.

VMA

And the ship sails on... Chronicle of a Crisis – AVINA Argentina

BY SIBYLLE FELTRIN

The crisis in Argentina took a turn for the worse on December 19, 2001, as in the midst of a wave of looting, riots, and street protests (pot-banging), the Argentine government decreed martial law. Fifteen days earlier, access to all accounts, including dollar-denominated accounts, had been limited. Before year's end, access to savings accounts and peso- and dollar-denominated certificates of deposit in excess of \$5,000 was effectively barred.

The following is a summary of a candid discussion with AVINA Argentina representatives at the time of the crisis: Carmen Olaechea in Buenos Aires; Pedro Tarak in Patagonia; Germán Castellanos in Córdoba, and Carlos Oxenford at the Cono Sur Service Center.

FIRST AVINA REACTIONS TO THE CRISIS

As the crisis broke, the work being done by our teams at the different AVINA offices changed radically. It became focused on the urgent need to solve the complex issues of disbursements, disputes with the banks, etc., and facilitating civil society processes.

AVINA Córdoba, for instance, became involved in supporting the feverish work being done by groups of partners seeking to respond to escalating violence and extreme need by promoting dialogue and participation.

On the other hand, all offices felt the need to provide answers to our partners that would enable them to continue their projects, despite great insecurity.

Uncertainty was indeed one of the strongest feelings at the time. People, however, were clamoring for exactly the opposite: certainty. Our Risk Management Team generated some simple answers as far as ongoing projects and disbursements were concerned in this initial and crucial moment.

Operational actions related to AVINA partners' initiatives

The first difficulties that had to be overcome concerned the financial system, the instability prevailing in the exchange situation, and the generalized uncertainty that led to a freeze on disbursements and the processing of new initiatives. Later, it became essential to come up with creative systems that would provide answers and maintain credibility.

Strategic actions related to leaders as a whole and to AVINA's institutional positioning

The big challenge facing AVINA was to maintain its image as a neutral and impartial entity without, at the same time, being perceived as uncaring or unwilling to make a commitment. It was crucial, in this context, to maintain a well-balanced independence vis-à-vis the steps taken by the leaders themselves, so as to preserve AVINA as a valuable tool.

We wanted AVINA to continue providing a space for reflection consistent with the values of sustainable development, and a platform to help build ties and create opportunities to develop relationships based on trust. For instance, on December 19, 2001, a group of Córdoba leaders asked to meet at AVINA's offices, which they saw as a neutral and trusted place that would not force the gathering to tilt one way or the other.

Preparation of a contingency plan:

Barely three days after the crisis broke, a plan had already been drawn up to ensure the continued operation of the AVINA offices over the short term, and steps had been taken to guarantee the employees' physical safety. In addition, priorities were established in the field for the following operations:

- Preserving social capital; leaders and their organizations would continue to operate.
- Increasing non-financial services; replacing or adding disbursements for meetings, information, containment, etc.
- Reviewing office operational plans; redefining goals and priorities, and reassigning funds in accordance with strategies designed on an ad hoc basis.

In February, 2002, three-and-a-half months into the crisis, a Risk Management Team was put together and charged with preparing a contingency plan. The strategic aspects defined in December were complemented with a detailed road map of scenarios and action steps whose purpose was to ensure the continued operation of the different offices over the medium and long term, and to guarantee personnel safety and the protection of the social capital achieved. This entailed identifying support needs and preparing basic contingency plans for two scenarios: the most pessimistic involving the total collapse of the economy, hyperinflation, social chaos, extreme violence, and the inability to legally bring funds into the country, which would have meant closing down AVINA in Argentina. The most optimistic scenario envisaged the maintenance of the status quo or even an improving situation that would allow operations to continue as in the past.

PERSONAL EXPERIENCES

GERMÁN CASTELLANOS: For me, this crisis has been a situation of great ambiguity. On the one hand, there was the searing pain of seeing how violence and death could not be prevented; on the other, a situation that had been foreseen for a long time. I had the feeling that the model that had come into being in Argentina during the

past 15 years was absolutely untenable and that sooner or later we would witness its demise.

However, this situation, bad as it was, seemed to me to offer a great opportunity for new leaders to come to the fore, as traditional figures became discredited. At the same time, I was aware that our political leaders, after getting us into this situation with no one voicing any opposition, were becoming discredited and disqualified at a speed faster than that at which leaders with different values could be created, and that there was no possibility of bringing about short-term changes.

The situation made even more imperative the need to provide answers to urgent issues, always keeping in mind, however, that good, effective work requires the long-term development of a responsible citizenry.

CARMEN OLAECHEA: The situation caused me great anxiety. I was disappointed to see that the network did not work as we had hoped. It was my first year as an AVINA representative, and the natural difficulties associated with any new job were made a lot worse by what was happening in the country; there were times when I couldn't believe it. From December, 2001, until June, 2002, I felt as if I was in a tunnel. Actually, there were two tunnels: a tunnel of light, which was the firmly held belief that the Buenos Aires team was going to come out of the crisis stronger and better prepared to face its complex environment; and a dark tunnel, made up of long hours of hard work and an ever-present feeling of utter exhaustion. During the first six months of the crisis I worked every weekend. I had reached such a level of exhaustion that I could just sit for hours by the window, my mind an absolute blank. That was precisely what I did on my vacation. I had a permanent stomach ache. I admit that I don't know what I would have done without my mate's support. But, in spite of it all, I always felt optimistic. If I wasn't optimistic, why should the team be?

PEDRO TARAK: I watched it with great pain, but there had been warnings that something was about to happen; the crisis did not come as a com-

plete surprise. However, I rebelled against the fact that I was somewhat privileged in the midst of the crisis. So, when I was told about the *corralito*, I did not take my money out of the bank. I couldn't do it; I couldn't betray the values I cherish most. I had lived through previous crises, bloodshed and victims and all. This crisis was different, though. What frightened me the most were the rumors that they were going to bring all NGOs under strict government control. In a psychosis of fear, one immediately remembers the past and imagines the worst. But deep in my heart I felt very confident; I knew that we would pull out of this crisis too. Today I feel a lot stronger."

CARLOS OXENFORD: At a strictly personal level, I had mixed feelings. On the one hand, I felt sad and angry as I watched talented relatives, friends and colleagues leave the country looking for work. I was concerned over the rising levels of poverty. The lack of resources led to an increase in the crime rate. The resulting insecurity affected me personally. The likelihood of having to sever ties with people, not all of them antagonistic, and the circumstances surrounding such an extreme situation were my major concerns. However, this was coupled with the hope that Argentina would hit rock bottom at some point and bounce back. And that point in time had arrived.

TEAM REACTION

"Those of us who were team veterans had already lived through some very difficult situations, the dictatorship and hyperinflation, to mention just two. They were different in nature but equally severe, and this was the key to helping the newer team members," Carmen explains. "The team's anguish was short-lived. After a few days we recovered a truly impressive team spirit. We had an overriding concern: 'What sort of a country do we have?' and a daily task 'to continue working amid so many uncertainties.' The team showed exceptional containment ability and empathy, as well as great day-to-day creativity in responding to the leaders."

"In Córdoba, the toughest challenge was to maintain a balance between personal commitment and the need to keep AVINA as a tool of sustainable development. It was important to prevent charges that AVINA was manipulating local politics. We were witnesses to the reaction of Fernando Barbera, who at that time was wearing two hats: he was a restaurateur and a part-time consultant for AVINA. There came a time when his personal feelings overrode all other considerations and he banned politicians and public officials from his restaurants until financial support had been restored to children's dining halls in his hometown of Mendoza. When he assumed this attitude, he gave up his working relationship with AVINA to prevent public exposure and limit risks."

LEADER AND NETWORK REACTION

Buenos Aires

Leaders immediately assumed their responsibility to their respective teams and attempted to restrain them and allay their fears. As the crisis grew worse, however, many of them approached AVINA's office, some in tears, overwrought and in fear of not being able to have access to funds and thus of losing their teams and the ability to do their work. Some, in addition, found themselves forced to distribute food, something they had never done before. As the crisis broke, leaders were not networking, *i.e.*, the leader network was not working as anticipated.

Córdoba

A group of leaders very close to AVINA took the initiative and organized themselves as soon as the crisis struck. This attitude – leading an organized process in response to the crisis – was the result of the confidence-building work previously done by AVINA. Now, as the crisis deepened, it served as a common stimulus.

On December 19, faced with the seriousness of the situation, we developed the idea that civil society organizations could not remain indifferent and ought to become involved to minimize short-term damage and start thinking long-term as the main actors in the creation of a better future. As evening fell on December 20, this group

of leaders decided to create a grassroots movement called "The Beginning of the Beginning." It defined four basic principles that would guide its work and called for peace and dialogue. They wanted to assume a civil role beyond the limits of their commitment to the organization and to include their contribution to a more sustainable development in extreme situations.

OPPORTUNITIES AMID CRISIS

Germán emphasizes that reflecting on the crisis should not make us forget that, independently of the opportunities the crisis created, all of us would have preferred to prevent it and everything it brought in its wake: the loss of human life and property, and of values. However, in the face of the inevitable, it is essential that opportunities be identified and capitalized on, rather than merely enduring the negative consequences of the crisis.

Opportunities for society

Society becomes organized: In Buenos Aires, following months of deep societal silence, it was evident by April, 2002, that people were yearning to come together and become organized. Universities began discussing what had happened; NGOs came together; town meetings were held in public places, etc. In Córdoba, the crisis brought together the main actors in the civil and business worlds, people who in the past had been most reluctant to cooperate.

Self determination: Another opportunity came from a changed perception. People no longer saw themselves as victims; rather, they decided to take matters into their own hands. According to Carmen, "Since no one believed in our currency any longer, we decided to play 'Monopoly.' We began printing notes, the notorious *patacones*, *lecops*, etc., widely known to have no value at all. But everyone (drugstores excepted) accepted them! This was wonderful. If we had not done this, the social crisis would have been unmanageable."

Opportunities for AVINA

The ability to provide timely, flexible and reasonable responses in critical situations generated an exponential growth in confidence and an

enormous loyalty towards the mutual relationship existing between AVINA's offices and their partners.

For AVINA Córdoba, strengthening the relationship between civil society and business world actors became a clear opportunity. Before the crisis there had been a clear and strong reluctance to any sort of association, be it between NGOs themselves or between NGOs and businesses. Mindful of the reality that these barriers come down at critical junctures but tend to gradually go up again once the crisis is overcome, AVINA Córdoba decided to take advantage of this situation by fostering ties and helping to open up new spaces for involvement.

The crisis allowed AVINA Buenos Aires to gauge the effectiveness of the network of partner organizations that was believed to exist. It became evident that citizens lacked the capacity to demand specific solutions and that CSOs had difficulties in coming together and developing common strategies; they limited their activities to responding to emergency situations affecting their beneficiaries and the survival of their respective organizations.

LESSONS LEARNED

By AVINA:

AVINA identified the key elements to prevent greater damage and endeavored to take advantage of the opportunities afforded by the crisis.

• *Foresight:*

A convergence of local views and a macroeconomic vision of the situation enabled us to anticipate that a crisis would occur. AVINA President Stephan Schmidheiny and Peter Fuchs (the then regional representative for the Southern Cone) repeatedly warned that this combination of macroeconomic indicators would lead to a situation where it would be extremely difficult to prevent violence. This impression agreed with the AVINA partners' perception; they had begun to realize how difficult it would be to contain this sort of situation in their neighborhoods.

• *Institutional advice:*

Peter Fuchs's guidance was of critical importance at this time. It helped the representatives see how far the institution as a whole is prepared to go in order to face risks. This is a decision that cannot be left up to the local representative; he or she is too involved in the problem to be able to objectively evaluate events.

• *Professional risk analysis in crisis situations:*

The prompt response by Georg Engeli (the person then in charge of AVINA Group Risk and Knowledge Management) and the Buenos Aires Service Center provided a breathing space in which to consider the consequences for our personnel, for leader partners, and for AVINA as an institution. Service training was particularly useful.

• *Flexibility to adapt to changing reality situations:*

Tailoring policies and procedures to meet the needs of AVINA partners should be based on a sound knowledge of local dynamics, as required in this instance by the collapse of the banking and exchange systems.

• *Adapting office strategy:*

After realizing that the leader network failed to work as expected in a time of crisis, AVINA Buenos Aires redefined its strategy and focused on putting together a leader network capable of working together in both normal times and periods of crisis.

Pedro emphasizes: "Classic thematic and strategic networks need to be generated in order to increase the impact of AVINA's actions. However, to overcome societal fragmentation it is necessary to build parallel social frameworks or matrices affording spaces to meet and rebuild values, trust, collective affection, and common pathways. The absence of thematic networks may make fragmentation worse and undermine sustainable development processes."

By AVINA and its leaders:

In December, 2002, a group of Córdoba leaders summed up their learning experiences by agreeing that:

- The crisis was a valuable learning opportunity.

- Working with and relating to others was a need dictated by circumstances.
- The urgency of the situation dictated the need for flexibility, innovation and creativity in the field.
- Tactical alliances made it possible to recognize potential long-term common goals and to move toward strategic alliances between civil organizations and with other sectors.

Working for the recovery of solidarity values and developing the ability to generate "a bigger answer to a bigger problem," organizations admit that they have come out of the crisis with newly found strength. At the same time, they all make it quite clear that they would not fall into the temptation of "praising the crisis" as an opportunity and considering "natural" the causes and effects of a crisis long anticipated.

CONCLUSION

For AVINA, maintaining its mission and long-term goals as well as its members' cohesiveness and ability to work to define strategies and contingency plans was extremely important. In addition, once the strategy was defined, flexibility and creativity were essential in order to meet the leaders' most urgent needs. Lastly, the crisis showed that one of AVINA's essential services was the creation of spaces that make it possible for a leader network to impact its community.

In general terms, this crisis may be seen as one of those breaks in history that usher in a new period. Some see it as the end of the "don't-get-involved era" that discouraged any and all involvement in public affairs resulting from the traumatic experience of the years of repression. Others, however, feel that we Argentines took a siesta and ignored the "hows" for the sake of the "whats," and that eventually we had to pay the piper.

It would seem that the basic and common feeling is an absolute lack of faith in the traditional leadership, and the feeling that the Argentine people, moved by a very sound skepticism, are not prepared to write blank checks to anyone. The nation has begun to find out that change begins within the individual himself.



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