

# Convergence & Differentiation

What is  
success in  
a connected  
world?\*

Interview transcripts of Raul Calfat,  
Chief Executive Officer, Votorantim Industrial,  
Brazil



### Raul Calfat is Chief Executive Officer of Votorantim Industrial

**PwC:** The idea is to address what you deem to be the main issues representing the competitive edge of the Group, of the Votorantim Corporation, within a global market of global competition. What are the main competitive advantages that the company has in relation to its competitors?

**Calfat:** The Votorantim Group is a conglomerate that manages a business portfolio made up of three segments: industrial, financial and new business. Like any portfolio, it strives to achieve a balance between the risk and the return of its many different activities. The industrial segment accounts for about 70% of the net revenues of the Group, and is distinguished by its basic capital-intensive inputs.

The company's vast expertise consists of promoting integration between mining and forestry in converted products. In terms of mining, the Group deals in metals and cement varieties, and in terms of the forest, pulp and orange juice.

In addition, the Group develops activities in the field of energy, because we are one of Brazil's largest industrial consumers. Consequently, we have shareholdings in power plants, mostly hydraulic energy.

The Group's focal points of greatest competitiveness extend across several areas, starting with what I believe would be corporate governance, which I consider an important edge of the Votorantim Group. The Votorantim Group is a capital family holding, although it has non public equity stakes in major Brazilian corporations which shares are traded both in Brazil and in New York on the ADR Index.

The Group has reached the third generation and, although it is a very sophisticated and modern group in terms of management techniques, it has succeeded in maintaining great expediency in its decision-making processes. This closeness of the board to company operations enables us to expedite quality decisions.

**PwC:** Is it possible for you compare your form of governance with, for example, governance models adopted by companies in developed countries, which compete in the same segment as the Votorantim Group?

**Calfat:** We have relevant equity holdings in several open capital companies, both in Brazil and abroad, where the decision-making process is very different. I would say it is more bureaucratic, and the board maintains a certain distance from company operations. I think this is a very important distinction that allows the Group to grow quickly and focus on its core problems.

Another important focus is placed on efficiency. The Group has a management system that has been applied across all its companies and that aims precisely at systemisation within its many different operating areas. This makes it easier to replicate the model in new acquisitions.

I would say that expertise in finances is another important edge, particularly because we are a closed capital conglomerate. This allows us to centralise our cash, our financial investment and our fund-raising activities, in addition to having unified risk management. This has produced significant results over the years.

The values of the Group, which shaped its Group culture, are also important in forming these factors of differentiation. They ultimately allow our human resources to act with great dedication and motivation. I would say also that, in a very well structured planning process, these values make it possible to clearly identify the primary objectives to be achieved, and squarely align our targets across the many different levels of the organisation.

All of this, plus the fact that we have relevant units in major markets with great economy of scale and in locations that allow the optimisation of the logistics system, are the most relevant points.

# Emerging Markets Perspectives – CEO Insights

Raul Calfat,  
Chief Executive Officer,  
Votorantim Industrial,

Continued

**PwC:** I'd like to go back a bit to the issue of governance. How do you see this issue of family control? Do you consider this an advantage in relation to, let's say, other corporations and other governance models?

**Calfat:** It is an advantage precisely because the members of the board, all of them, have performed executive operating activities. This makes it possible better shape funds and the objectives of the group, and also allows a broader knowledge of the company's operations and strategy. I feel this is a major edge in relation to companies with boards of directors that are arranged differently.

**PwC:** You also spoke about the issue of financial expertise. How do you turn this expertise, this concentration of know-how, or as you rightly said, this centralising of cash, into a vantage point of access to the financing and credit lines needed to make investments feasible, so that the company can grow?

**Calfat:** The big advantage of having centralised cash, investments and fund-raising is the option of using resources to grow companies with greater flexibility and greater economy. Although the Votorantim Group is a closed capital enterprise, it operates with great transparency in its data and with the responsibility more typical of a public corporation. This is precisely what enabled the group to receive investment grade rating from three risk agencies, two of which positioned us one notch above the investment grade rating.

Therefore, the Group has gained recognition, first, for being transparent, then for having a high-quality and highly reliable governance system in place, and lastly, for having solid results that lead to its being rated as having very little risk.

**PwC:** How does this rating influence your fund-raising abilities as refers to specific funds enabled? Do you opt for foreign lines or would you say there is an availability of fund offerings in the domestic market that could be considered suitable?

**Calfat:** We operate on both the domestic and international markets, always looking for the lowest rates. The Votorantim Group today is recognised for its qualifications and this enables us to secure very low rates, whether on the domestic or the foreign market. We have rates comparable to those of our best international competitors.

**PwC:** If we were to compare Votorantim with, let say, any other global competitor, in regard to the issue of financial strength, how would it rate? On equal terms?

**Calfat:** On equal terms with the benchmarks, and that's better than most. This is a competitive distinction.

And whatever our average fund-raising rate is, it matches that of the best companies in the world in terms of risk rating, regardless of the instrument.

**PwC:** Does the fact that its country of origin is an emerging nation in any way influence this process? Or does the fact that Votorantim has become so internationalised today make it indifferent?

**Calfat:** Votorantim has become internationalised and conducts some of its activities outside of Brazil. About 12% of our revenues are derived from assets outside Brazil, mainly North America and South America. In addition, roughly 30% of our revenues come from exports. The fact that our main base of operations is Brazil, in an emerging market that is finally starting to grow at more rapid rates, I would say, brings together a combination of factors that accredits the company with a low risk rating in terms of the environment and the geographic location of its different assets.

**PwC:** You mentioned the point of the cash and the fact that the company comes from an emerging nation. Do you have any practical example either in relation to this, or else in relation to some business that benefited as a result of this feature of Votorantim's in its competition with global competitors?

# Emerging Markets Perspectives – CEO Insights

Raul Calfat,  
Chief Executive Officer,  
Votorantim Industrial,

Continued

**Calfat:** Votorantim uses EVA as a yardstick for its business. It's a type of EPA that enables you to standardise the many different evaluation processes for opportunities that you are always measuring according to the same yardstick, the same criteria.

And the several different business areas of the Votorantim Group are driven and targeted toward revealing opportunities for growth whenever they appear, whether of an organic nature or in the nature of a M&A. The companies compete for funds and the fact that our cash is centralised drives us to use this cash where the opportunities are more attractive.

This has created a virtuous circle within the company, and we have managed to grow with a very large pipeline of opportunities, whether organic or M&A strategic.

**PwC:** Do you remember any M&A related case?

**Calfat:** Last year, for example, we concluded six diversified acquisitions in several parts of the world, including Colombia, Argentina, the United States and China. The company, today, has a virtuous circle that allows you to choose where you want to allocate funds for the best return. I think this is an important factor. The Group has managed to grow intensely owing to the quality of its assets, whether acquired or expanded organically.

**PwC:** I'd like to explore the example in a little more depth. When it comes to deciding between a possible acquisition in Argentina or in China, how does this model work for gauging, for participating and for knowing the reality of the company? And how is this uncovered at the time of the possible buyout, for example? Do you know, or are market agents used?

**Calfat:** We use a Weighted Average Cost of Capital for each segment in which we operate and for each market in which we operate. This average cost of capital is adapted according to the product and the market. This enables you to evaluate your return and the spread for each project. As such, the evaluation is technically very clear. The important aspect is the strategic content and how much a business may eventually add in order for the area to grow, and how much the area, in turn, can add in order for the overall value of the Group to grow. Weights are ascribed to all these aspects when contemplating an acquisition, in order to arrive at a conclusion about what direction the Group must take and what priorities must be set.

In this respect, last year, we acquired a steel company in Colombia and a significant stake in producer of long steel in Argentina. We also acquired two concrete and aggregate companies in the United States, which enabled integration with our existing cement plants in that area. We acquired zinc recycling companies in the United States and in China. These were some of the main business ventures undertaken last year.

**PwC:** Were they made possible because you were able to count on "cash availability" or an advantage created by this unified cash?

**Calfat:** Yes, it does eventually create more opportunities, but it's much more important to preserve the requirements for an investment grade rating. And this can be done within the limits of the indexes required to maintain your rating. The Group is usually very conservative in regard to its finances. This is another characteristic of Votorantim maintained over the years.

**PwC:** And does that mean that even considering the risk status of the investment grade rating, the degree of leverage is relatively limited, or should we say, controlled?

**Calfat:** That's right. It's controlled on an ongoing basis. What we have is an environment of several different issues to which leverage rates are assigned, and this environment was produced precisely as a result of the rating agencies. As a consequence, we see ourselves exactly as they see us.

**PwC:** Is this a relatively great advantage compared for example with some companies that still don't enjoy this risk rating?

## Emerging Markets Perspectives – CEO Insights

Raul Calfat,  
Chief Executive Officer,  
Votorantim Industrial,

Continued

**Calfat:** I don't know if I'd call it an advantage. I think of it more as an instrument that we use, rather than as an advantage. It's an instrument of self-control, that has allowed us to thrive and get positive perceptions from the market in any business environment.

**PwC:** You also spoke about the issue of well-structured planning and that it favours the establishment of very clear objectives. Do you feel this is a cultural aspect within Votorantim or is it a process that was uncovered only recently? How was this idea implemented?

**Calfat:** I would say that up until the end of the last decade, the Group was more fragmented, more disperse. As of the beginning of this decade, there was a change in the governance model and the Group began to act as a sole Group. The planning activity grew within the scope of this new governance system.

**PwC:** And in regard to your human resource policy. How does it work in regard to valuing the work done by your personnel so that they can receive real encouragement or incentives?

**Calfat:** The Group has grown sharply during this decade. As a result, it has had to tap the job market in the last few years in order to attract executives for the positions that have been created. At the same time, the Group has intensified its efforts in training and shaping human resources in the skills and styles that we desire. This led us to set up an academy to offer in-house training and steer our staff according to the guidelines of our company strategy.

**PwC:** How does this academy work?

**Calfat:** It's centralised in a certain location, near São Paulo. We identify the main attributes of the company's different functions and train people often through case studies taken from Votorantim's own experience. This makes the result more practical and more effective. We have also sought to establish goals for our chief executives within our planning process, and these goals are tied to a variable remuneration that allows us to align the executive to the Group's main goals, while also allowing us to retain and take utmost advantage of our talent.

**PwC:** Is the model of this academy something along the lines of a MBA?

**Calfat:** You could say that. We've already tried working with companies and schools that teach MBAs, but ultimately decided in favour of the in-house model that we use. We also have agreements in place with the main schools in the country as well as abroad. The schools help us shape and systemise our courses. But the content is fundamentally shaped internally, and, as I said before, along the lines of our company strategy.

**PwC:** Just now, you were talking about retaining your talent. What do you believe is the key to tapping this talent and ensuring that it is retained by the corporation?

**Calfat:** There are a series of factors. First, the talent wants a challenge and wants to work in a company that is growing. So you usually look for this combination of factors: challenge and growth. And Votorantim offers precisely these two prospects. The group has grown intensely. It has doubled its equity in the last five years. The fact that we have unified policies for our business portfolio allows the executives to migrate from one activity to the other internally. This means that the person admitted to Votorantim has a multiplicity of career options in the future. He has challenge, growth and a career prospects within the conglomerate. At the same time, he has a motivating remuneration system within a work environment that is fulfilling.

**PwC:** How does Votorantim see the role of high level employees within the company?

# Emerging Markets Perspectives – CEO Insights

Raul Calfat,  
Chief Executive Officer,  
Votorantim Industrial,

Continued

**Calfat:** We prepare our company leaders at each stage throughout their career. We classify leadership into four different stages, starting as soon as the person starts leading a team, and then leads a division, advancing then to lead a factory and then a business unit. At each of these stages in which he broadens his control, he is prepared to take on this position, and is duly trained so that when he takes over this new position, he already has a certain degree of perception of what he intends to do, thus minimising the risks of his activities.

Now, all of this is done according to the leadership style that we're ultimately after, and, within this style and with competence, we emphasise an enterprising spirit plus innovation as fundamentals that we want the leader to develop.

**PwC:** And are these people also prepared to lead operations outside of Brazil?

**Calfat:** Yes, even outside Brazil

**PwC:** And how is this work done outside of Brazil? Is there a mix of local leaders or of executives in the country where the company is located?

**Calfat:** We try to maintain most of the executives from the acquired company and there are very few people that are actually sent from here, from Brazil, to fill some senior positions. We always offer methodology to Integration Management, and as I said before, we have a whole guide of management systems that we can apply. But when an acquisition is made, the objective is to keep as many people as possible, and especially the talent of the acquired companies.

**PwC:** Now, I'd like to go to the last stage, which relates to government issues. Are there any cases of governmental actions or operations that interfere directly in Votorantim's global business, both positively or negatively?

**Calfat:** Well, from the Brazilian side of the issue there are a number of instances of government interference in several different areas. The first is the area of taxes. The fact is that we have a very complex tax system that burdens business activities and this ultimately reduces overall business competitiveness somewhat.

**PwC:** How so? Do taxes affect costs?

**Calfat:** The taxes are added to the products. The taxes are incorporated into the price of products and, at the same time, there are a great number of taxes and they are very complex. Ultimately, you're forced to resize the staff of your controller's office, making it proportionally much larger than what you might have in other countries. This weighs down the company.

**PwC:** Could you give us a better idea of actually how large?

**Calfat:** The figures are staggering. We keep 35 persons in Brazil just for tax compliance, for instance, whilst in the US no more than 2 are requiring for the same purpose. In most of the markets in which we operate the number of taxes is simpler and fewer.

**PwC:** Is that to say that it's not necessarily a question of an actual reduction in the tax burden, but rather, of a more rational tax load...rational in terms of managing this load? Or does it also mean a lower tax burden in absolute terms?

**Calfat:** In many cases, it means a lower tax load in absolute terms because a great part of the taxes that we have in Brazil cannot be offset and ultimately bear heavily on the product.

I would also say that another important factor is the cost of electric power, which is a very relevant aspect of Votorantim's activities. The fact that the government has not invested, or has not produced legislation that attracts investments to this area, has led to increased energy costs in Brazil, and, consequently, to reduced competitiveness.

**PwC:** Gone are the days of cheap energy and of this representing a trump card for the Brazilian industry.

# Emerging Markets Perspectives – CEO Insights

Raul Calfat,  
Chief Executive Officer,  
Votorantim Industrial,

Continued

**Calfat:** I would say that there are a relatively large number of countries with more competitive energy today than Brazil. And some of these are in South America itself. In Brazil, power today costs something like \$75 per kilowatt-hour (kWh), and there are countries in South America, like Peru and Colombia, for instance, that offer it at half this price. So, today, Brazil has high costs. This is another factor where the regulation of the power sector and the lack of regulation to attract investment ultimately burdens productivity.

**PwC:** Was this why Votorantim decided to become a self-producer – a decision made some time ago but more evident in the last couple of years – or at least to produce most of the power that it consumes?

**Calfat:** We know that hydraulic energy is one of the cheapest and cleanest forms of energy that exists, and the Group tried to position itself in some of these hydropower undertakings in Brazil. As a result, today, we are 60% self-sufficient and can keep our costs competitive.

**PwC:** Does the remaining 40% hamper your competitiveness in practice?

**Calfat:** I wouldn't say that it's the other 40%. I would say that today, when you set up any new business venture or when you go to buy power from the market, it's going to be at the rate I mentioned. Brazil is no longer as competitive as it used to be or should be today, despite the fact the Brazilian matrix is based heavily on hydropower.

I think that another important factor is the fact that the exchange rate in Brazil today has appreciated considerably, not only in relation to the dollar, but also in relation to currencies in general. This has also reduced competitiveness considerably. The Votorantim Group, on one hand, has to deal with factors like increased costs through taxes and power that eventually drain some of our competitiveness; on the other hand, it has the exchange rate. So these are the three components that sizeably reduce the competitiveness of the country as a whole.

Moreover, Brazil has some serious bottlenecks in the infrastructure of ports and of logistics. The Group has sought to minimise these impacts by investing in port and logistics terminals, not only in Brazil, but also abroad.

**PwC:** Can you give me an example which exemplifies the difficulties faced in the logistics area? We have seen (the ports of) Santos and Paranaguá at a standstill many times. Did this, at any time, affect Votorantim in its export programme?

**Calfat:** Because we have private terminals, we can train our manpower to handle our products; furthermore, our operators – who are always outsourced – have the right equipment to handle our products. At the same time we have priority in mooring the ships in our terminals. All this enables us to reduce or eliminate these impacts in most cases, impacts that could have been damaging had we not invested as intensely as we did.

**PwC:** Do you mean to say that the solution found for the obstacles was to invest in private terminals?

**Calfat:** We have private terminals with mooring priority; we have trained labour and specialised port operators with suitable equipment.

**PwC:** In comparative terms, considering the cost for what you invested vis-à-vis what would otherwise have been lost, would you say that there has been a return?

**Calfat:** There has been a very important operating gain, but all this ultimately adds to the Group's asset base.

**PwC:** Do you mean that what arose as a problem became an even better solution because of the assets added?

**Calfat:** I wouldn't say better in absolute terms. It did lessen the impact, but the fact of adding assets does not represent something better; it ultimately reduces your return.

[www.pwc.com/emergingmarkets](http://www.pwc.com/emergingmarkets)

PricewaterhouseCoopers ([www.pwc.com](http://www.pwc.com)) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

© 2008 PricewaterhouseCoopers. All rights reserved. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Designed by studioec4 19440 (06/08)