

Convergence & Differentiation

What is
success in
a connected
world?*

Interview transcripts of Pedro Novis,
President, Odebrecht Organization,
Brazil



Pedro Novis is President of Odebrecht Organization

PwC: How do you see the company's position and how confident you are today about this year's business prospects?

Pedro Novis: Confidence is one of the fundamental values of the Odebrecht organisation – confidence in people, in the ability that people have to develop, to achieve self-fulfilment, self-motivation, to take on challenges, and confidence in our relations with our customers.

With regard to our service business, the engineering and building business, our expectation continues to be very positive. The last 20 years have been marked by little investment in global infrastructure but that cycle is changing; the rebalancing of the economy in developing countries has allowed investment to grow.

Odebrecht is a global organisation, operating in the service business and engineering and construction. It has the ability to delegate its operations to occupy certain gaps in different and very strong markets. We've been able to sustain our growth by capitalising on these development, growth and infrastructure investment cycles in different regions of the world.

Because we have the resources and the ability to operate in a decentralised manner in these different markets, we have been able to benefit from this world growth and infrastructure investment phase very effectively.

"Business network" relations are fundamental in the area of services. The political-strategic relations create these opportunities, both at the level of our government customers and at the level of the world financial system. We have a tradition of forging extremely serious and responsible relationships, and operating in an environment of extreme confidence with our customers .

Odebrecht has never distanced itself from countries where it begun its operations. It does not operate opportunistically. Outside Brazil, it has operated longest in Peru – 29 years. These exemplify our ability to identify opportunities, identify customers and acquire a somewhat captive position in this relationship. It's not the customer who is captive; rather, it is we who are captive to our customer.

So this relationship, the possibility of operating in different markets simultaneously, with multiple teams, and in different cultures, plus the possibility of adapting to these cultures and creating strategic relations with stakeholders involved in our business, all this has made it possible for Odebrecht to achieve distinction.

PwC: In Odebrecht's internationalisation process, which became an advantage because the company does business in several different markets, is there any relation, or rather, was the fact that Odebrecht is from an emerging nation like Brazil a help or a hindrance?

Novis: It certainly helped. Odebrecht's most effective service operating areas today are in emerging economies. The company does operate in the United States and in Europe, but it is present above all in countries where the skills derived from its Latin background and origin allow it to better understand and meet the needs of its customers, whether in Latin America or Africa. Moreover, what differentiates Odebrecht is its corporate culture: its ability to correctly identify those people with the skills to manage and delegate its challenges, its objectives and its mission in these countries.

None of us is more able to understand and solve the problem experienced by a customer who is 10,000 kilometers away in another country than the very director of the country or the delegated entrepreneur operating in that country.

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PwC: This also applies to other areas of business?

This year, we will be initiating an investment in Venezuela for petrochemical and resin producer and exporter Braskem. This is Braskem's first overseas investment. It is a very important investment strategically speaking because we go after more competitive raw materials that Venezuela is able to supply. This project is being made in association with Pequiven, a government-run Venezuelan petrochemical company.

In the case of Braskem, what counts the most is innovation. It's the ability we have to "decommoditise" and innovate in terms of either product or relationship with the customer, or even business operations. The year 2007 was a very important year in this sense for Braskem, because it marked the creation, development and registration of patents for the green polymer from ethanol derived polyethylene. This will make a very big difference to Braskem.

PwC: Do you think innovation will become a major engine of globalisation for companies or a driver of their ability to compete abroad?

Novis: Yes, I believe so. All of this is intrinsically connected. What could be more challenging to the talented? What could be more capable of creating differentiation to a company than innovation? Innovation and creativity are essential.

PwC: Do you think, for instance, that innovation will become more important than the identification with the customer that you mentioned before, or in the internationalisation of Odebrecht, of the construction company? Will both things continue to exert equal weight?

Novis: I think both things walk together, both the ability and the sensitivity to identify with the needs of the customer, identify the best way of resolving issues of several different types, from the simplest to the most complex, from building a small road in Angola to building a subway in a Middle East country.

PwC: Can you give us a practical and recent instance, where this identification, where this better understanding of the culture was able to benefit Odebrecht in some foreign project?

Novis: I believe that we have been able to offer solutions, combined technical, legal and financial solutions, in projects. An example would be the Tejo Bridge in Portugal. Even though it was an international partnership, with the Portuguese, English, French and us Brazilians, the entire concept and building of the solutions for the project were basically designed by Odebrecht. A Public Private Partnership was the solution for a customer who could not afford a conventional investment in a project of that scale: the second bridge of the Tejo, the Vasco da Gama Bridge, a project that was worth over 1bn euros.

We had to seek solutions for the three fundamental parts needed to structure a project: the legal, institutional base, plus the technical and the financial solution, and based on these, we created a project that could be paid off in more relaxed terms today. It was a project that was made and performed exactly as dictated, within the stipulated terms and costs, and today it is a benchmark.

The view of the traditional builder waiting for an invitation to bid in order to build a public work and be paid for the job no longer exists today in our case. There has been change on both sides: on one hand, geographic expansion, with the ability to operate far from one's base by delegation; and, on the other hand, expansion in conception and setup, and also in project equations from the point of view of project requirements, whether institutional, financial or technical.

This, in fact, is what made the difference. You asked, 'Does it make any difference if our country of origin is an emerging nation?' Maybe, yes. We are an expansionist culture. We have a vocation for growth and we ride out difficulties, challenges presented by moments of low Brazilian growth and by having to seek opportunities abroad. This certainly encouraged the organisation to go after these opportunities.

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PwC: And then there's the other side, which is Brazil's geopolitics – its political interests as a country. These interests led to the opening of new markets. During the Fernando Henrique Cardoso administration, the country witnessed an opening to foreign markets, later reinforced by the Lula administration, and Odebrecht was able to recognise the advantage posed by this opening.

Novis: This also resulted in making Brazil's own financial resources available for exports of Brazilian products and services, and certainly represented an important support for operations in some of these markets...for sure.

PwC: Could you elaborate, with regard to people, on the viewpoint that the regional director – more than anyone else – has to embrace in order to run the projects in each region. How do you see the issue of personnel today? Is it a priority issue? Are there programmes, either global or specific to Brazil? How do you go about undertaking the intelligence management of Odebrecht workers?

Novis: This is not specific to just CNO, to the construction company, but also applies to Braskem and now also to ETH. The greatest challenge is to identify the people that can act at a level of delegation that Odebrecht can give, a planned delegation in all its businesses, with the level of competence, of entrepreneurial skill, of ability to represent the organisation, in environments that many times are more difficult, politically speaking, entrepreneurially speaking, etc.

And Odebrecht is essentially a people-educating-oriented organisation. Antonio Carlos Gomes da Costa – an education teacher who wrote a book about Dr. Norberto Odebrecht, founder of our group, about the philosophy that Odebrecht developed, that he developed – synthesises this idea very well: “The Odebrecht culture is a philosophy of life driven by education and work.” The concept of education at work, of developing skills based on one's confidence in people to develop – as I said at the beginning – on the creation of opportunities, and on the company leaders that encourage development is fundamental for us. It certainly was responsible for creating this quantity with the quality of professionals that we have been successively educating and developing.

It is very complicated to structure a business like engineering and construction and operate on a world scale, as we do in countries of different cultures, with different priorities and situations. Companies with a centralised culture have a hard time operating in this fashion. Therefore, it's a big challenge to find people with an entrepreneurial vision, who have this flexibility of adjusting and adapting, and who have this level of competence to act as true entrepreneurs in each of these countries. And it doesn't stop there either. In each of these countries, we have eight or 10 contracts being carried out simultaneously. In Portugal alone we currently have 30 contracts.

PwC: So what's the strategy to achieve this successfully? Is it having a company representative who's Brazilian at the site or is it having a mix of local executives that form Odebrecht's local staff, made up of individuals with different specialties? How does it work?

Novis: There is no set recipe for the mix of people. The bulk of opportunities exist in Brazil, and the company carries out numerous projects nationwide; there are over 50 contracts underway today. So experience is built up through the knowledge gained in projects, and we “roll out” more people here than we do abroad, though we don't stop “rolling out” a national contingent in other countries too. Today, we have a relatively small contingent of expatriates, considering the volume of manpower that we have worldwide: perhaps 10% of our workforce abroad is Brazilian and 90% is national. There are many expatriates though – we have Americans in the Middle East, Portuguese in South America, Venezuelans in Africa, and so on.

PwC: Does the decision to employ an expatriate at a site depend more on the site or the type of project you are doing? What's most important?

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Novis: It all depends on local availability. Portugal, where we have been in business for 26 years, is an exception. We haven't done anything different there yet – I mean in relation to the director, the representative, the Odebrecht entrepreneur – because the country is closely connected with our culture and our background.

PwC: Do you mean that it's a concern that these company leaders start out in Odebrecht and are deep-rooted in the company?

Novis: Yes, but this is a problem of history, of cycles... Soon, a Portuguese director, or a Peruvian, or an American will emerge into a first echelon position. Educational level is key.

PwC: In terms of innovation, how does Odebrecht's policy work? Do you work with specific projects focused on specific actions according to company or market, or are the actions spread out and their potential determined later on, before the company ultimately focuses its attention? How does this innovation policy work?

Novis: There is no policy per se. It's easier to talk about this for Braskem or ETH. You are talking about innovation on two planes that are easier to identify, where you can identify the plane and allocate resources to specific projects.

For example, in the area of products, at Braskem, there's a permanent relation with customers. There's an Innovation and Technology Centre in Triunfo, Rio Grande do Sul. The support we give to our customers in product and process innovation through the Centre is really important to us.

An engineering and construction service company comprises multiple businesses with a violent, temporal dynamic. Five years from now Odebrecht will have changed dramatically. The projects will be different. The people will be in different places. The customers may have changed, not totally but substantially. The engineering concepts will have changed. But this is something that occurs in the relationship with the customer in each project or job.

Our construction company doesn't have a technological and innovation centre like Braskem, but it does have the opportunity to spark creativity and create innovation through each contact, each business, and through contracts with each customer, in a cycle that has a beginning, a middle and an end.

Our great challenge is how to make expertise available, whether it is in engineering or other fields, administration, contracts, or job site management. Today, there are 140 or so contracts being created simultaneously abroad. For each of these, there may be a director with a team, with a customer, with a new challenge. It is important to create a network to make all this expertise available, so that we don't reinvent the wheel each time.

PwC: How can expertise be widely disseminated? I think it's extremely important for the best practices to be reproduced and improved upon in other regions. How is it done? Is there an internet system?

Novis: Nothing is compulsory. It can be made available by internet, technical articles, one's own solutions, drawings, etc. One of the things we have, which greatly encourages disclosure, is an annual innovation and technology award. It has nothing to do with a monetary reward: it's an honorary prize given once a year at our annual festivities, where the projects with the greatest potential to be repeated or reused are selected.

PwC: And is this award extended to all the companies in the group, or just the construction company?

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Novis: Today, the award is divided up according to company – Braskem and CNO have their own – but the award-winning ceremony is a joint event. This year it was held in Sauípe, and each company gave out seven awards.

One award this year went to something that synergistically brought the two companies together. It's a resin produced by Braskem and used on dump truck beds. It's very simple from the technological point of view. The resin is applied to truck beds to make soil placed in the bed slide more easily when the truck tips to deposit its load. This generates a time saving because the dump truck operator doesn't have to repeatedly strike the bed to unload the earth. Both sides won the award: the construction company intent on finding a solution for the problem, and Braskem for developing the resin to do the job.

PwC: Can you tell me more about the green polymer initiative you mentioned earlier? Did it involve the development of a strategic idea?

Novis: Actually this technology already existed. What the Braskem technical staff did was to take the already available technology and improve the polymer, because it still contained additives that used some form of fossil raw material. Now, the only components making up the green polymer are biorenewable. They are derived from sugarcane, from ethanol, processed to become ethylene and then polyethylene.

This was an improvement and, for the first time, a major bureau of registration and certification granted a certificate stating that this was a 100% biorenewable polymer composed of biorenewable raw material. Braskem is expected to begin production of this polymer in about two years' time in a plant that is still under construction today.

PwC: Where do you feel the authorities could inhibit competitiveness in global terms and affect Odebrecht operations? Is education the main issue? There have been complaints in Brazil of infrastructure, regulatory benchmarks, etc. What do you feel restricts competitiveness the most?

Novis: I think that the greatest restrictions are our Brazilian inefficiencies: the inefficiencies in the bureaucratic sphere. Most obvious are the obstacles that still exist in Brazil in relation to the turnover of companies, to customs duties, product export costs, transportation costs, logistics, etc and to infrastructure – something that is becoming increasingly evident.

Education is the great challenge of the country, and Brazil is running after lost time that, unfortunately, it let idly slip away. It's that old cliché: the more you invest in education, the better, and the better you invest, the better it is. That's because the results only come in the middle and the long term. There's no magical solution.

We are experiencing this lack of education today, but Brazilians are creative and have a fantastic ability to adapt. It's not without reason that São Paulo became the industrial centre that it is today, or that all the multinationals speak so highly of Brazilian manpower. And now, more recently – and I think this is very important – we have recognised that it was our skills that engendered the opportunities for a more “white collar” labour force composed of professionals from fields like management, finance and even some areas of engineering, who furthered their education abroad.

My generation didn't see this – I graduated at the end of the 60s. Then only exceptions to exceptions had the opportunity to go abroad to do their master's or other graduate programme. Today, the country not only offers master's degrees and graduate courses, but also offers opportunities. People back then didn't have enough money to study for even a short time abroad, to open their horizons. Everything has changed a great deal.

PwC: How does the lack of or deficiency in education affect company demand? Does it make it difficult to fill positions and train personnel? Is there, for instance, any drop out rate for inefficiency or ineptness when it comes to handling certain machines? Can the consequences of this deficiency be identified?

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Novis: Our problem is related to training speed and it's really something more internal. It has to do with educational self-management while the professional is working with us: it's cultural education, training in management practices specific to Odebrecht. It's not so much academic education or education from a trade school.

Although there are some fellows who are outstanding, generally I can't turn over a contract worth \$100m to a guy who has less than 10 years, at least, in the organisation. So, you see, this business of educating and training is a cycle that has to run itself through. We have to live; we have to learn; we have to make mistakes; we have to take a beating; we have to try, to do it again, and to gain confidence.

PwC: Now, while you're talking about inefficiency vis-à-vis bureaucracy and infrastructure, I'd like to address these two topics and go a little more into detail. How does our bureaucracy-driven inefficiency today complicate Odebrecht's work? Does it affect legal matters? Does it drag down procedural mechanisms? Does it hamper operations?

Novis: At Odebrecht, no. I was talking more in theoretical terms... overall. It does not crimp operations at Odebrecht, but it certainly does check the emergence and operations of small and newer companies, particularly exporting companies. It's burdensome, difficult and bureaucratic.

PwC: You work in an area that is very closely associated to the environmental issue, don't you? It's very common for entrepreneurs to complain about the granting of environmental licences. Does this set things back in Brazil to the Odebrecht Group today?

Novis: Yes, it's a hindrance, but I wouldn't include the environmental issue within this context. The environmental issue is very serious and one that we have to handle very carefully. We must recognise that, in the past, as a nation, both private and public sectors, we haven't taken very good care of this issue. We are in a learning phase. Organisations on all sides have matured and better understand these processes. Brazil must address these environmental issues carefully so that we don't do what China is doing and what the Southern Asiatic countries did.

The forests of Malaysia, of Thailand and Indonesia, for example, together represent almost half of the Amazon. And they no longer exist. They have been destroyed in the last 20 years. No one has spoken about it to any great length, but it's a fact.

About (Rio) Madeira...you have followed the news about the controversy surrounding the approval of Madeira. There's no doubt whatsoever that the only technological solution that the Madeira Power Plant can offer to the Amazon is the solution to take advantage of the energy provided by the Amazon; there is no other solution. Madeira will really be a pioneer venture and they will approve this type of solution for the sake of the nation's future.

PwC: How do you think Brazil stands in relation to other countries that compete with it for markets?

Novis: I think Brazil loses in the short run because of the issue of excessive red tape, the environmental issues that we were talking about just now and the fiscal or tax issue. I see other countries as much more flexible on the issue of red tape as a whole. The other BRICs move more flexibly and more quickly than Brazil. But I also think that there are some exaggerations, some cases of relaxed compliance on their part as well.

Countries like India or Russia, without mentioning China, are countries that today have a certain liberty in their way of doing much larger things than the way it can be done in Brazil, but things that will certainly have negative consequences to these countries in the medium term.

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PwC: And do you think – have you made any short and mid-term analyses – do you think that this Brazilian strategy or this Brazilian sluggishness will tend to reverse itself in the long term and Brazil may gain some type of competitive advantage?

Novis: I believe that Brazil will find more balanced solutions than other countries that may seem more flexible, more open, at this time, but will have to rethink the consequences of growth without certain rules or certain conditioning factors, above all in relation to environmental issues.

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Designed by studioec4 19440 (06/08)