

Marcelo Argüelles, chairman of Grupo de Empresas Farmacéuticas Sidus, on Argentine competitiveness

Interview by Alejandro Carrera and Juan Quiroga

Executive Overview

The Grupo de Empresas Farmacéuticas Sidus is an Argentine Business Group with a leading role in contributing to an upgrade within the country's pharmaceutical sector. The organization has successfully faced the evolutionary challenges of this changing sector, in addition to having implemented a thorough internationalization process based on technological innovation.

The Argüelles family founded the company in 1938. In the early 1980s the company envisioned the prominent role to be played by biotechnology and created Bio Sidus S.A., so as to concentrate resources on research and development. Throughout its history, the Grupo de Empresas Farmacéuticas Sidus has made continuous investments in research, equipment, technology, and human resources. Currently, it is the third-largest producer in the Argentine pharmaceutical sector being the owner of the three most modern production plants of their kind in Latin America.

Today, 65 years after its birth, the group is managed by the second generation of the Argüelles family. Marcelo Argüelles, CEO and chairman, leads a team of 900 professionals, including scientists, technicians, marketing experts, and administrative personnel, all of whom have been the recipients of constant training investments by the company.

As for Bio Sidus S.A., after twenty years in operation, it has become a leading organization in its field. Such leadership is based on an efficient integration of business, science, and technology. The company sells six types of protein, not only in the local market but also in more than 30 other countries. Bio Sidus S.A. also has over ten molecules under development and is taking the first steps in such scientific fields as vegetal and animal biotechnology and chemical synthesis.

The firm has leveraged its own technology to generate biotechnological raw materials in Argentina. It has successfully integrated science and industry through research agreements with government and private institutions of both national and international origin. The company has also leveraged a biomedicine-exporter profile based on quality products and international competitiveness. The motto of the company is "Progress with science."

What does it take to manage firms in Argentina?

One of the main challenges for the Argentine businessperson has been the lack of clear economic rules, that is, the lack of a stable, respected set of economic policies that allow one to establish long-term strategies. Throughout the years, our country has been characterized by the absence of clear

economic guidelines. Our macroeconomic policies have lacked long-range vision.

This phenomenon has become even worse over the last 18 months. Throughout its history, the country had had a history of respect for the law and regulatory policies. Nevertheless, this tradition has been broken, meaning that today Argen-



Marcelo Argüelles

tina lives not only under the lack of long-term macroeconomic guidelines but also in the absence of critical judicial regulation within which markets can develop and function. To sum up, the traditional challenges to the Argentine businessperson regarding the absence of a long-term macroeconomic plan have been worsened by the decay of our regulatory-judicial system.

Another aspect I have observed over the last 20 years has been the emergence of an Argentina that has stressed financial gains over production. This situation is the consequence of a series of circumstances that have made financial management crucial for the success of any business, regardless of production management outcomes.

In this regard, in my opinion, we have been very lucky. We are part of an industrial sector, the pharmaceutical, where one always needs to have long-range business vision because of the intrinsic regulatory conditions and sanitary trends. More specifically, the existence of established, international drug policies necessarily implies long-term perspectives: a drug cannot be approved in less than two or three years. Another characteristic of

this industry is that one always needs to have a continuous search for integration of discovering and development activities. And this also implies long-term perspectives.

We have always managed our firm paying a lot of attention to the long term. Consequently, by the end of the 1970s we were already profiling our integration plans. By that time we had two possibilities: integration in the pharma-chemical area or in the biological one. At that point we decided on the latter and launched Biosidus—a research and development company in the biology field. At the time, the model being developed in Argentina was that of Italian pharma-chemistry. Historically our country had developed superb chemical and biological capabilities. As a logical consequence, Argentina had launched several pharma-chemical firms until their cost structure didn't allow them to compete against the industry giants.

We did a quick test; we launched a small pharma-chemical project but soon aborted it. From that moment on, we focused on the biological field. Why? First of all, Argentina has a solid scientific and technological stock of resources and capabilities in biology. Because of that we can be assured of having access to the resources and intellectual capital that are key for our business.

Here is a second point, although this was not under consideration in the early 1980s, because of the way things are done in this field. Biotech is about making substances that are in fact generated by the human body as a way of protecting itself against viral aggressions and other illnesses. All in all, this is really about making things that already exist and are already known. Therefore, you don't have to prove that things work. For example, if one makes insulin, one has only to prove that the insulin made is exactly the same as the insulin made by a human body. On the other hand, in the pharma-chemical business you have to demonstrate that the product XK-24 was selected on a screening of 10,000 molecules and is useful for treatment of hypertension. It is a totally different business.

In this context, we deployed a research and development structure after the interferon molecule and ended up after the eritropoyetina. The macroeconomic turbulence of the 1980s delayed our project a bit. Sidus, in charge of the holding, had to invest in Biosidus for 13 years before these investments became fruitful in 1993.

We could only achieve this because we are a national firm, with our own autonomous decision-making process and determined vision to pursue a clear objective. The project would not have resisted an economical and financial analysis. We

would not have made it if we had to give explanations to outside shareholders. The project was viable because it was carried on privately, inside a family firm with a goal to achieve results that expanded beyond simple economics.

In this sense our management is of a different sort. Family firms are those groups that have to achieve confidence above everything else and efficiency as a way to justify certain actions. We based our performance on management models that are probably different from those you can find in books. But they seem to be the appropriate ones on which to build an industry willing to run certain risks.

In a few words I can say that we developed a two-pronged strategy. On the one side, we built alliances with multinational corporations as a way to achieve and build capabilities before the advent of patents. On the other, we had to develop our own technology. We have achieved both ends. In 1988 we signed a complementary agreement with Merck. By that time we had already established our Biosidus project.

Based on what premises did Sidus become international in the 1990s?

First of all, it is important to highlight the fact that the Grupo Sidus entered the global arena during the 1990s thanks to Biosidus. Before that, Sidus had businesses only in Argentina, Paraguay, and Uruguay. Regarding the globalization process of the Grupo, Biosidus has a clear strategy that we outlined in the early 1990s. It is built upon three main themes. The first one is to launch our products in those markets where there is no patent regimen or it has expired. Among these markets are Latin America, Africa, Eastern Europe, and Asia.

The second one involves the development of our products once they turn into bio-generics, that is, once their patents expire in developed markets, namely the USA, Europe, and Japan. This stage will start to take off in 2004, in Europe. The third and last theme of our strategy involves deploying our research and development capabilities towards products for the treatment of Third World diseases.

Here are the reasons that made us adopt this strategic guideline. First, we are aware of the fact that Sidus is a small company, if compared to the giant MNCs. Consequently, we cannot compete with them in fields such as Alzheimer's disease, hypertension, cancer, and AIDS. Second, Argentina and similar countries (Mexico, India, China, and Brazil) have an information and knowledge network of the diseases that affect them that is much

more complete than the one that exists in the developed world. In fact, Argentina's know-how about the Chagas disease is much better than that in the USA. Although the USA has better research capabilities than Argentina overall, we are the ones that suffer from Chagas. Thirdly, MNCs are not very interested in these products because of the size of their markets. They are not billion-dollar markets but hundred-million ones. In addition, prices are very competitive, and the main purchasers of these products are governments. Consequently, MNCs target markets with different characteristics. And this is also why we are deploying our research towards Third World diseases such as Chagas, cholera, malaria, and the dengue fever.

Now, let us turn back to the first issue of our globalization strategy, the one we are implementing today as the first step of our global expansion. The first target market was Brazil. From there, we expanded into the rest of Latin America. Nowadays we are present in every country from Mexico to Argentina. To foster this process we built Biolatina, a joint venture with a Brazilian partner (Biosintetica). We thought that we needed to have a regional image if we wanted to enter the Chilean or the Mexican markets. In the future, this company will be located in Mexico, from where it will coordinate all the firms in charge of Biosidus' products throughout the region.

Our next target was Asia, with India and China as the center of our focus. In fact, our first step was China. We began working in 1995, and six years later we obtained the authorization of our first product, which we are actually selling in that country.

These have been long-term investments for our Grupo. The markets we encountered when we entered countries such as China and India with products from the technological frontier are not the ones that people imagine. For instance, the market for patients with kidney dialysis is equivalent to the one of a country with 70 million inhabitants. Nevertheless, we intend to be positioned before the growth boom that we believe is going to take place there.

In India we are building a joint venture with a local partner as a way to enter the market with certain local manufacturer characteristics. Additionally we are also present in countries such as Tunisia, Turkey, Lebanon, Pakistan, Thailand, and Indonesia. They add up to more than thirty countries.

At last I would like to highlight the excellent experience that we have had along the way to our internationalization process with the people and the job of our Chancellery. They have always been

our allies when entering foreign markets as well as great ambassadors of Argentine industry.

What was the role played by the management team of Sidus in the success of this internationalization process?

Talking from experience, I would say that internationalization processes are all about teamwork. We have an excellent team at Sidus, both from the technological as well as from the managerial point of view. Basically, our Grupo can count on excellent professionals and a total commitment to teamwork. All this is based on a structure that combines professionals with tradition and experience as well as those with youth and novel technical expertise. There exists this symbiosis among them that makes me feel very proud. The point is that we have a group of people with years in the organization and lots of experience, which results in our being an outstanding and innovative company.

In Argentina we have to become fully aware that we have to comply with every international norm in regards to quality, production, and marketing techniques, and that this is only achievable through teamwork. In Sidus, we had to make our own cultural revolution in order to understand that "scientists" are not only those with white overalls. In a biotech project, scientists are the chemists, biologists, administrative, marketing and legal staff, in sum, everyone. Projects in this area depend upon the combination of specific pieces of knowledge, whose integration can only be achieved at the team level.

One other grand virtue of our group is what I call technological management. Most Argentine scientists believe that the technological process only includes the discovering stage. Although the discovering stage plays a very important step in the process, it must be complemented afterwards with other successive stages so that it generates a marketable product. The scientists at Biosidus are fully aware not only that this process involves various steps but also that they must be effective, quick, and economically viable.

There seems to be a worldwide notion, with which I don't fully agree, that technology stands for computation and communications. My view is that technology includes things like signing a good contract, after a person has thoroughly studied the subject. Technology, in my view, is really about rationalizing the way things are done. Technology is a firm doing research. Technological developments must have a pragmatic objective, which often resides not in universities but in firms. I am not saying that universities should not do

research. What I am saying is that true technologies reside in firms that do research.

What are the secrets of managing in our country?

In the first place, the key to good management is teamwork. Second come education and work experience. In fact, it is very important for a person to know what she or he talks about. It is important that people have learned this from the very beginning of their careers.

At last, I would like to highlight that Argentine managers are very malleable. They are very responsible when performing duties in a foreign country. Argentines sent abroad with clear objectives accomplish their assignments. The Argentine can be described as someone who finds solutions.

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What capabilities do Argentine firms lack when it comes to improving their competitiveness in the international arena?

In the first place, they lack technology. Technology, defined as rationality in the way things are done, respecting international norms; technology, defined as the understanding of and respect for the rules of the game: long-term, quality, and commitment to established agreements and policies.

Argentines work well on "muddy roads," but when it comes to working on the "highway," they do not perform as well as others. We are not used to having long-term visions, visions that conform to international trade norms. Argentine businesspeople are accustomed to managing within unstable environments, as if they were always working within a swampy area. When it is time to adapt and adjust in order to compete in foreign markets, this can turn into a serious liability for them.

In addition, the financial experiences throughout the 1980s left Argentines with a focus on financial gains, not on production gains, as I explained before. Although the 1990s intended to revert this paradigm, the overvalued, unreal dollar we had wasn't ideal to foster our intended international trade plans. As a consequence of this process, I usually say that we Argentines "do business" but do not "build firms."

Another capability that Argentine firms seem to lack is that of being able to "take a peek around the globe." Local businesspeople lack criteria. Usually, foreign sales have been considered only

as a way to sporadically increase revenues, with European markets being generic targets. Local businesspeople seem to lack this drive to pack their suitcase and just simply go, go to China if that is what it takes, but go. To sell our products in China, for example, we had to commute 40 times, round trip. We had to bring in Chinese authorities so that they could visit our plants and meet our people.

In addition, and also related to the lack of mobility drive, Argentine businesspeople have tremendous difficulties in establishing long-term associations with foreign partners. Further, Argentines are also less eager to move around, even if that stands for professional growth.

Last but not least, local businesspeople lack a deeper sense and commitment for the development of our nation. As is true in every corner of the world, Argentine businesspeople are after their profits. Differently, however, these same businesspeople never had clear national policies that drove them to accomplish objectives linked to local development through their business activities.

Let us now focus on the Argentine political and economic environment. What are the changes that you consider necessary in order to leverage the competitiveness of Argentine firms?

Firstly, I would like to highlight that one of the most conflictive elements for the internationalization of Argentine businesses has always been our exchange rate regime. In this regard, we seem to have, at last, an exchange rate that favors exports. The dollar might be a little more expensive than it should technically be today, but countries such as ours need to have expensive dollars so as to make foreign sales more appealing.

Another key element to leverage the competitiveness of Argentine firms is financing. Every aggressive trade policy needs financing, but Argentina does not have access to it. In that regard, no country can enter foreign markets if it does not

have sensible trade policies, that is, state policies to respect established commitments, to follow international practices and standards, and to pay its foreign debts. Until Argentina does achieve that, the country will not get access to financing.

Thirdly, the country has to select sectors in which it has comparative advantages in global trade. Some of these sectors are those related to agricultural and mineral outputs, where we are developing and applying technology and adding value to our products. Here, we should take on our responsibilities as major grain and meat producers. Do you realize we still don't have a global Argentine meat brand name? Tourism is another of these areas where we have high potential.

Fourth, our Chancellery has to gain more independence to collaborate in the development of our foreign businesses. This is a key piece in the development of our country. At the moment we have a very solid team of technicians and diplomacy professionals that we cannot afford to waste. The fact that children are starving to death in the province of Tucumán does not mean we should avoid conducting a coherent and solid international trade policy.

To sum up, there are two themes that must be addressed simultaneously. First, Argentina must have a sensible foreign policy, coherent and coordinated by our Chancellery. Second, this foreign policy must be established based on sound macroeconomic policies, policies that follow a long-term vision.

Finally, we have to partner with our neighbor countries within the Mercosur agreement and throughout Latin America so as to conduct the FTAA negotiations jointly.

To sum up, the country has to have a solid strategy for its trade liberalization and international insertion that should foster those areas in which Argentina has comparative advantages. This vision seems to be clear in the professionals that integrate our Chancellery, led by Chancellor Redraro.



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