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“The presence of Spanish companies abroad is a reflection of their management abilities”

Maite Ballester, Chairman of 3i España

The Chairman of 3i in Spain, Maite Ballester, believes that management is crucial, especially in the current economic climate. Her ten years of experience in international investments are testament to this professional, who began her career at GTE Corporation as finance executive, and specialises in healthcare, media and professional services. She has led more than 25 buyout and capital increase transactions in Spain and Portugal and, moreover, she is an active member of 3i's growth capital team.

How should your sector and, in particular, the fund you work for face the current situation?

Without any doubt, management is crucial in the current climate. A recurring issue for all the investees, whether we have a majority or a minority ownership interest in them, is management support, not only in cost reduction matters, which I believe has been addressed by virtually all of them, but also growth support, as an inherent part of the current cycle. For example, consolidating fragmented sectors or performing the famous buy and builds, in which the management approach is the same but the strategy can be changed swiftly. The ability to acquire small businesses with a sound foundation and with our financial, management and integration support is, I believe, one of our current service offerings. And I can give you a case in point, which is the case of Mémora, a funeral services company. What we are doing is consolidating a highly fragmented sector, taking advantage not of the rising mortality rate, but the opposite: we will draw more synergies from a group with greater purchasing power, greater organisational power and greater customer service capacity.

Another approach could be the internationalisation of Spanish companies. How can private equity help companies to come through in a stronger position and expand into other markets?

I think that this is a key role played, above all, by some of the international funds. Because in the case of 3i, one of our most important assets, in which we have invested more heavily in recent years, is our international network of offices. We currently have a strong presence in China, India and Singapore and, of course, in Europe, the birthplace of the Anglo-Saxon market, which for a Spanish company is paramount. It is difficult to deal with a company which has international ambitions yet does not have an outsourcing plan in China or India, or exports to Europe, or even a plan for entering the US market.

In these three areas, 3i can play a role consisting of making contacts with important companies or executives in the industry in these countries, besides contributing capital.

For example, GES, in the wind farm business. Based on the fact that our growth plan is going to be focused on the US, making most of the "Obama plan" and the changes in the financing and grounds incentives systems provided by the US Government, what we have done is support them in the purchase of a company in Philadelphia in a way which enables them to establish an efficient structure in the US.

Because managing a Spanish company (a division of Gamesa), with a Basque corporate culture in the US takes time and means a good deal of effort. For instance, there are four executives involved in this project. I believe that this is the time to devote all our resources and efforts to our portfolio.

How do you see the role of Spanish business leaders? Has it changed a lot?

The average Spanish executive has advanced dramatically over the last 20 years. I remember giving conferences at IESE 13 or 14 years ago where we were talking about an MBO and the questions I was being asked were very basic. Nowadays, the average executive's knowledge of MBOs is very high. There are three reasons to explain this.

Firstly, the average Spanish executive is much better qualified. Secondly, they speak more languages and speak them better. This is an important point because it has been one area that needed improvement. And, lastly, they are now technically on a par with our European, American and Asian counterparts.

In this regard, a great surprise for me has been to see how the Americans are very clear on cause and effect: returns, economic compensation and progression. These three variables have perhaps been more diffuse in Spain. Although it is also true that within Spanish companies there is an alignment of interests based on merit. Spanish executives know well that they have to take a merit-based approach. For these reasons, I do not believe that we are lacking in any area.

From a leadership point of view, do you consider that there are industries better prepared to face the current circumstances than others?

We have world pioneering industries in the concession, environmental, energy or financial areas. For example, in Spain we have two of the world's major banks or companies such as Telefónica, Repsol or Iberdrola. I believe that this international presence is a reflection of their management abilities.

If we look at Spain over the last 20 years, we continue to represent 2% of world GDP but we have five or six companies among the top 150 world companies.



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And this is no coincidence, because there are no coincidences at that level of international presence. So I say again, to be there is a clear reflection of the management ability of those companies.

Venture capital companies are still renowned for not being very transparent or having a bad image. From a management point of view, what do you think should be done to combat this?

As regards venture capital, what we are attempting to do is explain that our work consists of more than just merely supplying capital. We also give added value. The success of venture capital lies in aligning our interests from a shareholder point of view with those of the management teams. And it is precisely this which business people may not understand if they have not been exposed to venture capital before.

If we make money, they will proportionally make much more in a short period of time. And perhaps this is what sometimes arouses suspicion, in more traditional sectors or where one has worked for a salary, a bonus and a job for life.

Our business is focused on aligning the interests of shareholders and management. This is the key and perhaps what has given us a poor image, because there

have been large buyouts in Europe or in the US that perhaps have been perceived as speculative or a case of financial engineering.

But in the end, the most important thing is to have a good management team that can make the company grow and provide “unleverage” to be able to tackle that financial engineering. Without a good management team, all the finance you pour into them will be in vain.

Although this is not your field, do you believe that seed capital in Spain should be fostered further?

I think so, yes. If we are seeing the destruction of small and medium sized business at around the 40,000 mark, it is logical to think that another 10,000 or 15,000 will be created.

If somebody feels the urge to run their own business, they arise from the ashes and start to create businesses again.

For that reason, what has to be done is facilitate these processes, from both an administrative and institutional point of view, and to help them export and finance them. I believe that there are sufficient sources of funds in Spain and private funds, as well as Autonomous Government and public funds, etc. to finance this type of projects. There are biotechnology clusters, for example, created in Spain which I believe are quite successful.

It is important to support them in the next phase because many of them are left at the threshold of EUR 200,000. Further financing must continue to be sought for the next step because they are often projects with various financing phases, in which the investor profile may change as the company size increases.

Another peculiarity of these companies is that they need support in their expansion abroad. Spain does not have a sufficiently large domestic market in order to scale these projects swiftly and so that they do not fail in the process. It is very important to help them establish contacts with counterparties from the onset. For instance, if dealing with a technology company, put them in contact with the largest buyers of these software companies, etc. It is important to have distribution channels from day one, otherwise a lot of time is wasted and the company leaves and disappears. This is something that I know certain ministries are looking at closely, in particular the Ministry of Science and Innovation, to see how they can be supported. That is going to be crucial.

What steps do you believe Spanish business management should promote to emerge from the current situation?

Thank God this economic situation has fallen upon us with a number of large and very international companies. At the SME level, they have done their homework and many of them have a significant presence, be it in Latin America or other European countries.

The problem with this crisis is that it has affected many of those markets as well as the Spanish market. The only way out that I can see for certain SMEs, which are not present in emerging, growing or super cool sectors, is to internationalise and continue to export, to produce competitive goods and services and to know how to market themselves.

Spain has historically been very creative, therefore, I am confident that we will once again be at the forefront and come out of this.

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