

SYUSA (A) – Saneamiento y Urbanización S.A.

The 1993 crisis

In 1993, fifteen years after starting its operations, the subsidiary of the Organización Techint (OT) (Techint Organization)¹ devoted to solid waste disposal, Saneamiento y Urbanización S.A. (SYUSA), was undergoing a severe crisis which had begun at the end of the 1980's.

Those fifteen years had been very hard for Argentina. After seven years of a traumatic military regime (1976–1986), marked by fighting domestic terrorism and the Malvinas War, the administration of Raúl Alfonsín (1983–1989) was politically successful in consolidating democracy but an economic failure which drove the country to a hyperinflation crisis (Exhibit 1 – Economic Highlights 1983-1993). This extreme situation led to a swift government change to the elected Menem Administration. In 1991, an economic stability process began, based on convertibility², opening of the economy, privatizations and deregulation. By 1993, Argentina was economically stable and was starting to grow steadily.

Within the OT, SYUSA reported to Techint S.A., an Engineering, Construction and Service Company, prestigious market leader in the Argentine engineering and construction industries³. In the last few years, SYUSA had endured a highly troublesome relationship with the union, which concluded, in 1992, in an all-employee protest march to OT headquarters in downtown Buenos Aires. Then, Techint S.A. appointed Luis Malvido as the company's General Manager.

Luis Malvido had worked at Techint for the last forty years. He had been educated in the "school of life" and had no degrees. He had held administrative positions in various OT projects, both in Argentina and abroad. In 1989, he had been appointed to the SYUSA Board of Directors, although he alleged that he "*only knew where the company was, how much it spent and how much it earned.*"

¹ For more information on the Organization Techint, see IAE Supplement E-S-002-IA-1.

² Ley de Convertibilidad (*Convertibility Act*): Passed by Congress in April, 1991, it provides for the Central Bank to sell, unrestrictedly, all the dollars required at an exchange rate of 1 to 1. Also, it calls for a 100% equivalence between gold, foreign currency and security reserves and the amount of currency issued by the Central Bank. Finally, it established complete freedom to hold funds in pesos, dollars or any foreign currency and free capital in and out flow.

³ For more information on the Techint S.A. company, see IAE case E-C-003-IA-1.

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Prof. Marcelo Paladino and Scientific Collaborator Alberto Willi prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of a given situation, in March, 1999.

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Once settled in his new position, Malvido said: *“I had to bring about a change in six months or make a different kind of decision regarding the company’s continuity. When we got there, we found many things which were probably the causes for financial distress. For example, SYUSA was ill equipped and there was no maintenance plan. We quickly spotted these problems and we already have an investment plan in place. The question is how to solve the real problem, the problem we don’t see yet. So, we are discussing how our “friends” and “enemies” are seeing us: i.e., a sort or inverse benchmarking. If people say we are something or other, and we feel we are not like that at all, something is wrong. Either they are or we are mistaken, or the message is misgiven. The fact is we have to act fast and well if we want to change our current situation.”*

SYUSA Business

SYUSA originated from the international invitation to bid issued by the Coordinación Ecológica Área Metropolitana Sociedad del Estado (CEAMSE) (*Environment Coordination State Agency – Metropolitan Area*) in October, 1978, to develop a program for reception, transportation and final disposal of home waste in the Federal District and the southern area of the Buenos Aires Province. The CEAMSE was in charge of urban solid waste management in the Federal District and Greater Buenos Aires areas. It had administrative and controller duties, with 400 employees.

Somehow, this was considered the first significant privatization carried out in the country (Exhibit 2 – SYUSA Operation Map). The General Manager of TECHINT S.A., said at the time: *“The idea to manage a waste filling company was conceived during a trip in which we visited a filling site and took a look at its operation. It seemed so similar to a construction project. At TECHINT S.A., we had the capacities to handle waste filling since we were running highly complex building projects. Then, in 1978, when CEAMSE commissioned the Villa Dominico filling project, we decided to quote and got the contract. Thus, in a very swift process, we created SYUSA.”*

The company’s main activities were:

- Design, construction and operation of three waste transfer stations located in the city of Buenos Aires.
- Project and operation of waste filling to dispose of the waste produced in the Federal District and the Southern counties of the Greater Buenos Aires area (namely, Avellaneda, Quilmes, Lomas de Zamora, Lanús, Berazategui, Almirante Brown, Florencio Varela and Esteban Echeverría).
- Design, operation and maintenance of the waste transfer system between the transfer stations at Colegiales, Flores and Pompeya and the waste filling site at Villa Dominico (Avellaneda -Quilmes).

SYUSA provided services for CEAMSE, servicing a total population of 9,500,000 people and processing 8,000 daily tons of urban waste –5,000 tons coming from their transfer stations and 3,000 being delivered by waste collection companies. The company employed 332 workers, technicians, professionals and subcontractors.

The complete Villa Dominico project involved waste refilling of 987 acres of low land to be converted into future parks.

Under contract provisions, SYUSA commission, started in 1978, was to be a monopoly until 1998, when CEAMSE would again issue an international bidding request for these services. At SYUSA, it was often said that, because of the ensuing lack of competition, cost and productivity issues had not become daily concerns and, thus, the company had not developed an efficient and competitive working culture (Exhibit 3 – SYUSA Balance Sheet and Statement of Results).

Operations

SYUSA designed, built and operated three transfer stations, strategically located at the Colegiales, Pompeya and Flores boroughs of the Buenos Aires Federal District, where waste was delivered to large chutes. The waste was transferred to tow trailers with a capacity for 23 tons each for their shipment to the final disposal of Villa Dominico. The company had 45 double-drive trucks and 260 powered CV's with 50 tow trailers, which made up the transfer system to ship urban waste. SYUSA worked three daily shifts, six days a week.

Operations included several tasks to prevent pollution and environmental hazards. First, the company carried out geological, hydraulic, hidrogeological and environmental surveys and it developed the technical design and project for waste filling modules. Then, it built closing perimeter waterproof embankments beyond flooding level. These embankments were also used as access roads. Next, it started digging the cell's bottom and building blems to separate waste from rainfall water. Finally, maneuver areas were prepared for unloading waste trucks and waste disposal, distribution, grinding and compression. The cells were covered with waterproof soil, levelled and provisionally layered with selected soil.

Internal Situation

Union problems were very common at SYUSA. At the moment conflicts and strikes seemed to be the only way to sort them out. Mario Barrios, aged 36, had been the President of the Internal Commission, representing the employees, for ten years. He said: *"The strike attitude is almost permanent. So far, all we have achieved has been through strikes and drastic measures. It is the only language they understand. We have proposed the same issues a hundred times. Then, for the hundred and first time, we go on strike and the situation is solved. So, it is the only tool that works. It is our method. Once, we asked for top management to be replaced and we didn't go back to work until they were changed. We asked for the change because of certain attitudes the former manager had towards the people and, finally, the objective was achieved. We stopped the site for 18 hours, which meant thousands of tons of garbage we didn't get. Collectors threw it everywhere and we didn't let any trucks in or out. We also marched towards the Catalinas Building, next to the Sheraton Hotel, in the very heart of the city of Buenos Aires, where TECHINT S.A. has its headquarters. All SYUSA employees and*