

The greatest episodic threats from the external environment for Ecuadorian companies in the last 25 years

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Abstract

Companies are exposed to the environment, a known, obvious and undeniable fact. Part of the situations that occur in that environment constitute threats; and part of those threats occur unexpectedly. In this article we recall and comment on some episodes of Ecuadorian history of the second millennium catalogued as unforeseen threats. Our goal is that this list of past and present events serves as a reminder of the randomness of business management and the need to be prepared to respond to unexpected situations. Some of them originated in nature and others in human action, these events have caused quite serious economic and human consequences and should serve as a lesson for us to learn to recognize the signs of occurrence if they are foreseeable and the containment strategies to mitigate their aftermath.

Keywords: Threats, external environment, losses, crisis.

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Las mayores amenazas episódicas del entorno externo para las empresas ecuatorianas en los últimos 25 años

Resumen

Las empresas están expuestas al entorno, hecho conocido, obvio e innegable. Parte de las situaciones que suceden en ese entorno se constituyen en amenazas; y parte de esas amenazas ocurren de manera inesperada. En este artículo recordamos y comentamos algunos episodios de la historia ecuatoriana del segundo milenio catalogados como amenazas imprevistas. Nuestro objetivo es que esta relación de hechos pasados y presentes sirvan como un recordatorio de lo azaroso de la gestión empresarial y de la necesidad de estar preparados para responder a situaciones inesperadas. Unos de origen en la naturaleza y otros en la acción humana, estos eventos han causado consecuencias bastante serias en lo económico y lo humano y nos deberían servir de lección para aprender a reconocer las señales de ocurrencia en el caso de que sean previsibles y las estrategias de contención para mitigar sus secuelas.

Palabras Clave: Amenazas, entorno externo, pérdidas, crisis.

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INTRODUCTION

It is no secret to anyone involved in business management, regardless of the size of its structure, (from the micro-entrepreneur to the transnational firm) the influence that the elements, or rather

variables, of the external environment exert on its activity. And we say that it would be more correct to call them variables because of their volatile nature.

Even the SWOT analysis, perhaps the most widely used tool for analyzing the business situation and making decisions, includes among its elements the Opportunities and Threats as fundamental diagnostic factors, these variables being precisely those that refer to the external environment, over which there can be no direct interference or absolute control, but which require specific attention in the way of taking advantage of the opportunities that arise and trying to neutralize or minimize in some way the threats that arise.

This article aims to take a look at the main unforeseen threats that the Ecuadorian business sector has had to face from 1999 to the present.

This exercise, beyond recalling historical facts of the relatively recent past, aims to highlight the different forms that an external threat can take and serve as a warning or alert to possible signs of future events of a similar nature, not to try to "predict the future" (a task for which we do not have sufficient competence), but to be prepared for similar circumstances.

Without aspiring to make an exhaustive list of all the events that can be characterized as "threats" for the Ecuadorian company, we want to expose the events that in our opinion have left very strong effects and lessons from which we can learn.

Although the academy gives singularity and specificity to these disciplines, politics and economics are intimately and profoundly linked in the functioning of societies. The decisions of the former affect the functioning of the latter, and the reality of the latter forces the former. Our aim is to understand the effects on business and commerce from the economic perspective, however, it is

impossible not to touch, albeit tangentially, the political perspective.

MATERIALS AND METHODS

Reflection article, non-experimental qualitative approach, from the perspective of interpretation and analysis with a critical spirit. We have tried as much as possible to obtain information from reliable sources and from different visions in order to have some balance and avoid biases, however, many of the data reported are unofficial estimates, provided by interested parties (therefore, doubtful), although it should be noted that in our culture even official data are debatable.

Since the official party is often responsible for the crisis or its solution, it tends to underestimate or minimize its effects. In the same way, but in the opposite direction, the affected party tends to maximize or exaggerate the effects and losses suffered. On the other hand, any vision of political, social and economic phenomena that have affected a country to such an extent will always be subject to ideological and doctrinal interpretations. The events chosen for this article have been selected for their economic and social relevance, in the opinion of the author. Obviously, readers may not agree on the topics covered, or their approach, given the subjectivity implicit in these matters.

RESULTS

On March 8, 1999, the "Banking Holiday" was decreed, a measure taken by the then President of the Republic, Jamil Mahuad. This measure consisted of the immobilization of private deposits in the Ecuadorian financial system, known as "freezing", affecting all economic activity in the country. For one year, 50% of the deposits

in sucres and 100% of the deposits in dollars were confiscated. It is not our intention to make a detailed analysis of the background of this economic crisis, however, we must point out that, to external factors such as the fall in the international price of oil, were added elements of the national political and economic reality: floods due to the El Niño phenomenon, deregulation of the financial system, bank bailout, inorganic emission to make public debt payments, devaluation of the sucre (the official currency of Ecuador at that time), withdrawal of deposits due to lack of confidence in the system causing its illiquidity.

As was logical, the consequences went far beyond the strictly economic sphere, since thousands of Ecuadorian families lost their life savings and this is how the first great migratory wave took place, close to one million people, mainly to Spain, Italy and the United States, and an increase in the suicide rate. Economic losses for the country amounted to around 8 billion dollars. The national holiday accelerated the impoverishment of the country, with poverty rising from 34% to 71% and extreme poverty from 21% to 31%. Fifty-seven percent of the economically active population was unemployed. The minimum wage in Ecuador reached 8 dollars, while the basic family basket of goods cost 220 dollars.

Subsequently, this would lead to the dollarization of the Ecuadorian economy on January 9, 2000, which would mean: on the one hand, a great loss of purchasing power for Ecuadorians: the exchange rate went from 5,000 sucres per dollar in 1998 to 25,000 sucres per dollar at the time of dollarization, and, on the other hand, a fundamental step for the monetary stabilization that we have enjoyed to date, with ups and downs.

A few days after the dollarization was decreed, President Mahuad fell. His government lost all support and a triumvirate, backed by the armed forces, took power: an indigenous leader, a military man

and a lawyer formed the triumvirate. A few hours later the constitutional order would be reestablished and it was the vice-president who would succeed the ousted comrade in power.

Colonel Lucio Gutiérrez, who was part of the overthrow of President Mahuad in 2000, was the main character to be sunk in this chapter of the convulsed history of the Republic of Ecuador. Unlike the role played by the indigenado in the fall of Mahuad, in the case of Gutiérrez it was the Quiteño middle class that played the leading role. The fall of Mahuad was triggered by an acute economic crisis, the fall of Gutiérrez was political. And this is very important, since we usually understand the times of crisis for the company as a direct consequence of the mismatches in the economy, but there are other dynamics as or more important than this, linked more to symbolic values.

It is worth highlighting the purity of the social mobilization of several individuals turning into a collective movement: the “outlaws”. The marches were called outside working hours. Both private property and public patrimony were respected to a great extent. There was no politician or party or union to champion the cause, their motto was “let them all go”. Even politicians who tried to be part of the marches were rejected by the demonstrators. The succession of Alfredo Palacio did not have, therefore, a social legitimacy, but a purely formal one.

The results of these events for the business environment: slowdown in the growth of the economy, pessimistic business expectations, drop in the consumer confidence index.

On Saturday, April 16, 2016, around 7 pm Ecuador shook. An earthquake with epicenter off the coasts of Manabí and Esmeraldas and a magnitude of 7.8 Mw caused nearly 700 deaths.

With a cost of more than 3.6 billion dollars this event was one of the most impacting in human and economic terms in our recent history.

Despite the fact that 8 years have passed, the reconstruction of the affected areas has not yet been completed, both in state infrastructure, the provision of public services, and in the reactivation of production and employment. Unfortunately, instability, political interests and corruption have tainted the efforts to restore normality. Legal proceedings, breach of contracts and unfinished works mean that even part of the proceeds of the Solidarity Law of 2016 have not yet been invested.

Indigenous uprisings October 2019 and October 2022
A presidential decree of Lenin Moreno of October 1, 2019, on the elimination of fuel subsidies, would have been the trigger for the protests that lasted 11 days and only ended with the withdrawal of the decree that caused the uprising.

Transporters and several social movements, unionists and trade unions were opposed to the measure and initiated the stoppage, soon joined by the confederation of indigenous nationalities of Ecuador CONAIE.

Violence was the common factor in the mobilizations. Around 1,000 civilians were injured and 11 people lost their lives in the context of the stoppage, of which 4 could have died as a result of the action of the public forces. There were also 435 police officers injured and 202 kidnapped.

The demonstrators produced attacks among civilians, paralysis of public services, fires, looting, vandalism, assaults, destruction of private and public property. The government handled the matter with an iron fist and repression, excessive force and arbitrary detentions. And from the affected population, the always latent racism against the indigenous minority was exacerbated, especially

on the part of middle and upper middle class citizens and mestizos and whites.

The indigenous people invaded and took by force 11 oil fields leaving a loss for the sector of 137 million dollars. According to calculations by the Quito Chamber of Commerce, the loss to the productive sector would have been in the order of US\$1,638 million, with the commercial sector being the most affected with US\$774 million, the manufacturing sector with US\$254 million and professional activities with US\$84 million. These calculations contrast markedly with those obtained by the Central Bank of Ecuador, in conjunction with the World Bank.

Three years later, a new uprising would take place with CONAIE repeating its leading role as the main insurgents, but with a new government (in the hands of Guillermo Lasso) as antagonist. From June 13 to June 30, 2022, the same violent acts were repeated, with slight variations in the script and numbers, by both the demonstrators and the public forces, with 6 dead and around 350 wounded on each side.

With an economy already quite weakened by the COVID-19 pandemic and according to official calculations by the Central Bank of Ecuador, the losses produced by these mobilizations would exceed those of 2019: 1,115 million dollars in 2022, (compared to 821 million three years earlier)

Of that figure 1,105 million correspond to losses and 10.6 million to damages, being 834 million corresponding to private activities and 282 million to the public sector (mainly oil). Poverty, marginalization, exclusion, racism and malnutrition are structural elements of their reality. After the uprisings, even with the very important political representation of Pachakutik in the Assembly and sectional governments, we should ask ourselves, has their situation improved notably?

The indigenous masses represent a little less than 8% of the population, a little more than 1'300.000 people (Census 2022). They can be seen, from a business perspective, as an important market segment and as a strategic ally in labor force and/or supplier of goods and services. Unfortunately, they have made use of force and violence, through road closures, denying the right of transit for the rest of the population; attacks on businesses and private companies; destruction of public property.

Perhaps more serious than the direct economic impact is the rupture of the social fabric and its long-term repercussions.

Pandemic Covid-19

On December 31, 2019, the Wuhan Municipal Health Commission (China), reported a cluster of pneumonia cases. It would eventually be identified as a new coronavirus.

On February 29, the first SARS-CoV-2 coronavirus infected person was declared to have entered Ecuador.

On March 11, 2020, concerned about infection levels and the severity of the disease, the World Health Organization characterized COVID-19 disease as a pandemic. On March 16, 2020, the President of Ecuador declared a State of Emergency in order to contain the transmission of the coronavirus. These milestones in the chronology of the coronavirus pandemic mark the beginning of a radical change, on a global scale, of the relationships between people and businesses, and a new way of living together.

According to official data from the epidemiological records of the Ministry of Health of Ecuador, in our country there were 1,065,013 laboratory-confirmed cases of COVID-19 and 67,527 deaths (confirmed and probable). Excess mortality in the first year of the pandemic reached 55%.

All the countries of the world had to adopt many measures, norms and rules in order to reduce the spread of the virus and its consequences on human health, while at the same time trying to affect the commercial activity of their inhabitants as little as possible.

Among the restrictive measures taken were: changes in customer service days and hours; restructuring of personnel; adoption of preventive biosecurity measures for employees and customers; reformulation of schedules, frequency and volumes of transportation and warehousing for suppliers and points of sale. All these measures necessarily implied a mandatory upward change in its cost structure.

We highlight below some official data from the Central Bank of Ecuador regarding the impact that the COVID-19 pandemic caused in the Ecuadorian economy:

The economy decreased by 7.8% in the year 2020. Between March and December 2020, 16,382 million dollars in revenues were lost, corresponding 12,791 million (78.1%) to the private sector and 3,591 million (21.9%) to the public sector.

The most recent event (even at the date of submission of this article it is still unknown until when this measure will be applied) is the energy crisis: power cuts decreed by the governments of Guillermo Lasso in 2023 and Daniel Noboa in 2024.

On August 15, 2024, by means of an agreement of the Ministry of Energy of Ecuador, the government of Daniel Noboa declared an emergency in the electric sector. The objective, supposedly, was to avoid “blackouts”, as power outages are known, and to guarantee the provision of the service and seek other mechanisms for the generation of electricity and satisfaction of the national demand. Since September 23, outages of 2, 4, or 12 and up to 24 hours per

day have been scheduled, depending on the sectors. The most intense drought in 6 decades, according to the government, has caused hydroelectric generation to be insufficient to cover the needs. The 62% of generation comes precisely from hydroelectric power plants (90% in the rainy season), and drops to 30% or less in the dry season, for this reason it has been necessary to increase thermal generation, reactivating its own plants, renting generators and buying energy from Colombia.

There are 7,492 megawatts of capacity that could be generated in 139 plants (5,186 hydraulic, 2,061 thermal), while the country's maximum demand would be around 5,000 megawatts, according to the Electricity Master Plan 2023-2032. The issue is that not all that capacity operates all the time.

Political/legal, technical/operational and economic reasons, apart from corruption and negligence, have converged so that the installed capacity, which in theory would be sufficient to cover the demand and even surplus to export energy, is not fully utilized. Due to lack of maintenance, the thermal power plants do not operate at 100%. Of the hydroelectric plants built during the government of Rafael Correa, some have structural failures, others have not even been inaugurated and others are abandoned. In addition, the Constitution approved during that period, of statist-socialist inspiration, significantly restricts the possibility of private electricity generation. In the governments of Lenin Moreno and Guillermo Lasso, public investment for generation was drastically reduced.

However, according to calculations of the Ecuadorian Business Committee, for every 8 hours of power outage, the private sector would lose close to US\$ 96 million; or, in other words, each hour of outage would mean US\$ 12 million in losses for the business sector. For its part, the Quito Chamber of Commerce has calculated the loss for the industrial sector at US\$ 4 billion and US\$ 3.5 billion for.

The reader can compare these figures with others reported in other cases in this same article and will realize the magnitude of the problem.

According to information gathered in the Monthly Survey of Business Opinion (EMOE), about 54% of the more than one thousand companies consulted say that they have been affected by electricity rationing. Of these companies, 39.2% belong to the manufacturing sector, 31.4% to commerce and 25% to services. It should be noted that, due to economies of scale and cost structures, micro, small and medium-sized companies are the most affected due to their greater difficulty in facing the cuts: company closures and unemployment will be the consequences that will be quantified when the crisis is over.

CONCLUSIOS

All these events, despite their intrinsic differences, have meant for companies, among other effects: lower sales, increased production and sales costs, interruption of working hours, market uncertainty, additional financial costs, restructuring of working methods, loss of customers and/or suppliers, perception of greater risk for investors. Each of these events psychologically scars the population: anguish, fear, uncertainty, shock, anxiety, depression. People's behavioral responses to the crisis are multiple and this has direct negative implications, as it cannot be otherwise, on labor activity, productivity, consumption and business generation. Companies belonging to a politically, socially and economically unstable country, exposed to earthquakes, eruptions, hurricanes, floods, forest fires, among other unforeseen events, but very likely to occur, must have prevention as a strategic constant. The question is not if these threats will occur, but when. And being prepared is the best practice. For some, these threats will have meant only a transition, for others

a full-blown crisis, and for very few an advantage. In any case, by definition, these events present a tipping point, an opportunity to restart, rebuild and reimagine.

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