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**BACHELOR IN SCIENCES**

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**INFLUENCE OF THE ECUADORIAN GOVERNMENT ON THE DEVELOPMENT OF  
NATIONAL COMPANIES (2007-2017)**

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## SUMMARY

This study will show how government support in Ecuador has been handled in the last 10 years with national companies and, in turn, how national companies have been able to grow significantly, increasing national economic growth, generating more jobs and creating new jobs, and new microenterprises (franchises). All this has brought with it a new will and drive contributing to the growth of Ecuador's citizens. In cases where the growth of a company has decreased, thus affecting the economy of our country, this paper will shed light on and the errors and reasons for which they were committed. That is, to make known the economic and administrative management so as to arrive at the problem and recognize and define the error.

It should be emphasized that the government's management should be studied in matters concerning the support it has provided towards and with national and international agreements, among others; it will draw conclusions as to whether the necessary measures were studied and taken to avoid affecting other companies. That said, all the pros and cons that have occurred in the last 10 years will have been studied, analyzed and conclusions will be drawn in this investigation.

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## INTRODUCTION

Growth in national companies is always a relevant issue when talking about a country's economy. When a country's economy grows, it is easier for a business to develop even more. Scenarios like this help not only the companies and the country, but also the citizens, since companies are more likely to expand and to hire new employees for new job positions to satisfy the new workload they must face. All of this is possible when everything is done right, but it starts with one simple step: government support.

Government support can be shown in several ways, which could be training, promotion, providing, or following. Nevertheless, the support that the government should be able to give to their citizens or companies needs to be strictly controlled and considered valuable; since there are many different needs companies and individuals may have, like investing, entrepreneurship, respectively.

However, negative actions or the lack of support could be extremely detrimental to the Ecuadorian economy, as it could be harmful for the individual and collective growth process that entrepreneurs and companies try to achieve. Tariffs, lack of import or the easy entry for foreign merchandise do not help the national companies or entrepreneurs; in fact, it harms them directly. When done correctly, government support could help a company to achieve its best performance. One of the ways the government does this is by giving incentives to companies that have performed extremely well over the years and help to the country's economy growth. National agreements, like the promotion of national product, come into play with international

agreements, as being part of ALADI in Mercosur. It is necessary that in this paper, the importance of government support for both companies and entrepreneurs is explained so that it is possible to understand how it can be beneficial or counterproductive.

## **CHAPTER I**

### **1.1 TO DEFINE GENERAL DEFINITION OF BUSINESS DEVELOPMENT AND GROWTH.**

#### **1.1.1 TO ANALYZE BUSINESS DEVELOPMENT:**

The development of a company refers to the change in the size and field of activity of the company. This goes beyond giving ideas, since it includes qualitative and quantitative changes in the company.

For this, development strategies are used, which refers to the decisions that the business council makes with its future development, growth and composition of the business portfolio.

According (capitalibre, 2010) the business council has several options for the two basic problems:

Development directions: It refers to which direction to follow in the development of the business, that is, to decide if the company should focus or specialize in the activities it has been carrying out, develop new ones or restructure the set of its businesses. Decide on the modification or not of the field of activity.

Development method: Once the address is chosen, it is necessary to decide on the method, form or way to achieve the objectives set in the direction of development chosen. The basic options here are the internal or organic development, the external one and the cooperation agreements or alliances as an intermediate form between the two previous ones.

The said information is very clear, to be able to address a company well, it is necessary to take essential decisions, if to continue with the same product or activity, or to expand its commercial activity. Taking this to decide with what method to reach the new planned objectives, looking for the biggest business development. The development of the company over the years has been in constant evolution, reason for which it has led to the creation of three new intervention models.

According to the (International Labor Organization, 2018)

The first aims to promote entrepreneurship and strengthen the capacity of individual companies by providing them with better access to relevant business development services, including access to finance. The second model seeks to help governments and the social partners create an enabling and favorable environment for the establishment of businesses (with a legal and regulatory framework, the rule of law and the right to guarantee property rights and the right to Land) The third intervention model seeks to improve the functioning of markets and various sectors through the development of an integrated and systematic value chain, for example, through bottom-up approaches so that "markets work for the poor".

Taking into account that each year a company is innovated, in order to continue or grow in the market, it is understandable that new interventions and development methods are applied. Many companies implement these, and the larger scale hire consultants to apply it in the right way and more viable without causing surprises and confusion to other employees and know how to bring the change as professionally as possible.

### **1.1.2 TO ANALYZE GROWTH DEFINITION:**

When we refer to the growth of the business, we talk about the improvement course of a company that is forced to reach its maximum success. There are two ways for the growth of a company to have the full effect of this; the first increasing would be the number of products and selling them, thereby improving their income. The second is to extend the profitability of the businesses, leading to lower rates.

There are two viable types for the growth of a company; they greatly differ in form of growth, since the first type is about internal or organic growth and the second about external or strategic growth.

Internal or organic growth: According the (EAE business school, 2018, Madrid) this applies: “by increasing financing by shareholders, who choose to contribute more capital. For reinvestment of profits in the business”

One of the drawbacks of this approach is the free time it leaves so that competition can expand competitive advantages. However, it also has its advantages such as maintaining the economic situation of the company stable, since they do not exceed interest payments for external debts.

External or strategic growth: According the (EAE business school, 2018, Madrid) this applies: “through the search for external financing. Through diffusions and acquisitions.”

Both objectives seek business expansion through external financing. taking into account that the company can be taken by shareholders who are not of the organization, but as an advantage to

apply this procedure normally 50% of shares of some other company are purchased for the growth of this. Consequently, if the acquired company is of another type, it can be modified to suit the type that is needed and expanding to the company that purchased it.

## **1.2 INFLUENCE OF THE ECUADORIAN GOVERNMENT IN THE BUSINESS.**

### **1.2.1 POSITIVE IMPACT:**

Entrepreneurship in Ecuador has been very remarkable for young people, so they can see better opportunities for a new product in the market, the daily needs that are developed in the world are constant, and as young people live them daily, their mentality of Innovation makes it possible to be an engine for entrepreneurship.

According (revistalideresec, 2012)''The studies of the Global Entrepreneurship Monitor (GEM), one in five Ecuadorian adults was planning, in 2010, to create a new business. Of these 54.6% correspond to men and 45.4% to women.''

As read, the Ecuadorian government has taken measures to promote entrepreneurship, the sub secretary PIMES and the crafts of the Ministry of Industries and Development, follows a cycle to achieve this goal, which are: train, promote, provide, support and follow up. Making a brief summary of what this entails, it is mainly to train and accompany the business plans, analyze and choose the best plan to take this to a certification, have a guarantee fund ensuring the payment form of the project and finally have a follow-up of the project management.

The Ecuadorian government has, in turn created several programs for the development and support of entrepreneurship, an example is the national business development network. It is an administrative tool that provides future benefits and, in turn, enhances trade with regional companies.

Another program is the CDEAE, it follows the procedures that are: office automation (MINTEL) offers training in virtual tools, training in intellectual property (IEPI) in copyright and industrial property, strategic vision of the government (MIPRO) offers knowledge about the prioritized sectors and enterprising character, business plan (SECAP) market research and administrative organization, tutoring and coaching (JICA, SNV, PUM) technical, commercial and financial study, finally financing (CFN, BNF, BCO, PACIFICO) offers network of investors and public financing.

### **1.2.2 NEGATIVE IMPACT:**

At the same time, Ecuadorian entrepreneurs face several weaknesses in entrepreneurship, such as low capital or poor training of the entrepreneur, among others. It has been shown that more than 12.1% of entrepreneurship has been more due to the need than to improve their economic environment; that is, the average Ecuadorian has not had more work options than he has had to develop his.

One of the things that have hindered the growth of entrepreneurs is the lack of import of raw materials in certain fields; as an example, the import of cloth for the manufacture of disposable diapers, which prevent maintaining a supply necessary to satisfy the final consumer. This then causes these products to increase their cost a making it unobtainable or available to all people.

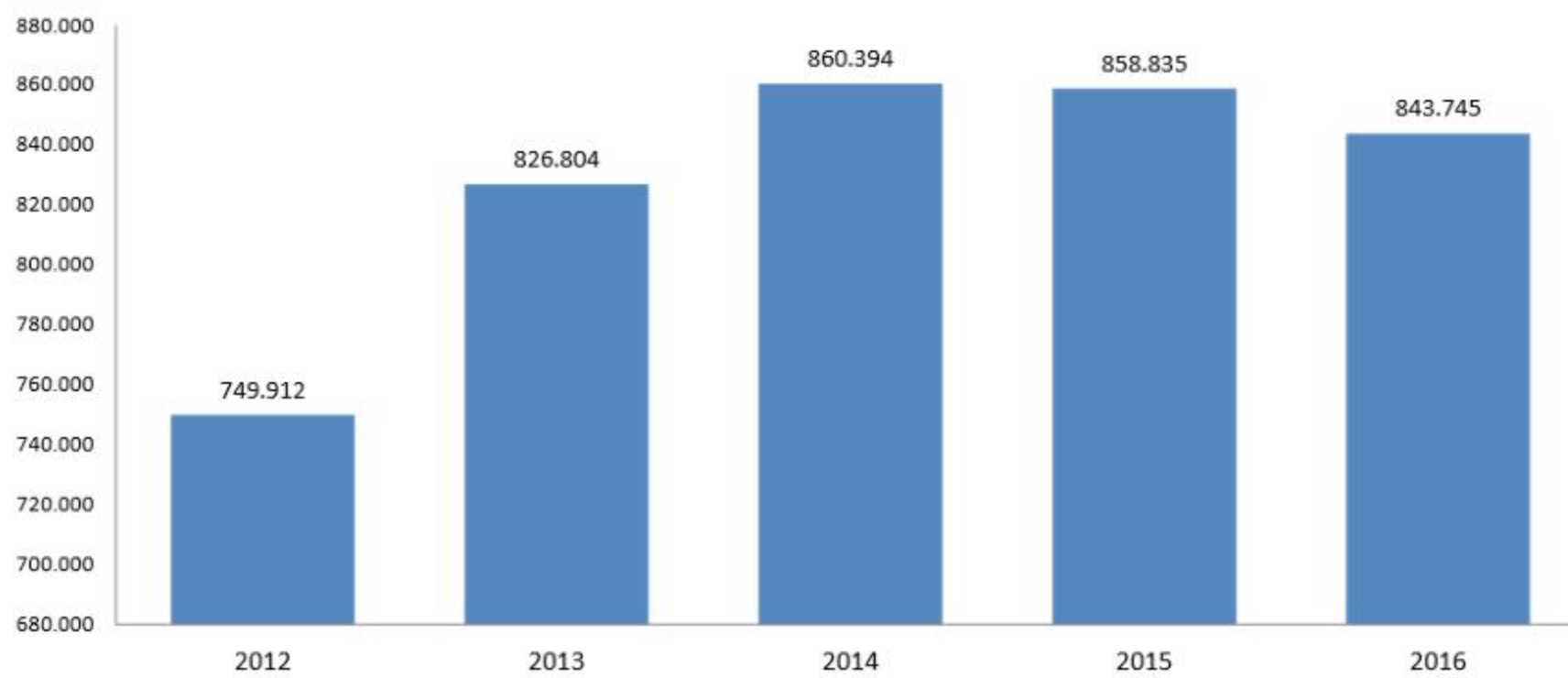
On the other hand, there is the entry into the country of products of Asian origin (illegal income) with a cost much lower than the national production since the fact of being our dollarized country the labor becomes expensive in relation to other countries, an example Of course, it is the textile industry that has been seen and affected by the entry of clothing or other accessories of foreign origin. Another very palpable case is the national footwear industry, affected by 80% by the entry of foreign merchandise that has forced to close many factories of national entrepreneurs.

In the agricultural sector, its negative impact on production (rice and corn) is also notorious. Due to the high cost of labor, the product becomes expensive and not only that, in agriculture chemical preservatives are used to maintain the final product. It is mainly entered into retail by the increase of the cup in the products.

### 1.3 TO REVEAL DEVELOPMENT INDICATORS IN ECUADOR

According the (INEC, 2016)

#### Evolución del número de empresas (2012 – 2016)



## CHAPTER II

### **2.1 TO EXAMINE ECUADOR'S MOST INFLUENTIAL BUSINESSES IN THE LAST TEN YEARS.**

Ecuador, in the last 10 years has declined in the business ranking of the World Bank, the process which evaluates 190 countries. Ecuador is located in the ranking 118, being surpassed by neighboring countries such as Colombia and Peru.

According the (Global System solutions, 2017) "Companies feel comfortable interacting with customers, suppliers and competitors, looking to generate profitability by increasing their sales and controlling their costs."

This allows us to refer to the fact that companies not only seek to lead, but also look for challenges to reach their objectives (competition), since in this case the objective would be to increase their sales and control their costs. Taking into account that all this is also achieved through relationships with partners and suppliers, that is, with a good supplier of products (raw material), better results are obtained taking into account the product purchased at a good price, thus obtaining a higher profitability and obtaining profits. However, with a good partner, greater financial support can be obtained making for a better investment. If a company manages to obtain these two points, it can reach and exceed its own objectives, and so, reach another level of business.

Most of the increase in profits can cause the growth of a company to fail. When does this happen? This occurred when the company left the analysis of the regulatory, political and economic environment? The tariff rates of Ecuador noted as having risen from 5% to 45% have

affected the Ecuadorian import; this can be taken as a clear example of this, since the political environment affects the national and international companies established in Ecuador.

From 2007 to 2017, the government that will make a difference in the business environment is the government of current President Lenin Moreno.

According to (*diario el comercio*, 2017)

As of Sunday January 1, 2017, the commercial agreement with the European Union (EU) that was ratified in December 2016 and which involves the elimination of tariffs for the importation of products such as liquors, raw materials, capital goods, etc., as well as for the exporters of flowers, broccoli, and bananas, among others. This also has other effects, such as the elimination of the quota on imports of cars or the dismantling of safeguards in June of this year.

This elimination of tariffs is a point in favor for every entrepreneur in Ecuador, regardless of which business branch it belongs to. It offers a great opportunity all around. For example, the textile companies with their import of cloth while simultaneously improving its quality in the same measure, the footwear companies will also find themselves benefited. Considering the scope of export, it too increases because when sales go up; products become more renowned, leading them to be more popular elsewhere.

## 2.2 ZAIMELLA OF ECUADOR.

Zaimella of Ecuador is a company that focuses on the care and personal hygiene, seeking the innovation of the final product but above all, their priority is customer satisfaction.

Why did I decide to talk about Zaimella of Ecuador as one of the most influential companies in Ecuador? The reason is that this company has had a very significant growth and managed to have a strong influence in Ecuador, so much so that the Harvard business and development school will conduct a study analyzing the method of growth which has proven them effective for Zaimella.

You can see at a glance that its growth has managed to expand even more so than other companies such as Kimberly Clark (a multinational company).

Zaimella of Ecuador is divided into different brands and classified as follows:

### Babycare:

- o *"Para mi bebe"*
- o *"Panolini"*
- o *"Pompis"*
- o *"Mini stars"*

### Adultcare:

- o *"Prudential"*

### Female care:

- o *"Maternity"*

Family care:

- o *"Pompifresh"*

Beauty care:

- o *"OpusZ23"*

Pet sitting:

- o *"Dodi"*

Zaimella has internal work methodologies that allow questioning, but what does this question entail? Leads to be aware that to be in the market must be in constant evolution plan depending on the needs that arise. The company is structured by a system called "cluster". The cluster improves the forms which the company works. It involves with constant innovation, meaning that the cluster should be made up of people who have business, giving as a result a vision of change to all areas.

### **2.2.1 FRANCHISES "POTOTIN"**

Pototin is a Zaimella franchise created for entrepreneurs, located in an area of greater popular circulation or also known as popular sectors. To locate each franchise, a circulation study of people is made, specifying in women and children, thus guaranteeing a total of sales with goals to be met.

Why does it focus on popular sectors? Because the franchises direct their sales towards the final consumers, offering accessible, quality products at factory prices, gaining the consumer continuity in the purchase of their products.

In reality, a customer loyalty plan is provided through the accumulation of points where the final consumer with a certain amount of points, earns a gift-prize.

### **2.3 PETRO ECUADOR.**

Petroecuador is a state-owned hydrocarbon oil company that focuses on the refining, production, marketing and exploration of crude oil. Take the decision to talk about petroecuador for the simple fact that it is a company that has, despite internal and external conflicts in the political and business areas, has somehow known how to carry on with all these problems.

It is currently the number one marketer in the automotive segment. In the country, Petroecuador also consists of branches called Petrocomercial that are deployed in different areas nationwide thus, in 2012, achieving the number one position in the business ranking nationwide with a total sale of \$ 14,846,322,846 and taxes of \$ 4,405,071

### **2.3.1 TO INVESTIGATE AND EXAMINE THE ISSUES OF PETROECUADOR**

In the last ten years Petroecuador has had several problems in both the external and internal financial sense. Most of the problems have had to do with illicit enrichment. It must be emphasized that these are also examiners because of an entity of Ecuador.

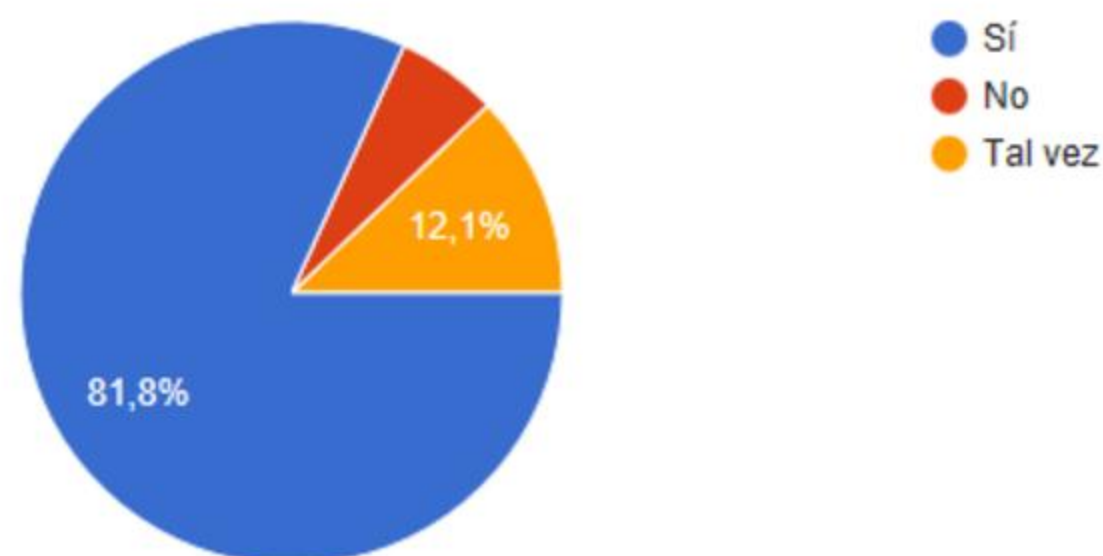
One of the most scandalous cases is known as *Panamapapers* and in this case the former petroleum manager was arrested for alleged exposition of financial assets in tax havens. This is presumed a crime of embezzlement on the part of Bravo since she has companies in tax havens with a large contractor. Bravo's wife is also related to this crime since it has offshore companies in Panama.

## CHAPTER 3

### 3.1 TO INVESTIGATE THE GRANTS AWARDED OF NATIONAL CONTRACTS

At the global level, the governments of each country give incentives to companies with the aim of having greater economic growth. The assistance provided by the Ecuadorian government requires international regulations for the recognition, presentation, evaluation and registration and in turn all this must be categorized, to identify the type of aid received by each company and to be able to continue with the official registry.

In 2014 the Ecuadorian government delivered 270 million in grants in search of an economic boost. In the popular sphere people do believe that a national company contributes to the economy of Ecuador, this was proven by a survey carried out on people over 20 years of age.

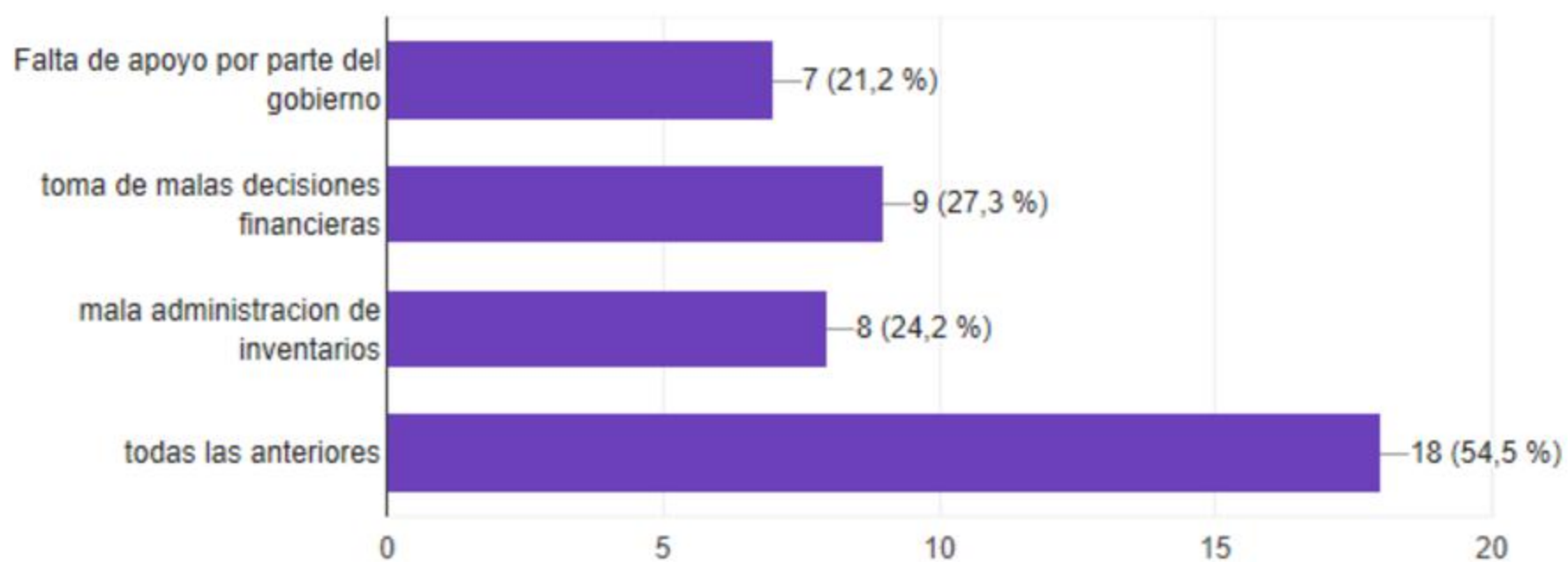


As we can see, 81.9% believe that a company if it supports the government, it could be added that this opinion is for the people who contribute, manage or own a company and that its

development has been successful for the moment with the agreements and supports that the government has had with them.

While 6.1% say no and 12.1% maybe, this may be due to people with private import or export companies, since the government, as we have observed previously, has had many increases in tariffs and problems with the import, thereby damaging a certain percentage of large and small companies nationally.

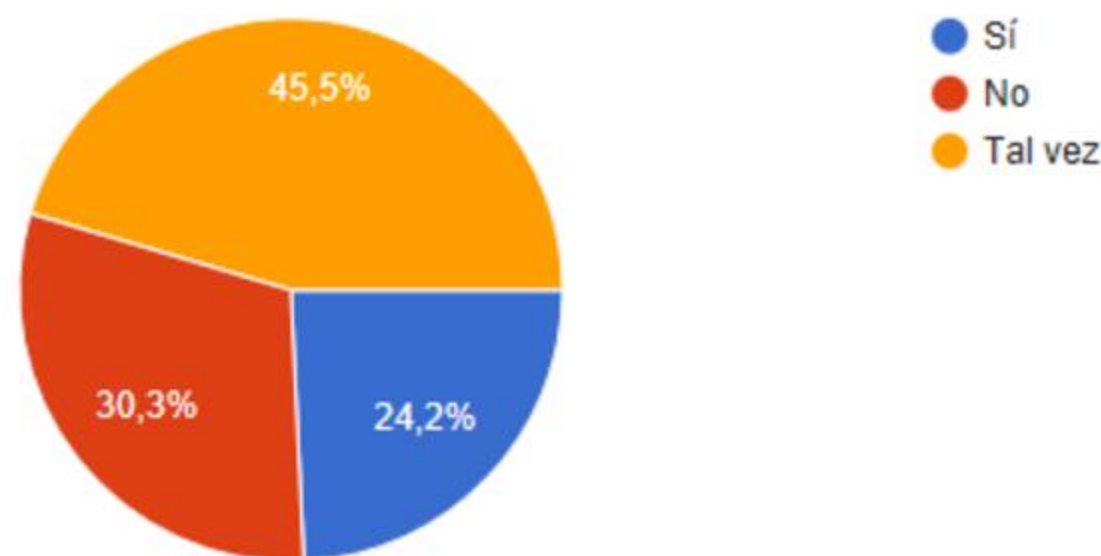
Taken into account at 6.1%, the factors taken into account so that the deductions of the obstacles to the development of a company are the following:



Only 21.2% believe that the obstacle to the development of a company is the lack of support received by the government, this is a great advance in Ecuadorian entrepreneurship, since it can be seen that since previous years the lack of support for entrepreneurship has been decreasing to the present.

### 3.2 NATIONAL AGREEMENTS

National agreements for the business sector have increased over the years, but their effectiveness is not clear or easily defined. A clear example was in 2014, when both Guayaquil and Quito decreased their interest to increase their commercial productivity. These measures were taken because at that time neither felt the support of the government. In a survey conducted, the percentage of people who believe that national agreements serve for the development of a company was shown.



As we can see, 24.4% say that if development is supported, but 30.3% say no (not much difference), but why this small difference? Because the country has focused on supporting the national rather than the international, by this I mean that many entrepreneurs, such as farmers, fishermen and others, have benefited; however, companies that focus on bringing raw materials or producers from abroad are affected. For example, bringing clothes from abroad is much more expensive, which reduces productivity and profit. We also observe that there is a 45.5% that says "maybe", as I explained earlier the country focuses on the national product, by means of which

the new entrepreneurs have benefited from this while the old ones (focus on foreign products) come out affected.

### **3.3 INTERNATIONAL AGREEMENTS**

Ecuador is in a different context for first world markets, because it is barely part of CAN (Andean community), ALADI, MERCOSUR and others. In 2010, it barely had \$ 17,490 million in exports, being surpassed by neighboring countries such as Colombia (\$ 39,829 million) and Peru (\$ 35,565 million).

This gives us to reflect the following data:

- Low investments
- Oil dependence
- Waste of development opportunities
- Technology delay
- Chains in agricultural, fishing and forestry sectors

One of the most important agreements that Ecuador has internationally is with the EFTA states. These recognize and wish between states to strengthen and diversify trade with economic and commercial operation generating a mutual benefit, also determined to the multilateral trading system under the agreement of MERRAKECH (WTO agreement), being convinced that with this their companies will improve its global competitiveness by creating economic, commercial and investment relationships. Establishing this like a free trade area.

Another important agreement is the Ecuador-European Union trade agreement, discussed on Friday, November 11, 2017. This agreement gives a 100% release of industrial products and 99.7% export in Ecuadorian agricultural products. According to SEPAL, this will increase 0.10 of GDP of 0.15% in consumption and of 0.13% in investment, leading all this to a positive impact on job creation.

## CONCLUSION

To finalize this investigation work, it is concluded that government support could result beneficial or counterproductive depending on how well it is managed. It is concluded that Ecuador has improved the support towards individuals and companies, but especially for entrepreneurs. Nevertheless, it is understood that tariffs imposed by the Ecuadorian government have harmed entrepreneurs more than companies by affecting the bringing of raw materials from other countries.

It is shown that Ecuador has not done extremely well in the last ten years, since neighbor countries like Colombia or Peru are way ahead in their process of economic growth. It is also specified that Ecuador's most influential businesses have also been affected by the tariffs imposed by the government, which explains why political decisions have such a major impact on the country's economy. Nevertheless, it is explained that economic growth is reachable, because of the agreement made with the European Union realized by Ecuador's new president Lenin Moreno.

To conclude, there are several factors that influence a country's economic growth. As shown before, erroneous political decisions have harmed the expansion possibilities both for entrepreneurs and for companies. However, good political decision and new measures will be extremely beneficial for economic growth, since company and entrepreneurs' needs are been satisfied.

## RECOMMENDATION

After having examined the economic situation of Ecuador and scrutinized the causes, effects, development problems and amongst others, I have learned about the situation in which we, as a nation, currently find ourselves. I am convinced, now more than ever of the sheer importance of informing and maintaining society aware of these changes for the common good, the general knowledge of what occurs and the slight or great changes that take place as this will affect them directly as citizens within the Ecuadorian society. That is to say that school should encourage this type of teaching (economic and progressive) since this type of education is scarce and many do not follow the events which inadvertently impact our lives. Furthermore, I think we should teach ourselves, our children, relatives, friends, etc. in the case that a family member or friend so that they may learn to see things on a wider scope, especially for those who would like to undertake the challenge of starting up some type of business, so they may not fail in that endeavor.

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