



THE POWER OF TWO

PEDRO MOREIRA SALLES tells Brunswick's **MARCOS CAETANO** how the merger that created Brazil's Itaú Unibanco involved sacrificing control for the greater good

In 2008, Pedro Moreira Salles helped orchestrate the Southern Hemisphere's largest-ever deal in the financial sector: the merger of two leading Brazilian banks, Itaú and Unibanco. Moreira Salles, then CEO of Unibanco, credits the success of the deal in part to his constructive relationship with his opposite number at Itaú, Roberto Setúbal. Now, with Moreira Salles as Chairman of Itaú Unibanco and Setúbal as CEO, Moreira Salles says they have built a constructive institutional environment that allows the combined bank to thrive.

Moreira Salles is a member of a Brazilian family, prominent in both business and the arts, that has run Unibanco since its founding as the Moreira Salles Banking House in 1924. His father, Walther, grew the company into one of the most important components of modern Brazil's banking system and also served as the country's Minister of Finance as well as its Ambassador in Washington, DC.

While Pedro chose to follow in his father's footsteps, his brothers went into very different endeavors. Walther Junior, better known as Walter Salles, directed *Central Station*, which won many international prizes, and the Academy Award-winning *The Motorcycle Diaries*. Another brother, Fernando, co-owns one of Brazil's largest book publishers and also runs CBMM which produces niobium, an element most commonly used to strengthen steel. Youngest brother João makes documentaries and publishes the respected Brazilian magazine *piauí*, often compared to *The New Yorker*.

Pedro has chosen to focus on culture of a different sort: in the boardroom. Here, he discusses the creation of Itaú Unibanco, the influence of his father and the decision to give up his CEO seat. It is the culture of the merged company, where "one plus one is greater than two," that he feels is his greatest achievement.

Just how difficult was it to decide to merge Unibanco and Itaú?

Every major fork in the road, every critical decision, is complex for a business – and a boardroom. Certainly for me, the decision to create Itaú Unibanco was the most challenging I have faced. On the one hand, it was an exciting prospect to form a company with such enormous potential. On the other, it would create a new dynamic, one where independence – and therefore influence – could be substantially diminished.

So both you and Roberto Setúbal had to give up some control as a result of the merger?

Yes. I became the Chairman and he became CEO. For both of us, although in different ways, the merger meant an exercise in letting go. At the time, we had to make the decision to share control, and that is exactly what we did: we shared.

Before the deal, right or wrong, we could make decisions with a low level of consultation and a high degree of independence. So you relinquish some control. At the end of the day, you give up power and that's not easy.

How were you able to make it work?

We invested a lot of time. We spent almost a year and a half discussing the merger before deciding to go through with it. As our relationship developed, it became very clear how we complemented each other and exactly what our roles should be. It was a unique dynamic and, quite frankly, I don't know if the model we created could be replicated.

Why not?

It had a lot to do with chemistry, with trust. We committed to something unique that has been successfully tested many times: we agreed to agree.

Now we have a board that has been functioning for nearly eight years and many more people are involved in the process. The trust we have today is more institutional, it depends less on the two of us. When we started, we had an idea of a joint project; today we have a single project.

Did you outline what the limits of each role would be?

No. We spoke at length about how the roles would work, but we never wrote anything down. There were very few doubts about how it would be done, about what the process would be like. We also knew that we would learn as we went along. We had no road map. During the first few years, there was a

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need for an intense, almost daily interaction – so much so that my desk was moved into the room of the Executive Committee, close to Roberto's.

But having been a CEO before, I recognized that we also needed a degree of separation, to make it clear that the new organization was not going to be run by a two-headed hydra.

Was the decision to split the Chairman and CEO roles partly symbolic?

Yes. We wanted to show everyone that the merger was in fact a *merger*, to reject the perception that there had been winners and losers in the process. It was a tremendous effort to try to create a culture that would represent the two organizations. For this to work, the situation demanded something more than the traditional setup of a board.

How so?

The agenda that I led went beyond the scope of a normal board and focused on people and culture. We wanted to create a personality for the bank that was neither Itaú nor Unibanco. Everyone needed to recognize this as a new era for each organization.

That was the example we wanted to set: one plus one is greater than two. And that's what ended up happening. Looking back, seven years later, it was an extremely good decision. The organization is much better than the companies that formed it.



PEDRO MOREIRA SALLES

Pedro Moreira Salles is the Chairman of Itaú Unibanco. Prior to the merger with Itaú, he was Unibanco's Chairman from 1997 to 2004. He was CEO from 2004 to 2008. He is also a Partner and co-CEO of investment firm Cambuhy Investimentos.

ITAÚ UNIBANCO

Itaú Unibanco is the largest financial group in Latin America and a publicly held company. The bank was formed in 2008 by the merger of Itaú and Unibanco. Unibanco was founded by the Moreira Salles family and Itaú by the Setúbal and Villela families.

Has the dynamic changed at all between you and Roberto?

We've never had a conversation such as, "Look, stop doing that, start doing this, this is my space, that's your space." Never. We obviously have dealt with different points of view, but we have always reached a consensus. Naturally, things change over time and our roles have moved accordingly. Today, what we do isn't the same as it was in early 2009.

What about the Itaú Unibanco board – how has that evolved?

We've changed the board substantially over these past few years. Some members retired, some were changed simply because we needed to represent different points of view.

Today, we do yearly peer reviews. Each director is evaluated by every other director. We have a much clearer picture of what works and the kind of profile we want. We try to create a mix of people: some with years of experience in the industry, CEOs from other sectors, individuals with strong academic backgrounds and some former central bankers.

Looking back to your time as CEO of Unibanco, you had a good record with really strong growth.

It was a period in which the bank did well. We assembled a group of people and gave them a new mandate. That created a sense of enthusiasm about what could be achieved, a new aspiration for innovation, growth and profitability.

As part of that, it made sense for me to assume the CEO role then. I'd been involved with the bank for nearly 20 years. Being CEO, it was easier to make decisions. I had all the company reports; I didn't have to try to influence one individual to get things done. The responsibility would be mine. But it wasn't something that I had ever had as a career goal, to be the bank's CEO.

What are the differences between the chairman and CEO roles?

The chairman and the board set the tone for the company's culture and values. This means the board should also set the standard for the type of people the organization recruits, and who, among its employees, is promoted or given incentives.

It is the board's role to define and safeguard a vision, a direction. The company's culture can't be defined by an executive who, by definition, has a temporary mandate. Although directors do change, the board in its institutional role doesn't. It is crucial to guarantee continuity. But of course, the



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CEO is the decision maker – and so the relationship returns to us two, the Chairman and the CEO. That relationship is a key element in the quality and effectiveness of any board.

You worked with your father when he was Chairman of Unibanco. Was he a big influence?

Yes. One of the most important skills I saw in him was precisely this effort to attract people with complementary skills, to get everyone to contribute. He left day-to-day activities to the executive team, but he most definitely gave direction to the company, most importantly through his emphasis on relationships.

It was my father who changed the bank's name from Banco Moreira Salles to Union of Brazilian Banks, or Unibanco, removing our family name. He wanted to get rid of the focus on personality, so the bank could grow as an institution. It worked, and that led directly to the creation of Itaú Unibanco.

Are there other companies whose culture you admire?

There are plenty, from Silicon Valley to some of the more traditional sectors. Google's culture is distinctive. So is Goldman Sachs'. Then, of course, there is Anheuser-Busch InBev, with its extremely strong culture – something at which it works very hard. More companies are coming to appreciate the difference culture can make. If you truly believe that people make a difference, then culture is the ultimate comparative advantage. To stand out in the talent recruiting war, you have to define yourself.

How important is communications in establishing a culture?

Very. The more complex, the bigger, the more geographically dispersed the organization, the more crucial the role of communications becomes.

It's impossible to speak with everyone in person; you need a way to reach them. But corporate communications is much more than the sum of distribution platforms. You need a set of key messages – and actions.

Growing a company is not an easy process. Many people cling to the past and refuse to change. To implement a change in culture, you have to have a strong communications strategy. It's very easy to talk about culture. The real challenge is getting it right.

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MARCOS CAETANO is a Partner in Brunswick's São Paulo office. He previously worked for Itaú Unibanco.