

Research Yearbook 2011-2012



EAESP

ENTREPRENEURSHIP

**CORPORATE STRATEGY**

MARKETING STRATEGIES

ORGANIZATIONAL STUDIES

**FINANCE AND ACCOUNTING**

INFORMATION MANAGEMENT

**HEALTH MANAGEMENT**

OPERATIONS AND LOGISTICS MANAGEMENT

PERSONNEL MANAGEMENT

**SUSTAINABILITY**

POLITICAL SCIENCE

**PUBLIC MANAGEMENT**

PUBLIC POLICY

Research Yearbook 2011-2012

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# PREFACE

This yearbook contains summaries of the research carried out by FGV-EAESP professors.

All work was funded by GVpesquisa [GVresearch], our supporting body for research activities.

This yearbook also contains reports on topics that have achieved prominence in FGV-EAESP and illustrates initiatives that combine both teaching and research activities.

These texts provide an overview of the diversity and richness of the reflections of the researchers at this institution. The texts also allow opportunities for future theoretical and practical developments to be identified.

The summaries of the research projects were prepared by journalists Lucas Callegari and Adriana Wilner. The articles were written by journalist Verônica Couto. Cris Tassi carried out the graphic design, and the project was coordinated by Daniela Mansour M. da Silveira, a member of the GVpesquisa team. The authors themselves lent their full support to the preparation of the summaries.

We hope this yearbook will achieve its objectives of disseminating the knowledge generated at FGV-EAESP and of serving as a bridge between readers and authors.

Cordially,

**Thomaz Wood Jr.**  
GVpesquisa

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# SPECIAL ARTICLES

SUSTAINABILITY

ENTREPRENEURSHIP

FINANCE INSTITUTE

LOCAL CONNECTION

PUBLIC MANAGEMENT

# REALITY SHOCK IN PREPARING MANAGERS FOR A SUSTAINABLE WORLD

An innovative methodology that combines research, field trips and personal reflections in taking account of new social and environmental demands

**T**opics such as carbon credit, climate change and sustainable value chains are the “raw material” of the work of the Sustainability Study Center (GVces) of the São Paulo Business Administration School of the Fundação Getulio Vargas (FGV-EAESP). The GVces was created in 2003 when the current coordinator, Mário Monzoni, was pursuing a PhD and, along with other colleagues, perceived the importance of creating a center dedicated to the new paradigms of the economy and Brazilian society with respect to environmental and social concerns. The center, with its open and multidisciplinary study environment, has 40 professionals as of 2012. Its objective is to transform society by way of the following four dimensions in which it operates: formation; research and knowledge production; articulation and interchange; and mobilization and communication.

The GVces has vast experience in addressing sustainability concerns in the financial industry and is responsible for the BM&FBovespa's Sustainability Index and Carbon Index and for the criteria adopted in the *Exame Sustainability Guide*

published by Abril. The center also coordinates the Brazilian GHG Protocol program, which includes a public register of greenhouse gas (GHG) emissions. In 2012, 94 companies published their inventories in Brazil, according to Monzoni. GVces is also participating with the Ministry of Development, Industry and Foreign Trade by preparing a plan for the industry to address climate change.

Two major projects were undertaken by the GVces in the Amazon region of Brazil. In Juruti, a city in the state of Pará where Alcoa operates a bauxite mine, the center worked alongside the local community to prepare development monitoring indicators. The center is also studying production standards at the Jirau hydroelectric power plant on the Madeira River in Rondônia.

Three years ago, the GVces created the Integrated Education for Sustainability (FIS), an optional discipline for preparing managers who are concerned with social and environmental issues, and 105 students have already graduated during the six semesters that the discipline has been offered.

Among the students who completed the FIS in 2012 was Laura Oller, who is enthusiastic about

the course. "It changed my life," she says. She was out of the country on an exchange program when she heard colleagues who had completed the FIS praising the program. She was interviewed via Skype for a place in the course. "From the selection process, I already saw that it was a different initiative."

According to Monzoni, "[...] we look to bring together people with different interests because we believe that innovation comes from diversity." The classrooms are organized in conversation circles, and the professors act as facilitators, intervening only to orient the students, who must manage the tasks on their own.

"In the beginning, it comes as a shock because you're invited to think according to another logic. What we have throughout the course are meetings in a completely horizontal relationship," Oller notes. The FIS lessons take place twice per week and are worth two credits. In addition, students earn two field credits during a 7-day trip and a weekend trip. "Content is directly interlinked with the graduate disciplines and provides the attributes that are necessary for managing environmental and social issues and that take account of the new demands of business and of public policies," Monzoni explains.

In practice, this occurs via two related projects: self knowledge process and the reference project (resolving the objective demand of a company). According to Monzoni, the purpose of the self knowledge process is to encourage students to drive a guided self-reflexive process carried by each student individually and shared collectively in the group. "We introduce elements that allow students to leave here as different citizens, with their awareness expanded, and who make decisions by taking into account interests that are not only their own."

As a reference project, Oller's group studied the need for Votorantin Metais to build a supplier policy by organizing a sustainability-oriented supply chain. The Votorantin network includes hundreds of partners, from major industries including Braskem and Petrobras to entire towns that depend on the mining company.

The students visited Vazante in Minas Gerais, a town built around a zinc mine. In addition, the group traveled to another Minas Gerais town, Paracatu, to view a Kinross mine for extracting gold as well as to Morro Agudo and Niquelandia in Goiás. "Visiting the mines was very impressive," Oller notes.

Oller's group found that participation and dialogue channels between the company and its suppliers were necessary in developing more sustainable relationships. The group presented a panel of best practices in the mining sector from around the world, including international commitments and global trends, and created for suppliers a matrix of indicators that is compatible with the objectives of sustainability and social responsibility established by Votorantim. Armed with this matrix, the students then prepared an employee engagement plan. The students' report and their recommendations will be presented during the company's strategic planning meeting.

The FIS is based on three complementary axes: rational, experience and sensory axes. The first axis offers objective content, whereas the second yields knowledge resulting from the field experience. For example, one of the groups went to Altamira in Pará to speak with the Xingu Indians of Volta Grande; another group visited the Island of Marajó in explore biodiversity issues. The third axis addresses emotional reasoning, including awareness-building exercises, corporal dynamics and artistic activities.

"The intention is to open windows so that knowledge doesn't just come from PowerPoint presentations and lectures," Monzoni explains. Of the four professionals from FGV who were recently hired by Google, three were "Fisers", as students in the FIS program are known. Monzoni notes future plans for an archival center to follow the career development and histories of FIS students. "We want to monitor these young people to find out what they'll have done in 25 years' time."

# HOW TO GUIDE YOUR OWN DESTINY

To foster entrepreneurship among students and professors, FGVcenn holds events and arranges workshops and business plan competitions. Now, the center is also sending students to participate in internships with start-up operations.

**T**he Entrepreneurship and New Business Center (FGVcenn) of the Business Administration School of the Fundação Getúlio Vargas (FGV-EAESP) created a new program to include practical experience and an objective professional perspective within the entrepreneurial culture offered to students. The Internship and Start-Up project sends students to participate in internships with companies that are small but that have strong growth potential. "Students are going to closely follow the entrepreneur and be alongside him/her when they are making decisions and handling processes," explains Marcelo Marinho Aidar, the joint coordinator of FGVcenn.

The mission of FGVcenn, which was established in 2004, is to produce knowledge and disseminate information within the school regarding entrepreneurship. "We want to encourage people to reflect upon the topic and spread the concept interdepartmentally because entrepreneurship is not restricted to a single area but is a multidisciplinary topic," Aidar says.

According to Aidar, one challenge is to gradually change the old paradigm that the School of Administration can only prepare students for working in companies whose position in the market is already consolidated. "We want to show entrepreneurship as a career option. We want to make students understand that they can study and graduate and think about opening their own

business and looking after their own destiny,” Aidar notes.

The work of enlightening students and professors about entrepreneurial prospects involves the following aspects: the creation of discussion forums (such as the Entrepreneur Forum, with its monthly lectures), thematic workshops, events (particularly Entrepreneurship Week), seminars with specialists and former students and various business plan competitions (such as EDP 2020, coordinated by Aidar himself and promoted by Energias do Brasil). The company awards R\$ 100,000 to the best project, which is always directed towards the use and generation of renewable energy in sustainable models.

Approximately 40 to 50 ideas are usually entered, and the 20 best are selected after analysis by the FGVcenn and EDP teams. The authors of these 20 plans subsequently attend a course at the center, where they learn how to prepare business plans. The authors then have two months to prepare their own business plan. A new assessment then determines the 10 plans that will be presented to the top management at EDP, which selects the six best. In 2011, the winner developed a system for using babaçu nut waste to generate energy, “and the author is currently continuing with the project in partnership with EDP,” Aidar notes.

Other competitions are the i2P (idea to Products), sponsored by 3M, and the Latin Moot Corp® Competition, which brings together students from various universities and takes the winning plan to the international stage at the University of Texas, in Austin. “For instance, two post-graduate students from FGV-EAESP created a model for exporting coconut water, which has been developed extensively, and it all began in one of these competitions,” Aidar explains.

FGVcenn also offers a course for J.P. Morgan Bank’s 10,000 Women program, whose intention is to produce 10,000 women entrepreneurs worldwide. FGV-EAESP and the Fundação Dom

Cabral in Minas Gerais are participating in the initiative in Brazil.

The coordinator has begun a research project to identify how many former students who graduated between 10 and 15 years ago have become entrepreneurs and how successful they have been. “I want to register how they operated, how many times they tried until they got it right and how much time was necessary to consolidate the operation because the process, in general, is slow. They make mistakes two or three times before they get it right,” Aidar notes.

Aidar explains that the concept also includes “intra-entrepreneurship”: that is, being engaged in generating innovation within existing private, social or government organizations. FGVcenn begins with the principle that the entrepreneur is the agent of innovation, which requires the transformation of the people involved, the company itself and the markets in which the company operates.

Introducing true innovation is not a routine task, and the entrepreneur is the person who creates new business, whether through a new company or a new market for a company that is already operating. The initiatives may also result in start-ups; for example, in the third sector, initiatives may occur through social entrepreneurship and in public administration (public entrepreneurship). In the private sector, entrepreneurs’ reach is immense, including franchises, succession processes (which lead new players to assume command of businesses) and cultural entrepreneurship.

Aidar explains that currently, entrepreneurship is gaining increasing relevance and recognition, including as one of the crucial strategies for addressing the global financial crisis. “Employment comes with the creation of new business. How would it be possible to create new jobs if there were no entrepreneurial people?” he asks. “Because of this, international studies are beginning to investigate how countries can encourage entrepreneurship.”

# NEW FGV-EAESP INSTITUTE INTEGRATES PROJECTS AND COMPETENCES

I-Fin was created to increase the synergy of financial studies, promote new initiatives and expand the visibility of actions.

In 2012, the São Paulo Business Administration School of the Fundação Getulio Vargas (FGV-EAESP) created the Institute of Finance (i-Fin) for the following purposes: to integrate the multiple competences and projects the institution is already developing in that field, to make room for new initiatives and to disclose the new initiatives in an effective way to society. According to João Carlos Douat, the coordinator and head of the Department of Finance, various study nuclei have been introduced, including Happiness and Financial Behavior Studies; Controllershship and Accounting; International Finance; and Corporate Continuity. Two further study areas, Risk Studies and Value-Based Management, are in the process of being established.

The Happiness and Financial Behavior Studies Center intends to evaluate the extent to which certain decisions (such as taking out a private pension plan or making savings and investments) are reflected in people's well-being and quality of life. "There is already an international happiness index, but we do not want to import it," Douat notes. "We want to study Brazil to understand which financial behavior pattern makes Brazilians happiest." This center will also analyze other phenomena. For example, if someone finances a house instead of buying it outright, is the reason a lack of money or is the motivation related to an attractive interest rate, an investment prospect or some other reason? The center's objective is to describe the national profile(s) in terms of financial behavior.

The Controllershship and Accounting Studies Center, in partnership with PricewaterhouseCoopers,

“is going to discuss more essence than form – conceptual issues,” the i-Fin coordinator explains. The International Finance Studies Center will address themes including currency parity, foreign investments and other subjects relevant to the financial management of multinationals or institutions that operate in the international finance market. One of the center’s objectives is to work in an integrated way with the FGV-EAESP’s International Business Forum.

A donation by Wladimir Puggina, a former professor and controlling partner of Fertibrás, was the origin of the Corporate Community Center, which was established to build a database relating to the management of Brazilian companies. The database survey will begin with financial administration practices. “For example, we are going to determine how the payment period established with the client is defined in order to prepare a major database and understand how these decisions are made,” Douat explains. The initial target is to compile information on 200 companies with annual revenues of up to R\$ 100 million within two years. “It is easier to discuss the finances of corporations that have information on the stock exchange. Because of this [availability of information], our priority goal is small and medium-sized companies that do not have this information available.” The studies will discern the reality in the country, arrange workshops and talks and create a Brazilian finance benchmark.

The Institute of Finance also includes two laboratories. LabBank, a banking management laboratory, is dedicated to the banking market, analyzing issues relative to interest rates, spread, the profitability of operations and credit analyses. LabFin, a capital market laboratory, provides simulations in the form of sophisticated electronic games. The latter laboratory plans to interact with the BM&FBovespa via a virtual platform.

In short, the new institute’s function is to integrate the centers that already operate in the financial sector, addressing nearly all aspects of research and approaches in the field. Douat notes, however, that the different units preserve their autonomy.

“The institute does not interfere in the governance of the centers, which have their own work and own partnerships,” he explains.

The Finance Studies Center (GVcef), for example, already has various projects underway. In this context, Douat mentions Exame magazine’s Funds Guide; the Funds Guide and Pensions Guide by the magazine *Você S/A*; the Valor 1000 Guide; the 500 Biggest Brazilian Companies; and the Biggest Insurance Companies and Financial Conglomerates, according to *Conjuntura Econômica* magazine, which is published by the FGV’s Brazilian Institute of Economics (IBRE). The same thing happens with the other centers, which have already built up their own operational autonomy. For example, in the Private Equity Studies Center and the Microfinance Studies Center, research in the area of microcredit and sustainability is supported by institutions including Itaú Unibanco, Santander bank and the World Bank; Banking Management is now funded by Serasa Experian and is undertaking work for the consulting company Ernst & Young.

In addition, these many competences will allow the Institute of Finance to coordinate another undertaking called Finance on TV, a television program that will present news and interviews about current financial affairs and studies. I-Fin has approximately 30 ongoing projects. Each center has two or three professors, for a total of more than 20 members of the teaching staff, and the institute is designed to be self-sustaining. Douat believes that under the institute’s new structure, it will be easier to serve the market and its varied interests and demands, to establish associations, to obtain sponsorships and to generate products and services of an academic and managerial nature.

# APPROACHING ADMINISTRATION IN A HUMANISTIC AND COMPLEX WAY

The project enables students to experience different realities in Brazil while developing social awareness through observation, data collection and analysis skills.

Inspired by the award cycles of the Public Management and Citizenship Program, Local Connection first appeared in FGV-EAESP in 2005 with the aim of helping graduate students to experience innovations in public management throughout Brazil. The program focuses on essential questions that promote citizenship and fight poverty.

Since 2005, the project has been linked to GVpesquisa. In 2011, the objective was expanded to incorporate areas of interest within Business Administration. The project currently emphasizes the

systemization of knowledge related to innovative management practices, the expansion of student viewpoints in the field of administration and the structured research experience of participants. The projects are undertaken by student groups of two or three and monitored by a supervisor, who is usually a Master's or PhD student.

The richness and diversity of the projects is impressive. In 2011, Milton Rocha and Vitor Moromizato, supervised by a supervisor, who is usually a Master's or PhD student.

The richness and diversity of the projects is impressive. In 2011, Milton Rocha and Vitor Moromizato, supervised by Flávio Fogel from the Microfinance Studies Center, spent the month of



July traveling around six municipalities in the micro-region of Pajeú in Pernambuco to understand how banking correspondents function and affect the lives of users. In Ituiutaba, in the Triângulo Mineiro, Laurent Broering and Thomas Luz, supervised by Peterson Gandolfi, examined how waste collection workers live. The students conducted dozens of interviews, many in the houses of cooperative workers who worked in landfills, performed heavy work in industry or worked on small holdings.

In Porto Feliz, São Paulo, Isis Nascimento and Luana Santos, supervised by Maria Grazia, investigated the high dropout rate of patients with chronic diseases from the Family Health Program in the municipality. The agents involved in the city's health system were interviewed. The work helped local public managers to better understand the problem.

In 2012, 22 students were involved in 11 projects involving Local Connection field work, including the study carried out by André Leite, Érica Biancalana and Maíra Ozi, supervised by Erika Ribeiro, on Cresol, a credit cooperative from Francisco Beltrão in Paraná. Another project involved research by Evelyn Clemente and Mayra Vianna, supervised by Fernanda Cristina, to understand how a private social investment by Holcin Brasil, a cement company, has contributed to local development in Barroso, Minas Gerais. A third project, supported by the Sustainability Studies Center, conducted studies in Belterra in Pará. Gabriela Torquato, Manuela Malheiros and Patrícia Prette, supervised by Graziela Azevedo, lodged in a local inn and used a boat to reach riverside dwellers to study the local citizenship council.

Various projects were carried out in São Paulo. Daniel Manzano and Rafaella Baraldo, supervised by Samira Bueno, studied the actions of the First Command of the Capital (PCC) and its consequences for the population. Municipal elections helped Ellen Gonçalves and Laís Floriano, supervised by Sérgio Praça, to understand the criteria used by political parties when selecting their candidates. Bruna Seguchi and Milena Moita, supervised by Maria Fernanda Cavalcanti, documented the daily life of crack cocaine users who sought to free themselves of the vice in the Prates Complex Greenhouse School, which is run by the São Paulo city administration in the central region.

The students also have the option of registering in the inter-university Local Connection modality (CLIU), a partnership between the FGV-EAESP and the Federal University of Acre (UFAC), the State University of the Acaraú Valley (UVA-CE) and the Government School of the Fundação João Pinheiro (EG-FJP). In this case, groups are composed of students from the graduate course of the FGV-EAESP and students from one of the partner universities. In 2012, in Acre, Vitor Assrey, supervised by Catarina Segatto, analyzed aspects relating to the sustainable management of timber, while Sahid Xerfan, supervised by Anny Medeiros, studied the action of the Secretary of Development of Forest, Industry, Commerce and Sustainable Services (Sedens) on behalf of environmental preservation.

From a formation viewpoint, the goal of the program is for students to take the first step in their scientific initiation. The work involves the skills of collecting data, observing situations and questioning reality using scientific logic. After participating in the Local Connection program, interested students can become residents in a study center or carry out their own research with a supervising professor, funded by the CNPQ or GVpesquisa through the Institutional Scientific Initiation Fellowship Program (PIBIC).

Local Connection is also a valuable activity for students who are not seeking to become researchers. The program's activities improve analytical, planning and decision-making skills, which are important in any type of organization.

# INNOVATION AND TRANSFORMATION IN PUBLIC MANAGEMENT

Research analyzes public policy within different areas of state administration that aim to improve the population's living conditions.

Identifying and disseminating innovative emerging public policies is part of the work of the Public Administration and Government Studies Center (CEAPG) of the Business Administration School of the Fundação Getúlio Vargas (FGV-EAESP), which has been developed with the support of the Ford Foundation. The objective, defined by the center's coordinator, Marco Antônio Carvalho Teixeira, "is to analyze initiatives that are capable of changing the local reality, promoting quality of life and consolidating democracy."

The CEAPG was created to bring professors and researchers who address public administration together in a single research center. The center is currently carrying out work that is funded by entities including the United Nations Development Program (UNDP), the Ford Foundation, the Brazilian Government General-Controllershship (CGU), the Suzano Institute and the Justice Ministry.

According to Teixeira, the CEAPG and the Natura Institute are building a platform for supporting management education in municipalities with a focus on forming managers, including secretaries and their teams. Eduardo José Grin, a CEAPG researcher, explains that the project's primary concern is to study the structure of municipal departments and to discover how their secretaries operate. "When one thinks about education, one immediately thinks about schools.

However, the institutional capacity of the departments to manage and evaluate public education policies has scarcely been analyzed," Grin notes. Selecting 16 municipalities from all over Brazil, the researchers interviewed secretaries, directors and other sources. They also analyzed official programs within the sector and the set of actions taken to train education directors in Brazil and the world.

Another important reference point was the survey carried out in 2010 by the National Union of Municipal Education Directors (UNDIME) in 3,410 municipalities (approximately two-thirds of the national total), which collected managers' indications of priorities with respect to topics such as financial and equipment management, Grin said. As a result of the work of the CEAPG, a web platform will be built to include the following three aspects: formation, information and the creation of networks. The networks will be horizontal – for example, between the Department of Education and the city's public (including education councils) – as well as vertical, including other authorities such as the UNDIME and the Ministry of Education. "We want to concentrate relevant information in a single area. It will be a platform for integrating and sharing information between the various players that go to make up education in municipalities and in Brazil." The program plans to offer distance courses aligned with management priorities that have

already been identified and with other priorities that might emerge from future quantitative research. The focus of the project is the 99% of municipalities with fewer than 50,000 inhabitants. To monitor and accompany the results of platform adherence, in 2014, an award system will highlight the best practices developed in 2013.

The CEAPG has extensive experience with awards. For ten years, from 1995 until 2005, the organization mobilized nearly its entire staff in the Public Management and Citizenship Program cycle, an activity that also contributed to forming the immense database of knowledge from which many other projects were developed. The program, which is funded by the Ford Foundation and the Brazilian Development Bank (BNDES), annually awarded prizes for initiatives by state governments, city administrations and organizations of indigenous people. Observing and analyzing the approximately 9,000 registered projects to select the finalists, said Teixeira, generated an abundance of reference material, which gave rise to books, pamphlets, audio programs for community radio stations, workshops, seminars, academic activities and dozens of academic theses and dissertations. This database is available to the public on the CEAPG website.

In Brazil, the FGV-EAESP was chosen to coordinate the award, which the Ford Foundation also offers in Peru, Chile, the Philippines, South Africa, China and the United States (which has two prizes, one specifically for indigenous people). "Within the prize process, many students who worked with scientific initiation went through the center. Every year, 30 award-winning experiences received visits from researchers," Teixeira explains. Among registered projects, 100 were selected to receive questionnaires leading to a more profound evaluation. Out of these 100, 30 were then analyzed in loco by a student accompanied by a professor or senior researcher from the center. The reports were analyzed by a technical committee representing 19 institutions (the Federal Universities of Pará, Paraíba, Bahia and Rio Grande do Sul – UFPA, UFPB, UFBA and UFRS, the Fundação João Pinheiro, FGV-RJ and non-governmental organizations from various sectors. In this way, the peculiarities of the registered policies were taken into account).

Finally, the 20 finalists presented their public management and citizenship policy proposals to a jury at the BNDES headquarters, comprised of government authorities, journalists and representatives of indigenous entities, who selected the five best proposals. Each award cycle included the formation, thesis production and dissemination of information by radio, DVD and in books, with two volumes published every year about the finalists. According to the coordinator of the CEAPG, the prize appeared at a time of triumph of the so-called Washington Consensus, when "the idea of the inefficiency of the state prevailed, and the objective was to show that good things were also being performed by public administration," he recalls. After this historical stage, the Ford Foundation decided to inject funds into the program to analyze the trajectory and continuity of the experiences, Teixeira notes. Within this context, the web platform initiative for educational management was founded.

Teixeira notes that there have been important improvements in public administration during the past several years. "The Constitution of 1988 provided for various measures in this sense, such as the managing council and the funds 'earmarked' for social areas. Today, municipalities have processes that include society, such as participative budgets and public hearings. The approval of projects no longer takes place behind closed doors. Control bodies are also more active, which makes public managers more careful."

Teixeira, along with Professor Maria Rita Loureiro, is conducting research funded by the Institute of Applied Economic Research (IPEA) to analyze how increasing actions by Brazilian public bureaucracy reflects the new shape of society and how their technical bodies react to pressure from the political world. To carry out the analysis, these researchers are studying the cases of the project for the transposition of the São Francisco River and the My House, My Life federal programs.



# BUSINESS ADMINISTRATION

ENTREPRENEURSHIP  
CORPORATE STRATEGY  
MARKETING STRATEGIES  
ORGANIZACIONAL STUDIES  
FINANCE AND ACCOUNTING  
INFORMATION MANAGEMENT  
HEALTH MANAGEMENT  
OPERATIONS AND LOGISTICS  
MANAGEMENT  
PERSONNEL MANAGEMENT  
SUSTAINABILITY

# Brazil: a country of young entrepreneurs

## ARTICLE IN FOCUS:

### The young entrepreneur in Brazil: the search to achieve something or an escape from exclusion?

Sergio Bulgacov, Yára Lúcia M. Bulgacov, Sieglinde Kindl da Cunha, Denise de Camargo and Maria Lucia Meza

In 2008, for the first time in nine years, the participation of entrepreneurs between 18 and 24 years of age in Brazil exceeded that of other age bands, according to data from the Global Entrepreneurship Monitor (GEM). A quarter of young Brazilians in this age band call themselves entrepreneurs, which represents the highest rate in countries in Latin America and the BRIS (Brazil, Russia, India and South Africa). Of the 42 countries that participated in the GEM survey in 2008, Brazil held third place (25%), behind only Iran and Jamaica (28%).

This high rate of entrepreneurship among young people does not reflect an economic, social or cultural advance of this section of the Brazilian population, however, according to a study by Sergio Bulgacov, a professor from FGV-EAESP. The study was carried out jointly with Yára Lúcia M. Bulgacov, Sieglinde Kindl da Cunha, Denise de Camargo and Maria Lucia Meza. "On the contrary, this particular brand of entrepreneurship is associated with precarious working conditions," the study's authors explain. Their paper entitled "The young entrepreneur in Brazil: the search to achieve something or an escape from exclusion?" was published in the *Revista de Administração Pública* in 2011.

There are signs that young people are finding it increasingly difficult to enter the labor market, and that consequently, they have no alternative but to become entrepreneurs. According to data from COPAL/Pun/Obit, the rate of unemployment among young people in Brazil was 3.2 times greater than that among adults, considering changes in the labor market between 1992 and 2006. Moreover, in the same period, 59% of professionals between 16 and 24 years of age did not have an employment contract, compared with 51% of adults. According to the researchers, "This reality shows that work opportunities for this age band are restricted, and this is one of the factors that explains the increase in the position of young people in the panorama of entrepreneurship in Brazil."

Most young entrepreneurs are poorly educated and have low incomes. During the period between 2002 and 2008, only 17% of young entrepreneurs had more than 11 years of formal education and 80% earned less than six minimum salaries. In the authors' analysis, the low level of education is reflected in the reduced possibility of success for the young entrepreneurs' undertakings. More than 50% of these young people are involved in consumer-oriented service undertakings, which are considered to be low in productivity and to demand little in terms of qualifications and experience. Included in this activity classification are personal services, street vending and cleaning and conservation services.

These young entrepreneurs are mainly "entrepreneurs by necessity": they drop out of formal schooling before completing junior high school and establish a business because they lack other options. The survey shows that 73% of the young entrepreneurs earn less than three minimum salaries, which calls into question both their capacity to survive and their possibility of training and developing to become autonomous and successful entrepreneurs. Young people from this group have a greater likelihood of failing in their undertaking; thus, it is difficult for them to break from the cycle of problems of the homes from which they come. In 2008, this group represented 28% of all Brazilian entrepreneurs, an increase from the average of 20.6% in the period between 2001 and 2008. Such findings suggest that the proportion of young people among Brazilian entrepreneurs is growing.

There is a positive finding among the GEM data. In 2008, the so-called "entrepreneurs by opportunity", or those young people who had completed higher education courses and established a company to gain greater independence or an increase in income, also represented 28% of all Brazilian entrepreneurs, i.e., the same proportion as "entrepreneurs by necessity." The "entrepreneurs by opportunity" are differentiated from "entrepreneurs by necessity" in that they have higher incomes and more schooling and usually establish businesses that require more specialized activities. These businesses include company-oriented services, such as consulting companies; technology-based businesses; and specific services, such as accounting, legal support and IT.

Although not particularly representative, the proportion of company-oriented services doubled between 2001 and 2008. "This increase may show a trend of young people moving towards more activities requiring better qualifications because of an improvement in education over the last few years," the study's authors note. However, the researchers emphasize that even though the young "entrepreneurs by opportunity" are at a relative advantage, a lack of experience and funds for use in the undertaking also lead to a high percentage of failures, which occur in the first few months of the operation.

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# Entrepreneurs and intra-entrepreneurs

## ARTICLE IN FOCUS:

### Entrepreneurial competences: are there differences between entrepreneurs and intra-entrepreneurs?

Vânia Maria Jorge Nassif, Tales Andreassi and Fabíola Simões

**T**he paper “Entrepreneurial competences: are there differences between entrepreneurs and intra-entrepreneurs?” seeks to identify whether there are competences that distinguish entrepreneurs from intra-entrepreneurs. In this study, an entrepreneur is defined as a person who opens and manages a business. In contrast, an intra-entrepreneur is a person who works within an organization and pursues opportunities, regardless of whether s/he controls the funds.

The study consisted of interviews with the two groups of respondents and included a total of 13 people. The criteria for choosing the entrepreneur-owners of businesses were as follows: they were based in São Paulo, they were the founders of the company and they worked in the service or commercial sectors. Intra-entrepreneurs were company professionals, designated by their superiors as having an intra-entrepreneurial profile because of their actions and achievements.



The results collected were analyzed for content and organized into six response categories. The categories were analyzed and discussed on the basis of the constructs developed for different models of entrepreneurial competence.

With regard to competences, the study identified similarities and divergences between entrepreneurs and intra-entrepreneurs, while noting that the differences were small. Similarities noted by the participants included willpower to pursue activities and enthusiasm and motivation to manage the business.

The two groups revealed different types of concerns. For the group of entrepreneurs, it was essential that the business succeed. The company was their *raison d'être* and they felt committed to and responsible for the business. The intra-entrepreneurs stated that they liked their work and their activities, noting that their concerns pertained more to the company; for example, they valued superiors recognizing their work, winning prizes and receiving benefits and remuneration. Entrepreneurs also differed from intra-entrepreneurs in that entrepreneurs related better with employees and were more conscious of long-term investments.

The two groups also differed in the way they viewed opportunities, with company owners drawing upon intuition to a greater extent than did intra-entrepreneurs.

During the study, what caught the attention of the authors were the variables that influenced the life of the entrepreneurs and intra-entrepreneurs at the time they were building their professional career. The role of the family appears to be essential for people to feel secure as the heads of their businesses. For the group analyzed, factors including personal motivation; the challenge of winning and of overcoming difficulties; and actions based on personal perceptions and their own beliefs were more important than profit as an end in itself.

One relevant point of the study addressed understanding how each participant identified business opportunities. The search for and identification of opportunities is what makes the intra-entrepreneur special.

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# Entrepreneurship and economic development

## ARTICLE IN FOCUS:

A comparative perspective of the stages of economic development and public policies relating to entrepreneurship and micro, small and medium-sized companies (MPMEs) in Brazil, Canada, Chile, Ireland and Italy

Gilberto Sarfati

In developed countries, micro, small and medium-sized companies (MPMEs) represent approximately 50% of the gross domestic product (GDP) and are responsible for 60% of the labor force, whereas in emerging countries, the prominence of such enterprises is much smaller, representing approximately 10% of the GDP and 30% of the jobs. For researcher Gilberto Sarfati, the differences are evidence of the importance of entrepreneurial activity in economic development. The challenge for any country is to encourage this type of activity.

In his article, "A comparative perspective of the stages of economic development and public policies relating to entrepreneurship and micro, small and medium-sized companies (MPMEs) in Brazil, Canada, Chile, Ireland and a Italy," Sarfati presents research results based on data taken from official sources (governmental and multilateral) and from independent institutions. Interviews were also conducted with 40 authorities and academics from each country.

The comparative study allowed for an assessment of the strengths and weaknesses of the public policies of each country, which were selected in accordance with their regional weight, the size of their economy and the stage of development of their entrepreneurial activities.

Before mapping out the public policies of the countries, Sarfati discusses the theoretical reference point by posing two fundamental questions. The first question is what effect entrepreneurship has on economic development. Much of the research on this theme has reached different conclusions, most likely because being a high-impact entrepreneur, or a 'gazelle' entrepreneur, is not the same as being a self-employed worker or an entrepreneur by lifestyle. Whereas lifestyle entrepreneurs have a company to satisfy their minimum needs and to generate employment, 'gazelle' entrepreneurs are involved in a rapid-growth activity that generates jobs and adds economic value.

The second question refers to the need for and the scope of public policies for fostering entrepreneurship, where it is necessary to differentiate the incentive instruments for MPMEs from those for entrepreneurship. According to the study, public policies for MPMEs are those "[...] that support the entrepreneurial lifestyle, which can be justified by various reasons such as positive macro-economic effects for creating jobs or even compensation for collateral microeconomic effects of economies of scale." In contrast, fostering entrepreneurship is directed at highly innovative individuals, whose expansion of the business has an impact on the growth of the economy and leads to products and services that have greater added value.

To establish the relationship between the views of public policies and the stages of development, Sarfati incorporates the classification of economic stages found in Michael Porter's *The Competitive Advantage of Nations*. The first stage is that of factors, marked by an agricultural economy and lifestyle entrepreneurs. The second is the state of efficiency, in which the country must exploit economies of scale, which favor industrial concentration. The final stage is moved by innovation, in which the economy begins to be characterized by intensive knowledge activities. In mapping out each country, the policies that affect entrepreneurship and MPMEs were classified as regulatory policies (business entry and exit rules, labor and social rules, property rules, tax rules, intellectual property rules, bankruptcy rules and rules that affect liquidity and the availability of capital) and stimulation policies (promoting culture and entrepreneurial education, innovation incentives and programs for fostering internationalization).

Sarfati concludes that public policies are compatible with the economic development stage in four countries. The exception was Italy, a finding that led the researcher to formulate the following question: "[...] in the case of Italy, and perhaps other countries too, is the need for public policies for promoting entrepreneurship and MPMEs irrelevant? On the other hand, may the absence of such policies in the medium and long term lead to Italy regressing in its economic development?"

The research also established that in Ireland and Canada, the notion of the gazelle entrepreneur is present in the public discourse. With regard to Chile, the article notes that the country has no entrepreneurship policy, even though it is a country in transition from the efficiency to the innovation stage. "Just as in the case of Italy, we need to ask: is it not possible to move to an innovation economy without having an entrepreneurship policy?"

With regard to Brazil, one of the author's conclusions is that the government option for Local Production Arrangements (APLs) seems not "[...] to involve gazelle entrepreneurs. Therefore, we also need to ask: is the choice to support all APLs incompatible with an entrepreneurial policy?"

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# The relationship between governments and local multinationals in emerging countries

ARTICLE IN FOCUS

## *The role of home country political resources for brazilian multinational companies*

Rodrigo Bandeira-de-Mello, Karina Bazuchi, Suelen Zacarias, Laurent Broering and Fernanda Arreola

**G**overnment efforts to promote direct foreign investment flows are not a new phenomenon. In developed countries, an example of engagement directed at the formation of multinationals by the state was the MIT program in Japan. In the third wave of internationalization, the governments in emerging countries have a fundamental role to play in implementing strategies that help certain companies construct their global competitiveness. However, the effects of these interventions have been varied in comparison with previous waves of internationalization.

The aim of the article, "The role of home country political resources for Brazilian multinational companies," was to investigate the interaction between multinationals with headquarters in emerging countries and their governments, based on the Brazilian experience. The authors highlight the mechanisms used by the government to drive the internationalization process of companies and how the government influences the main policy strategies of multinational companies with respect to the country's political and institutional environment.

After a brief review of the literature on international business relating to the role attributed to the government of the home country, the authors describe their research methodology and their main findings, which suggest an association between the public behavior of multinationals and the benefits provided to them by the government.

Even before the international expansion of Brazilian multinationals, the Brazilian government demonstrated that it was prepared to encourage a concentration in strategic sectors. The objective was to construct "national champions" that are able to compete in the global market. The process began to have an influence on the country's foreign policy. The question of the international insertion of multinationals reached a point of domestic consensus, to the extent that it ultimately encouraged multinational companies to work more closely with government agencies, which in turn began to develop agendas benefitting the companies.

“Governments tend to have views of exclusive privileges with regard to certain issues,” notes an executive from a Brazilian multinational during an interview with the researchers. The study identifies a series of formal and informal mechanisms that have been adopted by the Brazilian government.

Financial support, one of these instruments, has special importance given the weakness of the Brazilian stock market and the scant involvement of local commercial banks with long-term loans for companies. The Brazilian Development Bank (BNDES) directs its funds to large companies that have internationalization strategies. The article cites the example of a company that obtained funds from the BNDES at rates of interest that were impossible to find in the market.

The government also participates as a shareholder. Although a series of privatizations and liberal reforms were implemented in the 1990s, the government still participates as a shareholder in a series of private companies in addition to the state-owned companies. There are also privatized companies that are heavily influenced by the government. In this case, an example is Embraer, in which the government has rights through the ‘golden shares’ it owns. The government is involved in major companies through the BNDES or the state pension funds, which have financially strengthened some Brazilian multinationals.

For the companies, the government’s influence over business in Brazil poses important challenges. Nevertheless, one effect that needs to be emphasized is the learning experience in the home country and the subsequent internationalization phases. During the 1980s, hyperinflation and political turbulence acted as an educational tool for Brazilian companies, helping companies to develop competences for surviving in unstable times. Currently, Brazilian multinationals are characterized as flexible organizations that are capable of adapting quickly to external changes; these skills may be useful even when operating in developed countries that are experiencing a financial crisis.

Brazilian government entities that work with health regulations are regarded in a positive light because the channels of dialogue make it easier to, for example, register products and obtain licenses for plants. This “open dialogue” is important for multinational companies because “[...] in wishing to supply to international markets, companies have to comply with international health demands. Foreign missions can come to Brazil or they can delegate the licensing process to the Brazilian government,” one executive notes. In short, the Brazilian government has the experience necessary for addressing such demands.

Another government contribution is communication with foreign governments and international organizations. Home country intervention in those markets that multinationals wish to target appears to be an instrument that facilitates companies’ strategies.

With regard to the political behavior of Brazilian multinational companies, some companies have strategies that aim to maintain a connection with the government. The objective is “to control” changes that may affect their business. Among these strategies are financial donations to political party campaigns and to political candidates who defend the interests of the sector in which the companies operate.

The article also emphasizes the importance of personal connections in Brazil. Personal connections are a powerful mechanism for influencing government decision-makers, allowing companies that have the greatest bargaining power vis-à-vis the government to be apprised of policies pertaining to their industry. Other relevant instruments are the associations that bring companies together.

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# Brazilian multinationals in the third wave of internationalization

## TEXT IN FOCUS:

### Brazilian Multinationals – competences for internationalization

Afonso Fleury and Maria Tereza Leme Fleury

**T**he number of Brazilian multinationals has increased significantly since the 1990s and particularly since 2000. Several of these multinationals are recognized as global leaders, including Embraer, Companhia Vale do Rio Doce, Petrobras and Gerdau. However, the internationalization of Brazilian companies forms part of a more widespread phenomenon, in which multinationals from emerging countries are beginning to play an increasingly important role in the world economy.

Understanding this process is the main objective of researchers Afonso Fleury, head of the Production Engineering Department at the USP Polytechnic School, and Maria Tereza Leme Fleury, a professor of international strategy and the dean of FGV-EAESP. In *Multinacionais brasileiras: competências para a internacionalização*, [Brazilian Multinationals: competences for internationalization] published in 2012 by Editora FGV, based on the original edition in English, published in 2011 by Cambridge University Press, the authors attempt to understand this third wave of internationalization, which followed the first wave, led by American multinationals (in the 1950s), and the second wave, led by the Japanese (in the 1980s).

In 2005, Forbes magazine began to include companies in emerging countries on its list of the 500 largest companies in the world. Among BRIC (Brazil, Russia, India and China) countries, there were 27 companies on the Forbes list in 2005, 35 in 2006, 39 in 2007, 46 in 2008 and 56 in 2009.

Other institutions also began to chart the rise of multinationals from emerging countries. The Boston Consulting Group created an annual report listing the "100 New Global Challengers", which in 2009 included 36 companies from China, 20 from India, 14 from Brazil, 7 from Mexico, 6 from Russia and the remainder from various other emerging countries. According to the researchers, "These numbers reveal an initial panorama of the group of companies that used to be considered behind and that are beginning to appear as leaders in different types of economic sectors on the global scene."

In the current global economy, multinationals from emerging countries operate more in niches and are leaders in various sectors, such as mining (Vale, from Brazil), steel (Arcelor-Mittal, from India), beverages (AB-Inbev, from Brazil and Belgium, and SAB-Miller, from South Africa), oil and gas (Gazprom, from Russia) and cement (Cemex, from Mexico). In some cases, certain sectors in developed countries are controlled by companies based in emerging countries. Tenaris, from Argentina, and Gerdau, from Brasil, for example, are the largest producers of steel tubes for the civil construction industry in the US.

Afonso and Maria Tereza Leme Fleury analyze how companies from emerging markets, and particularly from Brazil, have conquered this space, based on the context of opportunities and threats that arise within the international context and the capacity of companies to anticipate and react to situations. This capacity, in turn, comes from the organizational competences and management style developed by the companies. Organizational competences have a direct relationship with the company's competitive environment, whereas management style is primarily influenced by the local and national environment.

The international context has changed since the start of 2000. In terms of purchasing power parity since 2002, emerging countries have been the greatest drivers of the world economy, representing approximately two-thirds of its growth. In studies carried out before the financial crisis of 2008, the International Monetary Fund predicted that advanced economies would grow by 1.3% in 2008 and 2009, whereas emerging economies would grow by 6.7% .

If the forecasts were correct, emerging economies and those in development would sustain global expansion in the coming years. In this scenario, developing economies were responsible for 13% of global direct investment abroad (data from 2005). In 1990, this figure was a mere 7%.

More recently, there have been signs that the participation of Brazil in the growth of multinationals from emerging countries has been increasing. According to the consulting firm Ernst & Young, the major Brazilian companies have improved their position in the ranking of the 300 largest companies in the world. An estimated 150 Brazilian multinationals were in operation in 2012.

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# The competitive advantage of local production arrangements

## ARTICLE IN FOCUS:

### Benefits of company clusters: evidence from the semi-precious jewelry production arrangement of Limeira

José Carlos Thomaz, Eliane Pereira Zamith Brito, Reynaldo Cavalheiro Marcondes and Fernando Coelho Martins Ferreira

According to the literature, a cluster of firms with the same activity in a particular location produces external factors that emerge from dynamics such as labor force specialization, the emergence of infrastructure and an exchange of information. Positive externalities may result in advantages for firms. The study entitled “Benefits of company clusters: evidence from the semi-precious jewelry production arrangement of Limeira” investigates economic activity in the municipality, which is located 154 km from São Paulo, to empirically confirm what the theory claims.

Limeira is the largest production center of semi-precious stone jewelry in Brazil, representing approximately 60% of the total produced in the country. A portion of the production is exported to markets in Latin America, North America, Africa and Europe. Its production chain for earrings, rings, pendants, chains and necklaces involves more than 450 micro-, small- and medium-sized companies and is the most important activity in Limeira, employing approximately one-third of the economically active population.

The municipality was chosen because previous studies had already indicated that there was a local production arrangement (LPA) there, an industrial cluster representing a specific type of network. All links in the production chain of the semi-precious jewelry sector, including inputs (raw materials, chemical products, accessories, machinery and tools); design; service provision (electroplating, assembly, soldering, machining, stamping, foundry work, tool-making and photocorrosion); the manufacture of blanks and finished items; and various blank or finished item sales' channels for the national or international market, such as factory outlets, direct sales, catalogues and sales centers, are all located in Limeira.



To produce evidence of the benefits of a company cluster, the authors used a qualitative approach. Although the unit of analysis was the cluster, the subjects of the research were the main directors of each organization in the cluster that was analyzed. Eight executives from firms or local support organizations were interviewed.

The study found that local competition was destroying the development capacity of the firms at the city and local levels. Cooperation is limited in local production because competition is still strong between all firms and problems are not solved jointly. This fact makes it difficult for the local and individual firms to obtain a competitive advantage. In this sense, it is important to promote actions that strengthen the ties between businesspeople, for which social approximation is necessary because stronger ties may lead to increased trust and cooperation between firms.

Tangible and intangible resources have the potential for being jointly used, particularly in the search for innovation in production processes and products. Collective efforts should be made to provide the labor force with qualifications and to reduce turnover, to disclose and use information and to expand competitive and production scales, thereby reinforcing the links between partners, reducing risks and improving the general reputation. Capitalizing on the potential of associations may also help in attaining support from government and institutions.

The firms comprising the local association of businesspeople enjoyed some competitive advantages from partnership ties. However, integration between firms could be expanded and some ties could be strengthened. This integration would promote joint and transforming action. At the same time, somewhat less intense ties could be used to promote a spread of technology and consequent innovations.

Local businesspeople know that a good reputation may lead to competitive advantages; based on this knowledge, they make every effort to "improve the name of Limeira" via the entity that represents the local activity, but the results are fruitless. The heterogeneity of their management practices undermines any effort to construct a reputation for the locale in terms of economic activity.

No planned actions were observed relating to the complementary nature of partner resources; this lack reduces any potential competitive advantage associated with a partnership and undermines its sustainability. While there is an evident competitive advantage of location resulting from the supply of labor and access to suppliers, the poorly trained labor force counteracts this advantage; in other words, an abundance of unqualified labor does not constitute an advantage for the production activity that was analyzed.

There is potential to obtain a competitive advantage with competitive and production scales. However, the difficulty of obtaining credit for exportation, the poor quality of some producers, the intention not to share orders and production and the non-specialization policy mean that obtaining advantages, sustaining the business and growth are all being compromised.

In short, the research identified that the semi-precious jewelry activity in Limeira has none of the conditions necessary for forming an LPA, among which is creating ties between the local system and abroad. It also has no local identity that favors cooperation, solidarity or reciprocity. Neither are there any local public institutions that are capable of promoting the development of an LPA and fostering innovation.

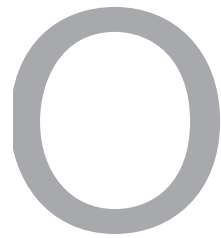
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# New measures may help to manage the search for competitive advantages

## ARTICLE IN FOCUS:

### Competitive advantage, value creation and their effects on performance

Luiz Artur Ledur Brito and Renata Peregrino de Brito



One of the fundamental objectives of corporate strategy is the definition of competitive advantage. The existence of competitive advantage is attributed to companies that have a superior performance; in other words, they have the capacity to create value that is greater than the average for their competitors. To study this issue, the most important factor is knowing which aspects and variables have an impact on a company's performance.

Professor Luiz Artur Ledur Brito of FGV-EAESP believes that considering only the financial profitability of a company is insufficient. A company that creates above-average value for its industry may decide not to immediately transform this advantage into profit. For example, if a company decides to maintain price parity with its competitors, it will obtain the preference of its customers and will expand its market share. Likewise, the company can distribute the value created, in accordance with its strategic interests. Therefore, any surplus may or may not be appropriated by the company as profit but is relevant to the firm's performance.

In his research, Brito presents a measure of competitive advantage that includes a combination of the results of its profitability and growth in market share. The model, broken down and tested relative to the sector average, uses a database of 6,810 companies. Four five-year time intervals were assessed, comprising the period of 1990 to 2009. To measure profitability, the variable considered was return on assets (ROA); to measure growth, the variable was the variation in new sales relative to the industry average.

The researcher first assessed the results for the last interval, 2005 to 2009, and then compared these results with the other periods'. Companies whose sales grew by more than 11.65% and/or that had profitability that was 9.99% greater than that of their sector were considered to be above average. A sales variation of less than 10.43% or profitability -9.99% lower than that of their sector was classified as below average. "The numbers may appear extreme, but the results show that they are more frequent than might be thought," Brito notes.

The capacity to exceed the market in both profitability and market share was a rare phenomenon: only 1% of the companies managed it. However, a much greater proportion demonstrated a superior performance in one of the variables and a median performance in the other: 2.9% in profitability and 12.1% in business expansion, respectively. In all, therefore, 16% of the companies were classified as having a competitive advantage (representing 12.36% of the total assets), which is a percentage greater than that presented in studies that only consider profitability. Overall, 483 companies from 130 sectors demonstrated a superior combined performance. When ROA was considered independently, only 4.2% of the companies had a competitive advantage, of which 0.3% lost market share, indicating below-average value creation.

At the other extreme, the model revealed that 16.5% of the companies, representing 11.06% of the total assets, were at a competitive disadvantage. Among them, the greatest proportion, 10.5%, lost market share and maintained profitability at the average for their sector, which means a loss of competitive advantage. This dimension would not be considered by the traditional models that focus only on profitability. Companies that were behind only in profitability represented 3.7% of the sample, whereas those that lagged in the two categories represented 2.3%.

Most of the companies (65.7%) showed average profitability and growth for the market; that is, there was competitive parity. A small percentage, 1.8%, grew or had a larger market share but diminished in the other variable. Thus, these companies experienced neither a gain nor a loss of competitive advantage.

Measured by the distribution of combined performance, competitive advantage and disadvantage do not appear to be insignificant, as proposed by some researchers in this field. Together, competitive advantage and disadvantage represented more than 30% of the sample. When the other time intervals were considered, the distributions between the two variables analyzed were similar, which contradicts the idea currently disseminated that competitive advantage is gradually disappearing because the market is highly competitive.

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# The power of political relationships

ARTICLE IN FOCUS:

## The influence of political connections in major Brazilian corporate groups

Maick Costa and Rodrigo Bandeira-de-Mello

**M**ajor corporate groups have the resources and competences needed for entering and leaving various sectors based on a combination of their technical and political resources. Comprising dozens of companies, these groups are the major driving force of capitalism in Brazil. A question often asked is, why is this type of organization predominant in Brazilian capitalism? The study “The influence of the political connection in major Brazilian corporate groups” addresses this issue and reveals that major corporate groups may not only be understood as a rational result of the market but rather as the result of a close relationship with government, which has had a fundamental role in their formation, growth and restructuring.

During the period of Brazilian industrialization, the government encouraged the diversification of some companies with the idea that they would occupy important positions in the then-small industrial matrix of Brazil.

Since then, the groups formed by these diversifications have become important players in the implementation of public policies. This scenario is a two-way street because the participation of the groups in this process means that these organizations have access to important resources in the country such as financing, information, participation in major infrastructure projects and support for international competition.

Major corporate groups indicate their willingness to participate in this process through the establishment of “political connections”, including donations to electoral campaigns, the hiring of professionals with political experience for positions in management and on the boards of companies, or even in a more direct way, such as the government holding a minority share in companies through, for example, Brazilian Development Bank Participations (BNDESpar). This type of connection is historical in Brazil. Clientelist and corporatist relationships that bring public and private arenas together are strategies that have been used at various times in the country’s political and economic history.

The study by Maick Costa and Rodrigo Bandeira-de-Mello from FGV-EAESP used data from the 2001-2008 period that were available in the yearbook of the *Valor Econômico* newspaper entitled “200 Major Groups.” The political connection was identified through the financial contribution of the groups to political campaigns in 2002 and 2006. Details about the donations were obtained from the Superior Electoral, including amounts, destination (parties or individual politicians) and how many candidates were elected. The difference between those elected and those not elected was used as a measure of the intensity of the political connection and also represents the efficiency of the donations of corporate groups. If more of the corporate group’s supported candidates are elected, the group increases its political force, its access to information and other resources and its capacity to influence the political process, all of which are important resources for ensuring entry into certain sectors.

In the 2001-2008 period, the number of companies in Brazilian corporate groups grew steadily. When only the 20 largest corporate groups in Brazil are considered, it is clear that the pace of diversification continued, with a greater increase in the level of vertical integration and the number of companies. This finding means that even given the institutional improvement in the country, groups received no incentive to adjust and reduce their diversification; in other words, the groups did not stop participating in a smaller number of industries and, moreover, they began to be increasingly vertically integrated.

In contrast, the 20 smallest corporate groups in Brazil showed a stronger tendency to increase their diversification and a lesser tendency to integrate vertically. The increase in the average number of companies among the smallest corporate groups also corroborates the increase in diversification and a greater participation in more industries.

The results of the statistical tests show that the greater the relationship between elected and non-elected candidates that are supported by a particular group, the greater the increase in gross revenue, the number of companies and the diversification of the group four years after the election, on average. In addition to the economic and institutional incentives, political factors are extremely important in the growth and diversification of major corporate groups.

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# What determines company performance?

## ARTICLE IN FOCUS:

How important is the interaction between a firm and its activity sector?

Eduardo Loebel

One of the central themes in the literature on management is the debate over what influences the performance of companies over time. This research attempts to prove whether persistent profitability can be explained by the company itself, by the sector in which it operates, by past results or by other effects. Generally speaking, to explain the differences in performance, the research is supported by two perspectives that use the logic of contrast to compare the effectiveness of a company with a focus on the resource-based view (RBV) relative to a company with an industrial organization view (IOV).

In an IOV, the hypothesis is that the difference in profitability between industries is greater than the differences between companies in the same sector. In an RBV, the differences in profitability within the industry must be greater than the differences between industries. There is also a variation in approach that admits the mutual existence of a sector effect and a company effect and the significant interaction between both as co-determinants of the firm's profitability and its continuation over time.

The article "How important is the interaction between the firm and its activity sector?" proposes the identification of factors that influence a company's performance and its continuation over time by concentrating on the interaction perspective, according to which the firm-effect and sector-effect perspectives are seen as complementary rather than contrasting.

To analyze the importance of the effects of the activity sector, the firm and sector-firm interaction, Eduardo Loebel conducted a quantitative analysis of the information of companies located in the Greater São Paulo area. He used as his source the publication "Who's Who in the Greater ABC" from the *Diário do Grande ABC* newspaper, which contains a ranking of the largest companies in the ABC region. Data for the years between 2001 and 2008 were examined for 124 firms. Performance was measured using return on assets (ROA) and operating profit.

Based on a theoretical reference point, which includes the main decomposition studies of the variation in performance, the research was governed by seven hypotheses:

1. The effect of the activity sector is a significant co-determinant in the firm's performance.
2. The company effect is a significant co-determinant in its performance.
3. There is a significant interaction term between the effects of the company and the activity sector that co-determines organizational performance.
4. There is a significant relationship between the performance of a company and its accumulated prior performance over the period of time analyzed.
5. The effect of the company is a significant co-determinant of accumulated performance over the period of time analyzed.
6. The effect of the activity sector is a significant co-determinant in the accumulated performance over the period of time analyzed.
7. The effect of the interaction between the company and the activity sector is a significant co-determinant of the accumulated performance over the period of time analyzed.

The results were consistent with previous work, indicating the existence of the effects of the firm and the industry and the fact that performance in the period analyzed is related to future performance. The results were also consistent with other studies in showing that company effect has a greater weight than sector effect.

However, the work also revealed that the company-effect/sector-effect interaction was insignificant in contrast to previous research that indicated both significant and non-significant findings in different contexts. This result may contribute to future studies on the topic.

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# Public policies and business links between large and small companies

ARTICLE IN FOCUS:

*Fostering linkages between transnational corporations and small to medium-sized enterprises in Brazil*

Delane Botelho and Milber Fernandes Morais Bourguignon

# W

hen large transnational companies enter a country, the companies tend to have a positive impact on the development of local small- and medium-sized enterprises (SMEs). However, a multinational may be attracted to a developing economy because of tax incentives, lower labor costs or easier access to natural resources. If this company imports labor or purchases supplies from abroad, its contribution will be smaller. In this sense, the government may have a relevant role to play in managing business links between large firms and SMEs.

Given the growing interest in the relationship between economic development and the capacity of companies to disseminate and absorb competences, the authors of the article "Fostering links between transnational corporations and small and medium-sized enterprises in Brazil" decided to investigate the subject. Their objective was to understand the role of public policies that promote business links in Brazil.

Business links may be horizontal and involve competitors; collaborative, with national partners for strategic, technological or managerial purposes; or vertical, with domestic suppliers, agents or customers, including licenses and franchise agreements. Foreign branches may help Brazilian suppliers. Customers improve their competitiveness by raising production quality standards and efficiency and by supplying support and resources for acquiring market information, managing projects and controlling quality and/or training. These vertical links may be upstream (with suppliers and sub-contractors), a scenario discussed in depth in the article; downstream (with customers and agents); or a result of the nature of the contract (franchises and licenses).



The impact of a multinational may occur in various ways and affect the balance of payments, local investment rates, capital stock rates, employment levels or the competitiveness of local companies. As a result, governments must implement policies to attract foreign companies and maximize the positive spin-offs from their entry into the country.

Governments face challenges in promoting business links, including in encouraging the competitiveness of Brazilian firms and generating an exchange of information. Governments must also spread knowledge about what multinationals require of domestic companies.

Nevertheless, these policies are more efficient if actions are adopted to ensure that local companies are open to a relationship with multinationals. It is important to create a business environment in which relationships between companies are maximized through the creation and development of business links.

To analyze Brazilian programs that try to strengthen business links, the research uses as its reference point the Links Project and some of the country's main supplier development programs. The Links Project was chosen because it is directed at encouraging business links in less-developed regions in Brazil, mainly in the north and northeast, as well as strengthening SMEs by increasing the local production capacity and efficiency of the domestic corporate sector. Supplier development programs were chosen because their main objective is to speed regional growth through the participation of local companies, based on investments by large companies, particularly in the base industry's mining, pulp and paper sectors.

The Links Project was created in 2004 and comprises a managing committee whose aim is to bring together companies, associations and organizations that are capable of generating business links in a specific region. The committee is responsible for strategic decisions and guides the project's actions. Supplier development programs are managed by whoever took the initiative to promote business links. In Maranhão, for example, the state government stepped in to apply the methodology, while in Pará, the initiative came from a multinational.

As its source, the research used interviews with agents from various organizations, including representatives from state associations, industry, the Links Project (the states of Pernambuco, Bahia, Ceará, Amazonas and São Paulo), consulting companies, representatives from state and federal governments including the Ministry of Development, Industry and Foreign Trade, and APEX, the managers of transnational corporations and SMEs, and the United Nations Conference on Trade and Development (UNCTAD).

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# The dispute over the low-income consumer

## ARTICLE IN FOCUS:

### Competition between small and large retail companies within the context of the base of the pyramid

Edgard Barki

The growth of emerging markets has gained importance due to the strategies of major global players. In intensifying their investments in these countries, multinational companies have increasingly turned to business models addressing the low-income population, whose purchasing power has increased over the past several years. Major retailers have competed with small local companies to win over people from this social stratum. The article "Competition between small and large retail companies within the context of the base of the pyramid" by Edgard Barki attempts to understand the dynamics of this competition.

Data were collected from consumers and managers from two communities in São Paulo – São Miguel Paulista and Jardim Ângela – where low-income consumers predominate and slums exist but where there is a dynamic street trade in food, textiles, footwear and civil construction. On streets close to supermarkets, 209 consumers were interviewed. The consumers responded to a questionnaire that attempted to identify the store in which they did most of their shopping, the justification for their preference and the main qualities leading them to choose a particular supermarket. Interviews were conducted only with those people who were responsible for household purchases. Interviews were also conducted with managers of the stores located in the two regions to understand the strategies and perception of the supermarkets with regard to consumers and their competitors.

Different competitive environments were another reason for choosing the two communities. In Jardim Ângela, there is a mature local retail trade that results in greater barriers to entry among large companies. In São Miguel Paulista, there are less-evolved local companies, producing an environment in which it might be easier for new competitors to enter. These characteristics allowed the study to investigate “[...] the influence of the state of development of the retail trade on the impact of the arrival of the large retailers.”

The following three types of companies were found in the two districts: small local stores, whose revenue is sufficient only for supporting the owner; local chain stores, with between five and 10 points of sale, such as Satmo in Jardim Ângela and Higas in São Miguel Paulista; and large retailers, such as Todo Dia, which belongs to Walmart, Assaí and Extra, belonging to the Pão de Açúcar group in São Miguel Paulista and Extra in Jardim Ângela.

According to Barki, the research found that in the two communities, local companies are important competitors of the large retailers. In São Miguel Paulista, the dispute is more recent because Todo Dia and Higas opened stores only one year prior to the survey. The preference for these supermarkets comes from their having the lowest prices, which is also the case with Assaí. In Jardim Ângela, Satmo is a local competitive retailer that dominates the region.

The article suggests that there are different contexts in the competition for consumers at the base of the pyramid. There are regions with a more evolved local retail trade, such as Jardim Ângela, in which it might be more difficult for a large retailer to enter. However, in other regions with less-evolved retail trade, such as São Miguel Paulista, it might be easier for major retailers to enter and the impact on the neighborhood might be greater.

Similar to previous studies, this research also detected that major retailers are competitive because they offer “functional benefits” such as lower prices and variety (the Assaí proposal), lower prices (the Todo Dia proposal), or promotions and variety (the Extra proposal). Local competitors, in contrast, rely on habit (the case of Satmo) and tradition (the case of Higas), appearing to have an emotional relationship with those who live in the neighborhood. Major retailers also differentiate themselves from the small local stores by offering functional benefits. Satmo offers the lowest prices in the region, whereas Higas relies on greater variety and the atmosphere of the store.

According to Barki, the sources of competitive advantage are different between the various types of competitor (small local stores, local chain stores and major retailers). The local retail trade has ways of protecting itself against the entry of the major players by serving the needs of low-income consumers.

The research also found contradictory results regarding the importance of price in store preference. Just as high-income consumers emphasize other factors in addition to price, low-income consumers may look for suitable value and not only the lowest prices. This finding may indicate the need for different and innovative methodologies for collecting this type of data in a community at the base of the pyramid, which is in line with other studies’ conclusions.

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# How the tobacco industry uses points of sale for marketing activities

## ARTICLE IN FOCUS:

### Promoting cigarettes in the retail market in São Paulo

Inês Pereira

**E**very year, 200,000 Brazilians die from diseases caused by smoking, according to the National Cancer Institute. It is estimated that cigarette smoking will be responsible for the death of 6.4 million people worldwide in 2015, the equivalent of 10% of all forecasted deaths, according to a study published in PLOS Med. One of the main recommendations of the World Health Organization (WHO) for combatting smoking is to prohibit cigarette advertising and promotions. Among the marketing activities that are likely to be banned, the WHO includes those carried out at points of sale, including using displays, posting promotional materials and placing the product in full view of consumers.

Brazilian legislation, however, currently places no restrictions on exposing cigarette packs or promotions at points of sale, and these marketing methods have become the main target of the publicity initiatives of the cigarette industry. International research has already proven the effectiveness of these promotional activities in convenience stores, and now bars and grocery stores have become effective in encouraging cigarette consumption, particularly among young people. A study of the subject using 2,125 students in California and published in the American Journal of Public Health revealed that teenagers who frequent points of sale that feature this type of promotional material have a 50% greater probability of smoking at some time in their lives.

Promotions at points of sale also make it difficult to give up the vice of smoking. A study published in 'Addiction' found that when people view cigarette displays, 34% of the people who had tried to stop smoking during the last year and 34% of recent smokers are tempted to buy the product. The same research revealed that one in five people who had tried to stop smoking and one in eight who had recently given up cigarettes tried to avoid the points of sale where they usually bought their cigarettes as a way of avoiding lapsing back into the habit. Approximately one-third of smokers noted that giving up the vice would be easier if cigarette advertising were removed from the stores where they make purchases.

Considering the relevance of the problem, researcher Inês Pereira from the Centro de Estudos GVsaúde (GV Health Studies Center), with the support of the Smoking Control Alliance (ACT), decided to study the promotional activities of the Brazilian tobacco industry at points of sale. In May 2010, she coordinated a survey of 429 commercial establishments throughout São Paulo, including 209 bars or snack bars, 114 bakeries and 106 newsstands. The following five types of variables were evaluated: the location of the cigarettes and the promotional content (for example, if close to the cash register or candies), the type of promotional material (whether lighted displays or posters), the number of promotions (solely in the area where the cigarettes are displayed, or in other areas), the presence of other artifacts (such as clocks, banners, shopping baskets and promotional products linked with the cigarettes for sale) and the sale of similar products (such as cigarillos, pipes, cigars and rope tobacco).

The study showed that there was a generalized display of cigarettes and promotional material from the tobacco industry at points of sale in São Paulo, particularly in bakeries. Packs of cigarettes were visible to adults in almost all establishments. Cigarettes were also visible to children, as they were frequently located close to candies, chocolates and confectionary items. At most points of sale, the promotional material was in the area where the cigarettes were on display, and it was common for cigarette displays and posters to be exhibited with the prices of the products.

The results, which are similar to other studies from various parts of the world, reveal that in Brazil, as represented by its largest city, the tobacco industry extensively exploits the opportunity to publicize its products through points of sale. Pereira, the study's author, notes that "this conclusion is very worrying." According to the literature on the subject, this type of unrestricted promotion through points of sale promotes the perception that cigarettes are safe for consumption and socially accepted, which particularly affects children and teenagers. Because of this marketing method, people who frequent bakeries, bars, snack bars and newsstands are more susceptible to becoming interested in smoking and those who already smoke may find it difficult to give up the vice.

Various studies have illustrated the public health problems related to the promotional activities of the tobacco industry. In Brazil, the evidence of a massive presence of cigarettes and promotional material at points of sale reinforces the need to implement the WHO recommendations in the country, according to Pereira. "The tobacco industry's promotional activities at points of sale really work. Therefore, to control smoking and promote public health, it is very important that this type of action is severely restricted," she states.

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# Consumer behavior in retail centers

## ARTICLE IN FOCUS:

### Shopping malls or street retail centers: comparing low-income preferences

Juracy Gomes Parente

**W**hat are the buying preferences of low-income consumers, and how do they behave in shopping streets? Which factors explain the satisfaction and purchasing intention of consumers when they choose between a shopping street and a shopping mall? How is the perception of attractiveness configured in different consumer segments? The article "Shopping malls or shopping streets: comparing low income preferences" aims to address these issues.

Few studies attempt to understand what determines the preferences of consumers for shopping malls or shopping streets. The authors highlight the research published in 2007 by Cathy Hart and collaborators, "Enjoyment of shopping experience: impact on customers' repatronage intentions and gender influence", which compared the perceptions and intention to repurchase in shopping malls and commercial street centers in the United Kingdom. They also cite the work of Christoph Teller, "Shopping streets versus shopping malls: determinants of agglomeration format attractiveness from the consumers' point of view", from 2008, which investigates the buying intentions of consumers in shopping malls and shopping streets in Vienna, Austria. When examining Brazilian scientific publications, however, the authors found no work that dealt with the behavior of consumers with regard to these retail agglomerations.

Nevertheless, the subject is relevant in Brazil. Brazilian retail trade is experiencing a trend that has already been observed in other countries of strong and continuous growth in shopping malls, with a decline in street shopping. According to the authors, this trend is a reflection of a “[...] change in preference of the retail agglomeration format in the marketing perspective and from the point of view of the consumer.”

During recent decades, shopping malls have become buying and leisure centers, above all for the middle and upper classes. Malls are receiving increasing investments and are continuously improving their facilities. Street centers, in contrast, are suffering from an ongoing deterioration. Over the past several years, there has been an expansion in shopping malls aimed at the lower-income population, driven by the inclusion of layers of lower purchasing power in the consumer market and the expansion of Class C [the middle class]. This movement is threatening traditional street shopping areas.

The authors draw attention to the consequences of this trend. In addition to the economic impact, there are consequences on the vitality of urban centers, which depend largely on street shopping areas. Unlike shopping malls, which are less integrated into the community in which they are located, street centers are more open systems that promote an intense exchange with the region in which they are situated. According to the authors, “[...] street shopping areas are more democratic places and more accessible to consumers who do not have their own means of transportation, amply serving the low-income population.” In various countries, the importance of street shopping has already been noted by those officials’ responsible for public policies. Based on this finding, there are important movements aimed at regenerating central areas, including shopping streets.

To investigate the perceptions and preferences of low-income consumer segments with regard to retail centers, a survey of approximately 300 consumers was conducted in three important street shopping areas in São Paulo, including the São Miguel Paulista, the Vila Nova Cachoeirinha and the Capão Redondo districts. The people surveyed had an average age of 36 years; 78% of those interviewed had at most a high school education, and 86% had a monthly family income of up to R\$ 1,750.

Although the consumers surveyed indicated satisfaction with shopping malls, they noted a stronger intention to regularly use retail street centers for purchases. Whereas shopping malls were better evaluated with regard to their atmosphere, infrastructure and image, retail centers had an advantage in terms of accessibility and value.

This research provides information useful for public policies that promote the dynamic nature and restoration of street shopping, as it indicates determinants of vitality in street shopping areas.

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# Social networks and corporate brand

## ARTICLE IN FOCUS:

### Social practices and the construction of trust and engagement in online brand fan pages

Eliane Pereira Zamith Brito

**B**ecause of globalization and the growing complexity of business environments, the importance of the corporate brand has increased for companies. With the commoditization of products, investment in corporate image positioning has been the practice of many companies that work with or restructure the architecture of their brands, especially for those that compete in a market with products that have life cycles that are increasingly shorter.

With the rise of social networks, consumers have gained the opportunity to express themselves and to interact with companies, helping create value or contributing towards destroying their reputation. This increase in social networking is an opportunity for organizations that address Brazilian consumers. In Brazil, there are nearly 80 million Internet users who spend a significant part of their time online in social networks. Therefore, companies must incorporate social networks into their communication strategies to encourage word-of-mouth exchanges, to create value for the brand through communities or to collect ideas and receive feedback within a co-creative environment. However, can organizations take advantage of these opportunities?

The article "Social practices and the construction of trust and engagement in online brand fan pages" explores how social practices affect the construction of an image. The study investigates three fan pages in the Facebook social network that are sponsored by three organizations that depend on the strength of their corporate brand: the jeans label Levi's; the Spanish bank Santander; and the environmentalist NGO Greenpeace. The three institutions have concentrated their efforts on social media, principally on their fan pages on Facebook, and have justified the choice of this channel, which has been analyzed in depth by the author.



The objective was to compare a corporate brand (Santander) with a product brand (Levi's) and a public brand (Greenpeace) to discover how the practices and the creation of value interact among different types of organizations and whether it is possible to infer common practices among them. With the objective of identifying social practices, the author entered the virtual world using an approach based on "netnography", an adaptation of ethnography to the Internet.

The analyses of Eliane Brito show that the image of the corporate brand is dynamically affected by the brands and consumers on the organizations' fan pages on Facebook. The construction of this image depends on the levels of trust and engagement created on the fan page, while trust and involvement, in turn, are constructed through certain practices that are useful in creating brand value.

The research uncovered different practices among the fan pages, leading to very different levels of involvement and trust or mistrust. One probable explanation is linked to how these brands were constructed separate from the fan page. Levi's, for example, is a fashion brand that is symbolic in itself. Greenpeace is also a symbolic brand for users. Santander Bank, on the other hand, tries to associate itself with symbols of sophistication and culture. In this case, many consumers see the bank as an experimental brand in the sense that what matters is the way in which the company's services are provided and not the services per se.

Another possible cause for the differences is the level of consumer involvement with the brand. Levi's fans are deeply involved with the company's product because they go to Levi's stores and wear Levi's jeans. On the fan page of Greenpeace, however, people become involved only to show that they are concerned about the environment; it is not "real involvement." With Santander, the engagement is much narrower. The relationship with the bank was often not the choice of the consumer; rather, the relationship was determined by the consumer's employer or family members, or the consumer's original bank was bought by Santander.

Moreover, the characterization of the business and brand has a natural influence on the construction of trust and involvement. Consumers have a predisposition to become involved with a brand, a finding that companies must take advantage of. Although this predisposition is not a determining force, it has an inertial force that influences the construction of the brand image, according to the author.

The article highlights the imbalance between consumers and companies on the pages of Facebook. Brands can direct the conversations in a way that inspires consumers to share personal stories that are both positive and negative. Brito believes that organizations should listen to consumers and discover what is important to them. With consumers of Levi's jeans, the company explores the tradition of the brand and uses the tradition to highlight how important the product is in the lives of people in the conversations. On the Greenpeace page, the company takes advantage of consumers' willingness to publish their messages, which leads the NGO to post subjects that are relevant to the environment. However, according to the author's understanding, Santander appears not to perceive that consumers only want their problems to be resolved; for example, the bank does not interact with consumers to sort out any possible dissatisfaction and insists on symbolic themes that are not important to the customers.

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# The influence of the Cold War in the establishment of the FGV-EAESP

## ARTICLE IN FOCUS:

*The Cold War and management education in Brazil: the Point Four Program and the São Paulo Business Administration School of the Fundação Getulio Vargas (FGV-EAESP)*

Rafael Alcadipani da Silveira and Carlos Osmar Bertero

**T**he second half of the 20th century was largely marked by the Cold War, which divided the world into two opposing ways of life. In the first several years of the Cold War, immediately following the Second World War, the development and spread of the methods and theories of the administration field took place. Specific management practices emerged in the United States based on effectiveness, efficiency and the maximization of results. These models were exported to a large part of the Western world, including Brazil and Asian countries.

Analyzing the role of the Cold War in the disclosure of business management theories in Brazil is the aim of "The Cold War and management education in Brazil: the Point Four Program and the São Paulo Business Administration School of the Fundação Getulio Vargas (FGV-EAESP)", written by researchers Rafael Alcadipani and Carlos Osmar Bertero. According to the authors, "[...] the literature on the subject shows the influence of the Cold War on the preparation of management theories, practices and development in the United States."

This movement had an influence on the FGV-EAESP, the most influential business administration school in Latin America.

In the dispute over global supremacy, the US and the Soviet Union never openly declared war, but they engaged in hostilities at various levels, with ideology as one of their most important arms. In an attempt to attract or maintain nations within their sphere of influence, the Americans and the Soviets ultimately shaped people's behavior and the way in which they saw the world. The US saw its role as leading the West in defending democracy and the market economy, which values the free initiative of the individual. Another strategy for keeping the "Communist threat" at bay that determined the trajectory of education in the management sphere was the idea that it was necessary to consolidate capitalism in the Third World. This idea involved promoting the development and modernization of these countries, in accordance with the standards and guidelines of the US.

The authors cite the January 1949 inaugural address of President Harry Truman (1884-1972), which included the famous Point Four and established four pillars of North American foreign policy in defense of the West against communism. The points included the following: support for the United Nations and its bodies; a continuation of economic recovery policies for Europe; and the strengthening of nations that were "lovers of peace" against possible aggression. Point Four, as stated by the president, was, "We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas."

Therefore, in addition to financial help for countries of the West, the North American government also decided to offer technical assistance and to send delegations to capacitate individuals, thereby spreading capitalism according to the values of the US. Therefore, the Cold War contributed to propagating the North American productivity model in the world and affected the strategic and production orientations of organizations in countless countries.

For Alcadipani and Bertero, the Point Four Program influenced the creation and planning of the EAESP. The program helped establish the school financially at a time when the Brazilian elite still did not recognize its importance to the economic development of Brazil. This support included hiring North American professors, preparing Brazilian professors in the US and even setting up a library and constructing the school building. Moreover, in the EAESP's first 10 years, the Point Four Program had an influence on the school's management through participation on its board.

The authors emphasize that the strong influence of the Point Four Program in the first years of the school did not imply that there was any persecution of Communists and other movements that were typical of the Cold War culture. Although the school continued to adopt the North American model, even after the withdrawal of financial support, the school still had some Marxist professors who held positions that were critical of the dominant liberalism in the US.

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# Women in academia

## TEXT IN FOCUS:

### Sexual diversity and work

*São Paulo: Editora Cengage, 2011, Chapter 8.*

Maria Ester de Freitas

# G

ender studies are increasingly common in the organizational and sociological literature, applying different focuses and reinforcing the enormous importance that women have assumed in the global labor market during recent decades. However, little has been said about this issue in more-qualified professions, even though women today have a higher level of education, both in graduate and post-graduate studies, including in Brazil.

Contemporary societies emerge as a triumph of science, and technical and scientific development is one of the most relevant pillars in regard to differentiating among countries. This scientific development is also the source of growth or dependence with respect to discoveries, inventions and advantages generated by technological acceleration.

The objective of this particular piece of research was to investigate a specific segment of highly qualified intellectual work involving female Brazilian scientists. The author understands that potential can only be realized through the use of relevant skills. Therefore, the fact that women today have studied more years than men should result, in principle, in a higher amount of participation in the professions that require more extensive qualifications.

Clearly, nature created two types of human beings with different, entire and absolute genders. Men and women are not halves, but rather interdependent units in themselves. Throughout history, however, cultures have constructed domination and subordination processes that have relegated women to roles that are largely invisible and socially devalued, excluding women from access to schools and universities until the last century, and in particular, until the second half of the 20th century.

Scientific work requires a specific formation, intelligence, discipline and creativity, and none of these attributes is exclusive to the male sex. However, in universities and research centers worldwide, scientific careers, particularly in the exact sciences, are still largely undertaken by men. Over time, women have had to face powerful enemies, including philosophers, the clergy, the aristocracy, and medical and scientific academies in their search for access to study. In a relatively short time, women have reversed a painful situation.

It must be recognized, however, that over the past decade, many top American and European universities have attempted to define policies for raising the level of their internal sexual diversity both in their teaching and student bodies. This attempt is related in large part to the scandal caused in 2006 by the dean of Harvard at the time, which opened a broader global debate about the real opportunities for women in academia.

The situation in Brazil is no different from the global situation: the proportion of women who occupy high, and particularly top, academic positions and who have seats on scientific committees in federal and state institutions that define and foster scientific research is small.

The research analyzes data from post-graduate courses in Brazil and explains that the justifications given for the absence of women in positions of prominence in Brazilian research follow the same worn path. These justifications include responsibility for the family, biological clocks synchronized with periods of career investment, the accommodation of women to the demands of their husband's profession, a lack of availability for constant travel, the lack of women in decision-making positions to break the vicious cycle and scant recognition by male peers that this gender problem needs to be resolved.

The work concludes that a change in the current context will only be possible through a joint effort that involves the entire education chain and the family mentality, which still conditions girls to play with dolls and makeup whereas boys are given toys that stimulate reasoning and their technical and scientific interest. We need schools and teachers to stimulate curiosity and the desire for knowledge, regardless of the sex of the students. Another type of school is necessary, one that commits to involve all students in activities and scientific learning, thus developing student potential to achieve its maximum.

This research resulted in Chapter 8 in the book entitled *Diversidade Sexual e Trabalho* [Sexual Diversity and Work], organized by Maria Ester de Freitas and Marcelo Dantas, which contains contributions from Brazilian authors from the areas of administration, psychology and anthropology. The other chapters address sexual construction in Brazil; sexuality and work from a psychoanalytical perspective; the new masculinities, body/sex and gender; gay and transsexual individuals in the work environment; professional stigma; the new supervisory culture; gender and work in cases of violent death; and gender in the academic environment, handicrafts and company management.

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# Global diversity and its impact on management practices

## ARTICLE IN FOCUS:

*From global management to glocal management: Latin American perspectives as a counter-dominant management epistemology*

Rafael Alcadipani da Silveira and Alexandre Reis Rosa

The article “From global management to glocal management: Latin American perspectives as a counter-dominant management epistemology” examines how management practices spread throughout the world as a phenomenon originating in the United States.

Studies on globalization can be divided into two strands. There is the standard view that addresses the subject as an economic phenomenon, a new stage of capitalism in which market forces grow as a result of neo-liberal policies that tend to weaken nation states. There is also a second approach, according to which globalization involves political, technological and cultural dimensions. Globalization is a process of the “deterritorialization” of social activities. As part of this process, the arena is remodeled in such a way that geographic borders are no longer a barrier to economic, cultural and political relationships.

This second approach leads to arguments in favor of and against globalization. For people with a positive view, globalization creates new economic, political and cultural opportunities. Its critics, in contrast, consider globalization to be a new form of imperialism, which takes advantage of the deterioration of borders to impose market logic.

Given these two approaches, what is the role of administration in the global context? As a field of academic knowledge, business management is a global phenomenon. The subject is taught in almost all universities in the world and is practiced by diverse bodies, including corporations, governments, and non-governmental organizations. This global characteristic implies that theories about management as developed by Western countries, and particularly in the US, can be perfectly applied in other places. The assumption underlying this view is that management knowledge can be universally applied and is supposedly neutral. However, if a critical view is adopted, and from the viewpoint of Latin America (a region that receives knowledge about management practices), many problems can be noted, principally in the relationship between the global management view and local knowledge and experience.

The logic behind this effect is linked to a broader context. Local knowledge, which is considered private, is subordinated to global thinking, which is understood to be universal. This unequal relationship is termed "the coloniality of power" by Peruvian sociologist Aníbal Quijano, and the way in which this epistemological difference is (re)produced is called "abyssal thinking" by Portuguese academic and sociologist Boaventura de Souza Santos. In both definitions, a line divides experience, knowledge and players into two social groups that live on either side of an "abyss".

On one side is the hegemonic, useful, understandable and visible knowledge produced by the North, as represented by the US and Europe, and on the other is the inferior, useless or dangerous and unintelligible knowledge that is destined to be forgotten and is produced by the South, as represented by the countries that have not achieved the "development" of the North. In terms of management, this scenario refers to a colonial relationship in which there is a view that knowledge appropriate for managing an organization and produced by the North naturally prevails.

In the text "Rethinking globalization: globalization/glocalization and something/nothing", researcher George Ritzer discusses how the phenomenon can be understood as a composition of two conflicting mechanisms: globalization and glocalization. Globalization is the desire of imperialism to impose itself on various places in the world and to see its power, influence and profits grow. Globalization involves sub-processes, such as Americanization, McDonaldization and capitalism. In opposing this notion, Ritzer proposes the notion of glocalization, a view that emphasizes global heterogeneity and tends to reject the idea that forces emanating from the West will lead to cultural homogeneity.

Considering the theory and practice of management from the viewpoint of the South means taking into account the principle that the world is epistemologically diversified, which enriches the capacity of human beings to manage and organize their social lives.

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# Adopting a new international accounting standard

## ARTICLE IN FOCUS:

The full impact of the adoption of the IFRS on the results of publicly quoted Brazilian companies

Edilene Santana Santos

**T**he adoption of the international accounting standard (IFRS) by Brazil occurred after the regulation of Law 11,638/07. Divided into two stages, the convergence process began in 2008 and concluded in 2010. The change brought countless advantages for Brazilian companies, such as supplying shareholders, investors and responsible authorities with better quality information; allowing accounting comparability with companies in 180 countries; and reducing complexity and accounting errors.

However, the standard has also had an effect on the results of Brazilian companies, a subject that is addressed in the article "The full impact of the adoption of the IFRS on the results of publicly quoted Brazilian companies", which analyzed the results of 380 non-financial firms listed on the BM&FBOVESPA. The survey is the culmination of a series of works undertaken by the author in 2009 and 2010, which describes each stage in the convergence process to the IFRS and constructs, for the first time, an historical series of the impacts of adopting the international accounting standard on the results of Brazilian companies, from the start of the transition in 2008 to its conclusion in 2010.



The author emphasizes the importance of the topic, as the impacts of the change in accounting standards over a short period of time are of interest not only to academia but also to investors, analysts, regulators and other market agents interested in the economic and financial analysis of companies. As a result of the IFRS, there were significant increases in the profit and net shareholders' equity of most publicly quoted Brazilian companies, confirming forecasts of previous studies by Santos with regard to the new accounting standard.

Santos says that the calculation of the second phase of convergence generated an average increase of 15% in profit in 2009 and 34% and 38% in initial and final shareholders' equity, respectively, in 2009. All measures were considered to be statistically significant by Student's t-test to a maximum p-value of 1.32%.

By combining the results of the second phase with those of the first, the study found that after convergence was concluded, there was average growth of 24% in company profits and of 30% in their net shareholders' equity. According to the author, even if the division of the process for adopting the IFRS in Brazil in two stages may have diluted, dispersed or at times generated contrary effects between the phases, after the full IFRS was established in 2010, most Brazilian companies experienced an increase in profit and shareholders' equity.

Accepting the hypothesis that the IFRS standard is more effective in portraying a company's economic situation, the research found that the majority of companies had a stronger performance than previously calculated using traditional Brazilian accounting. According to Santos, the work that investigated the impacts of Brazilian companies' adoption of the IFRS confirms the theory of Sidney J. Gray. The results of the research endorse the hypothesis of the conservative nature of the country's accounting standard.

According to Gray, in the Brazilian accounting system, as in other countries including France, Germany, Italy, Japan, Belgium, Spain, Portugal and Latin American countries, this conservatism arises from the fact that the accounting system prioritizes tax impacts when measuring profit. The Anglo-American model, in contrast, is directed mainly towards investors. In "Towards a theory of cultural influence on the development of accounting systems internationally", Gray proposes a methodology for measuring the impacts of these differences on company results and for comparing the different accounting systems.

Santos and other authors had already used Gray's index in double financial statements of companies from Brazil, Argentina, Chile and Mexico, with ADRs on the New York Stock Exchange during 2001-2005. The authors found that accounting in these countries generates lower profits compared to the profits calculated according to North American accounting practices.

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# Copom decisions and the Bovespa index

## ARTICLE IN FOCUS:

### Surprises regarding monetary policy and capital markets: evidence in the case of Brazil

Walter Gonçalves Junior and William Eid Junior

The article “Surprises regarding monetary policy and capital markets: evidence in the case of Brazil” investigates how monetary policy decisions affect the stock market in Brazil. The researchers’ objective was to measure and analyze the responses of the share market to decisions taken by the Monetary Policy Committee of the Brazilian Central Bank (Copom) with regard to the basic interest rate by observing the behavior of the aggregate index of the São Paulo Stock Exchange (Bovespa).

It is assumed that cuts in the Selic interest rate that have not been taken into account lead to an increase in the value of shares, providing an opportunity for the economy to expand and for company profits and dividend payments to increase. In the United States and England, the interest rate is a very relevant channel.

According to the authors, the subject is important because when monetary authorities formulate their policies and decisions, they must have information that enables reliable estimates of market reactions to their instruments.

The subject is also relevant to the financial market because of the influence exercised by monetary policy on market expectations. These estimates provide the data needed to construct investment and hedge positions and strategies and to manage the risks implicit in operations normally undertaken in their daily activities.

The study begins with the hypothesis of efficient markets and defines a measure that attempts to capture the surprise generated in the markets with every decision by Copom. The measures were based on data from the day Di1 futures market, whose frequency, liquidity and similarity to the Selic rate make these instruments not only useful but also versatile tools for exploring different horizons and needs.

Using this information and the variations in the Bovespa Index, a database was formed that backed the study. One important conclusion was that the share market reacts weakly to direct variations in the basic interest rate target. Agents can anticipate the decisions of the Central Bank. However, the research also showed that there might be a relevant response to unexpected variations (as forecast by the hypothesis of the information efficiency of markets). Each unexpected percentage point increase in the basic rate target may be associated with an average drop of 1.3% in the Bovespa Index. Another interesting result is that economic disruptions do not appear to significantly interfere in the pattern of response to surprise.

The authors emphasize that the results originated from an essentially empirical study, in such a way that it is necessary to develop models that address not only the variables and price formation but that also investigate other implications and theoretical ramifications.

The authors also note that the research begins from the premise that monetary policy is exogenous with regard to markets. Markets react to decisions from Copom, not vice versa. It is necessary to consider the possibility of eventual occurrences of simultaneity in the responses of both government and markets to certain events or trends observed in the economy.

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# Banks that are too big to fail

## ARTICLE IN FOCUS:

### Depositor perception of banks that were too big to fail during the crisis of 2008

Raquel de Freitas Oliveira, Rafael Felipe Schiozer and Lucas Ayres B. C. Barros

**T**he policy of saving systemically important financial institutions, which are usually termed “too big to fail”, is considered harmful to the long-term stability of the banking market. The policy distorts competition and weakens the incentives for depositors and other bank creditors to monitor their risks. The usual justification of the financial authorities for saving large banks is that the failure of an important bank may lead to damage in the entire financial system and may possibly lead to a recession.

The study “Depositor perception of banks that were too big to fail during the crisis of 2008” investigates how depositors’ perceptions about an implicit policy to save banks that are too big to fail affects their behavior in times of financial crisis. The study reveals that small- and medium-sized banks suffered a wave of withdrawals in September 2008, immediately after Lehmann Brothers in the United States went bankrupt.

Moreover, these withdrawn funds were deposited in the largest banks in the Brazilian financial system (candidates for being saved by the government in case of their failure). More importantly, the traditional indicators of the financial health of banks (the quality of their credit portfolio, lower leveraging and greater liquidity) do not appear to have been determinants of the allocation of the depositors' funds. Therefore, in a movement known as "flight to quality", it can be inferred that investors identify "quality" as the possibility of a bank being saved if necessary and not as the economic and financial fundamentals of the bank.

One of the main results of this movement was that the flight of funds to large banks was more intense for the portion of the deposits not insured by the Credit Guarantee Fund (FGC). Comparing different types of depositors, the study found that the flight from small- and medium-sized banks was more pronounced among institutional investors, followed by non-financial legal entities, but that it was not relevant among private individuals. Furthermore, the greater dependence of the depositor base on institutional investors was also a determining factor for the volume withdrawn by other types of depositors. This finding indicates that non-financial legal entities may have withdrawn funds because they feared that institutional investors would withdraw their funds first.

The study also observed that the Brazilian subsidiaries of foreign banks that were considered too big to fail in the countries where they were headquartered suffered fewer withdrawals than domestic small- and medium-sized banks, a result that may indicate that the depositors believed that the governments of their respective countries had a policy for saving these banks (as in fact occurred for many of them over the following months).

The main implication of this result is that even if the policy for saving large banks is not explicit, the perception of depositors that such a policy will be implemented if necessary gives large banks an enormous competitive advantage; that is, large banks will have access to liquidity when it is scarce in markets, including in times of crisis. Central banks all over the world have attempted to address the problems of large banks assuming excessive risk, but this important competitive distortion between large banks and other banks now appears to have been relegated to a position of secondary importance.

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# Corporate boards in Brazil: a small world

## ARTICLE IN FOCUS:

*Small worlds and board interlocking in Brazil:  
a longitudinal study of corporate networks,  
1997–2007*

Wesley Mendes-da-Silva



Within the context of corporate governance, one topic has attracted growing attention: the situation in which one or more people simultaneously participate on the boards of different companies. According to studies, this phenomenon makes it possible to form corporate and personal networks in which resource flows essential to the companies are created.

Do publicly quoted Brazilian companies form part of a small world in which their board members know one another? This question motivated Wesley Mendes-da-Silva to undertake quantitative research to evaluate the connections that are formed among the top management of 415 non-financial companies listed on the BM&F Bovespa over a period of 11 years (1997 to 2007).

Studies characterize this “small world” as an environment housing a network of players who are close to one another. Where this network exists, there is a greater propensity to share worldviews and professional standards of conduct. The information flow that takes place under these conditions also leads to the propagation of innovation and management practices. In assuming that these are market professionals, it is not unreasonable to believe that the members of the network frequently meet and exchange ideas about experiences on other boards on which they sit, including ideas about how to purchase a company or the best way to respond to takeover offers.

Mendes-da-Silva reached the unprecedented conclusion that in Brazil, there exists an intellectual elite class that occupies the top management positions in Brazilian companies quoted on the stock exchange. According to Mendes-da-Silva, this finding suggests that the Brazilian capital market grew because of mechanisms for choosing professionals for boards, and as a consequence, a network comprising people who are close to one another was formed.

This cohesive network, in which contact between companies becomes increasingly close, functions to increase the reputation of the participating companies and to improve their access to resources that are considered indispensable to their operation. However, the network’s success depends on the performance of each company and on the perception of value that market agents have of such companies.

Another result of Mendes-da-Silva’s research is that the position of companies in this network of corporate relationships is relevant to the market value of such companies. Research usually only considers variables related to the composition of boards, such as size and the number of external members. “The study shows that the way in which one board is linked to the network of boards of other companies has a great influence on the value of the company,” says Mendes-da-Silva. Therefore, the way in which a company forms its board will determine its position in the network and will consequently affect its access to the resources necessary for its survival and expansion. The position in the corporate network constitutes an input to be managed by the company.

According to the researcher, the results support the argument that those individuals involved in collaboration networks that have an excellent reputation or that represent greater access to resources, experience or knowledge tend to be more sought after to become members of company boards. The individuals increase their prestige in this circle and at the same time exercise an influence on the governance practices of other companies by sharing ideas and plans.

Through the effective activity of their board of directors, some companies can be more effective in establishing new relationships and in increasing their influence and power to participate more actively in the flow of resources (both financial and non-financial) in the corporate relationship network. These companies are transformed into key links in the network of companies around them. The results of the research underscore the fact that the existence of a level of social prominence of a company in the network maximizes its value.

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# The effect of transaction costs on local and foreign investments

## ARTICLE IN FOCUS:

### *Transaction costs: an empirical analysis of their relationship with investment and foreign direct investment*

Marcos Vinício Wink Junior, Hsia Hua Sheng and William Eid Junior

**A**ccording to the theory developed by new institutional economics, transaction costs play a relevant role in the economy. Agents make investment decisions in accordance with the extent of these costs. If transaction costs are unfavorable, these costs may discourage entrepreneurship.

Attracting direct foreign investment is beneficial to a country. In addition to contributing to economic growth, such investments help with the balance of payments equilibrium. However, investment decisions are not only determined by the interest rates of an economy. Other factors, called transaction costs, are considered, including the levels of uncertainty and the degree of difficulty of doing business.



Investment risk increases if a country provides no guarantees for property rights. However, monitoring capital and seeking information about investment guarantees increases the costs for the investor. Therefore, investment risks and a favorable environment for attracting capital are directly or indirectly linked to transaction costs. These types of transaction costs discourage new business; for example, the costs may have a negative influence on a local businessperson's decision to form a partnership with a foreign company or may dissuade a multinational from entering a certain type of business in another country.

The article "Transaction costs: an empirical analysis of their relationship with investment and foreign direct investment", by Marcos Vinício Wink Junior, Hsia Hua Sheng and William Eid Junior, investigates the relationship between the investment rate and foreign direct investment and transaction costs, as measured by market imperfections and indices of economic freedom. The authors also perform a comparative analysis of the business environments in different countries.

Unlike most studies in this field, which have attempted to identify the negative impacts on certain sectors or industries, this particular study differentiates itself by supplying an analysis of the impact of transaction costs on non-specific investments.

The variables created by Doing Business and the Heritage Foundation are used in the work as measures of transaction cost. The research analyzes these variables in a sample of 35 economies, including members of the Organization for Economic Cooperation and Development (OECD) and the BRICS countries, Brazil, Russia, India, China and South Africa, over a four-year period (2004-2007).

The authors suggest that transaction costs, including macroeconomic variables, affect the rate of investment. Transaction costs are negatively related to the rate of investment of countries. However, transaction costs appear not to have any impact on the decision-making of foreign investors.

The results are in line with work by other authors, for whom transaction costs have a negative effect on investment decisions only if the transaction costs are sufficiently high, if there are no costs associated with obtaining information or if the investments are not directed towards a specific sector of the economy.

Another conclusion of this study is that, on average, the BRICS countries possess business environments that are worse than the environments of other countries in the sample. The authors suggest that studies should be undertaken to capture the effects of the transaction costs for different sectors in developing countries. This research would make it possible to determine how transaction costs affect sectors in a developing economy.

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# Investor sentiment at the Brazilian Stock Exchange (BM&FBOVESPA)

## ARTICLE IN FOCUS:

The relationship between market sentiment and the stock returns: an analysis using panel data

Claudia Emiko Yoshinaga

**E**xamining the assumption that there is no completely rational pattern in the decisions of investors, the article “The relationship between market sentiment and the stock returns: an analysis using panel data” by Claudia Emiko Yoshinaga suggests a methodology for constructing a sentiment index for the Brazilian stock market. The author examines whether a relationship exists between the performance of the shares of companies listed on the stock exchange and the market sentiment observed in an immediately prior period.

Yoshinaga’s conclusion is that the relationship between stock returns and market sentiment exists; this conclusion is important because it opposes to the classical theory of finance, which is experiencing increasing difficulties in explaining phenomena related to the financial markets.

According to the author, “[...] results indicate a significant and negative relationship between the market sentiment index and rates of return. These findings suggest the existence of a reversal pattern in the stock returns, which means that after a period of positive sentiment, the impact on subsequent returns is negative, and vice versa.” Yoshinaga adds: “[...] in the future, other ways of measuring investor sentiment may also be employed. For studies on asset pricing, the suggestion is to incorporate into the model a new variable, investor sentiment.”

After presenting the methodology and the results of elaboration of the sentiment index, the article determined the index’s impact on the performance of shares. The research defined a sample of companies listed on the BM&FBOVESPA divided into quintiles, representing portfolios. The companies were classified according to characteristics including their market value, the amount of time listed on the stock exchange and the risk level of the securities. The sentiment index proposed by Yoshinaga was applied to data collected between 1999 and 2008, and the average return of each portfolio was calculated on a quarterly basis.

For each portfolio, Yoshinaga calculated the average return according to the level of sentiment of the previous quarter. According to the author, “[...] after a period of positive sentiment, stocks that are attractive to optimists and speculators (young, smaller and more risky companies) and less attractive to arbitrators given its lower returns. On the other hand, after a period of negative sentiment, this pattern weakens (for age and market value factors) or even signals a reversal (the risk factor).”

The study applied the ANOVA statistical analysis with two variables: sentiment was the main factor, and each of the characteristics of the company (market value, risk or age) was the control factor. Of the three factors, market value was the only factor with a significant statistical interaction. Treatments were analyzed separately; after a quarter of positive sentiment, companies with a low market value produced significantly lower returns than the other factor combinations.

For the risk factor, however, only sentiment was significant. According to Yoshinaga, this finding indicates “[...] that after a period of negative sentiment, rates of return are greater than those seen after a period of positive sentiment. The rates of return of portfolios comprising higher- and lower-risk companies are not in themselves statistically different.”

With regard to age (time listed on the stock exchange), the author observed that after a “[...] period of negative sentiment, returns were significantly greater than after a period of positive sentiment and that portfolios comprising older companies had significantly higher returns than portfolios comprising younger companies.”

Yoshinaga also estimated a pricing model taking into account market sentiment, company risks and other variables such as size, market leverage and growth opportunities. The results proved the relevant role played by the sentiment index in the model. According to the author, “[...] the robustness of this result was investigated by estimating the model in different ways, and no significant variations were found.”

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# Performance of medical plan operators

## ARTICLE IN FOCUS:

### Supplementary health plan operators in Brazil: their financial performance and consumer satisfaction

Rafael Felipe Schiozer, Cristiana Checchia Saito and Richard Saito

**T**he supplementary health sector has grown significantly over the last few years. Given the increasing size of the private sector within Brazil's health sector, health plan operators' financial stability is increasingly relevant. A service provider's problems may lead to a lack of assistance or to a rationing of services for customers. Because of this issue, information about the main determinants of the financial health of companies is important, enabling regulators or agents to create policies or strategies that establish a balance between service quality and a suitable profit margin for the supplier.

The article "Supplementary health operators in Brazil: their financial performance and consumer satisfaction", written by FGV-EAESP researchers Rafael Felipe Schiozer, Cristiana Checchia Saito and Richard Saito, analyzes the financial situation of medical plan companies according to the following segments in which they operate: health insurance, commercial insurance companies, not-for-profit medical cooperatives and self-administered health plans. The research also investigates the satisfaction level of customers with health services in Brazil.

The study examines the performance of 270 operators using market, operational and management control variables. With regard to consumer satisfaction, the study uses an index based on information about customer complaints supplied by the Brazilian Supplementary Health Agency (ANS).

One of the study's conclusions is that the operators' performance is linked to economies of scale, a result similar to that of research on the private health market in the United States. The financial health of companies improves as the number of beneficiaries increases. The major operators benefit from a greater dilution of high fixed costs in the health area. The largest operators also have the advantage of greater negotiating power with service providers such as hospitals, health professionals or examination and diagnosis laboratories.

Self-administered plans demonstrate the strongest financial performance, while not-for-profit operators have the weakest performance. With regard to the level of customer satisfaction, the self-administered schemes are also well placed. This finding might suggest a positive relationship between sound financial health and customer satisfaction. One possible explanation for this finding is that the majority of self-administered operators have plans that are partially financed by the employers of the beneficiaries, which might result in a more advantageous cost-benefit relationship for the customers when compared with other forms of organization.

With regard to customer satisfaction, not-for-profit operators also performed better. A possible explanation in this case is that the customers of these plans may have the perception that they receive more "humane" care. There is recognition that the health provider is more concerned with supplying good medical care than with its financial performance. It is also possible that these customers expect less from their health care service providers because they pay a smaller premium when compared with the customers of other types of insurance company. Another hypothesis is that the customers of not-for-profit plans are less informed than other customers, which results in a smaller number of complaints to the ANS. The research results also showed that there is little or no relationship between marketing efforts and the level of customer satisfaction.

The authors believe that the results of the study have important implications. The first implication is that special attention must be paid to the financial health of small operators. Many of these companies operate in small communities away from the major metropolitan areas. Financial difficulties in local insurance companies may create an overload on the public health system in these communities because there may be a migration of beneficiaries to public services. The researchers suggest that one possible strategy would be mergers or joint ventures, which would achieve greater negotiating power and obtain economies of scale.

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# Market sentiment and capital investment

## ARTICLE IN FOCUS:

### A study of market sentiment and the capital investment of Brazilian companies

William Eid Junior and Claudia Emiko Yoshinaga

**B**ehavioral finance occurred as a result of research developed during recent decades that intended to improve the traditional finance models by incorporating previously ignored factors. The objective of this approach has been to explain phenomena of the financial markets that are incompatible with the predictions made using the classic models, which deem investors to be immune to emotion.

The article "A study of market sentiment and the capital investment of Brazilian companies" analyzes whether market sentiment affects a company's investment decisions and investigates the decisions made by the managers of companies whose shares are traded on the BM&FBOVESPA. A secondary objective was to compare the results of each sector in the Brazilian economy.

Investment decisions are the most important financial decisions made by corporations. They include not only decisions that result in revenues and profits but also decisions directed towards saving resources. Investment decisions include those related to the company's operational area, such as product launches, distribution systems, inventory management and working capital policy; the decisions also pertain to market strategy and the acquisition of other companies. For an investment to be approved, it is always necessary to measure the cost-benefit ratio of the project. Returns are measured based on the cash flows generated by the project and the duration of the returns.

This article seeks to extend earlier research conducted by Claudia Emiko Yoshinaga in 2009 entitled, "The relationship between market sentiment and the stocks rates of return: an analysis using panel data", which concluded that there is a relationship between market sentiment and the Brazilian stock market's performance. In their article, the researchers take into account that investment decisions are not only influenced by the context of the company's investment opportunities but also by market sentiment.

The authors updated the market index to include the figures up to 2010 and used the Principal Component Analysis (PCA) methodology. Initially, this methodology entailed the creation and calculation of an index that represents market sentiment during a specific period. Using the new market sentiment index, the researchers estimated an econometric model using the company's investment as a dependent variable and a performance variable in addition to using the leverage level of the previous period and the market sentiment index as explanatory variables. The model was estimated using three different methodologies as follows: grouped data (POLS), fixed effects (FE) and random effects (RE). All the methods pointed to a statistically significant, positive coefficient for the market sentiment index, shown as a material factor in investment decisions. The better the market sentiment, the more companies will invest.

The previous period's leverage level variable also exhibited a positive variation, suggesting that leveraged companies invest in the following period. The performance variable, on the other hand, showed a significant negative correlation, which leads to the conclusion that companies that are performing poorly seek to increase investments, most likely to reverse their situation.

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# The maturity of institutions and the taxation of capital

## ARTICLE IN FOCUS:

### Institutional quality and capital taxation in developing economies

Luis Araujo and Paulo Arvate

**A**ccording to an opinion poll conducted by the World Bank, when deciding to invest in a developing economy, foreign investors' main concerns are the following: first, the legal framework defining the rights and obligations of private investors; second, the degree of independence that regulatory bodies have in relation to interference by government; and third, the degree to which the judiciary segment is perceived as being independent of government influence.

The article "Institutional quality and capital taxation in developing economies" investigates what an ideal tax regime would be in light of the uncertainties that foreign investors have regarding institutions in developing countries. For the authors, more important than the strategic interaction between the government of an advanced country and the government of a developing country is the perception that investors have with regard to the quality of the developing economy's institutions.



The authors evaluate investor uncertainty concerning the capacity of developing economies to protect their capital, bearing in mind that the institutions in these countries may be of high or low quality.

The study considers two distinct tax regimes: a preferential regime, in which tax collection may be dependent upon the origin of the capital (whether it is domestic or foreign), and a non-preferential regime, where there is no such condition.

The authors' first conclusion is that in the absence of any uncertainty on the part of foreign investors, the preferential regime predominates over the non-preferential regime in terms of fiscal revenues. Intuitively, there is no real competition between the developed economy and the developing country. In other words, when choosing its fiscal regime, the advanced country's government does not take into account the developing economy's behavior. As a result, when making its decision, the emerging economy's government is merely considering the relative mobility of capital; put another way, the government is not concerned with the response of the developing economy's government. Therefore, the ideal fiscal regime includes high taxation of domestic capital and low taxation of foreign capital. This finding is true regardless of the quality of the developing economy's institutions.

The authors' main conclusion is that in the face of the uncertainty regarding the quality of the developing economy's institutions, the non-preferential regime may prevail over the preferential regime, provided that the developing economy has high-quality institutions. Under the preferential regime, there is no equilibrium when the tax on foreign capital varies in accordance with the institutional quality of the developing economy, whereas there is equilibrium under the non-preferential regime. It can be clearly observed that under the non-preferential regime, which charges the same tax on both domestic and foreign capital, reducing taxes by simply repeating the rates chosen when the institutions are of high quality becomes costly when the institutions are of low quality.

However, the existence of an equilibrium in which the taxes on foreign capital vary in accordance with institutional quality implies that the choice of taxes reveals information about the institutions, which increases the government's revenue when the institutions are of high quality. It should be noted that this analysis assumes that the taxation regimes are exogenous.

If tax revenues depend upon the tax regime that is in force, one may wonder what would happen if an endogenous regime choice were to be allowed. This hypothesis is also considered by the article. If the choice of taxation regime were endogenous, it would provide conditions under which a single equilibrium would entail choosing the preferential regime if the institutions are of low quality or choosing the non-preferential regime if the institutions are of high quality. As a result, the model provides a reason for selecting a non-preferential regime, which is not linked to the strategic competition between countries but rather driven by the uncertainty associated with investing in a developing economy.

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# The positive effects of new listings on the BMF&Bovespa

## ARTICLE IN FOCUS:

Can a stock exchange improve corporate behavior? Evidence from firms' migration to premium listings in Brazil

Antonio Gledson de Carvalho and George Pennacchi

**M**any studies have linked a stronger level of protection for a country's minority shareholders to the development of capital markets. If the institutional environment allows a company's controlling shareholders to expropriate the minority shareholders' assets, capital markets run risks.

The possibility of expropriation and the lack of transparency on the part of corporations result in less-informed investors being more willing to trade in a company's shares, thus reducing the liquidity of its shares. This lack of liquidity can increase a corporation's cost of issuing shares.

When minority shareholders are poorly protected, one solution is to change the laws that govern the securities market. However, it is often difficult to implement the legislative reforms. In light of the difficulties involved in improving the legal framework, those companies that wish to reduce their fund-raising costs can look for ways to commit themselves to adopting a high standard of corporate behavior. One of the options is provided by the differentiated segments of the local stock exchange, which imposes stricter rules for participating in these listings than those imposed by the country's legislation. By voluntarily joining these segments, the company is obliged to ensure a higher level of protection for its minority shareholders.

The article "Can a stock exchange improve corporate behavior? Evidence from the migration of firms to premium listings in Brazil" investigates the segments of the São Paulo Stock Exchange (BMF&Bovespa) that have special rules. The study explores the motives that led companies to voluntarily migrate from the BMF&Bovespa's traditional listing to the special segments and what impact this migration has had on their securities. According to the authors, analyzing the impact of the so-called special listings is interesting in the Brazilian context because the country's laws are inadequate to protect minority shareholders.

Among the BMF&Bovespa's segments that have special rules, the Novo Mercado [New Market] has the highest standards in terms of its demands. To be included in the Novo Mercado, companies must meet a number of obligations, such as having at least 25% of the entire number of its shares outstanding, establishing that the term of office of the company's board of directors does not exceed two years, ensuring that the company's financial data are available and in accordance with international accounting standards, and offering the same terms to all shareholders in the case of the transfer of the controlling stake. Another demand is that all conflicts with shareholders should be resolved using an arbitration panel.

The BMF&Bovespa also created two other intermediate listings: Differentiated Governance Levels 1 and 2. The main difference between Level 2 and the Novo Mercado relates to the issue of shares with voting rights. In the Novo Mercado, all the shares of the companies are ordinary shares, with the right to vote. Under Level 2, preferred shares are allowed. Level 1 is less restrictive and concentrates on demands relating to transparency standards and access to information by shareholders.

One of the main factors behind the BMF&Bovespa's decision to create the new listings was competition with other stock exchanges. The idea was to reverse the flow of trading in the shares of Brazilian companies that had implemented the strategy of issuing American Depositary Receipts (ADRs) in the United States. Actually, if the voluntary migration by a company from the BMF&Bovespa's traditional listing to one of the differentiated markets represents an improvement in transparency and corporate governance, then this movement is similar to the process that caused Brazilian companies to seek a listing on a US stock exchange. The results of the research suggest that the BMF&Bovespa's new segments have stemmed the flow of Brazilian companies that are issuing shares on the North American exchanges.

Evidence was also found that many Brazilian companies are making a commitment to providing better protection for shareholders using a special listing to reduce their financing costs. Another result was that the shares of a company tend to show a higher-than-average positive return when the company chooses to join a higher listing, particularly if its shares were not previously listed on any foreign stock exchange. In addition to this finding, the migration to the new segment led to an increase in the number of shares being traded, indicating that greater transparency leads to greater liquidity.

In summary, the establishment of the new listings with more restrictive rules may be successful in improving the well-being of investors and fostering the development of the capital market.

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# Assessing the financial inclusion of banking correspondents

## ARTICLE IN FOCUS:

### Integration of correspondent banking services and financial inclusion – the Brazilian reality

Felipe Zambaldi

In Asian and African countries, mobile telephone services have been a key factor in ensuring that people have access to banking services without using bank branches, whereas in Latin America, and particularly in Brazil, correspondent banking has played a crucial role in the financial inclusion process. Under this model, the bank contracts a local retailer to offer financial services on its behalf, including payments, the opening of accounts, deposits, transfers, withdrawals, loans and the government's social benefit programs, including the Bolsa Família (Family Allowance) social welfare program.

Correspondent banking services originated in 1990 when companies began to operate "collection networks" on behalf of the banks within retail chains. This type of service arose in areas where there were few bank branches, and the low-income population was quick to begin using the service for the payment of utilities, such as water and electricity.

The development of correspondent banking was also facilitated by the federal government's income transfer programs, which encouraged banking service intermediaries to deliver social benefits to the population. Another factor behind the expansion of correspondent banking was observed during the last decade, with the banks' strategy to delegate activities to third-party network integrators, which were responsible for acting as intermediaries between banks and correspondents. The correspondent banking sector has a significant role to play; its network, which consists of approximately 110,000 service providers, currently serves approximately 40 million people, mainly in the country's poorest regions.

Because of the importance of this model, a significant amount of academic material has been written about this innovative channel. However, the research limits itself to investigating the range, coverage, number of transactions and financial volumes involved in the operations carried out by the bank correspondents. The aim of the article "Integration of correspondent banking services and financial inclusion: the Brazilian reality" is to identify which correspondent banking configurations are the most efficient for fostering the financial inclusion of the population. "We statistically analyzed how the different network configurations in terms of the outsourcing of activities and the ability to offer a wide range of services is related to the size of their operations," notes Felipe Zambaldi, the study's author.

A survey of 250 correspondents was conducted focusing on the relationship between the different configurations of banking services offered and the variety and range of their operations. Selected by means of probability sampling, the agents completed a questionnaire in which the main variables referred to operations carried out by the correspondents, such as withdrawals from bank accounts, benefits under social programs, deposits in current accounts, payment of invoices, utility bills and taxes, purchase of pre-paid cell phone credits and checking of balances and bank statements.

The purpose of this analysis was to identify the differences between scope and scale related to the network integration classes of business processes and technical and logistical activities. Initially, the 250 correspondents were classified into three groups as follows: first class (total outsourcing of activities), with 3 correspondents; second class (partial outsourcing of activities), with 122 correspondents; and third class (no outsourcing), with 125 correspondents.

The research found that none of the correspondents regularly opened accounts and that, similarly, none of the interviewees offered services such as credit or insurance. Conventional banking services, the delivery of social benefits and the payment of taxes were only performed by the third-class correspondents. The first- and second-class correspondents limited their services to the payment of invoices and bills and the purchase of credits for pre-paid cell phones.

The author emphasizes that there is a significant variation in the number of transactions carried out by agents, which would reflect the regional differences in terms of their economic dynamic. The article also found that first- and second-class correspondents concentrated their activities on the payment of bills, public sector utilities and the purchase of credits for cell phones, whereas third-class correspondents undertook transactions focusing on social transfers, deposits, withdrawals and tax payments. "The results reinforce the fact that financial inclusion initiatives are determined by transaction costs and that as a result, they encounter significant expansion limitations [...]", Zambaldi explains.

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# Banking inclusion: an experiment in the Amazon

## ARTICLE IN FOCUS:

### Triggers and barriers to financial inclusion: the use of ict-based branchless banking in an amazon county

Eduardo Diniz, Rene Birochi and Marlei Pozzebon

In 2002, Autazes, which is located in the State of Amazonas approximately 100 kilometers from Manaus, was the first municipality in Brazil's Northern Region to establish a postal bank. Over the next several years, the town's economy underwent a major transformation.

The consequences of having a local supply of financial services were not restricted to the positive impact on the municipality's social and economic development. There were also negative consequences, including a high degree of indebtedness among the low-income population. In addition to this outcome, the financial inclusion process also reproduced traditional social exclusion practices and reinforced power asymmetries. The experiment suggests that although access to financial resources is a key factor for promoting the local development of a low-income population, to make the process more effective, other measures also need to be considered, including financial education.

The article "Triggers and barriers to financial inclusion: the use of ICT-based branchless banking in the Amazon", written by Eduardo Diniz, Rene Birochi and Marlei Pozzebon, presents the results of research that covered a financial inclusion experiment in the municipality of Autazes, which is located in the Amazon jungle. The researchers interviewed owners and employees of local stores, micro-entrepreneurs, trade union and worker association representatives, public sector representatives and other regional citizens.

Before 2002, the local residents encountered major difficulties as a result of the lack of banking services in the municipality. To obtain access to services such as withdrawals, deposits or bill payments, residents had to go to Manaus. Until a road was built between the municipality and the state capital, which only occurred in 2007, the only option was to take a 12-hour boat trip that cost approximately US\$ 20. The majority of the population could not afford the trip and had to ask a friend or a family member traveling to the capital to undertake banking operations on their behalf, or pay someone to perform this service. The cost of contracting an intermediary to pay bills in Manaus was approximately US 3 for each bill. There was also a significant risk of assault on the journey. Another important point was that those who traveled to Manaus ended up doing their monthly shopping there, with negative consequences for the economy of Autazes.

Through interviews, the researchers identified an almost unanimous perception that the municipality had changed a great deal since 2002 and that the local economy had received an economic boost. One local resident, a public sector employee, described the scenario as follows: "Money began to circulate within the municipality." From the interviewees' perspective, public benefits, such as income transfer and pension programs, have been very important to the municipality's economic development. Although these benefits existed prior to 2002 and were already important for the community, their impact was strengthened by the bank's local presence.

By 2009, Autazes had six retail stores operating as correspondents, which was the result of the significant expansion of the local economy. Local commerce also developed in a consistent manner. According to those interviewed, the construction of the road to Manaus was only made possible because of the economic development of the municipality.

However, because almost half of the population still lives in rural areas and all the banking correspondents are located in the municipality's urban area, the phenomenon that was previously observed of a concentration of the city's wealth relative to Manaus was replaced by a similar scenario, but one that is now local. Autazes' rural communities now demand that the access to formal financial services be extended to them as a way of helping them develop their own economies.

Local groups interviewed also noted that the poor management of personal bank accounts should be kept in mind because this factor represents the excessive indebtedness of a significant percentage of those who have only recently obtained access to financial services. The beneficiaries of any government program are given means of obtaining payroll consigned credit and end up taking out loans to gain access to more expensive consumer goods, without having any exact notion of the degree to which this may compromise their income.

According to the authors, to overcome the tensions and restrictions relating to the high indebtedness and the lack of information, some sort of educational action must be taken to ensure a better understanding of how the financial system works.

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# The adoption of information technology by family-run companies

ARTICLE IN FOCUS:

## Why those in charge delay investing in information technology

Alberto Luiz Albertin and Rodrigo Fernandes Malaquias

**T**he amount of information that circulates in companies is so extensive that it is difficult to carry out daily activities without using information technology (IT) resources. IT offers companies the potential to substantially improve their performance. However, researchers still observe a certain degree of reluctance related to the use of IT resources, not just on the part of some employees but also on the part of managers.

Although there is no resistance to the implementation of new technologies, it is not uncommon for management to postpone for as long as possible the decision to invest in IT. Understanding why this phenomenon occurs is the objective of a study by Alberto Luiz Albertin, a professor at FGV-EAESP, and Rodrigo Fernandes Malaquias, from the Federal University of Uberlândia. To this end, the researchers conducted a survey of a family-run company with an annual turnover of R\$ 6 million (in 2009) and 70 employees. Although it is not a large organization, the company is a complex one to manage because it sells 20,000 different items.



However, the company analyzed by the researchers had only three computers, which did not operate in a network. There was no management or control software, nor were there simple spreadsheets for accounts payable or receivable. The salesmen, who for the most part worked with retail stores in Brazil's Northern Region, transferred the orders to the company via fax. "It is believed that these peculiarities mean that it must have been very difficult for the company to have survived for the 10 years it has been in operation," the study notes.

One aspect noted by the authors is that because it is a company where only family members and other trusted employees work, the managers do not feel the need to standardize and control their tasks. The use of technology is considered a priority when there are conflicts because technology allows managers to formalize processes that facilitate the recording and recovery of information in relation to organizational events. "If an organization is not subject to these conflicts, it tends to postpone vital investments in IT in order to prioritize other decisions," Albertin and Malaquias note.

The research also found that because the managers had only a limited understanding of IT, they were worried about becoming dependent on third parties for resolving problems or even for accessing information about the business. Therefore, the expected benefit in terms of obtaining more accurate and secure data did not yet seem to be greater than the risk the partners imagined from depending upon other people or companies in using IT.

When the researchers asked the managers about their expectations for using the Internet to sell their products, the partners were unable to list the advantages of this alternative, merely stating that they believed that their customers needed to negotiate personally with the salesperson. In addition, the managers stressed the importance for the business to visit customers to get a feel for the situation, the market and their financial situation. The managers believed that electronic commerce would not attract new customers because all the retailers in the region in which they operate were already being served.

In other words, the managers of the company analyzed had not realized that IT was a tool that could be used strategically to provide the basis for long-term decisions. This view resulted in negative consequences, including many customer complaints about late delivery. Customers also noted the inability to use electronic equipment for placing orders because the company's competitors already operated in this way and managed to offer lower prices and shorter delivery periods.

One company concern was the possibility of making an inappropriate decision in relation to new investments in IT; such a decision could compromise the company's ability to continue operating. However, the managers already appeared to be aware that their survival depended on improving their internal processes, providing faster service for their customers and improving the management of results and strategic information.

Albertin and Malaquias emphasize that because the research was based on a single case study, it is not possible to draw generalized conclusions about the results. Nevertheless, because the company is an extreme example of a firm requiring complex management while inadequately utilizing IT, the case highlights important themes for discussion about postponing the use of technological resources and for managing the information of a business. In addition, this study paves the way for more in-depth future research on the adoption of IT by family-run companies.

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# Making decisions in the absence of clear facts

ARTICLE IN FOCUS:

*Messing about in transformations: structured systemic planning for systemic solutions to systemic problems*

Phokion 'Ion' Georgiou

**M**aking decisions based solely on quantitative methods is risky. The relevance of such methods presupposes certain conditions: an agreed pre-formulation of the problem; quantitative measurement as the determining dimension of the solution; optimization as the determining approach to the solution; the availability of, and dependency upon, technical competence to find the solution; and the presence of some central authority with sufficient power which can determine what may be questioned and implement solutions. Such conditions are not readily available in a complex world, unless the complexity is purely enumerative. However, complexity is rarely enumerative.

Complexity, however, is rarely so pure. Real situations require decisions that account for multiple, simultaneous and equally necessary objectives, measurable in respectively different dimensions. These situations are constituted by multiple types of variables, implying the impossibility of the application of optimization. Frequently, these situations betray a lack of explicit or exact information about what needs to be done and, moreover, little agreement of opinion on whatever information is available. Thus, these situations, being replete with human interests constituted by opinions and viable evaluations which must be taken into account, impede a technical solution. These situations undoubtedly require a systematic approach, but the scientific methodology of quantitative methods is insufficient or unsatisfactory due to its limited perspective.

Further to this, the context of such situations is constituted by actors who are not necessarily hierarchically related, are not necessarily in agreement, and whose decisions impact upon various aspects with varying degrees of intensity. In brief, the situations in question are constituted by a dynamic interaction of interdependent problems, indicating the presence of a complex system requiring conceptual structure in a manner that permits analysis without overlooking systemic integrity.

The essential difficulty posed by complexity is not in its resolution, since complexity is not irresolvable. Complexity is irresolvable only when accompanied by disorder. It is erroneous to initially attempt to resolve complexity through approaches focused upon solving problems. What is first required is to transform the disorder into some order. This implies the imposition of structure. Ergo: the necessity of problem structuring.

Operations Research (OR) is well known for its quantitative approaches, mathematical algorithms and optimization models. Its expansive applicability in world industry since 1950 is impressive. What is not so well known is that, since 1980, OR has been developing Problem Structuring Methods (PSMs) for those situations which exhibit the aforementioned conditions. PSMs not only structure complexity, but facilitate its qualitative and quantitative analysis as well as a complete planning process. The last thirty years have seen applications in situations as diverse as: information systems planning for supermarket chains; litigation and negotiation in infrastructure projects; strategies for public safety; and, the development of performance indicators in the mining industry.

For nearly 20 years, researcher Ion Georgiou has been working with these methods – in particular, on their methodological development – to make them clearer, more practical and more useful. Some results include the analysis of the challenges facing the railway industry, as well as the complete reconfiguration of one of these methods for carrying out systemic planning in situations constrained by the absence of clear facts. With regard to the paper in focus here, he shows how two PSMs can be used in combination to facilitate choices of prioritization in environments where what needs to be done, and when, is obscured by the complexity of the interrelations between factors that constitute the problematic situation. For example, consider a situation in need of a systemic plan of action. It is constituted by multiple variables, and the plan must account for innumerable analytical dimensions as well as criteria. The necessity arises to identify the starting point of this plan. In other words: when, in what part, and how must one intervene in a problematic situation in order to improve it? Georgiou proposes a combination of methods, also known as multimethodology, through which a map of the desired transformations, developed through concepts in construct psychology, is analyzed through the mathematics of graph theory. The approach allows for the development of prototype, intermediate and complete plans focused on some desired result-set and dynamically accounts for changes in the problematic situation.

This indicates an approach which promises a move toward the resolution of challenging problems. Georgiou, however, adds the following: today, with the term ‘complexity’ having become almost banal, it is common to outsource attempts to resolve complex problems. Such practice follows the common model of consulting: an organization, even a government, pays for some work which is delivered after some time period by a consultant with some recommendations. The commitment of the client in such cases is zero, while the consultant’s report is highly questionable for not having involved the client in the solution process. A serious treatment of complexity requires effort by the client above and beyond financial investment. The client’s personal involvement is necessary in all steps of the process. After all, declares Georgiou, a consultant is nothing more than a means of facilitating solutions; the expert concerning the problem is always the person who experiences, who has, the problem: in other words, the client.

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# Health management: challenges and responses

ARTICLE IN FOCUS:

## The four competitive dimensions of health

Ana Maria Malik and Marcelo Caldeira Pedrosa

To provide their citizens with adequate health conditions at a controlled cost, countries face growing challenges as the life expectancy of the world's population increases. For example, in Brazil, the life expectancy increased more than 10 years between 1980 and 2009 – to 73.2 years, according to IBGE (Brazilian Institute of Geography and Statistics). Estimates from the same institute indicate that the number of people over the age of 60 is likely to double over the next 20 years and will ultimately account for approximately 30% of the total population in 2050. The need for care, investment and expenditures with respect to health tends to increase not only on account of the alteration in the population pyramid but also because of the following three factors: increased access to health services, individuals' growing awareness of the need to take better care of their health and the greater availability of technological resources.

Researchers Ana Maria Malik, a professor at FGV-EAESP, and Marcelo Caldeira Pedrosa of FEA-USP studied several models that sought to respond to this changing situation. For the researchers, an ideal health system should be organized according to the level of complexity of needs and demands. It is estimated that between 80% and 90% of all health problems are recurring.

Because the procedures for treating these problems have already been studied in great depth due to their high prevalence, the provision of services may be standardized by means of clinical protocols or assistance directives. The "retail clinics" found in the United States constitute a model for supplying low-cost sequential services simple procedures that are convenient in terms of access for the user.

Intermediate levels of complexity would be reserved for specialized services. Finally, procedures that require more sophisticated equipment and knowledge would be carried out in highly specialized hospitals. "There are gains in terms of efficiency and quality in this latter case because these reference centers manage to achieve economies of scale as a result of their high attendance volumes, and because they specialize, they make rapid progress in the operations' learning curve," explain Malik and Pedroso.

Shouldice, in Canada, is globally recognized as a model hospital for the treatment of hernias and achieves a lower-than-average cost per procedure than that of a general hospital. In India, the Aravind Eye Care Hospital focuses on ophthalmological treatment and achieves high volume at a low cost. Another Indian hospital, the Narayana Hrudayalaya, performs traditional cardiac surgery at a fraction of the price charged in US hospitals. In Brazil, the Kidney and Hypertension Hospital in São Paulo is an international benchmark for kidney treatment; until 2011, it was considered to be the world's bigger kidney transplant center.

For complex procedures that require technologies still under development, Malik and Pedroso found indications in the academic literature that services should be personalized. One example of this type of service is the "integrated center" model, under which a single infrastructure provides access to a set of human resources, material resources and supplementary technologies. These centers are used, for example, for research and treatment of specialties that are constantly under development, such as neurology and oncology.

Another aspect that Malik and Pedroso analyzed was that of predictability in healthcare services. There are predictable problems that require regular, preventive assistance. Other highly complex problems, such as transplants and the need for prolonged periods in intensive care units, are less predictable; when these problems occur, they may result in costs that are unexpected and difficult to control. A third part of the need is related to chronic diseases. Once these diseases have been diagnosed, they are relatively predictable in their consumption of healthcare products and services.

Based on this segmentation, a number of countries adopt the "health care savings account". This account is a similar mechanism to that of meal vouchers; a value is deposited into the account, which can only be used by the account holder for healthcare expenses. According to Malik and Pedroso, this model has two advantages. First, because the user chooses the service provider directly, this factor increases competition in the market. Secondly, the beneficiary can build up funds to be used at a later date, for example, when the beneficiary retires. "In Brazil, the implementation of a VGBL [endowment insurance] type account could be used for basic, permanent health care, while critical care for hard-to-predict services would be better covered by means of a health plan," the researchers note.

Malik and Pedroso draw attention to the failings of the Brazilian funding model. In this model, the majority of healthcare resources are used by a small part of the population, which contradicts one of the principles of the Single Health System (SUS), that of fairness. "In addition to this, inefficiencies are created in the country as a result of the low level of integration between the public and private systems, which is an aspect that needs to be discussed more," the researchers suggest.

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# The importance of supply chains

## ARTICLE IN FOCUS:

### The impact of supply chains on the performance of Brazilian companies

Alexandre Pignanelli and Luiz Artur Ledur Brito

**T**he value of the article “The impact of supply chains on the performance of Brazilian companies” is that it incorporates production chains into studies of components of performance variation in an unprecedented way. The research quantifies the degree of contribution of the “production chain effect” and its impact on the “company effect” and on the “sector of activity effect”, which are variables that are traditionally used in this type of study.

The decomposition of the variability of companies’ performance is the traditional approach used by studies that examine why some companies perform better than others. This line of research identifies the contribution of various factors on profitability, such as the individual company, the sector, the corporation to which the company belongs and the country in which it is located.

The research conducted to explain variations in performance was based on the following two theoretical-empirical currents: one based on the economic studies of industrial organizations (IO) and the other on vision-based resources (VBR). The empirical results usually indicate the predominance of factors associated with the company in the variation in performance.

Operational factors are treated in empirical studies as variables that explain a large part of the variability in the performance associated with in-house resources. However, as the authors note, “[...] there are no reports of studies about the variance structure of performance that have attempted to include the production chain effect on the composition of this structure.”

The researchers quantified and analyzed the weight of the supply chains on the companies' performance, based on profitability and growth data, for a sample of more than 80,000 companies from 167 sectors for a 10-year interval from 1998 to 2007. Multi-level modeling made it possible to determine that the magnitude of the supply chain effect reaches between 15% and 25% of the explained variability, accounting for approximately 50% to 90% of the sector effect.

The survey suggests that the management of supply chains represents a material factor. The results, according to the authors, “[...] point toward a new understanding of the sector effect, given that they indicate that the benefits which are traditionally attributed to the economic sector are partially the result of the company's affiliation with production chains [...]”. Also, according to the authors, “[...] in some of the analyses, the magnitude of the chain effect is comparable to that of the sector effect and accounts for between 15% and 25% of the explained variability (measured by the square root of the variance components).”

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# Risk management on the rise

## ARTICLE IN FOCUS:

### *Organizational risk management – a case study in companies that have won the Brazilian quality award*

Luiz Carlos Di Serio, Luciel Henrique de Oliveira and Luiz Marcelo Siegert Schuch

**R**ecently, risk management has become a part of the agenda for executives, leading to a change in the perception that previously held sway, which was that this discipline was a matter for insurance specialists. The explanation for this change lies in the fact that companies are increasingly exposed to different types of uncertainty. The growing interdependence between companies, the establishment of global networks of suppliers and efforts to optimize the supply chain make it increasingly likely that unwanted events will occur. Among the main risks, as listed in the Global Risks 2008 report published by the World Economic Forum, are those from supply chains along with those resulting from the financial system, the safety of foodstuffs and the availability and use of energy.

The work of FGV-EAESP researchers Luiz Carlos Di Serio, Luciel Henrique de Oliveira and Luiz Marcelo Siegert Schuch addresses the subject of the practical application of risk management in organizations. The authors conducted a case study using three companies from a list of companies that had either won or been finalists of the PNQ (Brazilian Quality Award) and that were regarded as models in terms of management. The study sought to show how model companies have managed their organizational risks.



For the three companies, the reason behind the implementation of risk management was a demand from the boards of directors, normally in response to pressure for greater transparency, particularly in the wake of the enactment of the Sarbanes-Oxley Law in 2002 in the US. On the one hand, support from the top made it easier to implement risk management. On the other hand, the decisions were made because of demands external to the organizations; therefore, it is possible that the companies were only seeking to legitimize their processes and were less interested in obtaining an actual improvement in performance.

The main complicating factors that were identified during the research were the lack of knowledge of those involved with regard to the mapping out of risks and the lengthy process needed for implementation. The companies that were analyzed were mainly concerned about dealing with financial risks, followed by strategic risks and operational risks. Only one of the companies addressed risks relating to suppliers and customers.

The researchers concluded that the risk management process still focused heavily on members of the implementation team, and in some cases, on specific areas or pilot processes. This finding is preliminary. It is still not possible to state whether these companies, which are considered to be advanced in their management practices by the Brazilian Quality Awards, have been successful in incorporating risk analyses into their broader decision taking strategy.

Each of the companies opted for different structures for setting up risk management systems. At one of the companies, a set-up team was designated that represented a risk sub-committee and that had the function of managing the process. At another company, the option was to create a risk management executive board that answered directly to the company's CEO. In the third company, a decision was made to choose someone at the unit to be responsible (project director) and who had an in-depth knowledge of operations, given that this was the focus of the risk-mapping process. These different set-up models were expected because earlier studies showed that there are a variety of ways to organize the risk management process.

It was noted that the treatment of the risks helped ensure that occurrences and events that would cause an interruption of operations were avoided. However, the audits of the controls and the simulations of the contingency plans were only carried out to a partial degree. Risk indicators are still in the process of being developed, and software is not being used for risk integration.

One of those interviewed claimed that it was difficult to measure the effectiveness of the risk management system and made a comparison with the performance of a goalkeeper in a soccer team: "[...] nobody remembers how many times a goalkeeper kept the ball out of the net, but they remember how many goals were scored against him." According to the study's authors, "This statement sums up well the difficulty entailed in measuring the effectiveness of the risk management systems that have been implemented, which results in a much more qualitative than quantitative assessment of their impact."

Among the companies in the study, there was a perception that the introduction of risk management systems had a positive effect on the company's performance. However, because of the difficulty of measuring the effectiveness of the risk management systems implemented, there was a lack of objective evidence to prove this effect.

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# To outsource or to produce in-house: that is the question

## ARTICLE IN FOCUS:

### Application of the flexible specialization model in a local manufacturing system

Jalba Terezinha Miniussi and João Mário Csillag

**A**s a result of the changes in global commerce over the past few years, pressure has increased on the Brazilian footwear industry. Brazil consolidated its position as a major manufacturer and exporter of footwear in the 1990s. Between 1990 and 2008, Brazil's footwear exports increased 16% in volume and 71% in revenue, with a 47% average increase in the price of the product. This shift indicates a migration to higher value-added items, which in 2008 accounted for 72% of the 166 million pairs of footwear sold to the external market and for 88% of the value of the sector's exports, resulting in a total of US\$ 1.9 billion.

However, in 2008, the main buyer markets for Brazilian footwear – the United States and the European Union – were affected by the international financial crisis. In addition, Brazilian manufacturers were negatively affected by the appreciation of the Br Real. In 2009, there was a 28% decline in revenue and a 24% drop in the volume exported, with a 5% decrease in the average price. In 2010, there was a further reduction of approximately 15% in the volume exported. At the same time, the domestic market became more attractive as a result of the growth in the Brazilian population's income, leading to an increase in the level of competition with imported products.

The article "Application of the flexible specialization model in a local manufacturing system" examines how changes in the global market have affected the strategy of footwear manufacturers in the municipality of Jaú in the State of São Paulo, where there is a special emphasis on leather products for women.

There is evidence that the Jaú companies are altering their trajectories in accordance with their own strategic choices. Some companies are moving activities that were formerly outsourced in-house and geographically dispersing their operations. Other companies in the city have adopted the traditional strategy of outsourcing a stage further by establishing partnership agreements with local craftsmen.

Curiously, although they have taken opposite paths, the companies justify their decisions with the argument that the choice is the ideal one for making them more competitive. The first group, which brought its operations in-house, seeks greater control over production, with an emphasis on the development of quality and cost capacities. The other group outsources most of its sewing activities and maintains the coordination of its supply chain to guarantee quality and delivery performance. Therefore, these companies can concentrate on developing other capabilities that add value, such as marketing, design and distribution channels.

According to the authors, the results appear to indicate the following: first, that company size may be a material factor in any decision to bring operations in-house, given that economies of scale may result from increased production, which outweigh the cost advantages produced by specialization; and second, that companies that focus on the value chain may decide to invest in these capabilities instead of returning to manufacturing.

The companies studied increased their production flexibility even more and reduced the delivery time for new products to the market. Punctuality in delivery is obligatory in their market niche; the right moment to sell cannot be missed. Based on the study's results, a selective reduction in the number of suppliers, retaining only the best ones with which they had maintained long-term partnerships, could improve companies' delivery performance.

In addition, the intrinsic advantages of location and specialization appear to be threatened by a supposed decrease in a specialist labor force and by legal limits on the outsourcing of production. The companies must find solutions for these losses of the potential cost and flexibility advantage, which are the basis of their competitive capacity.

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# Integrating the production area with marketing and research & development

## ARTICLE IN FOCUS:

### Manufacturing integration with R&D and marketing: still a cross-functional gap?

Ely Laureano Paiva and Teniza da Silveira

The integration of the production, research and development (R&D) and marketing areas is a constant concern for managers and researchers. The article “Manufacturing Integration with R&D and Marketing: still a cross-functional gap?” addresses this issue, examining how two sectors of Brazilian industry are seeking to integrate the internal and external stages of their value chain.

Based on the theoretical references identified by the study, the authors listed four assumptions, two of which are related to the internal aspects of the value chain’s integration and two of which are related to the external aspects.

The survey was conducted in two stages. The first stage entailed a qualitative study involving the case studies of three companies. A data-gathering methodology was then applied to test the results of the case studies, with a questionnaire being sent to 366 companies belonging to the food industry and to the machinery and equipment sector. The sample included companies located in Brazil that employed more than 100 people. The authors received 99 valid replies.

The three companies in the qualitative case study were called Alpha, Beta and Delta. Alpha focuses on automation, mainly supplying the automobile industry. Over the past three years, its revenue, which comes mainly from the United States and Europe, has more than doubled. Beta manufactures components for agricultural machinery and heavy transport equipment. The company recently became a global supplier for the mega-corporation, John Deere. Delta, a strong global competitor in the cargo equipment sector, has purchased a German company to gain access to new technologies and to set up partnerships with other companies located in countries such as the US.

All of these companies believe that focusing on specific markets is essential to their competitiveness. The integrated management of all parts of the value chain is an important aspect for Alpha and Delta. Bearing in mind that both of these companies work in the make-to-order format, production and delivery flexibility are critical aspects. Therefore, the value chain integration capacity is fundamental. Meanwhile, Beta uses a mass-production logic, with the manufacturing stage located at the center of its value chain.

The three companies believe that to be competitive, the service sector is a key stage of the value chain. Whether they operate in the Brazilian or the global market, the companies must offer reliable service within a timeframe of 24 to 48 hours for any location in the world. The Delta and Beta companies have achieved this standard in their global sales, whereas Alpha supplies any type of service within 24 hours anywhere in Brazil.

Research and development activities are also prominent in the view of the three companies. Alpha and Delta seek to develop commercial agreements to obtain access to new technologies.

No other activities in the value chain were indicated as being important for competitiveness, although Beta mentioned its own production. This company and Delta produce in-house only what is necessary and sometimes purchase all their components externally. For them, the essential part of the value chain is the supply chain. Their suppliers are obligated to have the capability of offering reliable delivery and a quality product.

Therefore, the results indicate that for Alpha and Delta, the internal and external networks throughout the value chain are key aspects for competitiveness. In contrast, Beta, which operates with standardized products, stressed that it focuses on internal networks.

Based on the results presented by the quantitative survey, the authors find no clear evidence as to whether asymmetrical integration throughout the value chain stages or the focus on external or internal environments of the value chain guides the companies in their quest to improve their capabilities. A complementary position between the internal and external stages of the value chain may be more appropriate when analyzing creation capacity throughout the value chain. The manufacturing and R&D areas are highly integrated in more dynamic situations, a result that indicates the constant need to develop new products.

Although the integration of production and marketing is regarded as a key aspect for generating capabilities, the results suggest that it is not a priority compared to other levels of integration with other activities in the value chain. Nor is the services area highly integrated with manufacturing, which may be one reason for any loss of competitiveness if these companies were to maintain this orientation. Therefore, although the academic literature has emphasized the importance of integrating manufacturing and marketing, the results suggest that much remains to be done before the companies make progress and reach the current level of integration between the plant and R&D.

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# A model for assessing the efficiency of logistics in Brazil

## ARTICLE IN FOCUS:

### Methodology for the calculation of the logistics costs associated with the flow of goods

Manoel de Andrade e Silva Reis and Jonas Mendes Constante

**T**he role of logistics is important in reducing costs and helping companies improve their competitiveness. Despite recent advances, the Brazilian logistics system is still characterized as inefficient and expensive compared to the systems of other countries. Brazil's precarious infrastructure prevents the country from having rapid, competitive operations. Overcoming the current scenario becomes even more urgent considering that global supply chains are becoming more international, extensive and complex.

Globalization has resulted in a process in which logistics costs are assuming an increasing importance in company strategies. In light of this context, it is fundamental that both the country and its organizations have tools for measuring their logistics costs.

The article "Methodology for the calculation of the logistics costs associated with the flow of goods", which was written by Manoel de Andrade e Silva Reis and Jonas Mendes Constante, presents a methodology for calculating logistics costs related to the flow of goods in a supply chain. The model was developed by the Fundação Getulio Vargas Center of Excellence in Logistics and Supply Chain (GVcelog).

According to the authors, the fact that there is a shortage of reliable information relating to logistics costs in Brazil was the reason for the model's development. "A suitable methodology for measuring and explaining the logistics costs of companies and economic sectors is an essential tool in drawing up public and private sector policies that lead to the structuring of a rational and efficient logistics system that makes it possible to attract investments," the authors note.

The proposed methodology includes the calculation of the total transport, warehousing, inventory maintenance and administration costs. The research analyzes other logistics cost methodologies applied in Brazil as well as in other countries including the United States, South Africa and South Korea. According to the authors, the model that has been developed by GVcelog has the advantage of being a more detailed approach to the calculation of the logistics costs in Brazil and is different in relation to the information sources used and in terms of the data it collects.

GVcelog's methodology allows it to calculate the costs by sector or by product. This methodology also makes it possible to develop models that can forecast the costs of a specific operation because its approach can be both microeconomic and macroeconomic, in contrast to other models that are basically macroeconomic in nature. According to Reis, "[...] the methodology for calculating logistics costs proposed by GVcelog is intended to be applicable to companies, segments, regions and to the country as a whole, in a way that is reliable, permanent and objective."

To apply the new methodology, the study notes that it will be necessary to gather "[...] a considerable range of information from a large variety of production and government sectors." According to the researchers, Brazil has a number of organizations that can provide this information, such as FIPE (the Institute of Economic Research), the IBGE (the Brazilian Institute of Geography and Statistics), the ANTT (the National Land Transport Agency), the ANTAQ (the National Waterways Transport Agency), the ANTF (the National Association of Railway Transporters), and the ANAC (the National Civil Aviation Agency).

The authors warn of the need to establish an appropriate relationship with these entities to obtain data and to develop a standardized approach to the presentation of the information produced by these sources over the medium term. Therefore, a database that is compatible with the various areas related to logistics would be made available. According to the article's bibliography, there is an adequate system of data collection in a number of countries. This method is used by government bodies, national and international investors, companies from all sectors and researchers.

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# Human resources: six decades of imported ideas

## ARTICLE IN FOCUS:

### The colonization and neo-colonization of human resources management in Brazil (1950-2010)

Thomaz Wood Jr., Maria José Tonelli and Bill Cooke

**P**ersonnel management or human resources management has developed as a strong practical field and as a teaching and research discipline in Brazil over the past several decades. However, there is a shortage of historical, reflective studies on this evolution. With the aim of filling this gap, FGV-EAESP professors Thomaz Wood Jr. and Maria José Tonelli, together with Bill Cooke from Lancaster University's Management School, produced the essay "The colonization and neo-colonization of human resources management in Brazil (1950-2010)". The following two periods were examined: 1950 to 1980, the period in which the modernization of Brazil took place, and 1980 to 2010, when the process of democratization occurred.

During the period after the Second World War between 1950 and 1980, the country adopted the US model of development based on mass production and consumption. Called the period of colonization by the authors, these three decades were characterized by urbanization and industrialization. The period was also characterized by the introduction of fundamental practices in terms of human resources management: recruitment and selection, training and development and career management. The protagonists during this first phase were the multinational companies and the business schools, which based themselves on the knowledge that predominated at that time in the United States.



The second period, from 1980 to 2010, is deemed neo-colonization by the authors. This period was characterized by liberalizing reforms and by the massive adoption of new models and practices in relation to human resources management, which were also imported from the US. The joint operation of consulting firms, business schools, business book and magazine publishers and event promotion companies helped spread ideas that had their roots in the new culture of management. These ideas were marked by a discourse with the following assumptions: 1) a belief in the free market, 2) a vision of individuals as entrepreneurs of their own brand, 3) a perception of management as a means to individual excellence and collective improvement, 4) the massive use of key words such as innovation, success and excellence and 5) a conviction that management knowledge makes it possible to improve organized activities.

During this period, there have been essential changes in the area of human resources management, which has begun to play a more strategic role in corporations. The field has also become an easy access route for managerial fads and fashions.

The common point between the two periods, the authors conclude, is the transfer of models and practices from the US to Brazil. "This process, however, did not occur easily," the authors state. Like any other transformation, the process faced resistance. However, between colonizer and colonized, the content and meanings were recognized, analyzed and transformed, a process that the researchers link to tropicalism because of the similarity in which artistic manifestations occurred at the end of the 1960s. In spite of the conservative military regime, the arts at the time mixed references from abroad with local roots to create an avant-garde movement. According to the authors, "Tropicalism can be understood as a movement of resistance and coexistence" in which there is a synthesis between the local and the foreign. Some models and practices that entered from Brazil from outside were promptly denied, others were adopted in a ceremonial way and yet others were transformed and adopted.

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# The environmentally responsible consumer: from the production of guilt to the purchase of redemption

## ARTICLE IN FOCUS:

The environmentally responsible consumer in the business media: the production of guilt and redemption as merchandise

Isleide Arruda Fontenelle

In the 21st century, the environmental discourse incorporated and highlighted the question of consumption as a way of addressing the notion of an apocalyptic crisis. At the same time that companies were pressured to practice corporate social responsibility, consumers were urged to think about their purchasing choices.

This characterization of the responsible consumer contains an essential difference in relation to the traditional environmental movements: the consumer ceases to be part of a collective, political entity and begins to be considered based on his/her individual, sovereign power to attribute value to the business strategies of those companies that are aligned with this concept of responsibility.

However, at the same time that a person has the expectation of individual power, s/he must address the uncertainty of the results. The person is left with the sensation of not knowing the right thing to do.

Entrusted with making the right decisions, the individual also comes face to face with sentiments of doubt and guilt. What is the solution for this angst?

To understand how the figure of the environmentally responsible consumer was constructed and how the resulting ambiguities were resolved, the FGV-EAESP's Professor Isleide Fontenelle analyzed articles on this subject that were published between 1996 and 2007 in two influential magazines: one was published in Brazil (Exame) and the other at the global level (The Economist).

Studies show that the media has played a vital role in constructing the concept of the conscientious consumer. In the business arena, in particular, the media reflect organizational and marketing practices. According to Fontenelle, the media not only function as a mirror of the corporate world but also reconstruct meanings and influence what corporate life should be like.

Analyzing the two magazines, Fontenelle shows that the question of the responsible consumer begins with the production of guilt, such that the market is able to produce redemption as merchandise. Faced with a scenario in which the human race becomes extinct because of hyper-consumerism, the feeling of guilt appears and soon afterwards is transformed by the logic that it is possible to continue consuming, provided that one chooses environmentally responsible companies. Consumers' only responsibility is to select brands and products that neutralize their ecological footprint.

With these narratives that only take into account the individual plane, the choice of certain companies ensures that each individual's consumption does not lead to everyone's extinction. In other words, the responsible consumer, as constructed by the media, is lonely but well-informed because s/he knows what to demand of companies.

Other players who are part of the context, such as the government and environmental movements, are disqualified, whereas companies play a central and overwhelmingly positive role. The discourse clearly indicates that the path to responsible consumption does not involve conflict or political protest. For Fontenelle, the construction of this discourse makes it possible to preserve the status quo of companies in the face of the challenge from a scenario of nature that has no way out. The environmental crisis is also viewed by the media as an opportunity for business, and the possibilities for entrepreneurship are emphasized.

The field of marketing, which was established in the 20th century by the culture of unlimited consumption, finds its redemption in this discourse, according to Fontenelle's analysis, and may be redesigned based on the joint perspective of production and responsible consumption.

For the researcher, the new discourse is a conservative reaction within economic liberalism. Man undoubtedly acts alone, but he cannot only think of his own selfish interests. He needs to sacrifice himself on behalf of the common good. "In this way there is a return to a universe of social prohibition and guilt that seemed to have been banished by a society which had broken with almost all the social limits," notes Fontenelle. In this moral crusade of "a conversion of souls," individual autonomy and economic prosperity are prioritized because from the liberal perspective this outlook will lead to a generous society. "The construction of the image of the responsible consumer fused the liberal discourse of sovereignty with the theological discourse of moral sentiments," Fontenelle states.

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# The challenge of environmental education

## ARTICLE IN FOCUS:

### Sustainable development and environmental education: a common trajectory with many challenges

José Carlos Barbieri and Dirceu da Silva

**T**he concept of environmental education (EA) is a fundamental element for the movement in favor of sustainable development that has been increasing in popularity since the 1990s. This process has influenced environmental education policies all over the world, including in Brazil.

The article "Sustainable Development and Environmental Education: a common trajectory with many challenges," by José Carlos Barbieri and Dirceu da Silva, addresses the origin of an EA concept associated with the concept of sustainable development and the debate that has arisen throughout this trajectory around the proposal of Education for Sustainable Development (EDS).

Environmental education pays special attention to professionals whose activities and decisions generate significant repercussions on the environment, such as managers, economists, engineers, architects, product developers and public policy makers.

The article presents the principal intergovernmental events that gave birth to this concept of EA, highlighting its goals, main policies and recommendations in general. The authors have recovered important intergovernmental documents, mainly those drafted by United Nations organization (UNO) agencies that have marked the debate and contributed new elements that have led to global actions in EA.

With the aim of debunking certain myths and naïve thinking with regard to sustainable development, the article discusses the various concepts and controversial issues that have caused doubts and objections to sustainable development. The article also provides thoughts on the implications of economic growth and its relationship to development, a theme central to the concept of sustainable development.

Environmental education should be adopted from interdisciplinary or trans-disciplinary approaches; in other words, it should not be included as a specific discipline, but rather at every teaching opportunity, as a continuous process that extends outside the confines of the teaching institution. Such goals can only be achieved if the teachers are able to address environmental issues in a way that is interrelated with the themes of the disciplines they teach. This scenario will only occur if the teachers have been trained in EA. Specific environmental education disciplines would, therefore, make sense at a post-graduate level that future teachers would attend.

An important question is the relationship of EA with the environmental management disciplines that are increasingly taught in business administration graduate courses. These disciplines address content for professional training associated with specific areas, such as marketing, production, logistics and finance. Environmental management is aimed at the application of theoretical and practical knowledge to environmental problems related to organizations, by means of typical administrative processes, such as planning, control, coordination, motivation and others, to attain specific goals and targets at the various levels of performance, from the operational to the strategic.

Although the goals of EA are broader, EA can be linked together with sustainable development to the mutual benefit of both, as long as the concepts are considered compatible. For this compatibility to occur, environmental management should be attuned to the sustainable development movement. Teaching environmental management becomes more effective when students have been made aware of the environment and of the problems resulting from human activities.

The article also presents some of the main voluntary initiatives for the inclusion of higher education institutions into the sustainable development movement. In the face of the urgency of environmental questions, the authors believe that the adherence of higher education and research institutions to voluntary initiatives would accelerate learning.

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# Advances in electric mobility

ARTICLE IN FOCUS:

## The emergence of an electric mobility trajectory

Marc Dijk, Renato J. Orsato and René Kemp

In the early 21st century, disenchantment could be discerned regarding the future prospects for electric battery-powered vehicles (VEB); however, since 2005, electric-powered mobility has gained a boost. The article “The emergence of an electric mobility trajectory” by Marc Dijk of the International Centre for Integrated Assessment and Sustainable Development, Renato J. Orsato from the Fundação Getulio Vargas (FGV-EAESP) and René Kemp of Maastricht University describes the evolution of electric mobility and analyzes its prospects.

The study’s central thesis is that electric mobility is currently at a critical threshold with various technological innovations, some occurring within and outside the automotive industry and others within the social context of urban mobility. The research also focuses on the effects of the interaction between both sectors and on how this interaction will impact the future of electric battery-powered vehicles, electric hybrids (VEH) and hydrogen fuel cells.

The authors adopted a socio-technical viewpoint for their analysis, avoiding giving exclusive priority to either social or technical elements. From the authors’ perspective, the two factors are interlinked. They argue that this approach is fundamental because it is not possible to explain the changes merely by way of just one variable, such as price or technological innovation. The socio-technical approach considers a close alignment between various elements, such as the product’s technology, the industry, the market, consumer behavior, public policies, available infrastructure, spatial arrangements and cultural change. This viewpoint also includes the perceptions, strategies, actions and interactions of the players, which include automobile drivers, automobile manufacturers, political decision makers and public opinion.

Examining the past and considering the future, it must be borne in mind that the technology of the internal combustion engine (ICE) has reigned supreme in the automotive industry for more than 100 years. Even with competition from alternative options in recent decades, it has been more attractive and safer for automakers to invest in innovating technology for the existing ICE than in technological options that risk gaining little acceptance from the consumer. This scenario gives rise to a pattern in which automakers continually refine the dominant project, aiming to improve the performance – including the environmental performance – of its technology. The development of hybrid technology can also be viewed as an attempt by manufacturers to innovate without having to move too far away from the essence of their competences.

The relevant developments and the effects of the interaction between VEB, VEH (including VEHs that can recharge their batteries, known as plug-in hybrids) and hydrogen fuel cell technologies will determine the future of electric mobility. These sectors may compete between themselves in some aspects and reinforce each other in others because electric power-drive technology is common to all these vehicles. Advances in electric power-drive will help them to compete with ICE technology.

VEHs, for example, have an auxiliary electric engine fed by batteries that are charged by the combustion engine or by means of electric grid charging points. Improvements in batteries and energy management may expand the electric range of the VEH. For drivers, in comparisons with the ICE, one of the advantages would be the fuel savings. The plug-in version would also have the advantage of being able to be recharged at home or at work.

According to the researchers, in recent years electric mobility has advanced because of the following series of factors: climate protection policies that included electric propulsion as one of the sources for CO<sub>2</sub> emission reductions; electric vehicles then become icons of zero carbon emissions; the expected proximity of peak fossil fuel production and the unpredictability of prices will attract attention to vehicles that do not depend on oil; the success of Toyota's Prius hybrid model; progress in battery technology encouraged by the consumer electronics sector; the economic recovery programs in Europe and the United States, which favored clean energy forms, including electric vehicles; and the diversification strategies in the automakers' portfolios, including electric and hybrid vehicles.

At the same time, we should also bear in mind that there are factors working against electric mobility. These factors include the fact that manufacturers are still investing heavily in the development of combustion engines; the increase in sales of automobile (with ICE technology) that are cheaper in emerging markets such as China; the cultural cachet in owning rather than renting a car; and the doubts about whether vehicles running on hydrogen fuel cells will be commercially viable in the near future.

This set of trends suggests that a vehicle electrification process is underway, led principally by advances in batteries, public policies to reduce CO<sub>2</sub> emissions, the new value propositions of companies and a positive image of electric power-drive among consumers and policy makers. What remains to be seen, however, is how these developments will change the existing regime, whether a more pre-eminent position will be reserved for hybrids or whether these developments will result in a new regime in which a majority of purely electric cars will be used in combination with other forms of transport. In this article, the authors identify some of the possible directions.

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# PUBLIC ADMINISTRATION

POLITICAL SCIENCE

PUBLIC ADMINISTRATION

PUBLIC POLICIES

# Municipal elections and their effects on elections for state and municipal legislatures

## ARTICLE IN FOCUS:

### Do parties matter? Intra-party linkages and electoral performance in Brazil

George Avelino, Ciro Biderman and Leonardo S. Barone

**T**he article “Do parties matter? Intra-party links and electoral performance in Brazil” investigates whether the election of a mayor influences the performance of his party in proportional elections for federal congressional deputy and state legislature deputy that are held two years later in the same municipality. A Regression Discontinuity Model (RDM) was used to check whether this causal effect exists.

The work focused on a type of intra-party relationship, the reverse electoral “coattail” effect, between the local party organization and higher levels of electoral competition. Common in American political literature, electoral “coattail” effects are rare in other political systems. This effect can be understood as the ability of a candidate at a higher level to transfer votes to candidates at lower levels.

Using information from the Brazilian Supreme Electoral Court (TSE), the study correlated the results of the 2008 municipal elections with the legislative elections of 2010. The results confirm that the victory in a mayoral election has positive effects for a party in the proportional elections for state and federal deputy, even if the mayor won by a small margin. "Our results provide evidence of a strong reverse 'coattail' electoral effect and call attention to the importance of municipal party organizations in understanding the results of state legislative elections. The results show that what is at stake in an imminent municipal election is not only the current election. One is also looking at the proportional elections two years later," the study finds.

According to the authors, this is an important finding for those studying intra-party relationships at the various levels of government in Brazil. The article also contributes to understanding of the country's party system, which is fragmented and in which the size of the caucuses in the state and federal legislatures is of vital importance to the role of the parties in building governmental coalitions in the two congressional chambers.

The study's findings also reveal possible directions for future research. One direction is to continue investigating a mayor's ease or difficulty in transferring votes to his or her party's candidates in proportional elections.

The article also suggests the need to take into account the decline of electoral volatility in Brazil, a continual phenomenon since 1994, and the consolidation of party competition in all the states. It quotes the study "Electoral volatility in the States: the party system and democracy in Brazil," by Denise Paiva and Simone Bohn, which revealed that electoral volatility in the states decreases at different rates. In terms of the legislative elections, a possible explanation for this difference is that volatility decreased only in regions where the parties could reach some degree of internal cooperation between the different levels of government. There was a sharper decline in volatility in areas where the parties manage to maintain the transfer of votes from municipal to state elections.

The importance of local party organization does not mean that we should not take into account its relationship with state and national leaders. A justification would be that political nominations at the national level and the electoral strategies may restrict local choices. Another justification is related to the high correlation of votes between the three levels of government, suggesting a certain degree of nationalization of the party. Finally, contrary to the suggestion in the traditional literature that there is homogeneity in terms of the party's nationalization, the results indicate the various party levels may develop heterogeneously throughout the country.

One direction for suggested future research is an investigation into the capacity for intra-group cooperation in each Brazilian party. The parties may have different levels of centralization or show different trajectories over time, increasing or decreasing their patterns of centralization. This finding implies the need to compare the parties to determine not only their ability to retain voters in the elections but also whether this ability increases or decreases over time.

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# The strategic use of electoral strongholds

## ARTICLE IN FOCUS:

### Electoral concentration in São Paulo state elections: measures and applications

George Avelino, Ciro Biderman and Glauco Peres da Silva

In a country the size of Brazil, the concentration of votes for politicians in certain electoral strongholds is considered to be a strategy facilitating the campaigns of many candidates, particularly in elections for the Federal Congress. Professors George Avelino and Ciro Biderman of Sao Paulo's Fundação Getulio Vargas (FGV-EAESP) and Glauco Peres da Silva of FECAP developed an index that calculates this degree of concentration and applied it to candidates for the Federal Congress from São Paulo State from 1994 to 2010.

The results contradicted the usual interpretation of Brazil's political system, which emphasizes the relationship between the concentration of votes in the municipalities and congressional activity. Considering that the electoral college of São Paulo State elects 70 members of Congress, only three or four candidates elected in the past three elections (or 5% of the total) were significantly concentrated at the municipal level.

The degree of concentration has been systematically declining over the years. In 1994, the proportion of those elected with a relatively concentrated pattern was much greater, at 17%. By 1998, this percentage had dropped to 11%, reaching 5% as of 2002. In the analysis of the São Paulo case, it was also found that the federal deputies have concentration rates lower than those of the non-elected or their substitutes.

The authors of the study next investigated the degree of concentration not by municipality but by region in the State of São Paulo, concluding that regional strongholds are more common. The number of those elected with significant concentrations in the past five elections increases from 30 in the municipal index to 63 when the measurement is regional. This is still a small number, however, considering the 350 elected deputies who were studied. In any case, the findings show that 18% of the candidates who were elected federal deputies used regional concentration strategies, compared to 9% for those who worked with municipal strongholds.

In the case of congressional members who remained in the race for several additional election cycles, it was found that some members went from a municipal to a regional concentration, and in the end, not even to this. "The results suggest that a municipal concentration could be a strategy for entering an electoral career of progressive de-concentration," Avelino, Biderman and Silva note. That is, São Paulo State candidates appeared to enter politics by taking advantage of local leadership and, if elected, to use the opportunity to expand their electoral base to the region around this municipality. The next election provided an opportunity to expand their electoral base even further, with an entry point in most of the state's regions.

This latter strategy, however, did not appear to work well in the eight cases analyzed. For example, Antonio Carlos Pannunzio, whose votes were concentrated municipally and regionally in 1994, became concentrated only regionally in 1998 and 2002. Finally, he attempted the strategy of de-concentration in 2006 and in 2010. However, after being elected by his votes in the first three elections, he was elected by the average in 2006 and was only a substitute candidate in 2010. His votes, which had been rising systematically since 1994, began to fall in 2006 (from 126,000 to 109,000) and again from 2006 to 2010 (to 97,000).

The same type of evolution was observed in the case of Angela Moraes Guadagnin, who was not re-elected in 2006 after two previously successful elections with significant concentration rates. This tendency was also observed with Francisco Marcelo Ortiz Filho, who was not re-elected in 2010 but who had been successful in 2002 and 2006; Iara Bernardi, elected in 1998 and 2002 but not in 2006; and Marcelo Fortes Barbieri, elected in 1994 and 1998 but not in 2002.

Although the results are for eight candidates who began as municipally concentrated and then began campaigning regionally, the fact that they took part in 19 legislatures and 30 elections make them relevant to the analysis. In reality, the vast majority of concentrated candidates who participated in more than one election have been reducing the level of dependence on electoral strongholds in subsequent elections as they moved toward a more regional concentration. "What appears to be a risky strategy is an attempt at de-concentration," the study's authors note.

Avelino, Biderman and Silva warn that after many elections, the candidates are not being re-elected simply because they have reached the end of their political life cycle, not because of a strategy of de-concentration. Future studies could evaluate how the candidates' rise-and-fall cycles relate to their strategies of concentration in electoral districts.

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# A portrayal of the Brazilian electoral dynamic

## ARTICLE IN FOCUS:

### The 2010 elections and the party system in Brazil

Cláudio Gonçalves Couto

**T**he 2010 presidential elections included the three major parties in Brazil: the PT (Workers' Party), the PSDB (Brazilian Social Democrats) and the PV (Green Party), which received the greatest number of votes in the election. However, if we also consider the results of the elections for state governors, state legislative assemblies and the National Congress, the scenario becomes much more complex. Cláudio Gonçalves Couto, a professor in the Public Administration Department at the Fundação Getúlio Vargas (FGV-EAESP), conducted a study to classify the parties according to their weight in the various contexts in which they operate.

In the gubernatorial elections, the following two variables were considered: the number of positions obtained by the party and the size of the states' populations. Each governor is an important player on the national political stage, but the weight of the number of inhabitants in the state s/he governs must be taken into account because this factor has been shown to be decisive in the federal elections, according to Couto. In the balance of the last elections for governor, the PSDB obtained a strong lead as the largest party and the PT came in third, although it performed evenly with the PSB (Brazilian Socialists) and the PMDB (Brazilian Democratic Movement Party). "Here is a good indication that the alarmist diagnoses that we were headed for a 'Mexicanization' process, with a PT hegemony at the federal level, were unfounded," says Couto. "With so much power at the sub-national level, the main opposition party can constitute an important obstacle to any pretensions at hegemony coming from the central power."

In the composition of the National Congress, the result is completely different, and the opposition lost space in the most recent elections. Added together, the PSDB and its allied parties (DEM and PPS) reduced their representation in the National Congress from 27.8% to 22.3%, a decline of more than five percentage points. Taking into account the PSOL, the opposition parties attained 25.9% of the votes in the Senate and 21.6% in the Chamber of Deputies. "With this, the alliance between the parties on the left that are usually allied to the PT (PSB, PDT and PC do B) and the parties led by the PMDB allows the government of Dilma Rousseff to build a significant coalition among members of Congress, which is formally able to attain 74% of the votes in the Senate and 78% in the Chamber," Couto notes.

Even with these changes in the composition of the party caucuses, which are natural after an election, no single party holds more than a quarter of congressional power, which, according to Couto, shows a certain increase in stability in the fragmented party system. In terms of the weighting of the caucuses, the PMDB and the PSDB maintained the same position as previously, whereas the PT grew slightly and the DEM fell to represent less than 10% of the congress, becoming a medium-sized party. The PP and the PSB, which were small parties, entered the medium-size category by exceeding the 5% mark in the National Congress. The small parties increased their share from 9% to 13%, indicating a slight increase in the degree of fragmentation in the parliamentary party system.

The two largest parties in the National Congress (PT and PMDB) won considerably less representation in the state legislatures around the country. The PDT and the PSB, both medium-sized parties, rose in the ranking, while the PR and PP fell behind. The micro-parties have much greater weight in the legislative assemblies than that observed at the national level, holding 25% of the seats. Because the number of seats at stake in the assemblies is considerably larger than in the Chamber of Deputies, it is easier for the smaller parties to attain the ratio between number of votes and number of seats that determines the distribution of parties in the legislature. "It would even be possible to consider the party weight at the municipal level, but with the analysis of the state level, it's already possible to make a reasonable diagnosis on the dispersion of parties at a sub-national level of government," Couto observes.

Finally, the author created an index conjugating the weight of the parties in each of the systems (federal government, state government, National Congress and state assemblies). It is clear that the PT and PSDB do in fact play leading roles in the Brazilian political scenario at the national level. The PMDB is extremely important in Congress and in the legislative politics of the states and has considerable weight in state governments, but plays only a secondary role in presidential elections, which considerably reduces its weight in the system as a whole.

The PV has grown little. Despite its presidential candidate, Marina Silva, having emerged stronger from the 2010 campaign, the party did not elect a single government or senator and its participation remained virtually unaltered in the Chamber of Deputies; however, its number of state deputies increased by 12%. The research shows that the party that stands out as an emerging party power is the PSB, having already overtaken the DEM in its relative weight. The PSB performed better in the elections for governor and in the national and state legislatures. "Depending on how the articulations between parties develop in elections over the next few years, the PSB may possibly gain greater central power," Couto concludes.

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# Brazilian public administration: eight decades of transformation

ARTICLE IN FOCUS:

## Public administration and public policies

Marta Ferreira Santos Farah

**P**ublic administration was created in the United States more than a century ago as an area for training and as a field of study, with the goal of preparing civil servants. In principle, the emphasis was on the science of management, based on general principles considered valid for any organization, whether public or private. It was only from the 1950s that the specificity and complexity of the public arena began to be taken into consideration. Recently, public administration has extended to embrace new frontiers, which include non-governmental organizations and private institutions geared to include citizens in the process of formulating, implementing and overseeing public policies.

Based on the development of public administration as a field of study in the US, Marta Ferreira Santos Farah, coordinator of the Master's and PhD programs in public administration and government at the Fundação Getúlio Vargas (FGV-EAESP), identifies the peculiarities and challenges posed in developing the public administration field of studies in Brazil.

As occurred in the US, the subject of public administration in Brazil was initially associated with the aim of training employees for modern public administration, beginning in the 1930s. The activities formed part of the context of reforming the New State (Estado Novo), the purpose of which was to set up a government service in the country based on merit and impartiality to counteract the model based on patronage, which had been prevalent until then.



A modern administration of this type was part of a more wide-ranging project for the country, a national and developmental project in which the state played a central role. The creation of the Public Service Review in 1937 and the founding of the Public Sector Department of Administration (DASP) in 1938 can be considered milestones in the formation of Public Administration in Brazil.

In 1944, as an offshoot of this same project, the Fundação Getulio Vargas (FGV) was founded in Rio de Janeiro. It was no coincidence that Luiz Simões Lopes, former director of DASP, was to assume the presidency, signaling a continuity in perspective in relation to public administration.

In 1953, the Brazilian School of Public Administration (EBAP) was founded under the auspices of the FGV, which from its inception enjoyed the support of an American teaching staff. This partnership between Brazil and the US formed the basis for the creation of courses at federal universities in other states, such as Bahia and Rio Grande do Sul. According to Farah, the subject of public administration, mirrored on the North American model, was thus put in place in Brazil, but with one distinguishing feature: “[...] it was a poor country and, in the hegemonic perspective of the times, backward, with its priorities focused on development activities.” Accordingly, alongside the paradigm that separated administration from politics, education in public administration in Brazil incorporated a bias towards development during Juscelino Kubitschek’s tenure.

The incorporation of the study of public policies by through the field of public administration in Brazil took place at the same time as it did in the US, at the end of the 1960s. Led by the EBAP, this change placed an emphasis on sector studies with an approach making it possible to identify policy objectives, the players involved, decision-making processes and beneficiaries and to characterize the process of dispute in the government agenda.

Research into public policy was, however, tentative in the case of Brazil because its development took place under the watch of an authoritarian regime. The context also affected the sources of funding for the area. The Ford Foundation, one of the major sources, re-directed its funds to the area of social sciences. Only from the 1980s, within the context of democratization, were issues relating to public policies to become incorporated into public administration studies and courses, with discussions on legitimacy, control, participation, equity and effectiveness.

In contrast to the US, Brazilian education in public administration was developed in institutions that tended to teach business administration with an emphasis on “administrative science” as a common nucleus, which reintroduced the separation between management and policy while diluting the profile of education in public administration. Only in the 1990s did studies into the challenges of post-democratization policies begin, not only at the federal but also at local level. Between 1998 and 2008, the number of projects registered within the subject area of public administration in administration meetings increased by more than 300%, almost double those recorded for the area of administration as a whole.

Public administration as a field of study involving political science, administration, economics, sociology and social psychology, and which includes the study of public policies requires further development, according to Farah. The new courses being developed in Brazil at the graduate and post-graduate level already recognize this trans-disciplinary connection, incorporate the axis of public policies and concern themselves with safeguarding the identity of the area, which assumes recognition of the articulation between administration and politics.

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# Advances in public administration control mechanisms in the Cardoso and Lula governments

ARTICLE IN FOCUS:

Three agendas, their results and a challenge: examining recent federal public administration issues in Brazil

Fernando Luiz Abrúcio

The re-democratization of Brazil brought pressures – and initiatives – to improve public administration and control. Fernando Luiz Abrúcio, a professor of public management and administration at Fundação Getúlio Vargas (FGV-EAESP), identified the advances and challenges in public administration during the governments of Fernando Henrique Cardoso (FHC) and Luis Inacio Lula da Silva (Lula). The following three aspects were analyzed: first, the quality of public management, based on the establishment of mechanisms able to measure results; second, the federal coordination of state and municipal policies and actions; and third, the mechanisms enabling society to monitor and control government administration. In analyzing these three aspects, Abrúcio reached the conclusion that considerable progress had been made.

The initiatives, however, were conditional on the priorities of the president at the time. FHC prioritized modifications and improvements in the economic management of the state through the introductions of mechanisms to evaluate policies, beginning a process of bringing order to social policies in the federal field. In the Lula period, however, priority was given to innovations in the fields of fighting inequality, social inclusion and the transparency and control of public authorities.

Regarding the first point, changes were concentrated in social policies, including their mechanisms for federal coordination, monitoring results and guaranteeing the rights of the neediest. There was less success in the process of improving services for the majority of the population. With regard to the second point, the increase in both transparency and control over the federal government has obliged the state to become more responsible in its accountability, even though this scenario has sometimes highlighted the political and administrative imperfections of the Lula regime.

In both periods, there was a continuous improvement in the professionalization process of civil service careers, something that quantitatively expanded in the Lula government, despite the fact that some areas, still dominated by the problem of cronyism and political patronage, were not addressed.

The political and administrative reality at the state and local government levels also underwent positive changes: the advance of financial control, particularly of the states, which culminated in the Law of Fiscal Responsibility during the FHC government; the implementation of the SUS (public healthcare system) was another landmark. In education, coordination initiatives begun under the FHC government were improved during the Lula government, with the creation of the IDEB to evaluate and monitor national educational performance standards, the establishment of a national minimum salary for teachers (to lessen salary discrepancies between such disparate states) and the formulation of an Articulated Action Plan (PAR) linking the release of federal funds to the preparation of a local strategic plan.

In the area of social development, the implementation of the Bolsa Família (Family Allowance) enabled the redistribution of income and the coordination of health and educational policies at the local level because the family entitled to the benefit could only receive it after complying with conditions in these two areas. Because the Bolsa Família delivers funds directly to the population by means of an electronic card, this method weakened cronyism at the local level. Another action of the Lula government was the PNAGE, a program aimed at diagnosing the situation of state administrative machinery with the help of the states themselves, transferring funds for improving their management.

Management transformations also originated in the states themselves, especially from states that had active autonomous management policy entrepreneurs with decision-making powers. Despite such advances, the sub-national governments, above all those in less-developed municipalities and states, still need to confront an extensive list of challenges in the management and control fields.

Progress was also made in the third aspect analyzed, with the growing importance, for example, of the Federal Public Prosecutor's Office, the Federal Court of Auditors (TCU) and the Office of the Comptroller General (CGU). Greater coordination is still needed among the instruments of control, and this process has evolved to a lesser degree in the states and municipalities.

Examining the period, especially in the two Lula mandates, it can be said that control advanced more than management. On the one hand, better control means greater ability to identify deviation. On the other hand, less qualified management, especially in the areas comprising the core of the PT government's preferences (such as transportation), facilitated the occurrence of administrative abuse and corruption.

"The challenge least confronted concerns the relationship between politics and administration," Abrúcio notes. Recent studies on Brazil demonstrate the need for and the importance of political criteria in the appointment and definition of high-level government positions. If the federal executive branch were to establish clearer institutional limits to the filling of these positions, the parties themselves would be obliged to professionalize their appointees. "What is needed is not only to improve the quality of appointees to public offices, but above all, to convince politicians that improvement in the quality of public policies under the criteria of a meritocracy could be the great instrument with which to respond to the voters," the researcher argues.

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# The challenge of large metropolitan areas

ARTICLE IN FOCUS:

## Metropolitan governance in the Americas

Peter Spink, Robert H. Wilson and Peter M. Ward

**L**arge metropolitan regions have become common in the urban landscape of the Americas. These regions are home to ever-growing populations, ranging from 500,000 to 20 million people, and extend over various municipalities, states and sometimes even countries. An important question has arisen: what forms, initiatives and structures of governability can keep up with the challenges of collective life in these huge, complex regions?

Professor Peter Spink from Fundação Getúlio Vargas (FGV-EAESP) and Professors Robert H. Wilson and Peter M. Ward from the University of Texas examined the solutions that are being implemented in six countries with a federal system (with three levels of government: federal, state or provincial and local) in the Americas: Argentina, Brazil, Canada, Mexico, the United States and Venezuela.

Based on the study, the researchers concluded that the solution lies not in creating a new level of government that is instituted from top to bottom. "In fact, only when municipal autonomy is assured and genuine is there more room for the construction of more collaborative structures of metropolitan government," the researchers state. "In other words, this stitching together should be carried out from bottom to top, and often made possible with the approval and support of the higher ranking government, generally of the state or province," they conclude.

Spink, Wilson and Ward discovered that ideal arrangements are far from reality. Most of the metropolitan structures they found have an umbrella architecture with strong centralization, in which states and provinces exert their constitutionally authorized power over the municipalities. In theory, it appears to be an efficient system because a central command tends to provide better organization and planning. However, when analyzing the reality in these six countries, the researchers found that this approach led to anything but a positive situation, in which metropolitan affairs were treated inefficiently and in an inequitable way in terms of social and economic inclusion.

When the powers of the local government are weak, there is less chance of metropolitan cooperation. The problem is that even in countries where municipalities have a certain political strength, such as in Brazil, there is little flexibility for improvement to their fiscal capacity through the creation of new tax collection dimensions or reformulation of the terms of revenue sharing.

In this scenario, the wealthiest municipalities possess a greater tax base and greater local capacity to invest and are unlikely to cooperate with the poorer municipalities surrounding them. Instead, the difference between their financial conditions usually leads to a “beggar thy neighbor” strategy, whereby a municipality becomes involved in fiscal maneuvering, such as offering unfair commercial incentives to attract business to its territory.

In addition, there appear to be few incentives to encourage the redistribution of metropolitan resources in favor of the less fortunate local governments. The few attempts at redistribution or the creation of common funds for certain aspects of metropolitan development generally fail because of mistrust and a breakdown in cooperation between the constituent players. “It’s quite possible that any action in terms of redistributive policies would require the support of the regional and federal governments,” the study finds.

Rarely did the researchers find fundamental services such as housing, health, economic development and public safety being provided by metropolitan initiatives. In Brazil, for example, the sub-regional coordination of the metropolitan region of São Paulo was focused on municipalities instead of along demographic or territorial lines.

The vast majority of metropolitan experiments are occurring in the areas of infrastructure, such as transportation, traffic, water, solid waste, ground use and some sort of environmental control. Normally, these initiatives depend on the willingness and readiness of governments to collaborate and rely essentially on the interpersonal skills of their leaders. Less common are organizational re-arrangements for altering the resources and authority of governmental units, and rarer still is the creation of a new institutional government initiative. According to the study’s authors, the result is an asymmetrical policy and an unequal distribution of resources.

Little citizen participation was observed because many of the initiatives are in areas that do not capture the public’s attention. This result occurs because inter-local agreements tend to be of a more technical nature and are not visible to society. Even in those cases of a wider use of metropolitan resources, such as public transport, the deliberations and solutions of conflicts usually occur in the technical enclaves of the planning processes, with very restricted participation from non-governmental players. “The balance between technical efficiency and citizen engagement often favors the former and reduces the opportunity for political legitimacy,” the researchers note.

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# The Federal Court of Auditors (TCU) and corruption control

## ARTICLE IN FOCUS:

### Organizational ethos and corruption control: the TCU from an organizational viewpoint

Marco Antonio Carvalho Teixeira and Mário Aquino Alves

**T**he Brazilian Federal Court of Auditors (TCU) was created in 1891 with the Proclamation of the Republic to exercise financial control over the government's accounts. Until the Constitution of 1988, however, the court had little power because its ministers were appointed by the executive branch with legislative approval required. With the country's re-democratization, the TCU was able to effectively develop strategies to control corruption.

However, is the organizational structure of the TCU suited to its function of avoiding the misuse of public money? Professors Marco Antonio Carvalho Teixeira and Mário Aquino Alves from the Public Administration Department at the Fundação Getúlio Vargas (FGV-EAESP) seek to answer this question. The researchers found that the TCU has been gaining more autonomy with which to exercise its role, but that there are still various aspects that need improvement. The executive branch has lost its monopoly on recruitment and now appoints only one-third of the ministers, while the legislative branch is responsible for the appointment of the other two-thirds, with all appointments still requiring congressional approval.

The presidency cannot freely choose all the judges of the Court of Auditors in its quota. Of every three appointees, one must be recruited from among auditors making their career in the TCU itself and another from among the representatives of the Federal Public Auditor's Office. "This change has contributed to minimizing government interference in the decisions of the TCU, but, even so, the current criteria does not appear sufficient, as 80% of the judges are still chosen almost exclusively as a function of political bargaining," Teixeira and Alves explain.

Despite the non-technical choice of the majority of its members, in terms of its attributes and actions, the TCU has shown itself to be independent of all state powers. The fact that it is defined in the Constitution as an organ providing assistance does not entail, in practice, the creation of a link of dependence; rather, this factor had the positive effect of the institution assuming the duty of providing information and cooperating with Congress and society.

The study found that the TCU has managed to perform an essential role in controlling corruption, above all in the inspection of large-scale public works. In addition, the organ has been an important instrument in promoting actions to fine those responsible for defrauding the national exchequer.

Of the 566 inspections and audits conducted by the TCU in 2008, 68% were carried out on the initiative of the court itself, while 32% were ordered by Congress. The researchers believe that this distribution demonstrates that, on the one hand, the TCU is an organization with autonomy, and on the other hand, that it is a reasonable arena for the Brazilian Congress to occupy, in the sense of requiring control actions over the financial management of the federal government.

Another highlight in the study's findings was the creation of various instruments of direct dialogue with citizens and social organizations. Since its creation in 2004, the TCU ombudsman has been the principal instrument for this dialogue. Access can be made by telephone (0800) or by filling out an electronic form via email. All complaints receive a response regarding the procedure used or the result of the investigations. The ombudsman has functioned, therefore, as a space for receiving the accusations of irregularities formulated by citizens, either individually or as civil society organizations.

Still, in this field, the TCU has made information available that is considered to be of public interest; for example, the agency published a list of those responsible for accounts judged to be irregular, a list of people ruled unfit to hold public office and a list of disreputable bidders.

The list of those responsible for accounts judged to be irregular assists the electoral courts in the refusal of candidacies or even in the judgment of processes relating to the cassation of mandates, which demonstrates, according to the research, an effective level of cooperation between the audit court and the institution charged with organizing electoral process in Brazil. The list of people judged unfit to hold public office prevents these people from being hired again by public bodies. "Such information is extremely important, to the extent that it can result in those not in compliance being held to account," the study's authors note. The list of disreputable bidders is an instrument to protect the various levels of government from a contractual relationship with companies that have already defrauded the national exchequer.

Teixeira and Alves note that despite overseeing the budgetary and financial execution of the three branches of the Brazilian state, the audit courts should also be overseen by an external organ. Since April 2007, Congress has been debating a proposal for a constitutional amendment creating the National Council of Audit Courts, with the function of overseeing the activities of the managers and other employees of the TCUs. "The possibility of creating such a body is a welcome one; after all, the overseers also need to be overseen," the researchers conclude.

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# For a state with few civil servants and a high tax burden

ARTICLE IN FOCUS:

## Is the state capable of reforming itself?

Luiz Carlos Bresser-Pereira

A state with a high tax burden but few highly qualified civil servants: this is the government model suggested by economist Luiz Carlos Bresser-Pereira, titular professor at Fundação Getúlio Vargas (FGV-EAESP). In the paper “Is the state capable of reforming itself?” published in the academic magazine *Desigualdade & Diversidade* (Inequality and Diversity), Bresser-Pereira argues that for the state to be efficient, this small group of civil servants should be responsible for collecting a large amount of money and delegating the management of basic and free services, such as health and education, to non-governmental social organizations. In Bresser-Pereira’s view, such organizations are capable of utilizing tax revenues at a lower cost.

Bresser-Pereira says that various countries are already carrying out what he calls “managerial reform”, beginning with the United Kingdom in 1987. In Brazil, this process began in 1995 with a master plan for reforming the state. “Sooner or later, everyone will have to do this,” he says. “In Brazil, we began the reform early, and it is going well because it won the hearts and minds of public administrators.”

The author believes that in capitalism, countries compete in such a way that if they are not efficient in their governmental management, they will not grow and will lose the battle. Throughout the history of the capitalist system, the state has grown a great deal in size. At the time of absolutism, the state accounted for approximately 7% of GDP in Western Europe, whereas today it represents approximately 42% of GDP – that is, a six-fold increase. In some countries, the growth is even more notable. In France, for example, this share is 50% of GDP.



When the proportion of tax revenues and public spending in the economy was small, the growth of a country depended very little on the efficiency of the public sector, relying instead on the competitiveness of private companies. Under the present scenario, the economist calculates, supposing that the expectation for growth in France were 2%, if the productivity of public management does not increase, the private sector would have to grow by 4% to compensate. "The problem that each country has to consider, therefore, is when to start reforming its state: earlier or later, more quickly or more slowly, well or badly," Bresser-Pereira notes.

The economist believes that the state should be large because when the state accounted for a small percentage of the GDP, its goal was to defend the dominant oligarchy with the money that it collected from the population as a whole. In the 19th century (in Brazil, in 1937, during the Getúlio Vargas government), what Bresser-Pereira calls the "social state" began to gain space, taking on the mission of increasing the population's quality of life and reducing the inequality inherent to the capitalist system. "Capitalism is a pretty efficient economic system, but it is blind to justice and to stability. It tends to concentrate income in the hands of the most powerful, the most thieving, the most intelligent, and those that are the 'most' something," he says.

With a system of free public services for education, health and social assistance, it was thought that quality of life could be substantially improved at relatively low cost. This idea has been proven in practice, argues Bresser-Pereira, noting the case of the health services that currently exist in the developed world today. Europe implemented a system of universal health care at a cost of approximately 9% of GDP. In the United States, however, which opted for private service, this percentage is 16%, and one should also take into account the fact that 40 million Americans still do not have guaranteed access to health care. "Even without management reform, collective consumption is more efficient than private consumption," argues Bresser-Pereira.

For Bresser-Pereira, the idea of management reform has been misunderstood, both by the right and the left, because parties on both sides understood their goal as reducing the size of the state to a minimum. "This was not the case. Reform is aimed at legitimizing the social state; big government with a high tax burden and that primarily benefits the poor," he says.

According to the management model, the state apparatus should be formed by a group of elected politicians and a group of well-paid civil servants. "I would not hire anyone without a graduate degree, and they would be recruited from the country's existing elite intelligentsia," Bresser-Pereira says. Social organizations, in turn, provide universal services that have public funding and that must be tightly controlled by the state through management contracts and mechanisms to measure the results of their management.

Bresser-Pereira held a government post in 1995 and notes that, at that time, low-level civil servants earned three times more than professionals with similar jobs in the private sector, while the top public administrators received approximately 40% less. "I fought for increased salaries for the upper level and partially succeeded; however, there will always be a lot of discussion about this [issue]. Social organizations, for example, will still provoke a lot of debate, but I have no doubt that in health and education, they are a much more efficient form of administration and should be adopted," he notes.

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# An index for measuring corruption in Brazilian municipalities

## ARTICLE IN FOCUS:

### Measuring corruption: what have we learned?

Ciro Biderman, Marcos Felipe Mendes Lopes, George Avelino and Mário Aquino Alves

**T**he article “Measuring corruption: what have we learned?” by George Avelino, Ciro Biderman, Mario Aquino Alves and Marcos Felipe Mendes Lopes reviews the measures that have already been proposed in scientific studies and proposes an index based on objective information drawn from audit reports as an alternative to indexes based on the perception of corruption. The authors suggest that the proposed index is a tool for analyzing municipalities in Brazil, which would be relatively easy to compute.

The behavior of agents involved in corrupt practices is a recurring theme in research because of its importance and its impact upon the economy. These studies are based on different theoretical and empirical models. Although work has significantly progressed over the past four decades, there is still no consensus concerning how to address the phenomenon of corruption. Different approaches with different theoretical conclusions have given rise to varying debates and empirical approaches.

The authors highlight advances made in the area of proposals for methodologies aimed at measuring corruption. They cite the Corruption Perception Index, created by the non-governmental organization Transparency International in 1995, and the Corruption Control Index (1996), one of the World Bank's Worldwide Governance Indicators.

These measures have generated empirical research that has addressed the relationship between the structural and institutional features of a country and corruption. The measures have also enabled studies investigating the effect of corruption on economic growth, public investment productivity, the level of foreign direct investment, a breakdown of public expenditure and the degree of informality in the economy. One advantage of perception indices is that they allow for an increase in the sample, thus allowing for comparisons between countries. Another advantage is being able to incorporate a number of indicators, which reduces the measurement and bias errors of individual indicators.

However, there are limitations when perception indices are used to determine the causes of corruption. Biases, such as levels of social participation, transparency and the educational level of respondents involved in the research, can distort perceptions. Another limitation of these indexes concerns the finding that aggregating individual opinions on corruption may not generate a consistent corruption index. For example, a country that has a strong performance will most likely lead to its businesspeople possessing a more favorable general perception of this country, irrespective of the country's level of corruption.

In contrast, the article highlights projects that now use objective measures to investigate corruption based on collecting data or evaluating internal control reports. There are also objective research projects based on field experiments. In the opinion of the authors, the random inspection program of the Federal Office of the Comptroller General offers a unique opportunity for a public policy in Brazil to establish an objective indicator.

The article does not present any new indicators for measuring corruption, but the authors believe that their proposal has contributed to the debate. According to the authors, "The indicators proposed here allow for the creation of an index for ranking Brazilian municipalities (that have been inspected) in order of their corruption. The way in which we have set up the database enables us to go beyond indicators and reveal further dimensions to this phenomenon, which may be one of the reasons for our falling behind when compared to developed countries."

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# How Brazil met the demands of the financial market and of society

## ARTICLE IN FOCUS:

### Democracy, decision-making arenas and economic policy in the Lula government

Maria Rita Loureiro, Fábio Pereira dos Santos and Alexandre de Ávila Gomide

**S**tates that have undergone recent processes of democratization are currently facing a dilemma. On the one hand, the model of international integration imposes the need to create confidence and credibility in the financial markets in terms of the government's capacity for solvency, and therefore, fiscal restrictions. On the other hand, greater freedom to express popular demands for redistributive policies is influencing the government in another direction. In defining their directions, governments need to take into account the demands of the market and the broader demands of society.

Researcher Maria Rita Loureiro from the Department of Public Administration and Government at the Fundação Getúlio Vargas (FGV-EAESP) has analyzed this question based on the Brazilian experience. Loureiro sought to distance herself from traditional economic research, especially in the area of public finance, which often supposes that the democratic logic creates obstacles or puts constraints on "economic rationale" and fiscal adjustment initiatives. "On the contrary, we argue that democracy enables an improvement in the quality of public policies, making them more representative of and closer to social demands and thereby increasing the probability of effectiveness in their implementation," the researcher says.

Turning to Brazil's history in recent decades, the researcher emphasizes that it was under a democratic regime that the public accounts, which had been inherited in total disarray from the military dictatorship, were finally put into order. In the 1980s and 1990s, institutional reforms were carried out and aimed at putting the public accounts in order (which was generally successful), such as unifying budgets, the creation of the National Treasury Secretariat, monetary stabilization and the restructuring of the public and private banking system. As of 1999, a policy for generating primary surpluses was established, which has served as a guarantee of solvency for the market. With the Law of Fiscal Responsibility, the policy also consolidated more severe measures for controlling public spending and indebtedness, particularly of state and local governments.

In the first Lula government, macroeconomic policy was characterized by the continuity of the predominant orientation of the FHC government, and fiscal policy in particular was marked by increased primary surpluses and even by proposals for a zero nominal deficit. The second Lula government, however, brought changes with the launch of the Accelerated Growth Program (PAC), the expansion of the consigned credit system [payroll-linked loans] for consumer goods, the broadening of income transfer programs, the granting of real increases in the minimum salary and new hiring and salary increases for civil servants. Such changes show that fiscal policy ceased to be merely a solvency guarantee instrument for creditors (financial credibility) and also acquired a role as an instrument for economic growth policy and improvements in income distribution.

This change occurred when the government had already managed to prove to investors that it would fulfill the promises made during the 2002 campaign. While the Brazilian Central Bank maintained its impermeability in conducting monetary policy, the government opened up to democratic negotiations on fiscal policies. The government was able to challenge conventional wisdom not only by stating that "it is possible to accelerate growth and keep inflation under control" but also by inverting the following formula in practice: instead of an extreme fiscal adjustment being the condition for growth, it is growth that strengthens fiscal equilibrium. Stronger growth, which increased government revenues, allowed the agenda of primary surpluses needed for progressively reducing the debt/GDP ratio and sustaining credibility in the financial market to be maintained. It also generated the resources for a relative increase in public investment, without the need to reduce current spending (on personnel and social programs, such as the Bolsa Família, or Family Allowance, and social assistance).

"The government turned social policies into economic policies," assesses Loureiro. Growth in consumption enabled production to expand and the economy to grow. For the researcher, this is proof that the well-being of the poor is not just a problem for private charity or for assistance programs, which receive residual funding from the government budget. This issue becomes a decisive source of economic growth.

However, the tendency for change in the fiscal agenda reaches a limit when it begins to threaten the "rentier" groups because the state's structural dependence on the financial sector for rolling over government domestic short-term debt still remains. Even the pensions funds of important unionized sectors of the Brazilian working class, such as those in the banking system and the oil industry, both of which form support base of the Partido dos Trabalhadores (Workers' Party) itself, are included in the composition of these interests.

Social and economic development policies, therefore, only advanced to the limit at which they did not run counter to the credibility required by the financial market. Despite this limitation, these policies have still made a difference in the political and economic configuration of the country over the past decade.

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# Social inclusion beyond the traditional theories

ARTICLE IN FOCUS:

## Alternative banking and social inclusion

Kurt E. von Mettenheim and Olivier Butzbach

In July 2011, an international seminar sponsored by the Bellagio Center of the Rockefeller Foundation gathered together professors from the partner schools of the Department of Public Administration and Government at the Fundação Getulio Vargas (FGV-EAESP) in the Global Public Policy network as well as members of international institutions, such as the World Bank, and representatives from international savings banks and cooperative bank associations. The participants discussed how alternative banks in developed and developing countries, after having achieved competitive advantages in recent years, could also be used in the implementation of alternative banking inclusion policies. The event launched a new network of public policy schools and alternative banking associations aiming to promote the use of core principles for alternative banking and social inclusion. These principles and the network have been inspired by the Bellagio sustainability principles, which resulted from a similar seminar in the 1980s and which had so much influence on international debates on the environment.

Kurt von Mettenheim and Olivier Butzbach also received a study grant as resident researchers at the Rockefeller Foundation Center to inaugurate new research and promote this new agenda of global policies on alternative banking and social inclusion. The article "Alternative banking and social inclusion" reports on this inaugural event. The authors highlight their new research on alternative banking theory, on the competitive advantages of alternative banking, and on the counter-cyclical role of these institutions. Above all, these studies draw attention to recent experiments in Brazil and other emerging countries with their new policies for accelerating financial inclusion through public and alternative banks. The authors assert that after the Brazilian Central Bank achieved monetary stability in the 1990s, instead of trying to guarantee the independence of the Central Bank, privatize state-owned banks and deregulate the financial sector, new policies in Brazil staked their bets on improving the competitiveness of public banks and on policies aimed at the "bankization" of its citizens. With income transfer programs and other social policies, the public banks have achieved greater success than private ones in the task of financial inclusion. The concepts of citizenship and social justice have proven themselves to be essential.

A profound change compared to traditional strategies has been established. Theories emphasizing government fiscal strictness became hegemonic in the 1970s. According to those who advocate fiscal austerity, social policies put pressure on public accounts and end up jeopardizing the economy because increased spending leads to increased taxes. These theories, however, have not kept pace with reality. They are outdated concepts that do not include advances in the monetary economy achieved in the 1990s or the new role of monetary authorities in the first decade of the new millennium. Information technology, which is at the heart of banking modernization, the new regulatory framework, and greater supervision of banks and the markets created conditions for what the authors call the financial road to social progress. "The new instruments for change are, therefore, at hand," they state.

While the economies of the developed world are currently fighting to emerge from the crisis, the situation in many emerging and developing countries is very different. In Brazil, given the advances provided by information technology, public policies based on concepts of citizenship and social justice have shown themselves to be efficient, even more than expected from the performance of non-government organizations, the competitiveness of private banks or from institutions oriented toward microcredit.

Even with the process of financial liberalization in the 1990s, the large public banks continued to carry significant weight in emerging countries. These institutions have modernized and are fundamental agents for financing, credit and public policies. During the 2008 global financial crisis, the modernization and capitalization of the large public banks during the first decade of the century facilitated the adoption of anti-cyclical policies. The authors suggest that a more in-depth investigation of these "anomalies" and the traditional theories is needed.

The research carried out by Kurt von Mettenheim and Olivier Butzbach concentrates on one dimension of these "anomalies": how public banks provide new channels for social policies, based on concepts of citizenship and social justice. The authors investigate the results of a case study of (federal government-owned bank) Caixa Econômica Federal's performance in Guaianazes, a neighborhood on the outskirts of São Paulo marked by poverty.

Based on data from the Brazilian Central Bank, information from the Caixa branch in the region and on interviews in the neighborhood regarding the most efficient banking products and services, the authors highlight several discoveries. First, the Caixa largely manages to combine government public policies and the concept of citizenship. Its network of branches, the country's fourth largest, is fundamental to the process of financial and social inclusion because it extends into Brazil's vast hinterland and the poor urban areas ignored in large part by the private banks. Secondly, the twin role of social policy agent and savings bank provides the Caixa with advantages that are over and above its political strength and resources. Finally, the Caixa's remit is to transform the Bolsa Família (Family Allowance) into simplified bank accounts and/or savings accounts.

The Brazilian experience is a different route to financial inclusion, which includes policies on minimum salaries, citizenship, social policy and the savings banks. After the increased inequality and poverty of the 1990s and the problems in the international economy after 2008, for the authors it is this experience of "back to the future of social banking" that can contribute to the debate about what to do in the face of the current global financial crisis.

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# Anatomy of an ecological disaster

## ARTICLE IN FOCUS:

### On the heuristic of the analysis of sensemaking: an example for accidents involving continuous pollution

Paulo Cesar Vaz Guimarães and Mario Aquino Alves

In 1993, Shell was accused of contaminating the soil in the São Paulo neighborhood of Vila Carioca, in the District of Ipiranga. The environmental organization Greenpeace and the Union of Workers in the Commerce of Minerals and Oil Derivatives of the State of São Paulo (Sinpetrol) sent their accusations to the Public Prosecutor's Office, which launched an inquiry to investigate the situation. The case had repercussions internationally. The presence of heavy metals, mainly lead, and oil derivatives such as benzene, toluene and xylene were found, as well as pesticide remains.

After prosecutions, fines and various Parliamentary Investigation Committees (CPIs), a solution was not found for the case. According to the Municipal Health Department, of Vila Carioca's 28,072 inhabitants, 6,538 were exposed to the contamination caused by Shell, but the necessary toxicological tests had yet to be carried out. The sick citizens of Vila Carioca were being monitored by the Municipal Health Department, not as victims of contamination but as chronically ill patients.

Why has a solution for this serious problem been so prolonged? This question was the motivation for the research of Professor Mário Aquino Alves of the Department of Public Administration and Government at Fundação Getúlio Vargas (FGV-EAESP) and researcher Paulo Cesar Vaz Guimarães. According to the authors, it would not be difficult to identify those responsible. The origin of the contamination was clear; the polluter was a company that wanted to present an image of environmental and social responsibility, and there were basic regulations to serve as a guide to the public authorities.



Faced with a conflict, in a democratic society the players involved usually act to continue coexisting by resorting to the following three mechanisms: reconciliation, retaliation or reparation. The Vila Carioca case shows a fourth logic: life continues as “usual”, with small transformations being implemented, in the name of maintaining the status quo.

Through analysis of the vast documentation, Alves and Guimarães identify how the various parties involved created a communications strategy for dealing with the accident. Each party has sought to create a meaning for itself and for the other players. As a survival strategy, Shell protects itself through ambiguity and contradiction. The company attempts to transmit cooperation with the others involved, but in the real clashes, Shell resorts to procrastination. The company always tries to make public agents equally responsible for solving the problems, making it clear that the initiatives taken are done in “partnership” and not as the result of a legal imposition. When external accusations reach the limit, the company argues that the inhabitants are responsible for the contamination by using pesticides, and the company uses the legal system to prevent toxicological tests in the local population. “At times such as these, all the company’s masks come off,” the authors say.

The city administration, which could play a fundamental role, shows itself to be incapable of coordinating its members and working with the external agents; not even its environmental body manages to act effectively. In the municipal area, only the legislative branch is proving to be active by launching CPIs. This branch is authoritarian and views itself as the real defender of the people but is limited to the stage props of the “society as spectacle” because it is unable to obtain success, even when manipulating its own instruments of power.

The state legislature reveals itself as either indifferent or indecisive. Within the state government of São Paulo, the most important role falls to the environmental agency. Also authoritarian, CETESB believes in its technical expertise but in such a dogmatic way that it appears to border on organizational autism, say Alves and Guimarães, and to the point that positions that are contradicted by the facts cause not the slightest surprise. CETESB attempts to make it seem that what happened is what should have happened and that the organization’s reliability is not on trial. The Health Surveillance Agency, a relative of the environmental agency, also involves itself in the scientific debate but finds more coherence in its communication strategy, by maintaining that there is a causal link between Shell’s activities and the inhabitants’ health conditions. Still in the government area, the public prosecutor intervenes and shows that it is aware of its limits, manifesting its impotence because of the rules.

The trade unions succeed in attracting attention with their convincing talk. It is not possible, however, to assess how real the unions’ commitment or capacity for mobilization is, given that they do not attend most of the events. Finally, the neighborhood association shows its disgust and polishes its discourse, but is unable to obtain the response expected. Despite being discussed the entire time, the neighborhood association never reaches center stage.

In situations that begin with accusations, the players’ strategy is usually to present a discourse that changes as the drama unfolds, hoping to find a commonality that preserves social ties. This scenario did not occur in the case of Vila Carioca, however. The study’s conclusion is that without a breakdown or reparation, what has been constructed in this “play” over the years is a non-response to the problem. At the study’s conclusion, the impact of the contamination on the population was still little known and the liabilities had been diluted.

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# Tax collection and Latin American government spending in election years

## ARTICLE IN FOCUS:

### Do political budget cycles differ in latin american democracies?

Lorena G. Barberia and George Avelino

**V**arious studies have aimed to understand up to what point governments are prepared to manipulate fiscal and monetary policies to improve the electoral results of their parties. It is believed that these cycles appear mainly when government spending increases before a vote. One can also imagine that the cycles are more marked in recent democracies, taking into account the voters' lack of experience and the immaturity of the political institutions.

Without the information and conditions required to demand answers from and to hold elected politicians liable, citizens tend to believe more in campaign promises and can be manipulated in their first electoral experiences.

In transitioning from an authoritarian regime to a democratic one, sectors such as the legislative branch, the judiciary branch, the central bank and the media are not always fully developed. Moreover, incipient democracies face an accumulation of latent demands that can weaken their ability to manage the economy efficiently. Some researchers argue that to keep up with these demands, new governments must adopt policies that are unsustainable in the medium and long terms.

Researchers Lorena G. Barberia and George Avelino from the Fundação Getúlio Vargas (FGV-EAESP) have studied electoral cycles in various Latin American countries that have undergone the processes of democratization. These countries include Argentina, Bolivia, Brazil, Chile, the Dominican Republic, Ecuador, El Salvador, Guatemala, Peru, Uruguay, Panama, Paraguay and Mexico. The region is extremely relevant to the analysis of vulnerability to electoral budgetary cycles in countries undergoing democratization.

According to the authors, the case of Argentina is illustrative of the trajectory expected for the continent. With the return of democracy in 1983, the Alfonsín and Menem administrations spent 12.94% of GDP on average and collected tax revenues equivalent to 10.67% of GDP on average. In the initial periods of re-democratization, therefore, fiscal deficits were 2.28% of GDP on average. In electoral years, however, these worsened (to 2.98% of GDP) because of a reduction in tax revenues, which declined by 6.30%, while spending rose only 0.003%. The tax balance sheet improved after Fernando de la Rúa became president in 1999. From 2000 to 2008, the average fiscal deficit was 1.2% of GDP, with no deterioration during the elections.

Using quantitative research, Barberia and Avelino attempt to determine whether this behavior is repeated in other Latin American countries. The results show that there are election budget cycles in the region. The study provides evidence that contrary to what one imagines, these cycles are not caused by increased government spending, but rather by a reduction in tax revenues (as was found in the case of Argentina). "A possible explanation for this phenomenon is that on the eve of elections, governments end up being more predisposed to serving the interests that most threaten their destabilization, in other words, the upper classes and the military elite," say the study's authors.

Barberia and Avelino emphasize that this behavior suggesting a fear of reversion to an authoritarian government does not occur exclusively during the period of greatest uncertainty – the transition to democracy. The researchers found little evidence to prove that election budgets cycles are eminent during re-democratization processes.

In the 10 Latin American countries where it is possible to compare the tax balances during elections in the two periods – of transition and post-transition – the deficit was greater during the years of transition in only half of them: Argentina, Brazil, the Dominican Republic, Ecuador and Honduras. In the other five countries – Bolivia, El Salvador, Guatemala, Panama and Uruguay – the fiscal deficit was higher in the post-transition period. "We expected to find higher levels of opportunistic spending during the periods of greatest uncertainty and instability, but not all the democracies in transition followed this pattern," the researchers note. Even in those countries in which there was a greater deficit during the democratic transition, the cause was not increased spending, but rather decreased tax revenue.

In the case of countries in which the fiscal deficit was smaller during the transition period, Barberia and Avelino believe that the governments, at the most delicate times, may have been attempting to signal their fiscal responsibility to reduce political uncertainty.

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# The need for social control of the media

## ARTICLE IN FOCUS:

### Media, power and democracy: the theory and practice of communications media

Francisco Fonseca

In the article “Media, power and democracy: the theory and practice of communications media,” Professor Francisco Fonseca criticizes the action of the Brazilian media and its supposed public performance. The author defends the need for the country to adopt forms of democratic social control over the media, such as the controls existing in various democratic countries.

The author addresses issues such as the following: “information policy” and the rise and consolidation of the “information society”; political theories of democracy and the false confluences between media and democracy; the need for a conceptual framework capable of understanding the power of the communications media; and the role of high-circulation newspapers as channels for the introduction of the neo-liberal agenda in Brazil and their position in relation to the distributive conflict between capital and labor.

The author emphasizes that in democratic regimes, social conflicts are made possible by their institutions and laws and by the pacts that exist between the social classes. He also emphasizes that the government system considered to be democratic is that which allows the manifestation of diverse interests in the public sphere. This arena incorporates common interests and those of the classes; common interests are those relating to the nation, national identity and the nation state, whereas class interests are those that distinguish themselves because of the position and interests of each social class.

For Fonseca, the media is able to influence both public and government agendas, mediating the relationships between different social groups. In this way, the media can influence public opinion by participating in political disputes. Nevertheless, these diverse roles are obscured by the simplistic self-image that the duty of the media is to provide information on events of public interest. According to the author, the media defines itself as being neutral, independent, apolitical and non-ideological, whereas in fact, the media has ideological values and social and party-political interests.

To further complicate the situation, the power of the media is increasing all over the world. The crisis in traditional representative systems, which include parties, trade unions and social movements, is causing a vacuum that is increasingly occupied by the media through its information policy. According to Spanish sociologist Manuel Castells, contemporary societies are characterized as media societies, and their social and power relationships are intermediated by the various types of media, which define the rules of the political game and cause a fusion between spectacle, entertainment and news. The public sphere, therefore, has its agenda increasingly set by the media system, which determines what is or is not legitimate and what should or should not be a priority.

Because the world is becoming increasingly homogenous in terms of aesthetics and values, in contrast to the increase in political and social inequality, the democratization of communications becomes an increasingly important subject. The fourth estate has, therefore, come to represent the first estate, given its ability to influence the political agenda at the same time that it interacts vigorously with capitalist companies, whose news is merchandise. It should be noted that news-as-merchandise differs from other types of merchandise, given the consequences news can cause for social groups, particularly those deprived of power.

Therefore, for democracy to become a reality, the media must play a minimally public role in the private and mercantilist universe. For this to happen, actions are needed to make the media responsible and to control its power. The democratization of the media directly affects the democratic experience because the communications media intermediates social relationships in mass societies and instills in people a perception of realities that they have not experienced. The responsibility of the communications media with respect to the permanent construction of democracy must therefore be a priority of democratic concerns. For Fonseca, it is essential to have both accountability and the democratic control of the media through a series of legal, economic and political reforms aimed at giving space and a voice to various social groups.

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