

RESEARCH YEARBOOK

# GVpesquisa

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# PRESENTATION

This yearbook provides a summary of the research conducted by professors at FGV-EAESP (São Paulo Business Administration School – Fundação Getulio Vargas).

Our endeavors were funded by GVpesquisa, our support department for research activities, in four categories. Two of the categories provide individual support for projects conducted with the aid of over-the-counter grants and collegiate scholarships. The other two categories provide collective support related to Research Line and Study Center projects.

The texts presented herein provide an overview of the contribution of FGV-EAESP researchers to the development of the Administration field in Brazil. They also offer suggestions for establishing a present and future research agenda.

As part of FGV-EAESP's 60th anniversary celebrations, this yearbook includes six special interviews on business administration, public administration and public management, finance, marketing, operations and information technology.

We would like to express our sincere gratitude to the professors who were interviewed, namely, Carlos Osmar Bertero, Fernando de Souza Meirelles, João Mário Csillag, Juracy Gomes Parente, Luiz Artur Ledur Brito, Luiz Carlos Bresser Pereira and William Eid Jr., who shared with us their valuable perspectives on the evolution of the Administration field and the role played by FGV-EAESP.

The research summaries were prepared by journalists Adriana Wilner, Anne Dias, Elisa Correa and Lucas Callegari. Designer Cris Tassi was responsible for the graphic design, and the overall coordination of the project was supervised by Ana Paula Rodrigues Diniz of the GVpesquisa team. The individual authors also helped with preparation of the summaries.

We trust that this yearbook will achieve its objectives: to spread the knowledge generated at FGV-EAESP and to serve as a bridge between readers and the authors.

With warmest academic regards,

**Thomaz Wood Jr.**  
Coordinator – *GVpesquisa*

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PUBLIC ADMINISTRATION AND PUBLIC MANAGEMENT

FINANCE

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OPERATIONS

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# BUSINESS ADMINISTRATION

Interview with Carlos Osmar Bertero

***GVpesquisa: How did Administration research begin in Brazil and at FGV-EAESP in particular? What themes were researched?***

COB: Administration research in Brazil began in the 1960s and addressed a large variety of themes, the most prominent being organizational structure and the reform of Public Administration. At EAESP, we also conducted a monographic series on Small Company Management. The concerns always had to do with management practice. That is, research was considered part of a process aimed at improving the quality of management and, particularly, the quality of companies. There were few programs, courses or research centers at the time.

***GVpesquisa: How has Administration research evolved over the last 20 years in Brazil?***

COB: In the beginning, Administration included themes that today have their own field of knowledge, such as Organizational Studies, Strategy and Organizational Behavior. Between 1960 and 1980, we moved slowly, and production was quantitatively much lower than that after 1990, when there was an explosion in the number of master's and PhD programs and in scientific production. I must emphasize the importance of ANPAD and CAPES in this journey, despite the criticisms and provisos that are made regarding the latter. Both played a decisive role in influencing and motivating the development of Administration research. The themes that were researched largely mirrored what was being produced in other centers, particularly in the United States. Even those that went down the path of criticizing American management did so on the basis of foreign theoretical reference points, particularly English and French.

***GVpesquisa: What is the current focus of Administration research in Brazil?***

COB: Currently, the field seems to have distanced itself from administrative practice, frequently giving the term 'managerialism' a negative connotation. A purely theoretical reflection would contain greater nobility and would characterize a truly intellectual activity. This tendency is not just observed in Administration. Although various approaches are used in Organizational Studies, scholars in the field have also distanced themselves from the predominant tradition, which is North American. The scope of the traditional area of the 1960s certainly decreased because of the development and autonomy of other areas. In addition to those I have mentioned, I would remind you of areas of managerialist concern, such as projects and processes.

***GVpesquisa: How does Administration research contribute to improving organizational practice?***

COB: The practical contribution does not seem to me to have been significant. This point deserves reflection: Administration schools have contributed very little to improving administrative practice, and Brazil in a country that is recognizably poor in administrative quality. The situation becomes even more concerning when we observe the impact that Engineering, Medicine and Agriculture schools have on practice and the proximity between academia and the professional world in these areas.

***GVpesquisa: What are the trends in Administration research for the future? How should the field evolve?***

COB: The field has immense opportunities for evolution. First, I believe that the diversity of theories and approaches should be maintained because this diversity tends to enrich rather than harm the area's development. Second, I do not believe that Administration is a science; it is a practice that uses experience, common sense, wisdom acquired through practice and, of course, also some science. However, viewing Administration exclusively as a scientific field is wrong. The link with practice and the profession must be reestablished. Before the contribution made by various scientists and the social sciences, the pioneers in the field were individuals linked to the practice who sought to improve management. Finally, we must preserve a critical perspective and must recognize that such a perspective does not imply a distancing from or rejection of the practice. On the contrary, a critical position can contribute to improving management in a country in which there are an immense number of practices to transform.

# PUBLIC ADMINISTRATION AND PUBLIC MANAGEMENT

Luiz Carlos Bresser-Pereira

***GVpesquisa: How did research in Public Administration begin in Brazil and at FGV-EAESP? What themes were researched, what were the first initiatives, and who were the important researchers?***

LCBP: Research on Public Administration was initiated by the first great administrative reform of the Brazilian state: the 1937 Bureaucratic Reform. With the Revolution of 1930, Brazil entered an era of profound transformation. Over the next 50 years, the country modernized or, as I prefer to say, completed its capitalist revolution. Because of this “Weberian” reform, Brazil began to structure its public administration in a way that was compatible with a modern society. The centers of this transformation were DASP and from 1944 FGV. The leading researcher during this period was Beatriz Wahrlich. At EAESP, the first postgraduate course was introduced in 1970. However, only during the following decade, when a master’s degree program in urban planning and public finance was organized, did research in the area consistently advance. The researcher with whom this change originated was Peter Spink. In 1978 and 1979, I was the chairman of a commission of which Peter was a key member and from which the postgraduate program in Public Administration and Government originated that we still have today.

***GVpesquisa: How has research in Public Administration evolved over the last 20 years in Brazil?***

LCBP: The decisive factor that has guided research over the last 20 years has been the Managerial Reform of 1995, which I headed as Minister of MARE and which various EAESP professors contributed to, either directly or indirectly as consultants. Among

them were Regina Pacheco, Fernando Abrucio and Nelson Marconi. This reform resulted in many research projects. Simultaneously, at his research center, Peter Spink was moving forward with local government studies, primarily with the help of Marta Farah.

***GVpesquisa: Which is the current focus of Public Administration and Public Management research in Brazil?***

LCBP: Research on Public Administration aims to understand the structure of the state related to differences in its strategic nucleus, its exclusive and nonexclusive activities, its degree of professionalization, its effectiveness in ensuring that the law and public policies function and the relationships between civil servants, politicians and society at the federal, state and local levels. In contrast, the central themes of Public Management are administrative strategies, primarily management by results and competition by excellence.

***GVpesquisa: How do Public Administration and Public Management contribute to improving organizational practice?***

LCBP: There is a difference between Public Administration, which is synonymous with the organization of the state, and Public Management, which is the process of managing this organization. Research in these areas is essential because in economic terms, the Brazilian state is responsible for 36% of the Brazilian GDP. Therefore, the increase in the efficiency of the state is an important part of economic development. In addition, by contributing to a more efficient state, research helps legitimize the social state, which is the fairest form of state.

***GVpesquisa: What are the research tendencies in Public Management for the future? How is the field likely to evolve?***

LCBP: The great problem in Public Management is that it thinks of itself as a branch of Administration, in addition to Business Administration, which is a mistake that limits the field of research. Public Management must be thought of as an eminently political area because its fundamental object is the state: the constitutional-legal system and the organization that guarantees it. This research also involves nonstate public organizations—the third sector—whose *raison d'être* is essentially political. Research in the area will make great strides if its researchers think about the field in these terms and not as a mere administrative technique.

# FINANCE

Interview with William Eid Jr.

***GVpesquisa: How did research in Finance begin in Brazil and at FGV-EAESP? What themes were researched, what were the first initiatives, and who were the important researchers?***

WEJr.: Finance first appeared in Brazil with the book "Manual of the Science of Finance" by João Pedro Veiga Filho in 1898. However, there was no research as we know it today for a very long time. The group of professors from the Department of Accounting, Finance and Control at EAESP, who received their PhDs abroad during the 1970s and 1980s, among them Wladimir Puggina, Jorge Queiroz de Moraes Jr., João Carlos Hopp and Haroldo Giacometti, were the forerunners in research in Finance, with studies that often addressed our stock exchange. Professors Hélio de Paula Leite and Antonio Sanvicente, the latter from FEA-USP, were also pioneers in the area and were responsible for developing the method that is used at Ibovespa (the Sao Paulo Stock Exchange Index) and that is still in use today. With the establishment of master's degrees in Finance at EAESP and FEA-USP in the 1980s, the research really took off by way of student dissertations.

***GVpesquisa: How has research in Finance evolved over the last 20 years in Brazil?***

WEJr.: Until 1980, the focus in the area was not on publication in periodicals, of which there were few, and theses were ultimately stored in libraries. Beginning in the 1990s, this situation changed, with an increased focus on participation in congresses and publication in periodicals. During this period, the use of more sophisticated econometric methods was developed in research in Finance, in particular in studies

related to the stock market. The same development occurred with studies in the area of Corporate Finance.

***GVpesquisa: What is the current focus of Finance research in Brazil?***

WEJr.: Over the last few years, the primary focus of attention in Finance has been on issues related, among other topics, to corporate governance, volatility estimation and the structure and cost of capital.

***GVpesquisa: How does research in Finance contribute to improving organizational practice?***

WEJr.: The contribution to improving organizational practice and operations in financial markets is substantial because research in Finance seeks to identify phenomena in companies and markets and, in particular, indicates best practices in each segment. Finance research was facilitated by the proliferation of Business Administration schools in Brazil. However, it is interesting to emphasize that the doubts expressed by Richard Brealey and Stuart Myers 30 years ago in the first edition of their classic book Corporate Finance remain largely unresolved, such as how financial decisions are made, what determines a project's present value, what we forget in the risk and return relationship, how important exceptions are terms of market efficiency, whether management is a liability that is not included in financial statements, how we can explain the rise of new markets and securities, whether dividends are good or bad, which risks a company should assume, what is the value of liquidity, and how we can explain waves of mergers?

***GVpesquisa: What are the future research trends in Finance? How is the field likely to evolve?***

WEJr.: In terms of recent trends, we can perceive the development of the theory of behavioral finance. Those who advocate for such theory question the existence of the rational homo economicus who has dominated economics and finance for a very long time. The use of psychological concepts to analyze the behavior of investors and managers has been the subject of various studies. Because of a lack of answers to the questions mentioned and the development of behavioral finance, there is also a tendency for research to draw closer to organizations. That is, we are observing an increase in what we term applied research in the search for answers to basic questions in finance to which no answers presently exist.

# MARKETING

## Interview with Juracy Parente

***GVpesquisa: How did research in Marketing begin in Brazil and at FGV-EAESP? What were the first initiatives, and who were the important researchers?***

JP: Until the 1950s, Marketing was almost unknown except in the United States, where the discipline was created. The foundation of EAESP and the arrival of American professors from Michigan State University, such as Ole Johnson, Dole Anderson, Donald Taylor and Leo Erickson, were the impetus of the Marketing field in Brazil. The initial team at EAESP included professors Affonso Arantes, Bruno Guerreiro, Gustavo de Sá e Silva, Orlando Figueiredo, Polia Lerner Hamburger and Raimar Richers. This team performed pioneering research in the country and spread Marketing knowledge through their graduate courses and by training executives. They were the authors of the first Brazilian book in the area, which was published in 1972: "Administração mercadológica: princípios e métodos" [Marketing administration: Principles and methods]. Someone who deserves to be mentioned for his research, production and publication of articles and books on Marketing is Prof. Raimar Richers. He was also the originator of the "4As" model (analysis, adaptation, activation and assessment), which is widely used.

***GVpesquisa: How has research in Marketing evolved over the last 20 years in Brazil?***

JP: Research in Marketing in Brazil has undergone a notable evolution with the spread of PhD programs in Administration. Another stimulus for the increase in academic production and publication has been the growing importance that Business



Administration schools have been attributing to the assessments performed by CAPES regarding the quality of postgraduate programs. In the EnAnpads of 2001 to 2010, more than 1300 scientific articles on Marketing were presented, five times more than the number during the previous decade. Over these 20 years, we have observed a strong evolution in the theoretical basis and in the methodological strictness of these studies, as well as a change in the research methods. There has been a decrease in the percentage of conceptual studies and studies that relate to survey methodology and an increase in causal studies, structural equation modeling, experimentation and qualitative research. The dominant theme has been consumer behavior, including that of low-income consumers and their responses to different marketing stimuli.

***GVpesquisa: What is the current focus of Marketing research in Brazil?***

JP: Now that the Brazilian scientific marketing community has reached maturity in the use of scientific research tools and the scientific process, a closer approximation of research to the corporate world is recommended. To make research in marketing more relevant, investigations that adopt the company as their unit of analysis and that try to devise answers that meet corporate demands and concerns with regard to marketing management and practices should be encouraged.

***GVpesquisa: What are the future research trends in marketing? How is the field likely to evolve?***

JP: Several trends should inspire research in Marketing. I would emphasize the following: first, the co-creation of value, investigating themes such as customization, personalization, engagement and consumer-driven aspects; second, social networks and marketing, addressing topics such as virtual communities, ethnography in social networks and digital media; third, e-commerce, including multichannel retail, omnichannel retail and mobile-device commerce; fourth, marketing metrics, investigating the interface between finance and marketing, the treatment and analysis of substantial quantities of market data ("big data"), the assessment of the return on investment of marketing activities, modeling and marketing analytics; fifth, consumer behavior, including research in areas such as emotions, moods, conscious and unconscious behavior, perceptual processes, neuromarketing, biosensors and eye-tracking; and sixth, social responsibility, investigating company strategy and its impact on society, including topics such as ethics, sustainability, conscientious capitalism, brand image and company reputation.

# OPERATIONS

Interview with João Mário Csillag and Luiz Artur Ledur Brito

***GVpesquisa: How did research in Operations begin at FGV-EAESP? Which themes were researched, what were the first initiatives, and who were the important researchers?***

JMC: Our pioneering researchers were Claude Machline and Walter Delazaro. In the beginning, studies addressed time and motion, ergonomics and the precalculation of costs. Research was performed on highly tangible themes. An important milestone for us was the creation of Simpoi in the 1990s. At the time, we were beginning to notice the need to conduct numerous scientific studies in Operations. Therefore, we thought that a symposium would encourage in-house professors to perform research. Studies initially focused on physical disposition, stocks, economic batches, value analysis, logistics, the restrictions theory, lean production, total quality, including certification and project management.

***GVpesquisa: How has research in Operations evolved over the last 20 years in Brazil?***

JMC: Initially, the area was referred to as Production. However, with the inclusion of services, it started being referred to as Operations. Today, the area has a substantial interface with Marketing, Administration, People Management, Information Technology, Finance and other fields. Operations research ultimately contributes to all of these fields.

***GVpesquisa: What is the current focus of Operations research in Brazil?***

JMC: Currently, supply chain management is highly popular. Scholars used to study links in the chain, that is, companies. Now, they are also studying the “between links” areas and systems as a whole. Studies that are currently “in” are those that arise from natural disasters, which cause migration, hunger and other effects, as well as a breakdown in supply chains. The sustainability area has also started to increase in importance. Substantial discussion today focuses on knowledge absorption and risk management.

LALB: In research that I performed with Professor Ely Paiva, I observed that production research in Brazilian periodicals primarily emphasizes supply chain management and operations strategy. The nature of these topics, which have interfaces with other areas of Administration, has increased research interest in these areas. New product development and service operations were the third and fourth most studied topics. Additionally, many studies are concerned with the search for innovation as a competitive differential.

***GVpesquisa: What are the future research trends in Operations? How is the field likely to develop?***

JMC: Today, we have machines that carry out production, and the concerns have changed, at least in countries that have already reached a high level of development. Previously, countries with cheap labor used to lead in production. However, now, with more modern technologies, we are moving toward smaller, more localized production that is more directed at groups of individuals. Formerly, it was very expensive to maintain a stock of all of your product categories or models. Now, products can be finished only when you know which models are required. Thus, stock can be maintained at a prior stage, and therefore, stock can be smaller. There will be increasing individualization, which will supply small batches to few individuals. All these developments substantially change the context in which Operations research is performed.

LALB: We have various opportunities to conduct research in Operations. Potential topics include the following: first, the customization of continuous-flow products and innovation with a focus on sustainability; second, service operations, an area that is becoming increasingly relevant; third, and specifically, operations in health management, because of this area’s socio-economic importance; and fourth, humanitarian operations. Additionally, Brazilian researchers have aimed to increase their international publications, which can may increase the level of research sophistication and rigor.

# INFORMATION TECHNOLOGY

Interview with Fernando de Souza Meirelles

***GVpesquisa: How did research in Information Technology (IT) begin in Brazil and at FGV-EAESP? What topics were researched, what were the first initiatives, and who were the important researchers?***

FSM: The academic area of IT is relatively young. The IT research field arose in the 1970s with the Information and Telecommunications Users Society and in the 1980s in Business Administration schools. Four postgraduate programs were most heavily involved in the initial effort to strengthen the area: EAESP, FEA-USP, the Coppead Institute of Administration at UFRJ and the postgraduate program in Administration at UFRGS. The primary forum for divulging and discussing the results of this effort was EnAnpad's Information Administration area, which was created in 1988. Later, as a signal of the maturity process, congresses were dedicated to the area, such as EAESP's Annual IT Congress, Anpad's EnADI and FEA-USP's Contesi. The first generation of coordinators in the area in EnANPAD subsequently founded the first IT research centers. In the first EnADI in 2007, Nicolau Reinhard from FEA-USP, Norberto Hoppen from PPGA-UFRGS and I were decorated as Masters of Reference in Anpad's ADI area.

***GVpesquisa: How has IT research evolved over the last 20 years in Brazil?***

FSM: In the 1990s, the primary postgraduate programs in Administration established the first centers, nuclei or research lines in the IT area. Since 2000, new topics have been continuously incorporated, such as e-commerce, integrated management systems, business in the digital age, knowledge management, strategic planning and alignment, distance learning and analytical intelligence.

***GVpesquisa: What is the current focus of IT research in Brazil?***

FSM: The area can be divided into two interlinked strands: the academic strand and the applied strand. Currently, establishing synergy between the academic and applied strands is the primary focus of research. A successful example of this synergy is GVcia's IT Use Annual Research, which has been conducted for 25 years. This research started with the academic motivation of a PhD thesis, which aimed to create Brazilian statistics and indicators for IT use.

***GVpesquisa: How does research in IT contribute to improving organizational practice?***

FSM: There are many examples of contributions, and they do not differ from other areas of Administration regarding the generation and dissemination of the knowledge that is produced. Relevant evidence of the contribution of IT research is the use of methods, indicators and reference structures in companies and the impact on society that this knowledge produces. For example, indicators that have been produced by research are used by various organizations as critical performance indicators in conjunction with financial, market and sustainability indicators, and managerial and IT management practices have been adopted by various companies, which emphasize the usefulness of the knowledge that is being accumulated.

***GVpesquisa: What are the future trends in IT research? How is the field likely to evolve?***

FSM: In the academic field, we are observing a trend of growth. Over the last 25 years, the primary postgraduate programs in the area have awarded approximately 200 master's degrees or PhDs, and today, approximately 200 individuals are enrolled in master's degree or PhD programs. That is, in a few years, the amount of research in IT that is applied to Administration will more than double! Regarding the topics, the decrease in the number of publications on information systems and the use of information systems reveals that research interest is moving toward studying the impact of IT on business processes and organizations, which is a concern that is shared by professionals from the area because of the large amounts investment in IT by companies.

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# BUSINESS ADMINISTRATION

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# Challenges for distance learning

## ARTICLE IN FOCUS

### The inclination of Accounting Science students toward distance learning

Cassius Klay Silva Santos, Vicente Bruno Júnior, Edvalda Araújo Leal and Alberto Luiz Albertin

**D**istance learning has been expanding in Brazil. Since 1996, when distance learning was legally instituted as a teaching modality, the number of students in distance learning graduate courses has significantly increased, exceeding one million students in 2012. According to the Higher Education Census of 2011 to 2012, distance learning increased at a greater rate than classroom-based education: during this period, the number of distance learning enrollments increased by 12%, whereas classroom-based learning enrollments increased only 3%. Room for growth remains, particularly in the public education system. According to the Census, this modality continues to represent only 16% of the enrollments in higher education, which are generally in private institutions.

Given the increasing participation of distance learning in higher education, the modality has been the object of extensive discussion in the educational environment, where opinions on distance learning are divided. Those who defend distance learning note its advantages, such as the elimination of geographical barriers, the flexibility of study time and the focus of teaching on students. In contrast, those who criticize distance learning emphasize the difficulties of implementing and accepting distance learning, the poor recognition of distance learning courses, the feeling of isolation among students and the lack of qualification required for professors to teach online. The difficulties emphasized have resulted in a large number of drop-outs. In addition, many students have a negative impression of distance education courses, which results from the questions raised regarding the effectiveness of this modality in terms of learning.



In this controversial context, Alberto Luiz Albertin, an FGV-EAESP professor; Edvalda Leal, a professor at the Federal University of Uberlândia; Cassius Santos and Vicente Bruno Júnior, who are graduate and master's degree students at the same institution, conducted research on Accounting Science students' inclination to study the disciplines of the course via different modalities: classroom-based, semi-classroom-based and distance learning. The authors performed a quantitative study on 264 students at different stages of day and night courses and found that students are not highly inclined to choose distance education as a teaching modality for the offered disciplines. According to student assessments, only 9 of the 54 disciplines on the course syllabus should be offered in the classroom-based, semi-classroom-based or distance learning modalities, and for the other 45 disciplines, the students preferred a classroom-based course.

The research revealed that students are more inclined to choose the classroom-based modality for disciplines that address specific topics in the accounting area. This finding confirms the findings of previous studies, according to which the content of the discipline has a significant impact on the inclination of students to participate in distance learning courses. In the case of optional disciplines and disciplines related to other areas of knowledge, students prefer courses in the semi-classroom-based or distance learning modalities.

However, when students who have had a certain amount of experience with distance learning are considered (i.e., 25% of the sample), students' willingness to study disciplines in a modality other than the classroom is substantially higher. For these students, 37 of the 54 disciplines of the syllabus structure of the Accounting Science course could be offered in the semi-classroom-based or distance learning modalities. Therefore, experience with distance learning positively affects the perception of this modality.

The research also sought to understand the factors that contribute to the resistance to distance learning. In this phase of the study, the data were distributed into three groups: resistance to distance learning, IT competencies, and favorable attitudes toward IT. Discussing familiarity with and interest in technological tools proved to be important given that previous research has demonstrated that a lack of IT knowledge and experience may increase resistance to distance learning. Based on our analysis, the resistance to distance learning is most notable, and students reaffirmed the need for face-to-face contact with the teacher and their preference for classroom-based lessons. Moreover, 64% of the students consider a classroom-based assessment to be more reliable than other forms of assessment.

Regarding IT knowledge, most students reported having some skill in using computers and experience with the Internet, although they did not consider their knowledge in informatics to be advanced. Thus, a favorable attitude toward IT was perceived, which facilitates the adoption of distance learning courses. To increase the inclination of the students to study the disciplines at a distance, the authors emphasize the need to offer quality courses and incentives for new students to join such courses.

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# Free online university education: A model in development

## ARTICLE IN FOCUS

### MOOCs and business models of startups in education

Libânia Rangel de Alvarenga Paes

In a convention in Aspen in 2012, Bill Gates stated that Salman Khan was the best professor he had known, thus helping to popularize the concept of the Massive Open Online Course (MOOC). The term was conceived in 2008 by Dave Cornier of the University of Prince Edward Island for the practice of disseminating courses via the Internet. Most of the courses are free. There are no enrollment requirements; only a simple registration that typically includes no more than the user's name, email address and password is required. Thus, topics and lessons that were previously exclusively for enrolled students are now available for everyone.

With adoption of this model by renowned schools, such as Harvard, MIT and Stanford, investors began to invest financial resources in MOOC platforms. However, despite the interest surrounding this type of undertaking, little research has examined the business model that sustains it. A study entitled "MOOCs and startup business models in education" by FGV-EAESP professor Libânia Rangel de Alvarenga Paes analyzes how to make such startups financially sustainable. The paper is based on a study of several of the most important MOOCs: the international Coursera, Khan Academy, Udacity and Udemy, and the Brazilian edX and Veduca.

Paes emphasizes that although the cost per student is low—the cost for reproducing the content of the courses is negligible—the cost of creating and producing such courses is significant. For a 30-minute lesson, an estimated 40 man/hours of work are required to create, record and editing the course. In addition, the production team to be multidisciplinary, since there are very few academics

who know how to edit a video or about graphic creation. Added to this, the investment required for maintaining a platform on the air with millions of users is considerable.

But as the courses are for the most part free, the economic feasibility of MOOCs is not clear. According to the research, the tendency is that at least certification of the knowledge will be charged for. For the market the crucial point is that a person has a certificate that shows that he or studied (e.g., received a diploma) at an institution whose brand is recognized.

Research by Instructure and Qualtrics, the former of which is a company that develops technology for education and the latter of which is a leader in providing software for online surveys, demonstrated that two-thirds of the users who abandoned a course would have had more motivation to conclude it if the course had been worth credits or had issued a valid certificate. Coursera, Udacity and Veduca have adopted this model. Of the 538 courses in Coursera that were listed in November 2013, 137 offered a certificate, which costs between \$29 and \$99. In the Brazilian Veduca, the MBA in engineering and innovation, which uses professors from USP, UFSCar and UFSC, is free without a certificate but costs R\$6000 for those who desire a diploma.

In the case of Udacity, the certificate is offered at the end of the courses that began to require a fee in January 2014. The amount varies between \$100 and \$150. However, in the case of a master's degree program, which is offered in a partnership with the Georgia Institute of Technology, the cost is significantly higher, at \$7000 a month. According to the founder, Sebastian Thrun, the high drop-out rate of students enrolled in free courses is one reason that a fee is required. For every one hundred students, only five pass the final examination.

The fee charged by Udacity triggered various discussions regarding the business model that continues to be used by Coursera, edX and Khan Academy. One discussion topic has been that the proposal to offer education to anyone who desires it, particularly free and electronically provided education, is not encouraging individuals to learn on their own. Another discussion concerns the quality of the course formats and course content, which often leave much to be desired.

For researchers, despite the strong trend in free online education, basic issues such as those noted above continue to require study. Most likely, the models that depend on donations, such as Khan Academy, will become increasingly rare. For example, the Udemy site sells other companies the possibility of hosting a private platform for corporate sharing at a cost of \$99 a month for 50 employees and at a cost of up to \$999 for 1000 employees.

Furthermore, Paes notes that using the MOOC model offers several advantages to universities, including the ability to test new technology, the possibility of monitoring student behavior, the opportunity to increase their visibility and the potential to gain in terms of image by adopting a new, open teaching model. In addition, a school can receive part of the profit and the revenue from the certificates.

The largest risk is a lack of knowledge of the teaching that is required to simultaneously reach hundreds or thousands of students. As the FGV-EAESP professor notes, simply filming a lesson and placing it on a platform is a practice that remains common, and that may be one reason so many students drop out.

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# Venture capital funds: Investing close to home

## ARTICLE IN FOCUS

### Institutional void and regional inequality in the spatial distribution of venture capital investments in Brazil

Gilberto Sarfati

One of the fundamental pillars for fostering high impact entrepreneurship is the development of a venture capital industry. In Brazil, these investments increased significantly after 2003, when the sector was regulated. Indeed, the capital committed to the private equity and venture capital industry increased from \$5.6 billion in 2004 to \$36.1 billion in 2009, according to data from the second Brazilian survey of this industry.

Recent studies on venture capital have emphasized the distribution of the investments, indicating that, particularly in the initial and development phases of venture capital undertakings, fund managers need to be physically close to the invested-in company.

Consequently, entrepreneurs based in cities far from managers have a lower likelihood of receiving investments that can leverage their businesses.

Most of the studies on this topic have been conducted in developed markets. Among the few studies performed in emerging markets, one article demonstrates that the geographical concentration of investments is greater in China than in mature markets because of regulatory and normative deficiencies.

In opinion surveys with Brazilian venture capital fund managers, which were conducted during the industry survey, 79% stated that a distance of more than 100 kilometers between the target company and the manager is no reason to refuse to invest in the company. Only 13% stated that distance may be a limiting factor. However, this perception is far from the reality, as demonstrated by "Institutional void and regional inequality in the spatial distribution of venture capital investments in Brazil" by Gilberto Sarfati, a professor at FGV-EAESP.

Sarfati analyzed the distances between 305 invested-in companies and their managers, which represented half the universe existing in Brazil in the year that was analyzed (2010). The research revealed an unequal regional distribution of such investments. Geographical concentration is greater among venture capital managers with undertakings in their portfolio that are in the initial stages of development than among private equity managers with businesses in their portfolio that are expanding or already mature. A total of 69% of the venture capital investments were within 100 kilometers of the managers, whereas for private equity, this percentage was 50%.

According to the research, the concentration of managers in the southeast is 95%, with 65% in São Paulo and 26% in Rio de Janeiro. A small number of managers are located in the south of the country. Regarding the invested-in companies, the proportion is 80% in the southeast and 11% in the south. "The results draw attention to the need to develop public policies for investments that encourage innovation and economic development in the north, northeast and mid-west regions", states the author.

Currently, these regions have little chance of receiving the support of venture capital managers, in the assessment of Sarfati. Therefore, they have a substantially lower chance of growing than startups that are located in the cities of São Paulo, Belo Horizonte and Rio de Janeiro. "Managers need to be developed in these regions and bridges need to be built with better capitalized managers in the southeast", concludes the author.

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# A new approach to open innovation

## ARTICLE IN FOCUS

### Microfoundations for open innovation: Is effectuation a valid approach for open innovation managers?

Bruno Rondani, Tales Andreassi and Roberto Bernardes

**G**enerally, business managers are trained to work with a predetermined objective and a defined set of resources. However, many situations in corporate life do not follow this causal logic. The Indian Saras Sarasvathy has developed an effectuation theory, which was originally used for entrepreneurship, a field in which decisions are made to address these situations in a scenario full of unpredictability.

Creators of new businesses ask themselves the following questions: Who am I? What do I know? Who do I know? They identify the means that they possess, administer contingencies, seek collaboration and allow their objectives to emerge over time.

In the article "Microfoundations for open innovation: Is effectuation a valid approach for open innovation managers?", published in *Gestão & Conexões (Management & Connections)*, researchers Bruno Rondani from the Open Innovation Center, Tales Andreassi from FGV-EAESP, and Roberto Bernardes from FEI demonstrate how and when the theory of effectuation can be applied in a situation that is increasingly common in the business world: open innovation, that is, the search for resources for innovation outside an organization.

The authors reveal two categories of open innovation. In the first category, the company seeks preexisting knowledge, technologies and ideas, which represents a more predictable practice and therefore a practice that functions closer to the causal logic. In the second category, a network of businesses and individuals serves the exchange of complementary knowledge for developing new technology and ideas, which is characteristic of problems that fit the theory of effectuation. In this case, what determines the decisions is how to control the process and not the predictability.

In this type of open innovation, Rondani, Andreassi and Bernardes advocate the following. First, there are resources and competences, not objectives. Second, the members of the network must undertake to invest their resources based on how much they are prepared to lose in the worst scenario, not according to the principle of expected returns, as they would do according to causal logic. Third, the partners in a project will come to agreements to reduce uncertainty and will not try to identify and avoid uncertainties, as one would expect in a causal approach. Fourth, surprises that arise are viewed as a source of opportunities, not as barriers to be quickly overcome so the objective can be attained within the expected period. Fifth, opportunities must be created, not exploited.

The authors offer examples of open innovation management practices that should apply the effectuation theory: new business incubators, science and technology parks and projects that involve consumers. In all of the examples, the objectives are not well-defined, and a broad network of previously undefined companies or individuals are involved.

In addition, when a project's objective is well defined and when a limited and previously established group of partners exists, causal logic predominates. The researchers cite examples of open innovation that follow this approach: the search for partners for predefined needs or problems, the transfer of technology to a limited number of partners, the initiation of a joint venture established by using skills complementarity and the acquisition of a startup to increase the potential of the business.

Rondani, Andreassi and Bernardes observe that there are situations in which the causal approach and the effectuation theory may coexist at different stages, such as in research partnerships and shareholdings in a new business to explore a new technology. There are moments in which opportunities are investigated and contingences controlled, and there are moments when objectives can be predefined and pursued.

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# Strategic alliances: Sources of competitive advantage and profit

## ARTICLE IN FOCUS

### Conduits of innovation or imitation? Assessing the effect of alliances on the persistence of profits in U.S. firms

Sérgio G. Lazzarini, Luiz A. L. Brito and Fábio R. Chaddad

**A**fter Dennis Muller's pioneering study "Profits in the long run", which was published in 1986, many researchers started investigating why certain firms produce—and manage to sustain for a certain period—above-average profits for the industry in which they operate. For example, for proponents of the "resource-based view", valuable and rare resources that are difficult to imitate are the source of a sustainable advantage for firms.

However, for some authors, the competition scenario is increasingly moving toward hyper-competition, in which the strategic maneuvers of firms and technological evolution increase the likelihood that profits will decrease. This context has resulted in a considerable quantity of research on the factors that may increase or decrease the capacity of companies to maintain their competitive advantage over time.



The study “Conduits of innovation or imitation? Assessing the effect of alliances on the persistence of profits in U.S. firms”, by researchers Sérgio Lazzarini from Insper, Luiz Arthur Ledur Brito from FGV-EAESP and Fábio Chaddad from the University of Missouri, contributes to the literature by addressing a specific factor: the effect of alliances that are constructed by companies on the financial performance of those companies. Although previous studies have tried to examine how firms can create value through partnerships, how such alliances can sustain or undermine value over time had not been investigated.

The positive character of alliances remains under discussion. Using partnerships, firms can access funds and competencies that they do not have available, such as new distribution channels and knowledge for developing new products. Access to external resources would help firms gain a competitive advantage or overcome competitive disadvantages. However, alliances increase the risk of imitation. Internal resources (that bring advantages to the company) are more exposed through interaction and may be used for the individual benefit of the partnership. Thus, a competitive advantage becomes temporary when it is dominated by other organizations.

Starting with an analysis of the financial data of 509 North American companies between 1992 and 2002, Lazzarini, Brito and Chaddad found that alliances have positive effect on firm performance. The results indicate that engaging in a large number of alliances creates the conditions required for competitive advantages to be sustained for a longer time, which reduces the persistence of inferior performance and helps firms overcome competitive disadvantages.

Partnerships may be beneficial to companies with an existing competitive advantage and superior performance. However, partnerships are even more important for companies that are facing a situation of competitive disadvantage and that are performing below average for the industry in which they operate. For these companies, partnerships may help them gain access to the valuable external resources that are enjoyed by other companies. For those companies that already possess a competitive advantage, alliances may facilitate innovation and serve as a buffer against possible external shocks that might erode their existing advantages. Therefore, the researchers conclude that alliances can be used as an effective tool to increase business performance.

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# The effect of electoral donations on company growth

## ARTICLE IN FOCUS

### The influence of political connections on the diversification of Brazilian business groups

Rodrigo Bandeira-de-Mello, Maick William Oliveira Costa and Rosilene Marcon

**B**usiness groups that make significant donations to victorious political campaigns achieve greater economic diversification and, consequently, greater growth. This finding is derived from the results of a study by Rodrigo Bandeira de Mello from FGV-EAESP, which was performed jointly with researchers Maick William Oliveira Costa and Rosilene Marcon and which was published in RAE-Revista de Administração de Empresas (Business Administration Journal).

In this quantitative research, an analysis was performed on the data of publicly quoted Brazilian groups for the period from 2001 to 2008, which included two elections for majority positions (in 2002

and 2006), and on information regarding donations to political campaigns, which was found on the website of the Superior Electoral Court.

According to the authors, business groups use donations for elected candidates to increase their political force and to obtain access to information, the legislative process, preferential treatment and protection from governments that do not facilitate their interests. In this manner, these business groups grow and diversify. In a circular process, this practice increases the political strength of these groups and allows them to obtain additional political advantages. "This is a clientelistic relationship, in which there are direct and indirect benefits for groups", state Bandeira de Mello, Costa and Marcon.

Most studies on business strategy analyze diversification in terms of economic rationality. For example, according to the theory of transaction costs, business groups diversify because of imperfections in the market. However, when this market is reformed, business groups tend to reduce their diversification and tend to concentrate on their core business to avoid incurring excessive organizational costs and to take advantage of the lower transaction costs of a more efficient market.

The study by Bandeira de Mello, Costa and Marcon assessed whether this scenario actually occurs in Brazil. The study was based on various indicators, such as the Index of Economic Freedom (IEF) (of the Heritage Foundation), which includes criteria such as economic freedom, trade freedom, fiscal freedom, government spending, monetary freedom, freedom in labor relations, freedom to invest, the efficiency of the banking system, property rights and corruption.

The response was negative. Considering the two factors jointly—donations to political campaigns and the institutional question—even with improved institutions, which would encourage groups to reduce their diversification, the political connection causes business groups to increase diversification. Therefore, the political reality superimposes itself over economic rationality. That is, business groups increase in number and size and diversify to obtain advantages by way of greater access and influence to politicians, and they do so even when concentrating on their core business would be more rational from the viewpoint of economic efficiency.

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# How Brazilian multinationals innovate

## ARTICLE IN FOCUS

### Brazilian multinationals: Approaches to innovation

Afonso Fleury, Maria Tereza Leme Fleury and Felipe Mendes Borini

**H**ow do Brazilian companies, which are generally not highly innovative, manage to compete in the international market? Professors Afonso Fleury from USP, Maria Tereza Leme Fleury from FGV-EAESP, and Felipe Mendes Borini from ESPM sought to understand the strategies that Brazilian companies use to foster innovation.

Decades of low government incentives and a business culture that is averse to innovation and to opening up to competition in the international market have led to Brazilian companies' modest position in international rankings. However, the authors identify clear traces of innovation in more internationalized Brazilian companies, which are the object of study in the article "Brazilian multinationals: approaches to innovation".

The analysis logic did not adopt the traditional approach of research on business innovation, which associates innovation with indicators, such as investment in research and development, number of patents and qualifications among a company's professionals. In its place, the corporate skills approach was used, which uses a survey of a company's internally available competencies and resources to define the type of innovation that a company practices.

By analyzing companies that form part of the Ginebra database and by classifying the type of innovation of Brazilian multinationals into three categories (product, process and management model), the authors were able to identify five factors that have a significant impact on the internationalization and innovation processes of Brazilian companies: first, administrative competence, particularly in the financial and human resources areas; second, marketing competence, or the capacity to respond to customer demands; third, technology-based competencies; fourth, the importance of the global projection of the company's image; and fifth, operational competence, which enables a company to respond rapidly to pressure from its competitors.

Based on this analysis, the authors also identified four clusters into which Brazilian multinationals can be classified according to their management models and their potential for innovation. The first cluster consists of companies with notable organizational or administrative competencies, which enable them to navigate efficiently in less turbulent periods and to make bolder management decisions when necessary. Companies in this group include Embraer, AmBev and Odebrecht, which can be considered innovative in their business models because they deliver already existing products from a different platform for producing them.

The second cluster is anchored in product design and customer service and relationship competencies, which enable these companies to tailor-make products and services directed at market niches. Marcopolo, Randon and certain technology companies fit into this group.

The third cluster comprises companies that innovate in their products. Companies in this group include those that are found in the value chain of sectors such as household appliances and automobiles, in which an international presence itself fosters the development of new products. Among the most representative cases in this group of companies are WEG, Embraco and Sabó.

The final cluster includes commodity companies, such as Petrobras, which draw close to universities and research centers to maintain their competitiveness and the efficiency of their operations.

The study opens avenues for subsequent investigations to assess whether the innovation models of Brazilian companies are also present among those companies that do not become international and whether a causal relationship exists between the decision to innovate and the subsequent internationalization process.

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# How small companies forge their reputation on Facebook

## ARTICLE IN FOCUS

Corporate reputation formed on digital social networks: The relationship between trust, social capital and engagement on the fan pages of Facebook

Eliane Pereira Zamith Brito

Small companies do not possess the tools of large organizations to build their reputation. Most of these companies do not have a formal marketing division, and they cannot hire specialist public relations companies to help them. Within this context, digital social networks become a powerful tool to build a corporate brand image and to help forge a company's reputation.

FGV-EAESP professor Eliane Pereira Zamith Brito conducted research to investigate how small companies build their reputation on Facebook fan pages. The pages of ten companies were analyzed (i.e., a hairdresser, a mini-brewery, a medical services company, a pub, two inns, a hotel and three restaurants), all of which had a significant presence on the social network.

The research demonstrated that small companies can considerably benefit from using Facebook as a tool for promoting and building corporate reputation, engaging consumers and thus expanding brand knowledge and trust. On the analyzed fan pages, this process occurred through incentives that led consumers to become involved in terms of praising the brand, sharing content and inviting their friends to join the fan page.

In the study, the following types of fan page content were associated with most manifestations of involvement by Facebook users: first, content that refers to previous experiences of the company's customers (for example, a hotel that posts photographs taken by customers on the Instagram network, with a hashtag that refers to the experience); second, promotions that result in sharing (for example, a restaurant requested suggestions from customers, with the best submissions winning a dinner); and third, a display of information that page visitors identify with the brand (for example, a brewery that displayed a picture of a bear, which is the brewery's brand symbol, dressed as a musician in a band in celebration of Rock 'n Roll Day).

According to the researcher, the creation of ties that expand a company's relationships is more visible when consumers mention their peers when they share or comment on content. In this way, the company manages to gain additional fans and to publicize its brand to a greater number of individuals, who are invited to join the fan page. Conversations between various friends often occur when consumers are invited to a fan page or advised about a promotion. Interaction also increases when consumers clarify one another's doubts, for example, regarding how they might use vouchers in a restaurant.

Companies also use fan pages to increase the degree of consumer trust in their business. For example, when an inn displays photographs on Facebook that reflect pleasurable aspects related to the beauty of the inn's setting and useful tips with practical information, consumers react by praising the surroundings in which the business is located and the service that they received there.

The author concludes that small companies can benefit from such insights but that they should have no illusions regarding the power of emotion, which is not permanent. "The simple act of 'liking' something to win a promotion is not necessarily true engagement", observes the researcher.

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# How to use social media strategically

## ARTICLE IN FOCUS

### The dual focus of brand management on social media

Felipe Zambaldi, André Ofenheim Mascarenhas and Fábio Martins Natrieli

**T**he advent of social media has changed the way in which companies relate to the market. However, few organizations truly manage to take advantage of the new media, argue Felipe Zambaldi, a professor at FGV-EAESP, André Ofenheim Mascarenhas, a professor from the FEI University Center, and Fábio Martins Natrieli, who is pursuing a master's degree at FEI, in an article published in the journal *GV Executivo*.

These researchers cite two studies, one published by the Harvard Business Review and the other by MIT, to argue that despite the potential of Facebook, Twitter and other popular communication tools, companies remain unable to utilize them in brand management. In the first study, in which 2100 companies were investigated, only one-third of the companies measured the effectiveness of these channels, and less than one quarter of the companies used some type of tool to analyze these channels. Only 12% of the institutions considered themselves to be active users of networks, and 7% were prepared to appropriately integrate the new media into their marketing strategies. In the second study, which analyzed companies from 24 industries in 115 countries, 80% of those interviewed indicated that they understand the importance of social networks. However, few companies actually had a strategy for measuring the effectiveness of their activities in these media.

Zambaldi, Mascarenhas and Natrieli believe that both studies reflect the dichotomy of social networks in organizations: "On the one hand, there is huge potential and great enthusiasm from the leaders regarding incorporating them into their strategies, and on the other, there is an absence



of measures that confirm this potentiality". According to the article's authors, a major mistake that companies commit is interacting with customers on the social networks without a defined objective.

The researchers cite two examples of organizations that manage to use the technology in their favor and that understand the complexity of virtual environments. One is Starbucks, which has 33 million fans on Facebook, 4 million followers on Twitter and more than 1 million followers on Instagram. In 2012, Starbucks in England launched a campaign in which individuals only needed to take photographs daily regarding a suggested theme and to include the hashtag #MyFrappuccino before sending the image by Twitter. Every day, one participant won a prize coupon worth £ 10 for use in the coffee shop network. The campaign only lasted 10 days, but it was among the topics that was most commented upon on Twitter in various locations. "It was a simple promotion, which cost little and integrated various platforms", state the authors.

The second example is Oreo brand cookies. In 2013, when a power outage occurred at the Superdome stadium in New Orleans during the second half of the Super Bowl, Oreo posted an advertisement on its Twitter and Facebook pages that read "Power out? No problem! You can still dunk (an Oreo) in the dark". The message had an immediate repercussion on the two social networks, with 15,000 retweets and more than 20,000 likes on Facebook. The company was prepared to act on the social networks during the game because they knew that one-third of the audience would be watching the game while connected to a smartphone or computer. In addition to being immediate and effective, the strategy can be considered low cost, particularly compared with the \$4 million charged for a 30-second television advertisement during the Super Bowl.

The authors of the article also draw attention to another aspect of brand management on social networks: such brand management requires companies to focus not only on consumer behavior but also on the behavior of other stakeholders, such as employees. "Social networks, such as Facebook, Twitter and LinkedIn, are effective for promoting the brand with the objective of attracting, encouraging and retaining talent", they state.

The researchers mention companies such as Microsoft, Walt Disney, AT&T, Walmart, Allianz, Ford Motor, General Motors, Nokia, UBS, BMW, GE, Basf, P&G and Google, which have career pages on Facebook that are dedicated exclusively to publicizing the human resources area. Using these tools, organizations demonstrate which values they cultivate and enable their employees to share their success stories, thus transforming the employees into brand ambassadors.

Organizations have also invested in internal corporate social networks as innovative management instruments. Of the 500 companies with the best financial performance according to Forbes, 85% have a social platform for internal use. The technology facilitates real-time connections between employees, thereby reducing hierarchical and departmental barriers. "The main benefits are the incentive to collaborate and engage, greater dialogue in the company, knowledge and culture sharing and the creation of and support for the brand's so-called internal ambassadors", the authors state.

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# Challenges and opportunities for the retail trade in emerging markets

## ARTICLE IN FOCUS

### Retail: Challenges and opportunities in emerging markets

Edgard Barki, Delane Botelho and Juracy Parente

**T**he rapid expansion of purchasing power in countries such as Brazil, China and India is transforming these regions into leading markets for retail and consumer goods. However, according to FGV-EAESP professors Edgard Barki, Delane Botelho and Juracy Parente, to operate and distribute products and services in emerging markets, companies are facing a series of difficulties that, if overcome, will be able to generate substantial opportunities.

In the article "Retail: Challenges and opportunities in emerging markets", published in RAE-Revista de Administração de Empresas, Barki, Botelho and Parente list four main challenges that retailers face in countries that are characterized as having a "base of the pyramid" market.

The first challenge is competition between local companies and large chains, which is a type of rivalry that directly affects consumer loyalty and choice. Local retailers are often more competent than multinationals because they understand that low-income consumers are less price sensitive than corporations expect. Therefore, these retailers create solutions that are closer to the needs of these customers by investing in a pleasant store environment and services such as packers and helpful, well-trained employees.

The second challenge is the difficulty of accessing distant populations or less safe locations. In addition to inadequate roads, airports and basic infrastructure, effective, property regulatory systems are lacking. These conditions vary greatly in emerging markets because of their various stages of development and income.

The third challenge is related to the heterogeneity of markets, which requires a more local operation. Although India, China, South Africa and Brazil are considered to represent emerging markets, differences exist between them, which are reflected in the levels of modernization of each nation's retail sector. For example, in India, the food retail structure is predominantly traditional, with small grocery stores, independent stores and street fairs. Only 2% of the country's food sales are generated by modern retailers, which include hypermarkets, supermarkets and convenience stores. In China, modern retail accounts for 62% of the food business. Brazil is also moving quickly toward this model.

The fourth and final challenge is the difficulty of finding qualified labor, rendering investment in training and retention policies highly important.

In this context, Barki, Botelho and Parente note four opportunities for retailers: first, understand the peculiarities of consumers in emerging markets, given the level of heterogeneity, in order to adopt more appropriate strategies; second, seek service-based differentiation, with a special emphasis on the qualifications of employees; third, invest in innovating low-cost quality products from a perspective that resembles reverse innovation (i.e., developing ideas in an emerging market and applying them also in developed markets) and work more intensely with multi- and omni-channel concepts (i.e., the total integration of physical and virtual channels); and fourth, strengthen the relationship between suppliers and retailers, with large suppliers intensifying their support for small local retailers, who might represent important distribution channels, and with large retailers working actively with small local suppliers, who have a better understanding of the needs of the surrounding population.

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# Diversity management challenges in organizations

## ARTICLE IN FOCUS

### Management and diversity: Theoretical and comparative approaches

Jean-François Chanlat, Stéphanie Dameron, Maria Ester de Freitas, Jean-Pierre Dupuis and Mustafa Obliging

**B**usiness administration is intrinsically linked to diversity management, which may refer to competencies, skills, gender, experience, age, social origin or culture. The challenge for managers is to achieve organizational integration that does not negate the potential of differences among organizational members, that is, that guarantees identity and cohesion while respecting the different groups found in the organization.

With the aim of discussing and contributing to the understanding of this challenge in theory and organizational practice, Jean-François Chanlat, a professor from the École des Hautes Études Commerciales in Montreal and l'Université Paris-Dauphine, created and coordinates with Mustafá Ozbilgin a group known as Diversity Management. The group consists of researchers from various institutions and countries, including European businesspeople and managers. In 2013, this group co-edited a special issue of Volume 17 of *Management International*, a publication of the HEC of Montréal. The issue was dedicated to the theme of diversity and management.

In developed societies, the diversity debate originated in four major social movements that were observed after the Second World War: the permanent and mass presence of women in the labor market; the demographic mix caused by migratory movements and by economic globalization; the coexistence of several generations, because of the increase in life expectancy; and a more tolerant and liberal culture regarding differences.

Although various institutions have emerged in the struggle against discrimination and inequality, these forces constitute evidence of an organizational universe that is marked, first, by multiple social discrimination in access to employment; second, by the sexual division of work and by the weak representativeness of women among managers; third, by intercultural conflicts; fourth, by the difficulty that youths experience entering the labor market; fifth, by the dismissal of salaried

employees over 50 years of age; and sixth, by the difficulty of individuals with physical, mental or intellectual disabilities in finding employment.

The presence and importance of organizations in modern society have been increasingly stressed. The broader social phenomena tend to be re-elaborated in organizational life such that they become positive forces in the conduct of business. Diversity is an area in which scholars seek to understand the interrelations between organizations and society as society transitions to a more open and globalized economy; responds to the moral and ethical questioning of equal rights and opportunities; reduces claims, legal problems and the negative image exposure of organizations facing the risk of accusations of discrimination and prejudice; contributes to constructing richer organizational environments that are stimulating and more representative of the human face; and capitalizes and mobilizes creative forces to its benefit by virtue of the greater wealth of analysis that multicultural teams possess.

However, diversity cannot be managed without tensions. These tensions merit study and reflection. First, the diversity-universality tension refers to the influence of context in adapting diversity practices and the importance of considering the specific characteristics of individuals and the different groups to which they belong. Second, the diversity-equality tension relates to how the search for equality in organizations can be developed without generating inequality. This area of inquiry includes institutionalized measures to combat these inequalities and the impact of such measures on the management of organizations. Third, the diversity-performance tension refers to how the management of individuals with extraordinary ideas and skills can be a source of performance or difficulty. The synthesis of these tensions may be expressed in the challenge of extracting the best from the differences without the group losing its internal consistency.

In Brazil, these studies remain in an initial stage. However, over the last two decades, various laws and public policies that are aimed at reducing the flagrant and shameful inequalities that manifest themselves in society and the employment world have been developed.

Some groups are more affected than others, and some of these groups have already developed means of overcoming their difficulties. For example, today, women are found in all segments of the economy, and in particular, they participate in increasing numbers in schools and universities. Obviously, additional progress is required. However, the change in mentality regarding the role of women is undeniable and irreversible. The rights of other groups, such as the disabled and homosexuals, have been formally recognized. However, in the employment world, these rights must be translated into organizational practices and policies that transcend the legal questions.

Over the years, Brazil has established an image of having a racial democracy. This image hides or denies the vulnerability of minority groups and the conservative perspective of a portion of Brazilian society that judges itself to be the country's exclusive representative. Thus, although Brazil has witnessed clear improvements in various areas, it remains insensitive, unfair and prejudiced with respect to a part of its population.

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# The relationship between compliance levels and company performance

## ARTICLE IN FOCUS

Disclosure vs. materiality: The degree of compliance with the disclosure required when initially adopting the International Financial Reporting Standards (IFRS) vs. the impact caused by IFRS adoption on company results

Edilene Santana Santos

In 2010, Brazil consolidated its adoption of the International Financial Reporting Standards (IFRS), which is the set of international accounting regulations that are published by the International Accounting Standards Board. This integration enabled Brazil to bring its accounting regulations in line with the standards that are in force in more than 120 countries, which increased the level of transparency of the information produced by domestic companies and consequently encouraged investments, partnerships and operations in the global market.

The adoption of IFRS in Brazil occurred in two stages: the initial phase in 2008 and the full alignment in 2010. To monitor the results of the introduction of the new model, Brazil planned to disclose the effects of the two phases. Making this information public was essential because it not only plays a role in decision making regarding investments but also assists the performance of contracts between investors and managers, thereby increasing market efficiency.

However, international and Brazilian research indicates that the reports produced by companies display a low level of compliance with the disclosure requirements established by the IFRS, although these requirements are compulsory. Analysis by the Securities and Exchange Commission (SEC) of the practices of 183 companies in 22 countries revealed shortcomings in the transparency and clarity

of the information published, thus jeopardizing the understanding of company transactions and financial statements.

However, these surveys do not consider the fact that the companies do not disclose certain information because they do not regard such information as relevant for users, that is, such information is immaterial. This possibility was foreseen by the CPC 26 regulation of the IFRS. In addition to the fact that the cost of disclosure was not justified by the benefit, providing information in relation to immaterial items was assumed to increase the difficulty of understanding companies' financial statements.

In the study "Disclosure versus materiality: The degree of compliance with the disclosure required when initially adopting the International Financial Reporting Standards (IFRS) vs. the impact caused by IFRS adoption on company results", FGV-EAESP researcher Edilene Santana Santos sought to understand how the provision of information regarding the effects of IFRS adoption is influenced by the information's materiality. For this purpose, she analyzed the relationship between the level of information supplied (disclosure) and the impact of IFRS compliance on companies' financial results. The study examined 359 nonfinancial companies listed on the BM&FBovespa.

The results revealed that the disclosure averages varied substantially in line with the information's materiality. For example, when IFRS adoption had an effect on net worth, on average the companies disclosed 71% of the required items. When no such impact was confirmed, average disclosure decreased to 42% of the items. In addition, the disclosure averages in relation to material information were similar (between 71 and 72% of the items) regardless of the criterion that were used to define materiality.

The researcher also ascertained that when IFRS compliance had a negative impact on companies' financial results, companies tended to provide more information. Among companies that registered negative variations in net profit or net worth because of IFRS adoption, levels of disclosure were greater, possibly because with a greater negative impact of IFRS adoption on financial results, managers have a greater incentive to supply information that minimizes investors' uncertainties regarding the effects of IFRS on the company's cash flow.

Full compliance with the requirements was greater when materiality was defined simply as the existence of variation. This result indicates that in determining whether items are material, the companies favored qualitative criteria (i.e., whether IFRS compliance affected financial results) at the expense of quantitative criteria (i.e., the degree to which IFRS compliance had an impact on financial results). However, overall, the results suggest that noncompliance with the IFRS requirements was preferred because only 11 companies met all of the demands established by the regulations. Among the disclosure items, items related to cash-flow statements and the option for attributable cost were associated with the lowest rates of compliance.

Based on the research, Santos concludes that with a greater impact of IFRS adoption on financial results, the provision level of the information required regarding the effects of IFRS compliance increases. Thus, the study contributes to the analysis of the materiality of the information supplied to comply with IFRS disclosure rules, which is of interest to both investors and the Brazilian regulatory authorities.

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# The relationship between incentive systems and company performance

## ARTICLE IN FOCUS

### Incentive systems for managers and the performance of Brazilian companies

William Eid Jr. and Claudia Yoshinaga

**E**xecutive activity directly affects company performance. Executives' decisions dictate the direction of the business and determine the return on invested capital. However, managers do not always pursue the objectives that are most favorable to shareholders, as executives may act for their own benefit and executives cannot always make decisions that are perfectly aligned with the objectives of shareholders or owners.

Differences in interests between managers and shareholders, which are referred to as agency conflicts, can affect essential company functions. For example, the levels of investment or debt and the preference for risk (or the aversion to it) can compromise corporate performance and generate losses for owners.



In this context, different initiatives have been developed to minimize agency problems. The most prominent of these initiatives are incentive systems offered to executives, which link manager remuneration to company performance. Incentive systems are based on the assumption that to obtain higher salaries, managers will try to improve corporate performance, thus aligning themselves with shareholder interests.

Using companies listed on the BM&FBovespa for their sample, FGV-EAESP professors William Eid Jr. and Claudia Yoshinaga investigated whether a positive relationship exists between manager incentives and company performance. The sample was based on companies that are included in the BM&FBovespa's IBrX index, which measures the return of a portfolio of 100 shares selected from those that were most traded, in terms of the number of deals made and the financial volume involved.

Each year, the companies that compose the IBrX issue reports that are required by the BM&FBovespa. Based on these reports, the authors extracted information from 2009 and 2012 regarding the earnings of the members of the boards of directors, the executive boards and the fiscal councils, including their fixed compensation (i.e., salary or remuneration, direct and indirect benefits, participation on committees) and variable compensation (i.e., bonuses, profit-sharing, participation in meetings, commissions, postemployment). Information on company performance was extracted from the Bloomberg platform database.

The results indicate that a relationship exists between the variable component of manager compensation and the economic performance of companies. In the studied sample, higher variable compensation was associated with higher earnings per share, which suggests that granted incentives positively affect corporate performance. Company size was also considered (measured by total assets). This variable was selected because it influences accounting measurements of performance and because, according to previous studies, it largely explains the incentives offered to executives and their compensation package. However, the analysis by William Eid Jr. and Claudia Yoshinaga indicates that the incentives in the studied companies were not influenced by company size.

Therefore, regardless of a company's size, incentive systems could be a relevant alternative mechanism to align the interests between managers and shareholders. The appropriate structure for these systems will partially depend on the strategies adopted by companies. When financial incentives are linked to company performance, they encourage managers to maximize performance.

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# Strategies that guarantee the success of microcredit

## ARTICLE IN FOCUS

### Production microcredit in Brazil: A recent history and development factors

Lauro Emilio Gonzalez, Lya Cynthia Porto de Oliveira and Eduardo Henrique Diniz

**B**y providing loans to small businesses and manufacturers located on the outskirts of urban areas, production microcredit emerged with a promise of social inclusion. Brazil is estimated to have between 8 and 10 million microentrepreneurs, most of whom operate informally but are prepared to participate in the credit market. However, of these microentrepreneurs, just over one million are currently served by the credit market.

The increase in the low-income population's access to credit depends on aligning the interests of various entities: microentrepreneurs, financial institutions, infrastructure organizations (such as credit bureaus), payment and IT systems and regulatory and supervisory bodies.

In the article "Production microcredit in Brazil: A recent history and development factors", FGV-EAESP professors Lauro Emilio Gonzalez and Eduardo Henrique Diniz with PhD student Lya Cynthia Porto de Oliveira analyze the different participants in the microcredit system. They identify their

interests and negotiating processes and the future prospects for the development of this type of financing in Brazil.

One such participant is Banco do Nordeste (BNB), a public sector bank that administers the main microcredit programs that currently operate in Brazil: Crediamigo and Agroamigo. Another participant is Empresta Capital, which is one of the most innovative experiments of the Credit Company for Microentrepreneurs and Small Companies (SCMEPP). Empresta Capital created an investment fund model (Credit Rights Investment Funds - FIDC) to raise funds. The third and final studied entity is Banco Pérola, which is notable among Civil Society Organizations of Public Interest (Oscip) in the microcredit area.

The study on these three agents reveals that favorable results require both internal strategies, such as efficient management, a capacity for innovation and a focus on the method of providing credit aimed at small business, and external strategies for strengthening representation and negotiation associations with government bodies, particularly with Brazil's Central Bank.

Among the internal strategies, directed credit is a key factor for the continuation of microcredit initiatives. In the case of BNB, after the implementation of the directed credit method, a sharp decrease occurred in the level of default from 40% to only 2% in the segment of farmers who live below the poverty line. This credit program benefited agricultural producers with an annual income of less than R\$4000, who had no access to bank credit before the program was introduced in 2003.

Rigid adherence to the provision of directed production microcredit has also been a factor in Banco Pérola's success. Banco Pérola differs from other banks by providing consultancy services for entrepreneurs to help them start their businesses. If the entrepreneur still does not feel sufficiently secure to start a business, Banco Pérola arranges an exchange of experiences with another undertaking that is already operating.

At Empresta Capital, the close relationship that the organization maintains with its clients is a distinguishing characteristic. This organization specializes in specific segments and analyzes the historic connections between individuals and the places that they inhabit, which is a highly different approach from the formal process of a traditional bank.

All the organizations that are analyzed in the study have partnerships that are crucial to their activities and results. However, participation with the government ministries in the decision-making process that relates to public policies on microcredit is weak and is virtually nonexistent at SCMEPP and Oscip. In addition, a significant part of the BNB's results derives from its multiple partnerships with government ministries. The bank also has a strong influence on the decision-making process, unlike the representatives of the other two segments, which stated that the government bodies were absent from the microcredit sector and that they lacked knowledge on the sector.

One of the primary challenges for the future is investment in microcredit technology. According to the authors of this study, this challenge can be overcome largely through partnerships with government entities.

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# How Latin American companies manage financial resources during economic crises

## ARTICLE IN FOCUS

### Impact of trade credit on firm inventory investment during financial crises: Evidence from Latin America

Hsia Hua Sheng, Adriana Bruscatto Bortoluzzo and Gisler André Pereira dos Santos

**H**ow do Latin American companies manage financial resources and cope with financing restrictions during crisis periods? In their search for an answer to this question, FGV-EAESP professor Hsia Hua Sheng, Insper's Adriana Bortoluzzo, and Gisler André dos Santos, from FGV-EAESP, developed the study "Impact of trade credit on firm inventory investment during financial crises: Evidence from Latin America", which appeared in the journal *Emerging Markets, Finance and Trade*.

The researchers analyzed whether during periods of crisis, Brazilian, Argentinean and Mexican companies use commercial credit instead of more traditional financing channels, such as bank credit. According to earlier studies, the use of commercial credit may increase during crisis periods

because the suppliers of this type of credit face less risk than banks. In addition, the greater amount of information, extent of control and ease with which clients can recover assets justify the increase in the use of this alternative form of financing.

Brazil, Argentina and Mexico were chosen for the study because they represent the largest economies in Latin America. The sample comprised companies that were listed on stock exchanges between 1994 and 2009, a period during which a number of global crises severely affected the analyzed countries. The data were collected from the published annual reports of the companies, which are available on the Economatica database. For analytical purposes, the sector and size of the companies were considered.

The research revealed that small companies tend to substitute bank financing for commercial credit. However, such substitution did not occur homogeneously. Because the supply of financing is greater in Brazil and Argentina than in Mexico, Brazilian and Argentinean companies use more external credit than their Mexican counterparts, which use their own capital to cover fluctuations caused by crises.

For their part, large companies tend to use other forms of financing; thus, they are less subject to financial restrictions, and they can rely on sources of finance that are located in domestic and overseas markets. Medium-size companies are less regular. Small-to-medium-sized companies in Brazil and Argentina tend toward substitution, whereas medium-to-large companies in Brazil and Mexico tend toward substitution.

The researchers also revealed that the studied companies behave conservatively in relation to the type of financing. They tend to maintain much higher liquidity levels than commercial credit levels during periods of crisis. This tendency may arise because Latin American companies face major challenges in raising capital for the amount and the time desired and because they make greater use of money to meet their day-to-day financing needs.

No pattern of sector-differentiated company financing was found. In all of the studied sectors, the substitution of bank finance by commercial credit was heavily influenced by national characteristics. Depending on the country in question, a number of sectors adopted commercial credit. The researchers suggested three possible explanations for this variation: first, the influence of the incentives provided by public policies for certain specific sectors; second, the difference in the maturity level of the local Brazilian, Argentinean and Mexican markets, and third, the size and number of companies in each sector in the different countries.

Based on the study results, Sheng, Bortoluzzo and Santos conclude that small companies that are listed on the stock exchanges of the three main Latin American economies substitute commercial credit for bank finance during periods of crisis. With their article, the researchers help explain the behavior of companies in emerging economies in relation to different forms of financing, particularly during times of crisis, which is a question that until now has not received much research attention in this field.

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# Capital structure and contract theory

## ARTICLE IN FOCUS

### Leverage and the fixed operating costs

Claudia Emiko Yoshinaga

Capital structure is an essential factor in the survival of companies. The financing decision determines the capital costs, which encourages investment and consequently conditions a business's next steps. Therefore, when a need for new resources is perceived, managers should ask themselves the following question: What is the best debt/equity mix to adopt? They must always seek to achieve the mix that minimizes costs and maximizes company value.

To define the capital structure that will generate the greatest benefits for a business, different issues are considered. These issues include contractual problems related to agency conflicts, that is, the idea that contracts will not always be efficient because the different interests between the involved parties may have a negative effect on their performance. To minimize such deviations, companies must adopt governance mechanisms, which imply costs that must be considered in the choice of the best type of financing for a company.

The main contract costs include the cost of drawing up and structuring contracts, expenditures for monitoring contractual activities, spending incurred by managers to demonstrate that their actions do not negatively affect the progress of the activities, and losses that result from differences between the decisions of managers and those of shareholders or owners. Additionally, all contracts involve risks: creditors face the risk that the company will not pay its debt (default), whereas suppliers and employees face uncertainty regarding product prices and production costs.

Motivated by an interest in understanding how financing decisions are made in light of a company's contract structures, FGV-EAESP professor Claudia Emiko Yoshinaga performed a study entitled "Indebtedness and fixed operating cost structure". In the study, she analyzed how the fraction of fixed payments to employees and suppliers influences the composition of the capital structure of companies. She starts with the hypothesis that when the sum of fixed payments that are promised to employees and suppliers is high, companies issue less debt and more equity, in order to control the default risk and reduce contract costs.

Based on research on nonfinancial public companies that were traded on the São Paulo Stock Exchange between 2004 and 2012, the researcher confirmed her hypothesis. "The results indicate a significant negative relationship between the use of debt (measured by the ratio between long-term debt and total assets) and the fraction of fixed contractual payments (measured by the ratio between the sum of the cost of goods sold plus general and administrative expenses and net revenue)", states the author.

This relationship may exist because when a company must make periodic payments with established deadlines to employees and suppliers, the risks of default and contract costs increase. Generally, in situations of financial difficulty, companies prioritize paying employees and suppliers. Therefore, when a company must make periodic payments by set dates to either of these parties, creditors demand higher interest rates in addition to other contractual guarantees, which result in higher subsequent costs. To avoid these costs, the company tends to hold shares because the owners of these shares, who have rights over any residual cash flow, are unlikely to demand the same conditions.

The results of the research demonstrate that contractual costs may also help explain the composition of the financing structure of companies.

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# Creative make-up: Earnings management in IPOs

ARTICLE IN FOCUS

## Risk capital and managing earnings in IPOs

Sabrina P. Ozawa Gioielli, Antônio Gledson de Carvalho and Joelson Oliveira Sampaio

**A**lthough legal, managing earnings refers to the intentional intervention by managers in the financial reports of companies so that these reports do not represent the actual circumstances of the business. By distorting the information content of financial statements, earnings management can harm shareholders. Earnings management is particularly important at the time of an initial public offering (IPO) because uninformed investors may end up paying a higher price for shares if a company's financial results are artificially inflated.

In "Risk capital and managing earnings in IPOs", FGV-EAESP professor Antônio Gledson de Carvalho and researchers Sabrina Ozawa Gioielli and Joelson Oliveira Sampaio investigate earnings management in the case of IPOs and the role of private equity (PE) and venture capital (VC) managers in hindering this practice.



Although the Brazilian PE/VC industry is relatively small compared with that in developed economies, its importance to IPOs is significant. Between 2004 and 2010, which was the period analyzed for the study, 115 IPOs occurred in Brazil, 37% of which were backed by PE/VC funds. The research sample comprised 92 IPOs. The authors excluded companies in the financial and real-estate investment sectors and companies with fewer than three sets of available financial statements.

Various studies have addressed earnings management at the time of IPOs and the role of risk capital investors. However, most of these studies failed to reveal the dynamics of earnings management—reflecting the inflation and subsequent deflation of financial results. This limitation hinders any understanding of the role played by the previously mentioned investors.

To detect these movements, the authors analyzed earnings management behavior in four phases, each of which comprised two quarters: the pre-IPO, IPO, lock up and postlock up phases. The earnings management was estimated for each of the eight quarters. Based on the analysis, the researchers concluded that earnings management primarily occurs during the IPO phase and that the companies financed by PE/VC do not exhibit a uniformly reduced level of earnings management during all of the phases of the IPO. Furthermore, IPOs financed by PE/VC present a significantly lower level of earnings management during the IPO phase, which is precisely the time when companies inflate their results.

The study's major contribution is the finding that in terms of earnings management, companies that are financed by PE/VC behave differently from those that are not financed by PE/VC. Moreover, little evidence was found to suggest that companies that are financed by PE/VC manage their earnings during the IPO phase. However, for companies that are not financed by PE/VC, the results are substantially different. The evidence clearly showed that these companies manage their earnings during the IPO phase.

The importance of the diversity of the companies for explaining earnings management is another relevant difference between the subsamples. For companies that are financed by PE/VC, company characteristics seem to determine earnings management, whereas the IPO phases do not seem to be important. In contrast, for companies that are not financed by PE/VC, company characteristics do not seem to be important, and earnings management is more readily explained during the IPO phases.

Finally, for the subsample of companies that were financed by PE/VC in the study, the coefficient for auditor quality was statistically significant at the 1% level (and not statistically significant for the subsample of companies that were not financed by PE/VC). This result suggests that auditors are more effective in controlling earnings management in these companies or that the choice of auditor is more important for companies that are financed by PE/VC, which indicates a commitment not to manage earnings. This last interpretation is consistent with the assumption that risk capital investors value their reputation, bearing in mind that they are constantly bringing companies to the capital markets.

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# The speculative behavior of financial managers

## ARTICLE IN FOCUS

### Hedge and speculation with FX derivatives: Evidence of daily operations

João Luiz Guillaumon Lopes, Rafael Felipe Schiozer and Hsia Hua Sheng

**T**heoretically, companies use derivatives to protect themselves from risk, primarily from exchange rate variation that can negatively affect their international trade operations. However, known cases of large financial losses have involved the use of derivatives. In Brazil, this topic attracted attention at the end of 2008, when the country's currency, the Br. Real, suffered an extreme devaluation and when traditional companies, such as Sadia, Aracruz and Votorantim Celulose e Papel, announced record losses from derivative operations, which were supposedly conducted for hedge (protection) purposes.

Estimates of the losses that were incurred by Brazilian companies with FX derivatives at the time vary from \$10 billion (Brazil's Central Bank) to \$25 billion (Bank for International Settlements - BIS). At the end of 2008, following the disclosure of these losses, the Brazilian Securities Commission (CVM) issued Deliberation 550, which obliges public companies to disclose details of their adopted

hedge policies, their level of exposure, their sensitivity to risk factors and their gains or losses from derivatives on a quarterly basis.

In the study "Hedge and speculation with FX derivatives: Evidence of daily operations", which appeared in RAC-Revista de Administração Contemporânea (Journal of Contemporary Administration), João Luis Guillaumon Lopes, Rafael Felipe Schiozer and Hsia Hua Sheng, from FGV-EAESP, investigate the use of foreign exchange derivatives by nonfinancial Brazilian companies.

The results of this quantitative study, which was based on a sample of 29,000 foreign exchange derivatives operations between 2003 and 2011, reveal that the everyday decisions of financial managers contained a marked speculative component during the period from 2003 to 2008. However, this behavior was not identified in the period between 2009 and 2011. "The results reinforce the evidence that the large scale losses with currency derivatives in 2008 acted as a warning for managers, advisers, investors and regulators, who began to pay closer attention to derivatives operations", state the researchers.

According to Lopes, Schiozer and Sheng, the evidence of speculative behavior emerges from the fact that the financial managers disassembled hedge positions to earn a profit, which left the companies exposed to the operational risk of their business. That is, the managers exploited their companies' natural exposure (82% of the companies in the sample had a record of importing and exporting) to engage in trading, while determining when to hedge their exposure or not. "This result is relevant when we consider the implications in terms of corporate governance, that is, for identifying the real exposure to risk assumed by the company, whether by way of the shareholders, the board of directors, or the company's senior management", argue the study's authors.

By assessing the profile of the companies that show signs of speculation, the research reveals that Brazilian public companies have a lower inclination toward speculative behavior, "which is consistent with the greater disclosure of information and better governance practices that companies listed on the stock exchange must adopt", state Lopes, Schiozer and Sheng.

However, companies that show the greatest inclination for speculative behavior include multinational companies that are listed on stock exchanges. What might explain this result? According to the authors of this study, the managers of these companies tend to think that they have a greater information advantage and more expertise than the foreign exchange market. They are also farther from their controllers.

Lopes, Schiozer and Sheng conclude that the difference between hedge and speculative operations is dangerously small and that "it's not possible to clearly distinguish between those operations designed to reduce the company's financial risk and those aimed at achieving a positive result in itself". From the point at which companies begin to use derivatives for their risk management, the change to an attitude of assuming positions to achieve positive financial results seems to be common. "Apparently, upon opting to use a hedge position, the company may in fact be using an existing exposure to justify taking a speculative position", state the researchers.

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# Promoting financial inclusion

## ARTICLE IN FOCUS

### The role of cooperatives in the microfinance area in Brazil: The Cresol case

Lauro Emílio Gonzalez Farias

Currently, credit cooperatives contribute to the financial inclusion of approximately 2.6 million individuals who do not have a checking account with a bank in Brazil. Credit cooperatives primarily aim to provide financial services to cooperative members to foster development in the communities in which they are located. However, knowledge on this type of service, which is essential for the expansion of microcredit in Brazil, remains relatively limited.

To better understand the role played by credit cooperatives in developing microfinance in Brazil, FGV-EAESP professor Lauro Emílio Gonzalez Farias created a method for analyzing the characteristics that cause financial products to promote financial inclusion and applied this method to a case study. The studied cooperative was Cresol, which is prominent in Brazil's Southern Region and which accounts for approximately 10% of the population that has links with credit cooperatives.

According to the author, for an organization's products to be included, the organization must fulfill four conditions. First, the organization must meet the needs of current and potential clients (considering, for example, who the clients are, whether the product is for personal or professional use, what guarantees can be offered, and what type of insurance the borrower requires). Second, the organization must provide access to the product (which is facilitated by technological innovation and the use of banking correspondents to reach the low-income population). Third, the organization must ensure that the consumer can use the product properly (i.e., there must be a financial and services infrastructure that enables the client to obtain technical support). Fourth, the organization must provide an adequate environment in relation to the operations of microfinance institutions and banks (which refers to government rules that help clients acquire access to these products).

The analyzed cooperative has been operating since 1996 in the rural areas of the Southwestern part of the state of Paraná, and it was strengthened by the establishment of the National Program for Strengthening Family Farming (PRONAF) during the same period. Cresol is organized by individual cooperatives, which have local agents who directly interact with the cooperative members (e.g., family farmers). Cresol has expanded beyond the borders of Paraná to the states of Santa Catarina, Rio Grande do Sul, Minas Gerais, Espírito Santo and Rondônia, and it has plans to expand into the states of São Paulo, Rio de Janeiro, Goiás and Amazônia. In 2012, Cresol provided R\$593 million in microcredit.

The organization plays an important role because all of the products and services that it offers can be regarded as inclusive. The local agents and analysts understand the needs of the cooperative members, who form part of the system's management and coordination. No formal method is used to consult the cooperative members (i.e., the clients) regarding to their demands. The agents and analysts personally evaluate what the participants are seeking in Cresol, what is available and what can be modified. When they create a new product or modify an existing product, Cresol's central team holds a seminar to train the analysts who will work in direct contact with the individual cooperatives.

The individual cooperatives are well distributed throughout those municipalities in which partners are present. The local agents jointly evaluate the best alternatives for existing needs and reach out to the population that most needs microcredit.

Regarding the environment, the federal government's actions directly affect Cresol's format and daily practices. Implementation is carried out through a Civil Society Organization of Public Interest (Oscip), which offers microcredit lines to another type of cooperative member, apart from members with links to family farming and members with profiles closer to a microentrepreneur. Therefore, considering the four requirements, Cresol fully complies with its role as a financial inclusion agent.

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# Why multimarket funds perform differently

ARTICLE IN FOCUS

## Market efficiency and the performance of multimarket funds

Rodrigo Fernandes Malaquias and William Eid Jr.

**G**reater net worth and less manager experience lead to higher returns on multimarket investment funds, according to quantitative research by Rodrigo Fernandes Malaquias, from the Federal University of Uberlândia, and William Eid Jr., from FGV-EAESP.

In the study "Market efficiency and the performance of multimarket funds", which appeared in the *Revista Brasileira de Finanças* (Brazilian Journal of Finance), these researchers analyzed 831 investment funds for the period from 2007 to 2011 to determine whether publicly available information (such as the size of the fund, the amount of time that the manager had been registered with the Brazilian Securities Commission, the administration charge and the performance charge) might be useful for achieving extraordinary returns.

According to a predominant theory in the finance area, if markets are efficient, managers will not be able to add extraordinary value to portfolios. They would only have the skills to select inadequately priced securities or other assets if market inefficiencies or anomalies existed.

According to the statistical tests performed by Malaquias and Eid, on average, Brazilian multimarket funds did not generate superior results for their quota holders during the observed period, which may indicate that the equity, currency and interest rate markets in Brazil exhibit a certain level of efficiency.

However, similarly, if the markets are efficient, old publicly available information cannot be used to obtain higher than normal returns because this information, which was obtained at zero cost, should already be reflected in the values of the funds' quotas. According to Malaquias and Eid, publicly known characteristics are related to higher performance. Therefore, quota holders could segregate a group of funds with a greater probability of an above-average performance.

Those funds in the sample with the higher net worth provided a superior return, which might be explained by the advantages enjoyed by the fund managers of large portfolios in terms of obtaining better deals and economies of scale. The funds with the least experienced managers also achieved extraordinary results because these managers tend to assume greater risks than their veteran peers to advance in their careers. In relation to the other two tested variables, i.e., the management fee and the performance fee, no relationship was found with the performance of the multimarket funds.

Based on these results, the authors of the study leave a number of questions open: Does this inefficiency occur because of a lack of monitoring from quota holders in relation to the combination of the performance of the funds with their publicly available characteristics? Are other factors associated with extraordinary returns for quota holders (such as tax savings) that apparently cause them to ignore public information in trading? Does the flow (i.e., net fundraising) that results from the search for funds with characteristics linked to better performance interfere with the subsequent performance of these funds?

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# College students and risks in their use of credit cards

## ARTICLE IN FOCUS

### Attitudes toward credit and finance among college students in Brazil and the United States

Jill M. Norvilitis and Wesley Mendes da Silva

**H**ow do college students regard their credit cards? "Attitudes toward credit and finance among college students in Brazil and the United States", a study by researchers Jill Norvilitis, from Buffalo State University, New York, and Wesley Mendes da Silva, from FGV-EAESP, reveals striking differences between Brazilian and North American college students with respect to credit card debt.

North American students are financially more self-confident. They report that they are more comfortable regarding money, even when the context involves debt. Because they are more relaxed about this question, North American college students manage to adopt more positive attitudes when they discuss their credit card debt. According to the study, North American college students are more confident and inclined to believe that delays in payments can be fleeting and exceptional, even if they cause losses.



In contrast, among the group of Brazilian students, the study revealed the opposite results. For these students, financial well-being was linked to lower levels of debt. They felt financially more confident as their debts decreased or ceased.

Another clear difference between the two groups of students was the way in which students in each group handle the moment when they incur debt. While loans are the last alternative for the group of Brazilian students, debt is unavoidable and a necessary option for many young North American students—which does not imply, although it is interesting to observe, that they are less well-informed regarding the decision to take a loan.

Regardless of academic year, older college students from both groups are more tolerant of credit card debt and more inclined to acquire new credit cards from different issuers or financial institutions. Educational factors also determine the way that each group confronts debt. Student who are better informed regarding their debt (i.e., interest payable, payment due date) have a greater chances of coping with their debt in a balanced way.

In managing the financial crisis among North American and Brazilian college students, parents appear to play an essential role, particularly in anticipating that debt will be incurred and in foreseeing that a failure to pay debt will eventually occur. In this sense, North American parents, who are more optimistic than their Brazilian counterparts, afford their children more support. The researchers suggest that many North American students may have become more confident and may have resolved their debt problems after talking with their parents, who had already experienced financial crises.

A numerous differences between North American and Brazilian students result from each country's background in relation to the credit card industry. Whereas the credit card sector only properly developed in Brazil between 2004 and 2011 (i.e., only recently), in the United States, this industry is consolidated and has been a part of the lives of families for at least three generations.

The credit market for students has been growing rapidly in Brazil, whereas in the United States, legal restrictions were imposed to limit any worsening in the financial crisis in the United States, which peaked in 2009, when 84% of university students had at least one credit card. One of these restrictions relates to proof of income, particularly for those under the age of 21 years.

Last, the researchers note that at least one attitude is frequently observed. For North American students, credit cards are simply a means of payment, whereas among Brazilian students, credit cards are often viewed as a status symbol, that is, as a way of gaining greater visibility and acceptance in society.

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# Companies that outsource their IT infrastructure are worth more

## ARTICLE IN FOCUS

### Perception of value of announcements of IT infrastructure outsourcing: An event study with Brazilian companies

Otávio Sanchez and Álvaro Luiz Massad Martins

In Brazil, IT expenditure in companies is increasing. Studies demonstrate that the average rate of increase in IT investments was 8% annually between 1990 and 2010. To sustain this expansion, companies have increasingly opted to outsource IT operations. In 2010, virtually all medium- and large-sized companies in Brazil had outsourced part of their IT operations, particularly communication infrastructure, data storage (i.e., data centers) and the management infrastructure of networks and computers (i.e., service desks).

However, a large part of the research on IT strategy indicates that hiring third parties to manage IT operations, particularly infrastructure, does not automatically result in a competitive differential because this type of service is standardized and available to any company.

Therefore, Otávio Sanchez and Álvaro Luiz Massad Martins, from FGV-EAESP, determined

to establish whether this argument was true or, on the contrary, whether outsourcing enables organizations to free up resources and to concentrate on their primary activities, thus increasing their efficiency in terms of resource allocation.

For this purpose, Sanchez and Martins statistically analyzed the impact of IT outsourcing announcements by publicly owned companies on the value of their shares on the stock market between 2005 and 2010. The results, which were published in the article "Perception of value in the announcements of IT infrastructure outsourcing: An event study with Brazilian companies." in the *Revista de Administração e Contabilidade da Unisinos* (University of Vale do Rio dos Sinos, Administration and Accounting Journal) presented evidence that outsourcing this type of technology by publicly held companies in Brazil is perceived by the market as a source of value generation. Thus, outsourcing IT services increases the expectation of future profits, which has a positive impact on a company's market value.

In fact, returns on shares were higher than usual during the periods immediately before and after the date of the IT outsourcing announcement by those companies whose shares are traded on the stock exchange. According to various studies, such higher than usual returns occur because the specialist supplier can achieve economies of scale that can be partially passed on to its clients. In addition, according to the study's authors, if the supplier possesses sufficient skills and knowledge to provide the principal with a specific solution, an organization can achieve a differential advantage over its competitors.

However, Sanchez and Martins warn that although their research indicates a positive market expectation, outsourcing involves risks and does not always yield favorable results. Seven situations account for the majority of failures in IT outsourcing: outsourcing activities that should not be outsourced, choosing the wrong supplier, drafting an inadequate contract, neglecting behavioral questions, losing control over the outsourced activity, failing to consider the hidden costs of outsourcing, and failing to devise an outsourcing exit strategy.

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# The art of overcoming barriers: Introducing innovation in hospitals

## ARTICLE IN FOCUS

### Strategic management of individuals and innovation: Case studies in a hospital context

Ana Carolina Spolidoro Queiroz, Lindolfo Galvão de Albuquerque and Ana Maria Malik

The economic success of organizations is associated to a greater or lesser degree with their capacity to innovate. Aware of the advantages of innovation for companies, organizations from various sectors have aimed to develop products, services or processes that create a competitive advantage. Similarly, organizations in the hospital sector have made significant investments in innovation, concentrating on developing new diagnostic and therapeutic technologies that decrease the high indices of healthcare mistakes.

However, such innovations have proved to be insufficient in terms of improving the quality of services and reducing costs. The conservative nature of health organizations is identified as a main factor of the failure of innovations in the sector in addition to the absence of a strategic vision for moving forward in healthcare quality and increasing patient safety. In this context, the greatest challenge for these institutions is overcoming the organizational and cultural aspects of healthcare practice that undermine the success of the innovations that are introduced.

Interested in understanding how organizational variables and human resources management practices can favor innovation in hospital organizations, FGV-EBAPE professor Ana Carolina Queiroz, USP professor Lindolfo Galvão de Albuquerque, and FGV-EAESP professor Ana Maria Malik conducted a study on three hospitals, two Brazilian hospitals and one American hospital. These organizations were chosen because they are recognized as having adopted innovative solutions in the healthcare sector. The three institutions have also been accredited by the Joint Commission (in

the United States) or by the Joint Commission International (in Brazil), which indicates that they are comparable in relation to the services that they provide.

Hospital A, which is recognized as possessing the most sophisticated equipment for the treatment of highly complex diseases in Latin America, has a structure that is similar to a professional bureaucracy. In recent years, the hospital has implemented innovations in its personnel management practices, including changes aimed at increasing employee loyalty and forming multiprofessional teams. Among these changes, the most significant are the separation of medical practice from healthcare practice, the designation of corporate staff to monitor and control healthcare standards and the increase in investment in professional training and development .

Hospital B, which is located in the United States, may be regarded as the most innovative of the studied institutions. It develops products and services that have a significant impact on the medical area. The hospital's organizational model is based on a matrix structure that consists of multiprofessional teams, with different specialists collaborating on patient treatment. To integrate the different specializations, IT resources are used, such as electronic patient records and online test results. Another factor that contributes to this integration is the cooperation of the family doctor, who is responsible for sharing information on patients and for forwarding it to the teams.

Hospital C is a leading institution in cardiology in Latin America. As the hospital is smaller than the other two hospitals, its progress in administrative modernization has been slower. However, it has made significant changes to its structure, evolving from a centralized mechanistic model to a functional one, and to its staff management practices, through which it has improved communication and the integration of new areas into the organization. Consequently, it has decentralized its decision-making process, encouraged working in multiprofessional teams and employed new performance evaluation methods.

The researchers concluded that the studied hospitals are at different stages of organizational development. Hospital B has personnel management practices that are aligned with a matrix structure and with its wider organizational strategy, which includes innovation as one objective. At the Brazilian hospitals, the adoption of flexible organizational and personnel management practices that encourage innovation has occurred in response to market pressures, the demands of certification processes or the need to remain on an equal footing with industry peers. However, the authors emphasize that this 'copycat' approach has benefited these organizations and helped bring about changes in the rigid structure that had been hindering innovation.

Queiroz, Albuquerque and Malik state that organizational and personnel management variables cannot be directly related to the innovations made by these institutions. However, when comparing the hospitals, the researchers conclude that these variables may favor innovation. They stress that "when the organizational strategy includes innovation objectives and when the variables of the organizational context and staff management policies and practices are aligned with these objectives, the healthcare organization is capable of overcoming the cultural and organizational limitations that are inherent to its practices".

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# The importance of basic management practices for hospitals

## ARTICLE IN FOCUS

### The competitiveness of medium-sized hospitals

Luiz Artur Ledur Brito, Eliane Pereira Zamith Brito, Ana Maria Malik, Sergio Bulgacov and Tales Andreassi

**A**ccording to the resource-based strategy view, a company achieves sustained performance differences if it has resources and competencies that cannot be imitated by its competitors. Therefore, these resources or competencies are unlikely to be found in the most basic management practices in areas such as finance, marketing, human resources or operations. Such practices are easily accessed by managers and are taught in management courses, published in books and manuals and available for introduction by consultancy firms.

However, recent studies suggest that excellence in the management of these areas offer companies a competitive advantage. To investigate the effects of traditional management practices

on the performance of organizations, FGV-EAESP researchers Luiz Artur Ledur Brito, Ely Laureano Paiva, Eliane Pereira Zamith Brito, Ana Maria Malik, Sergio Bulgacov and Tales Andreassi conducted a study entitled “The competitiveness of medium-sized hospitals”.

Medium-sized companies were selected because they exhibited greater differences in their use of management practices. Such differences are more pronounced in organizations in the hospital sector, which is well known—not just in Brazil—for its belated adoption of management practices. According to the study, the main explanation for the delayed adoption of management practices in Brazil is that professional management is the exception rather than the rule in most hospitals.

The research was performed in two phases. During the first phase, which was qualitative, the researchers mapped the use of basic management practices at three institutions: Hospital Total Cor, Hospital Vita and the Premium Care clinic. These hospitals were selected because they represent the diverse types of hospital unit that operate in the market.

Based on this mapping exercise, a questionnaire (which was quantitative) for use in the second phase was created. The questionnaire was designed to capture the relationship between management practices and the performance of the studied hospitals. The survey was conducted with managers from 47 of the 195 medium-sized hospitals located in the state of São Paulo.

The study results indicate that the hospitals adopt basic management practices but that several of the hospitals make insufficient use of these practices. A mere 33% of the studied hospital units use most of the management practices listed, whereas 23% only use a few or none. The least used practices are those related to marketing and strategic planning, whereas the most developed practice is operations management.

Furthermore, larger hospitals use most of the basic management practices. These hospitals are also the most efficient in terms of the hospital occupancy rate, which was used to measure the performance of the analyzed institutions. This result suggests that the level of application of management practices is related to hospital size and that the employed management practices produce benefits for these hospitals by increasing the profitability of their operations.

For the researchers, the results demonstrate that although basic management practices are known, they result in differences in performance for these hospitals. Therefore, the failure to apply basic management practices implies limited competitive capacity, which lowers the level of performance. The following question remains: If these practices are valuable and easily copied, why don't these hospitals incorporate them? The authors suggest that the barriers to the adoption of management practices are cognitive and behavioral factors, which must be better understood to help such organizations improve performance.

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# The operating strategies of Sony and Microsoft in the videogames market

## ARTICLE IN FOCUS

### Supply networks and value creation in highly innovative industries with strong network externalities

Fernando Claro Tomaselli and Luiz Carlos Di Serio

**T**he videogames industry has a short lifecycle. A radical innovation in consoles occurs every five years on average, which can mean success or failure for the companies in this sector. These circumstances are primarily the result of the coordination that these companies exercise over their production chains. In this context, a key question is as follows: What are the strategies of the leading companies for developing their supplier networks?

In the study "Supply networks and value creation in highly innovative industries with strong network externalities", FGV-EAESP researchers Fernando Claro Tomaselli and Luiz Carlos Di Serio attempt to answer this question. The primary success factor in the videogames industry that the authors identify is the construction of the largest possible base of hardware and game options.



However, to achieve this objective, leadership is required with respect to hardware costs and the dynamic management of the supplier network, which frequently entails that companies rethink their entire business model.

According to the authors of this study, the videogames industry is dominated by the companies that own the console production technology (the study analyzed the case of Sony and Microsoft). These companies seek to control the production chain through strategic partnerships and simultaneously try to avoid depending on a single technology. However, they cannot avoid the increasing influence of game publishers, with which they must negotiate.

The study revealed that Sony and Microsoft seek to win the support of game producers and developers. Initially, Sony was more successful in implementing this strategy, as indicated by the success of the PlayStation 2 and Sony's ability to obtain control over the value chain which, allowed Sony to reduce costs and gain market share.

However, after some initial difficulties, Microsoft established several favorable partnerships with game developers and created a simple development platform, with tools similar to those of a PC. The company also implemented an integrated system to manage its many hardware and software suppliers, which allowed developers to be hired from China and India. Consequently, Microsoft was highly successful with Xbox Live.

Sony and Microsoft have sought to verticalize part of their value chain by acquiring companies that specialize in the games market and by creating development teams. However, independent publishers continue to gain power. For a long period, Sony possessed a high level of bargaining power because of its broad installed base. However, because of the high cost and low sales of the PlayStation 3, this advantage rapidly evaporated.

Sony has a more vertical value chain because it generates intellectual property through its music, film and television companies; therefore, it can create exclusive games for its consoles. The company also uses its experience as a hardware manufacturer to produce essential console parts. For its part, Microsoft initially developed a more horizontal structure.

With the current generation of videogames, the strategies of Sony and Microsoft are converging. The two enterprises have been using companies that provide electronic production services, such as Austek and Foxconn. Notably, Sony's approach is becoming more like that of Microsoft (e.g., by outsourcing parts of its hardware production), whereas Microsoft's approach has moved closer to that used by Sony when it verticalized the intellectual property of important parts of its hardware.

For the researchers, the greatest risk to Sony's strategy is the high cost of its hardware and the high level of the technology it offers, which surpasses what its clients require and bears a higher price than they are willing to pay. In contrast, Microsoft bet on the integration of software, hardware and services in a single experience, which represents an innovation. However, Microsoft's Xbox Live can be easily copied.

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# How to generate value in production chains

## ARTICLE IN FOCUS

### Value creation and capture in chemical company relationships

Luiz Artur Ledur Brito and Manoel de Andrade e Silva Reis

**T**he relationships between buyers and suppliers can be evaluated and the resulting benefits can be identified various ways. A recent study by FGV-EAESP professors Luiz Arthur Ledur Brito and Manoel de Andrade e Silva Reis contributes to the understanding of such relationships.

The authors tested an integrative value model that measures the creation of value in a relationship, which is reflected in the benefits captured by two companies and in the percentage of the value derived from the relationship. Thus, the model expands performance-based measurement.

The study's theoretical frame of reference is the relational view (RV) of strategy, which focuses on obtaining competitive advantages based on synergetic activities performed within the scope of the buyer-supplier relationship and which result in relational earnings. Relational earnings are additional profits that companies earn because of the relationship, which is the source of this value.

According to the authors, RV has been widely used in academic research on relationships. However, opinions regarding the operationalization of RV constructs differ. Therefore, this study

addresses this issue by separately testing the RV's four constructs in the model, which are termed relational resources: the specificity of assets, knowledge sharing, resource complementarity and effective governance.

Another theoretical gap that is examined is related to the need to test models for moderation relationships that are more complex. Therefore, companies' ability to create and capture value from relationships based on relational resources was analyzed in the presence of context variables. To this end, two environmental variables that are widely employed in academic research on buyer-supplier relationships were introduced: uncertainty and competition.

In the empirical aspect of the study, a transversal survey was conducted via the Internet with companies from the Brazilian chemical sector. The use of this industry is explained by its potential for the development of long-lasting relationships that result from the technical nature of the products and the possibility of customizing multiple applications for the products. In all, 445 questionnaires were sent directly to those responsible for the commercial service, and 121 responses were deemed to be valid and complete (i.e., a 27% response rate).

The results indicate that relational resources generate value both over time and for suppliers. The results further show that the context is relevant; that is, uncertainty reduces the value captured by the buyer and diminishes the effect of asset specificity on the value captured by the supplier, whereas competition influences the effect of asset specificity on the value generated over the course of the relationship.

The proposed form of measuring value helped produce a more complete and integrated understanding of the relationships by enabling the identification of different aspects of value in relationships between buyers and suppliers. There are differences between the value captured by the buyer and that captured by the supplier and consequently in the performance of each. Part of the value also derives from the relationship and manifests over the course of the supply. The value creation measurement scale provided good adjustment quality and represents a contribution to Operations literature.

However, the authors stress that follow-up studies are needed to validate the measurement model and to determine, correct and minimize any limitations in the study. The application of the scales in different sectors will help increase the validation of the data collection instrument by reanalyzing the discriminatory validity of the constructs, which was not observed between resource complementarity and knowledge sharing. The authors also suggest that future efforts expand the research to include larger samples, other industries and other respondent profiles (i.e., buyers), thereby contributing to the validity and reliability of the models and to the investigation and confirmation of the hypotheses.

Additionally, the authors emphasize the importance of conducting longitudinal studies within the scope of the supply chain to observe how the results of the analyses change over time while focusing on the dynamic of the relationships, which was found to be related to value creation.

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# Corporate strategies for addressing turbulent environments

## ARTICLE IN FOCUS

### Uncertainty in the sugar export chain

Márcio Cesar dos Santos, Luiz Carlos Di Serio, Flávio Romero Macau and André Luis de Castro Moura Duarte

According to 2012 figures, Brazil accounts for half the world's sugar sales and 20% of its ethanol production. Because sugar is a commodity with low added value, the sugar/alcohol chain focuses on costs. However, variations in international prices, fluctuations in the volume of the sugar cane crop and the possibility of mills altering the production mix between sugar and ethanol leave the sector with many uncertainties and jeopardize the search for efficiency.

In a paper entitled "Uncertainty in the sugar export chain", which appeared in *Pretexto*, researchers Márcio Cesar dos Santos and Luiz Carlos Di Serio, from FGV-EAESP, together with Flávio Romero Macau, from the Paulista University, and Insper's André Luis de Castro Moura Duarte identify strategies that companies in the sugar export chain use to address these risks.

Santos, Di Serio, Macau and Duarte performed their scientific study on four companies that are among the largest participants in the sugar export market. The primary risks that were identified are uncertainties that are inherent to the production chain and that relate to fluctuations in demand and exchange rates. These uncertainties cause a “whiplash effect”. That is, to maximize opportunities or minimize losses, large volumes are ultimately sold at short intervals. Market arbitration, which confronts domestic demand with external demand, and the possibility that ethanol is produced instead of sugar additionally increase uncertainty.

According to the interviewees in the study, a strategy to address risk that has a substantial impact but that is difficult to implement is a greater alignment of sales activities with logistics, which enables an analysis that is based on total operating costs, not exclusively on the momentary sales price. Another, more frequently used strategy is the establishment of long-term contracts, which level out the quantities that are supplied and decrease price variation. A third strategy is to work with various suppliers to mix possibilities for maintaining operational stability and for reducing risks in the production and distribution of sugar.

Infrastructure issues, which are typical of the so-called “Brazil cost”, contribute to increasing the uncertainty. Among the various ways that companies find to overcome these issue are 1) professionalization of the supply of highway transportation, 2) long-term contracts with transportation providers, 3) investment in railroad and highway assets focused on the transportation of sugar and port operations, 4) engagement in chartering, 5) expansion of storage capacity at the mills, 6) creation of backup stocks near the ports and 7) employment of transportation assets in collaboration with other companies.

In terms of information systems, which represent another aspect that is considered to be essential by the interviewees, the companies also adopt a variety of strategies, such as 1) implementing systems for exchanging information on demand, supplies and stocks between members of the chain; 2) introducing systems for supporting decisions and for exchanging information in real time, 3) reducing time lost and 4) jointly developing performance indicators and ways of measuring chain performance.

An aspect that is common to all of these issues is cooperation between the various agents in the chain, particularly between competitor companies, which is difficult to achieve. Such cooperation can be established by aligning the incentives between the various agents. “The uncertainties that destabilize the sugar supply chain require actions that focus both on reducing costs and on responsiveness and speed, which will be very challenging for its members,” the authors conclude. The study’s results will be useful to executives and businesspeople who operate in other production chains that experience problems similar to those of the analyzed chain.

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# The impact of good operating practices on corporate performance

## ARTICLE IN FOCUS

### Operating practices and their effect on operating and financial performance

Luiz Artur Ledur Brito and Ely Laureano Paiva

Over the last 30 years, there has been a significant development of new operating practices aimed at improving company performance, and researchers have endeavored to investigate the relationship between these practices and company performance. In a study entitled "Operating practices and their effect on operating and financial performance", FGV-EAESP professors Luiz Artur Ledur Brito and Ely Laureano Paiva tested various simultaneous management practices in a single sector, the packaging industry. For the authors, this sector's competitive environment, which includes companies of various sizes and with different ownership structures, combined with varying levels of operating practice favors the quantitative analysis of the relationships between operating practice and performance.

The hypotheses that the study tested are that, in isolation, the practices of TQM, just-in-time, lean manufacturing, time-based manufacturing (TBM), supply chain management (SCM) and human resources management (HRM) have a positive impact on company performance and that there is a positive interaction effect between the joint use of these operating practices and performance.

The instrument that was used for data collection was an innovative method proposed in 2010 by Nicholas Bloom and John Van Reenan, in which specially trained interviewers develop a dialogue with interviewees by following a script and evaluate the company's position on a specially developed scale. This collection method has advantages over conventional methods of self-administered questionnaires because it avoids any bias that might influence the interviewees' answers.

The results indicate that a high degree of combined use of operating practices is positively and significantly related to profitability, sales growth and productivity, which reinforces the synergic effects between operating practices. The use of combined practices also reduces any variations in the manufacturing process, which results in a reduction in stocks and less reworking.

In turn, the use of just-in-time practices decreases batch sizes, which results in fewer rejections and less reworking due to process failures. The use of SCM practices, such as the participation of suppliers in product design, means that the number of parts, components and other purchased inputs is known and incorporated, which results in higher quality finished products.

The use of HRM practices encourages employees to be innovative and autonomous, which increases problem solving and improves products and production processes in addition to facilitating the adoption of various practices related to TQM, just-in-time and SCM.

The authors also observed that increased profits, enhanced sales growth and increases in productivity are characteristic of advanced companies, that is, those companies that used operational practices to a greater degree. Companies that have a larger work force and that export were found to obtain better results.

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# The impact of good operating practices on corporate performance

ARTICLE IN FOCUS

## The political ecology of palm oil production

Renato J. Orsato, Stewart Clegg and Horacio Falcão

Over the last twenty years, palm oil (palm oil) has become a controversial commodity. This raw material, which is a source of renewable energy and which is used in thousands of products, has been described as the most significant cause of deforestation and biodiversity loss in Southeast Asia. Environmental groups and the palm oil industrial chain have accordingly clashed.

In the study "The political ecology of palm oil production", which appeared in the *Journal of Change Management*, FGV-EAESP professor Renato Orsato, Stewart Clegg (from the Sydney University of Technology) and Horacio Falcão (from Insead) analyze the development of this dispute in relation to palm-oil production on the island of Borneo, which has become an iconic example of environmental degradation.



Until 1997, the predatory exploitation of Borneo's environment did not attract the attention of public opinion or politicians. However, in that year, large bush fires, which were set deliberately to increase the area available for planting palm trees, produced dense smoke that covered all of Malaysia and Indonesia and that reached Singapore, causing respiratory problems across the population. These repercussions occurred at an international level, and the media established the link between deforestation and the palm oil industry.

Environmental NGOs seized the moment to intensify their campaigns. The industry responded rapidly, organizing a coalition led by the main companies in the palm oil chain: the Roundtable on Sustainable Palm Oil (RSPO).

By analyzing the political forces surrounding the formation of the RSPO, Orsato, Clegg and Falcão demonstrate that this "green club" provided no guarantee that the disputes would be resolved. Whereas the RSPO was the "brain-child" of an environmental NGO (the WWF), which believed that it was better to be involved in the decision plan even if it had to make concessions, other NGOs, principally Greenpeace, were opposed to the formation of the RSPO.

The RSPO hoped to cool tempers with the credibility that would result from its union with environmental organizations and with its initiative for introducing certification for plantations that obeyed the criteria of sustainable management. However, Greenpeace's opposition challenged the logic of the system under which the RSPO operated. The NGO believed that improving agricultural practices was insufficient. Additionally, the planted area would need to be limited, thereby preventing further deforestation and enabling the recovery of the native forests that had been destroyed.

In November 2007, Greenpeace published a report entitled "Cooking the climate", which linked RSPO members to carbon emissions from the deforested areas in Indonesia. In April 2008, another campaign was launched, this time against Unilever. Under pressure, the multinational corporation tried to convince other interest groups to engage in the moratorium on deforestation that Greenpeace desired. However, this initiative only angered the palm oil producers.

According to the study's authors, the central issue in the dispute over palm oil is related to the decision-making power: who should decide what should be done in terms of this production chain? The creation of the RSPO, which was established with the support of a substantial number of producers and environmental organizations, attempted to create legitimacy through a certification system. However, Greenpeace's campaigns destabilized this arrangement with a different proposal regarding which technical conditions could be considered legitimate in making the chain sustainable. Greenpeace's campaigns thus weakened the social fabric that sustained the coalition. The impasse remains. "The creation of a new institutional logic, like that of the RSPO, does not necessarily lead to stability", conclude the researchers. The case provides an important lesson for professionals and activists who are interested in environmental issues.

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# Learning from partnerships between smallholders and large multinationals

## ARTICLE IN FOCUS

Managing food supply chains at the base of the pyramid: Understanding the buyer-supplier relationship between multinational companies and smallholders

Edgard Barki

**M**ultinational agribusiness companies have sought to strengthen their raw material supply chains by arranging buying contracts with smallholders in emerging economies, such as Brazil. This practice has been treated as inclusive business because it has a social impact and improves rural producers' means of subsistence while enabling the companies to obtain quality raw materials at lower costs and to strengthen their market position.

Various studies have examined the competitive advantages that multinationals involved in the food business have obtained with this strategy. However, according to Edgard Barki, a professor at FGV-EAESP, little is known about the challenges faced when establishing a long-term link in such

an asymmetrical relationship in terms of power, dependence and value. Seeking to investigate this question, Barki conducted field research in which he interviewed the managers of multinational companies and smallholders in three key sectors dominated by family farming in Brazil: dairy products, poultry and horticultural products.

According to the author, establishing a relationship of trust is a prerequisite to constructing a lasting partnership. This initial step is no easy matter. In addition to the requirement that both sides be satisfied in terms of the results, a perception of justice is necessary. Because the relationship is asymmetrical, coercive power mechanisms, such as fines, have a negative effect on the trust-building process.

With this first step established, the relationship becomes closer with the strengthening of interdependence. At this stage, each party feels that its efforts and individual performance are related to those of its partner and that both lose out if the joint work is unsuccessful. To attain success, joint alignment must be fostered that considers organizational differences. Such alignment presupposes a model of noncoercive power, for example, by using technical assistance and reward mechanisms.

Barki believes that this interdependence is significant for the last stage of the partnership, commitment, to be reached. Commitment is attained when the smallholders and multinationals pursue common goals and when they make every effort to maintain the relationship.

Barki presents three scenarios in which the partnership is imperfect or incomplete. The first, termed potential opportunism, occurs when no relationship of interdependence or trust exists, that is, when both sides act based only on a search for individual benefit and when both sides may break their word at any time. The second scenario, termed temporary loyalty, occurs when trust but not interdependence exists. Here, neither the company nor the producer actively seeks other opportunities and remains open to other offers because commitment has not yet been established. In the third scenario, termed loyalty by consent, although interdependence is present, no trust exists between the parties. This scenario represents a special case, in which the purchase and sales agreement guarantees security and dependence but in which there is no commitment because coercive power is driving the relationship.

According to the researcher, given the high level of insecurity, mistrust and organizational differences between rural smallholders and large multinationals, the parties are not naturally inclined to undertake a joint, long-term business arrangement. Therefore, in addition to building a business strategy, it is also necessary to invest in innovative relationships.

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# Much more than philanthropy: Cooperation between private business and humanitarian agencies

## ARTICLE IN FOCUS

### Intersectoral relationships: Competencies for the development of partnerships in humanitarian supply chains

Susana Carla Farias Pereira and Renata Oliveira

**T**he increasing number of catastrophes, whether natural or man-made, places extraordinary demands in coordination, planning and logistics on humanitarian aid operations. A primary challenge concerns how to involve and integrate the various organizations that participate in these operations. On the one hand, the involvement of these different organizations provides resources and skills. On the other, management becomes more complex.

To understand how to characterize this relationship between private and humanitarian organizations, FGV-EAESP professor Susana Carla Farias Pereira studied the partnership between the world's largest humanitarian program, the World Food Program (WFP), and one of the main

private companies in global logistics. The WFP, which is the food aid branch of the United Nations (UN), has offices in over 80 countries and supplies food to 90 million individuals each year. The global logistics company, which is the WFP's first corporate partner, has the most extensive express highway distribution network in Europe, China, India and Brazil.

For the analyzed company, the primary activity is the UN's school meals project, known as the Twinning Program. According to a study by Pereira, the initial reason for the partnership was philanthropic. The company's intention was to establish social responsibility activities in which the company viewed itself as a donor. "However, the relationship slowly evolved into more strategic activities, and the company began to perceive the possibility of gains that went beyond its philanthropic image," states the study's author.

Since 2010, the person responsible for the Twinning Program in the company's headquarters in the Netherlands has reformulated the partnership and has created new possibilities for providing the WFP with logistical services and for developing competencies in the studied company. In addition to donation campaigns, the company faced the challenge of delivering food in regions of conflict or regions with precarious infrastructure. Therefore, the company's employees had to develop competencies in moving and storing food. The author emphasizes that competencies have also been developed in organizational management, such as coordination and planning.

Other important gains that have resulted from the partnership are the organization's visibility at the international level and the formation of a network with organizations from various sectors: government, local and public relations. Involvement with the WFP has also increased the commitment of employees to the company, which has resulted in less personnel turnover, reduced costs and increased knowledge retention.

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# The precarious control of government timber purchases

## BOOK IN FOCUS

### Sustainable government purchases to promote the social control of timber and its subproducts: The case of São Paulo

Zilma Borges de Souza

In recent years, the state of São Paulo has begun to undertake actions aimed at sustainability, not only by implementing legislation and inspection, but also by assuming responsibility for government purchases. In Brazil, such purchases represent between 10 and 16% of gross domestic product (GDP).

In the article "Sustainable government purchases in the promotion of the social control of timber and its subproducts: The case of São Paulo", Zilma Borges de Souza, a professor at FGV-EAESP, examines the example of the state of São Paulo, one of the main consumers of native timber in the country.

For a strategy of sustainable purchases to be incorporated into the routine of Public Administration, new agents and new management models must be included. Government management must also create mechanisms for overseeing the insertion of sustainable goods and services that can be monitored by society. The researcher investigates these aspects of public purchases.

Souza began by analyzing São Paulo state's transparency website and concluded that although it presents relatively up-to-date figures on timber acquisition, these figures are aggregated. Thus, the figures cannot be separated according to species, budgetary amount and the manner of use of the products and subproducts of the wood that originates in the Amazon region.

By using the Access to Information Law, which obliges public managers to respond to requests for information from any citizen, data on the purchase of timber was requested from 12 state government departments. "Based on the results collected, it is possible to state that there is still no transparency in the acquisition processes of purchases of certain products, particularly of timber," concludes the researcher.

Most of the departments declared that no timber purchases had been made, which contradicted the result of the survey that was performed. "This shows that there was no effort on the part of the departments to determine whether the information existed before denying it," states the researcher.

Five of the departments redirected the questions without explanation. Although this practice is provided for by law, whether the questions were redirected because of their awkwardness or the inability of the department to answer them remains unclear. Regarding the questions directed toward the Departments of Finance and Administration, the response was that because of the state's decentralized model of public purchases, specific information requests should be submitted separately.

According to Souza, the precarious systemization of sustainable purchases compromises not only the transparency of such data but also managerial control itself because the volume of information and processes renders far-ranging analyses impossible.

In the final stage of the study, interviews were conducted in four departments. Again, the decentralization of the bodies posed a challenge to the effectuation of sustainable public purchasing practices because fragmentation causes a lack of human and financial resources for raising awareness and for training processes in the purchasing units.

Using incentives, such as seminars and environmental certification, the Department of the Environment leads the process of incorporating the sustainable purchases of native wood. Nevertheless, the department notes many difficulties. Among the 150,000 items registered on the State Electronic Purchases Market, only 900 have achieved socio-environmental certification because personnel dedicated to providing such certification are lacking.

The study also notes that difficulties in the organization and disclosure of information on sustainable purchases also arise because of the resistance of the public bureaucracy with respect to acquiring certified products. This resistance primarily occurs because of the increased costs of the products.

According to Souza, the analyzed organizations remain at the stage of developing tools and mechanisms for sustainable government purchases. The researcher emphasizes the need to provide periodic training for civil servants that aims to include them in a work routine that fosters more transparent instruments for promoting the social control of government acquisitions of timber and other sustainable goods.

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# Why companies adopt environmental management systems

## ARTICLE IN FOCUS

### ISO 14001 certified plants in Brazil: Taxonomy and practices

Iuri Gavronski, Ely Laureano de Paiva, Rafael Teixeira and Marta Cleia Ferreira de Andrade

Various studies have investigated the reasons that companies adopt social responsibility practices or environmental management systems and the associated impacts or performance. However, we know little about companies motivations for adopting these practices in emerging countries, such as Brazil.

"ISO 14001 certified plants in Brazil: Taxonomy and practices" by researcher Ely Laureano de Paiva, from FGV-EAESP, with Iuri Gavronski and Rafael Teixeira, from the Universidade do Vale do Rio dos Sinos, and Marta Cleia Ferreira de Andrade, from the Rubiataba College of Science and Education, seeks to fill this gap by proposing a taxonomy for ISO 14001-certified Brazilian plants.

The authors conducted a survey of 99 companies that operate in the chemical, metal-mechanical and electro-electronic sectors. The data were obtained from a questionnaire sent to the operating



managers who were responsible for ISO 14001 adoption at these companies. The collected information was submitted to statistical analysis, based on which the businesses were classified into three groups.

The first group consisted of companies that focus on internal aspects. In this group, companies adopt ISO 14001 with the aim of adapting their skills and internal resources to obtain operational benefits. Therefore, the tool became a means to transform skills and resources into a competitive advantage. Another important factor in ISO 14001 adoption for this group was the sense of ethical responsibility of the managers.

The second group comprised companies that are motivated by external factors. For these companies, the primary concern was to fulfill market expectations and to address social pressure and the requirements of regulatory bodies. Companies in this group seek recognition for adopting successful management practices that are already used by other companies in the same sector. These companies are the largest in terms of employee numbers and thus tend to receive greater pressure from activist groups and governments.

The third group includes companies with an integrated vision in their environmental strategy that respond to all types of pressure, whether internal or external. This group constitutes the greatest number of companies in the sample because such companies are generally small.

According to the authors, the appearance of this group with its integrated vision was unexpected. Compared with the others, this group has more advanced environmental policies and exhibits higher levels of environmental performance. These companies are also more efficient in their use of resources and raw materials, are highly integrated with their suppliers and invest in research centers and institutions to develop more efficient alternative ways of using raw materials.

Based on their results, the researchers conclude that external integration and improvements in processes result in a unified approach to environmental practices and performance improvements.

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# Why companies adhere to sustainability indexes

## ARTICLE IN FOCUS

### Sustainability indexes: Why join? A study on the “ISE” in Brazil

Renato J. Orsato, Alexandre Sanches, Wesley Mendes da Silva, Roberta Simonetti and Mario Monzoni

**C**reated in 2005, the Business Sustainability Index (ISE) was a pioneering initiative in Latin America that aimed to create a portfolio of shares of companies committed to sustainability. At most, the ISE consists of 40 of the 200 companies with the most liquidity on the BM&FBovespa. However, research has demonstrated that participation in the index does not add value to the shares of the companies and that the ISE does not perform any better than other financial market indexes, such as Ibovespa.

This finding was the first discovery of the study “Sustainability indexes: Why join? A study on the ‘ISE’ in Brazil” by FGV-EAESP professors Renato Orsato, Wesley Mendes da Silva and Mario Monzoni with Business Administration PhD student Alexandre Sanches and researcher Roberta Simonetti of the FGV-EAESP Sustainability Studies Center. Therefore, the following question arose: Why do companies dedicate resources to participate in sustainability indexes, such as the ISE?

To answer this question, the authors conducted interviews at three companies. Two of the companies were included in the ISE, and one had not joined the index. In all three cases, the interviewees stated that joining the ISE has had no influence on the value of their shares. For the two companies that participate in the index, their participation is due to a “natural” process of incorporating environmental and social concerns into their business strategy.

Therefore, the decision to join the ISE is not an isolated attempt to increase a company's value. Instead, it represents a question of coherence and alignment between sustainability and corporate strategy, which are intangible and indirect factors of sustainability that have an influence on business performance.

The companies that participate in the ISE expect to gain prestige and reputation, although the impact cannot be measured. In a 2011 survey of 400 global companies, consultants GlobeScan found that 50% of the companies considered increasing business transparency to be the most important attitude for winning public trust. Companies that are committed to society attract more media and public attention and manage to differentiate themselves more easily.

The interviewees believe that sustainability is a source of competitive advantage. However, belonging to ISE does not engender benefits. However, various aggregated actions can reduce risks, for example, the actions that result from changes in legislation and conflicts with the community.

Another important aspect is that initiatives such as the ISE involve the sharing of knowledge on best practices, codes and systems for managing environmental and social questions. Such knowledge sharing facilitates the creation of a learning environment among the participants.

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# Analyzing structural faults in the pillars of Administration

## ARTICLE IN FOCUS

### A blast at the past: An inquiry into Herbert Simon's arguments against the principles

Ion Georgiou

In 1946, American economist, sociologist, political scientist and psychologist Herbert Alexander Simon published an article in the *Public Administration Review* entitled "The proverbs of administration", which had a substantial impact. In the article, Simon ferociously criticized the traditional view of management based on principles that had been established by French industrialist Henri Fayol: division of work, discipline, unity of command, order and hierarchy.

In the article, Simon particularly attacked the influential research of Luther Gulick. In the 1930s, Gulick was a member of the Brownlow Committee, whose members (whom were handpicked by President Franklin D. Roosevelt) drew up a series of rationalized management structure recommendations for the federal government. These recommendations informed the book 'Papers on the Science of Administration', which Gulick jointly edited with the Briton Lyndall Urwick. The book's first article, "Notes on the Theory of Administration", authored by Gulick, is considered to be a classic in the annals of administration history. It was this article that Simon attacked.

According to FGV-EAESP professor Ion Georgiou, most management academics supported and continue to support Simon's attack on Gulick. Simon was one of the founders of a new area of studies, which have been predominant since then and which are centered on organizational behavior. Simon also devised the term "limited rationality", which continues to be frequently used today. He pioneered the idea that it is impossible for a human being to know all of the alternatives and consequences of a decision and to maximize the results.

In the article "A blast at the past: An inquiry into Herbert Simon's arguments against the principles", which appeared in the Public Administration journal, FGV-EAESP professor Georgiou does not oppose Simon's ideas of "limited rationality" and the behavioral study of management. What Georgiou discusses is that Simon's criticism of Gulick was based on faulty arguments that did not truly elucidate the problems of the structuralist theory, which is based on principles and on the creation of systems.

For example, Simon attacks Gulick's idea that a subordinate should only receive orders from one boss and argues that decisions are in fact better when they are influenced by multiple sources. Georgiou believes that when Gulick wrote about "unity of command", he was not trying to analyze how decisions are made but how they are communicated to subordinates after they are made. Therefore, in Georgiou's evaluation, Simon's argument is misplaced.

For Georgiou, it is important not to underestimate the contributions of Gulick or Simon but to consider that both viewpoints can be used in management. "It seems logical that research in Administration should consider the structures of organizational design within which management is practiced and the reasoning that results in observable practices," he states.

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# Brazilian Administration courses: Children of the Cold War

ARTICLE IN FOCUS

The USA and the export and expansion of management teaching in Brazil during the 1950s and 1960s: Management courses at UFBA and at UFRGS

Rafael Alcadipani e Carlos Osmar Bertero

Currently, over 20% of Brazilian graduate students are enrolled in approximately 2000 Business Administration courses in Brazil. Few studies have aimed to elucidate the historical origins of this expansion. However, among these few studies, the research by Rafael Alcadipani and Carlos Osmar Bertero, professors at FGV-EAESP, is notable. These scholars have tried to understand the role of the government and institutions of the United States in the dissemination of management teaching in Brazil.

Business management first appeared at the end of the 19th and beginning of the 20th centuries in the United States as a set of techniques and skills that valued effectiveness and efficiency, that were intended to be politically neutral and that spread from independent trade schools to universities. However, the historical research of Alcadipani and Bertero reveals that the American viewpoint was not impartial. During the Cold War, in the 1950s and 1960s, the United States diplomatic mission, Michigan State University (MSU) and the Ford Foundation (FF) formed a government-university-foundation network to export management teaching to Brazil with the aim of disseminating American values and strengthening relations between the two countries.

This initiative occurred during a politically troubled time in Brazil. The period from 1953 to 1966 saw the suicide of Getúlio Vargas, the resignation of Janio Quadros and the deposing of João Goulart. Excluding the period of economic growth during the Juscelino Kubitschek administration, the Brazilian economy faced serious problems, and the relationship with the United States was fractious. Official documents examined in the FGV-EAESP professors' research indicate that there were significant pressures for the United States to provide increased help and cooperation to Brazil.

The first institution for the export and expansion of management in Brazil was the American diplomatic mission. This mission fulfilled the role of supplying the US government with information on Brazil and provided support for the MSU mission in its various projects.

The second institution, MSU, was involved in 150 international technical cooperation projects in various countries worldwide in many areas of expertise. At this time in the United States, a veritable industry of international academic cooperation, which enjoyed abundant, easily attainable funding, existed. One of the projects that were developed in Brazil was the creation of management schools, which occurred between 1953 and 1966. This project involved the FGV-EAESP and the federal universities of Bahia (UFBA) and Rio Grande do Sul (UFRGS). According to the most recent study by Alcadipani and Bertero, this project cost the equivalent of \$10 million in today's currency, and it was funded by the Brazilian government and the United States Agency for International Development (USAID).

MSU's role was to support the development and expansion of the capacity to teach management by offering technical expertise. Article I of the contract between MSU and the US government expressed in detail MSU's functions in relation to the FGV-EAESP and other institutions that taught management in Brazil. Between 1954 and 1958, 11 MSU professors visited the country for stays of approximately two years. Most of these professors were at the FGV-EAESP, but there were also professors at UFRGS and UFBA and in the Production Engineering course at the University of São Paulo's (USP) Polytechnic School.

MSU's role was also to manage all matters associated with the transfer of the teachers and their upkeep, which among other activities included providing certificates that the professors had no links to communism. All of the furniture, household goods and even the automobiles of the teachers were sent by ship. The professors corresponded frequently with MSU and reported on their activities in Brazil.

The third institution, the FF, entered the project when the teaching of management in Brazil had already achieved a position of distinction in the country. The FF provided financial assistance to help the project become even better established and catalyzed the project's expansion to other parts of Brazil.

This research by Alcadipani and Bertero contributes to elucidating the formation of the Business Administration field in Brazil by describing in detail how the US diplomatic mission, MSU and the FF formed a network that enabled the export and expansion of management in the country during the 1950s and 1960s, not only in the Southeast, but also in other Brazilian regions.

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# Eight proposals for improving quality in Administration research

## ARTICLE IN FOCUS

### Brazilian scientific production in Administration in the 2000-2010 decade

Carlos Osmar Bertero, Flávio Carvalho de Vasconcelos, Marcelo Pereira Binder and Thomaz Wood Jr.

The number of scientific studies in Business Administration has increased with a remarkable vitality in Brazil, and the number of master's degree and PhD programs has multiplied in recent years. The most prominent topics in this research area have been studied by thousands of academics. Nevertheless, Brazilian contributions continue to lack originality and relevance, according to professors Carlos Osmar Bertero, Marcelo Pereira Binder and Thomaz Wood Jr., from FGV-EAESP, and Flávio Carvalho de Vasconcelos, from FGV-EBAPE, who are the authors of "Brazilian scientific production in Administration in the 2000-2010 decade", published in the RAE-Revista de Administração de Empresas (Business Administration Journal).

To contribute to progress in the quality of Brazilian scientific research in Administration, Bertero, Binder, Wood and Vasconcelos present eight proposals for change in their article:

1. Focus on Brazil: Brazilian scientific journals must establish editorial lines that favor the development of knowledge and theories on Brazilian themes, objects and phenomena, which should be categorized by fields of Administration. In addition to facilitating the work of editors and evaluators, such a redirection would increase the effectiveness of Brazilian contributions to the development of Administration and would attract the attention of the international community interested in reading and learning about Brazil.
2. Bring theory and practice closer together: Today, many researchers at Brazilian institutions work at a distance from organizations. Forums for dialogue and cooperation must be established,



which would enable researchers and managers to set research agendas that could advance theory on local phenomena and contribute to the thinking on administrative practices and their improvement.

3. Create research plans: To manage knowledge and best theories, the programs must transcend numerical targets and must establish guidelines for research on increasing knowledge on certain themes, objects and phenomena. Such choices must be coherent with the history of the teaching institutions, their previously established competencies and their local, regional and international position, and they must guarantee to include a diversity of viewpoints and approaches.
4. Foster strictness: Today, academic congresses and journals are often regarded as “outlets” for scientific production. There seems to be a tacit assumption that every study that achieves a minimum level of quality must be published. More discernment by scientific journal editors and coordinators in the academic congresses’ areas must contribute to increasing the quality of local production by barring less important research from publication and encouraging studies with greater potential.
5. Focus on the impact of the contribution: The current Brazilian system for evaluating researchers encourages researchers to “multiply” publications to ensure that they earn more points. Consequently, quantity frequently increases at the expense of quality. The use of impact indicators could shift the focus of scholarly research to the use of the knowledge that is produced.
6. Give preference to quality international periodicals: Publishing in the most important periodicals requires the development of specific skills in terms of theoretical development and methods that could spread from the authors to their programs. In addition, the publication of research in such periodicals could provide local research with greater international visibility and could contribute to the development of more robust theories that are validated (or otherwise) in an emerging country.
7. Reform postgraduate programs: Today, there is an incentive for programs to grow, to increase the number of individuals with master’s degrees or PhDs. However, in practice, many of these individuals do not possess a scientific and research profile and will not pursue academic careers. More restricted and demanding PhD programs, with a strong incentive for spending periods of study and research abroad, would most likely foster a more favorable relationship between the invested resources and the results. Master’s degree programs could continue to be expanded, with a greater focus on training teachers and with the acknowledgement that a limited but representative percentage of graduates would pursue a PhD.
8. Recognizing exemplary researchers and research: Students studying for a PhD and students who have recently completed a PhD program are increasingly more concerned about their publications and points and are increasingly less concerned about acquiring solid knowledge and producing consistent scientific contributions. We should celebrate researchers who have made notable contributions to the development of their field because of their idealism and steadfast endeavors. Exceptional research projects should also be awarded due recognition.

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# PUBLIC ADMINISTRATION

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# The influence of municipal elections on the presidential race

## ARTICLE IN FOCUS

### The 2012 municipal elections and their national repercussions

Cláudio Gonçalves Couto, Fernando Luiz Abrucio and Marco Antônio Carvalho Teixeira

**T**he municipal elections in Brazilian state capitals are considered by the media and the political parties to be important indicators with respect to the state and presidential elections that succeed them. However, research by professors Cláudio Gonçalves Couto, Fernando Luiz Abrucio and Marco Antônio Carvalho Teixeira from FGV-EAESP reveals that municipal elections do not help predict the results of contests for majority positions.

This phenomenon primarily occurs because Brazilian voters choose their representatives for the various spheres independently, varying this choice depending on the level of government and the contest in question. The same voter can vote for a candidate of a certain party for president, although he or she has voted for a representative from an opposing party for mayor. According to the authors, the typical voter “wants to know what the mayoral candidates will do for their cities and the presidential ones for the country. This is why the same voter can vote for different parties in different elections, by considering, for example, that the party’s platform deserves their vote because of its municipal plan but should not receive it in the federal or state election”. In addition, numerous developments may occur in the two years that separate municipal from state and presidential elections that can affect voter preferences and party leaderships and strategies.

The municipal elections in São Paulo in 2004 and 2012 are good examples of how the local political dynamic often differs from the nationwide contest. In 2004, Marta Suplicy (PT – Workers’ Party) was unable to win re-election although the PT had been elected to the Planalto Palace (i.e., the

seat of federal government) in 2002. Affecting the outcome was the PT administration's increasing unpopularity among the middle class, who opposed the introduction of new taxes. On this occasion, the mayoral election was won by José Serra, of the PSDB party, who was the candidate defeated in the 2002 presidential election even in the São Paulo state capital. In 2007, Serra resigned the mayor's office to become state governor.

After three years as governor, in 2010, Serra again ran for president. Despite his approval ratings in the city of São Paulo, where he obtained a majority of votes, the PSDB candidate lost the race at the national level to Dilma Rousseff (PT). After his failure in the presidential election, in 2012, Serra attempted to return to the mayor's office in São Paulo. However, he lost to PT candidate Fernando Haddad in the runoff. The negative assessment of the 2008-2012 administration of Gilberto Kassab (ex-PFL/DEM and currently PSD), who was Serra's deputy mayor and successor as mayor of São Paulo, is considered to have been the determining factor in the election results.

However, Couto, Abrucio and Teixeira found that the 2012 election results can help identify potential party allies or opponents in the 2014 elections, even if the results cannot be predicted. Based on an analysis of the 2012 results, the authors were able to map the distribution of power among the parties in the states (using the number of city halls each party won in each state) and to measure the inclination for competition or party complementarity in the various locations.

As expected, the PT and the PSDB parties tend to compete, as do the PMDB and PP, as well as the PMDB and PSD. In addition, the PP and PT appear to be a pair that is likely to compete. Despite currently being allies at the national level and despite having formed an important alliance in the last municipal elections in São Paulo, these parties have been rivals in the past, and they tend to be strong in similar locations. Thus, they compete for the same positions. However, although this partnership is complicated, it can be maintained in a peculiar way, with alliances in the key states for the national election.

The other pairs tend to complement one another in the rest of the country. The PMDB, which is the party with the most depth and presence in the country, is among the partners to be wooed. "Having mayors scattered throughout the states means having a network of supporters with political and administrative power, which is highly relevant in a presidential election. It is no coincidence that the PMDB, even with no candidates of its own in the last four elections, was the bride to be wooed in all of them", state the authors. However, this study notes tendencies toward complementarity and competitiveness. Before the race for president and state governors begins, numerous developments may occur that can influence the alliances that will be formed and the final results.

Finally, the FGV-EAESP professors emphasize that the municipal elections are most likely to more incisively affect the composition of the National Congress (favoring the PT, the PMDB and the growing PSB and PSD), given the increased participation and size of the city halls won. "The opposition should, therefore, concern itself with the 2012 results not for their impact on the presidential race but because of their probable influence on the distribution of congressional seats," conclude the authors.

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# The influence of mayors on state and federal elections

ARTICLE IN FOCUS

## Do parties matter? Intraparty linkages and electoral performance in Brazil, 1996-2010

George Avelino and Ciro Biderman

The election of a mayor increases the chances of his or her party winning votes in subsequent elections for the state legislature and the National Congress. This conclusion is the main result of the research paper "Do parties matter? Intraparty linkages and electoral performance in Brazil, 1996-2010" by FGV-EAESP professors George Avelino and Ciro Biderman. The authors performed a quantitative study based on data from elections that were held between 1996 and 2010 for only municipalities with fewer than 200,000 voters.

The authors suggest that in addition to the direct effect of the mayor on the following election, the mayoral election may have an indirect effect through the increase in the number of party members who will supposedly campaign for party candidates in the subsequent elections. After a statistical test, the researchers conclude that the 11% of a mayor's impact on the subsequent election can be divided into a 7% direct effect and a 4% indirect effect.

The authors also investigate the impact of different Brazilian parties. "Polyarchic" parties, such as the PT and the PMDB, which can count on strong municipal organizations and a decentralized decision-making process, are more capable of extracting votes from an elected mayor. The authors interpret this result to arise from the party organization. In the other two types of party (the "oligarchic" and the "monocratic"), no difference in the impact is observable. "Monocratic" parties, such as the PTB and the PP, have a limited number of municipal organizations and a centralized decision-making process. In contrast, "oligarchic" parties, such as the PSDB, the PDT and the DEM, have heterogeneous characteristics in terms of the number of municipal organizations and a centralized party decision-making process.

Avelino and Biderman believe that future research should to investigate the question of how a mayor can transfer votes to candidates of his or her party in subsequent proportional and state elections. They believe that such transfers primarily occur because the mayor is the center of reference for voters in his or her municipality. In elections for state legislatures, to choose from an abundance of candidates, voters search for an information shortcut, which can be supplied by the mayor. Second, as demonstrated by the research, the election of the mayor can increase the number of local party affiliates, who campaign for the election of candidates from their party in subsequent elections.

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# How to reduce corruption in Brazilian municipalities

## ARTICLE IN FOCUS

### Governance in managing public health resources in Brazilian municipalities

George Avelino, Lorena G. Barberia and Ciro Biderman

Corruption has been viewed as a significant threat to the operation of health services. According to previous studies, the misappropriation of public funds compromises a government's ability to supply basic services, such as immunization, or to reach universal targets, such as a reduction in infant mortality. This sector is sensitive to corrupt practices because of the large amounts of money involved, the complexity of the involved entities (e.g., users, hospitals, pharmaceutical companies, health plans and service providers) and the information asymmetry among these various agents.

In "Governance in managing public health resources in Brazilian municipalities", which appeared in the Health Policy and Planning journal, FGV-EAESP researchers George Avelino, Lorena Barberia and Ciro Biderman argue that better local governance in the health area could help reduce rates of corruption at the municipal level in Brazil.

Avelino, Barberia and Biderman conducted a quantitative study on the data from municipality audits by the Office of the Federal Controller General (CGU) and information on the Municipal Health Councils, which is a new obligatory institution for municipalities that receive intergovernmental



funding. Of the 980 analyzed municipalities, 881 had established a Health Council before or during the year of the audit. The average time of operation of these councils was 11 years.

The authors found that the municipalities with the oldest councils had a lower incidence of corruption than those with younger councils (or no council). Each year of experience with a council was associated with a reduction in the corruption index of 0.4 percentage points. "We consider this impact to be relatively high, given that the average percentage of the corruption index is 19%. Using this proportion as a basis, this means that in a municipality with a 19% incidence of corruption, the presence of a health council would result in a decline in this indicator to 15% over a period of ten years, or a reduction of 21%", state the researchers.

The study's results also suggest that the misappropriation of public funds is more likely to occur in municipalities whose budgets depend on intergovernmental funding. However, given the effect of the council's governance, the decentralization of expenditure does not significantly affect corruption levels. "The imbalance between spheres of government can increase corruption in health, but the good news is that those municipalities with more experienced health councils are capable of compensating for this gap," state Avelino, Barberia and Biderman.

The authors believe that whereas federal audits are an important centrally directed anticorruption tool, "efficient supplementary local supervision is fundamental for making municipal employees accountable and for reducing corruption".

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# The impact of electoral competition on the supply of public services

## ARTICLE IN FOCUS

### Electoral competition and local government responsiveness in Brazil

Paulo Roberto Arvate

**C**an the effects of the relationship between electoral competition and the supply of public services be evaluated? The scientific literature leaves room for controversy. In this context, FGV-EAESP professor Paulo Roberto Arvate has analyzed the Brazilian municipal scenario, which was reported in the periodical *World Development*.

The decision to conduct this type of study based on Brazilian circumstances has important institutional advantages over the same type of analysis performed in other countries. As the author emphasizes, because Brazil has a federal system that considers each of the more than 5700 municipalities as an independent entity that is capable of formulating its own budgetary proposals, a substantial amount of the power over public policy decisions resides in the municipalities.

In addition, the analysis of Brazilian municipal elections involves peculiarities that do not appear in countries such as Mexico, India, Belgium and the United States, where similar studies have been conducted. These peculiarities include Brazilian party plurality, a two-round electoral process for cities with over 200,000 inhabitants and the obligatory vote.

Two analytical currents are presented in the article. The first, which follows the tradition of the Chicago School, understands that the political "market" behaves as any economic market: a larger number of candidates decreases the possibility that the politicians in power will make rentier decisions on public policies, that is, decisions that only benefit the organized groups that have access to decision making. The second current associates a large number of candidates with an increased tendency to protect minority groups, which would tend toward decision making that does not benefit everyone.

Arvate's research cross-references data from municipal elections between 1996 and 2004 with data supplied by the 2000 IBGE census. The year 2000 was the point of departure for evaluating the evolution of the supply of public services. The author selected indicators in the areas of education and health because they have the largest volume of social investment by public agents in Brazil. In these areas, three specific indicators were analyzed that are related to Brazil's municipal social environment: enrollment in public primary education per 10,000 inhabitants, the number of teachers in this system per 10,000 inhabitants and the number of free vaccinations per 100,000 inhabitants.

The study results demonstrate that electoral competition in Brazil contributed to the supply of public services: a 14% increase was observed in school enrollments, a 0.8% increase in the number of teachers and a 15% increase in access to free vaccinations. These results confirm studies that demonstrate a decrease in rentier behavior by candidates elected owing to fierce electoral competition.

The study also indicates how electoral competition increases in cities where a runoff is likely to occur, which generates a positive impact on the supply of public services: each effective candidate in cities with over 200,000 inhabitants contributes to an increase of 35%, 1.4% and 44% in the number of school enrollments, teachers and immunizations, respectively. In cities with no runoff and in which competition is lower, the same indicators exhibit positive variations of only 3%, 0.12% and 2%, respectively, which indicates the importance of the runoff for fostering electoral competition and therefore improved results from public policies.

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# The power of professionals in capitalism

## ARTICLE IN FOCUS

### The organization and the new concept of capital in techno-bureaucratic capitalism

Luiz Carlos Bresser-Pereira and Regina S. V. Pacheco

**T**he type of society that exists today in wealthy and middle-income countries is not classical capitalism, in which capital is the dominant factor. Rather, such countries are characterized by techno-bureaucratic capitalism, in which the strategic factor of production is the business organization, argue FGV-EAESP professors Luiz Carlos Bresser-Pereira and Regina Pacheco. Also known as capitalism of the professionals and knowledge capitalism, this system emerged during the Second Industrial Revolution, when the basic unit of production ceased to be the family and became the bureaucratic business organization and when techno-bureaucracy arose as a third social class between the bourgeoisie and the workers.

From being a merely bureaucratic class in the service of the monarchy, in the 20th century, the techno-bureaucracy, or professional class, assumed the character of a social class to the extent that the enormous increase in the number of its members implied a qualitative leap. This new class performs technical and administrative functions in planning and coordination in large bureaucratic organizations, both public and private. It manages but does not control. Thus, this class shares and disputes power and privilege with the traditional capitalists. Being large and diversified, this class is occasionally allied with the state and economic development and occasionally with companies and their growth.

According to the authors, unlike what occurs in classical capitalism, in which the capitalist directly owns the instrument of production, in techno-bureaucratic capitalism, the professional controls the bureaucratic organization. In turn, this bureaucratic organization owns the instrument of production, the commodities and the money required to employ workers and to perform production. Control is not exercised individually, as with classical capitalism, but collectively by a group of professionals.

According to Bresser-Pereira and Pacheco, the essential distinction between classical capitalism and the techno-bureaucratic manner of production is based on the diverse nature of production relationships. In classical capitalism, property is privately owned, and the dominant class is the bourgeoisie. In techno-bureaucratic society, property is collective, and the dominant class comprises professionals.

The top executives of private companies and the upper public bureaucracy can determine their own remuneration but not fully, because they represent the collective ownership of the organization but not the legal ownership. These executives and bureaucrats must constantly justify their actions, whereas capitalists are free to utilize their property for their own benefit and that of their families. The same is true in state systems.

Unlike capitalist and precapitalist property, the property of the professionals is not inherited. The new middle-class professionals must use various strategies to transfer their class positions to their offspring, whereas this process is relatively automatic in the case of the capitalist classes and, more important, in the aristocracy.

For the authors, this characteristic means that organizational property is less defined and less authoritarian than capitalist property. Furthermore, the organization is a production relationship that offers less stability to its owners than capital, which explains why social mobility tends to be greater in the capitalism of professionals than in classical capitalism. Nevertheless, the meritocratic ideal remains far from the reality because the remuneration of the top executives becomes high and income is ultimately concentrated.

Currently, a business's value is determined by the potential value of its cash flow, which depends on the quality of its top management, explaining why this group's income and its power increase daily. These relationships also explain why the influence of shareholders is being systematically reduced and why, perversely, abuse and corruption, particularly in the form of falsified financial statements, have become so common.

According to Besser-Pereira and Pacheco, techno-bureaucratic domination cannot be concluded to be inevitable. Techno-bureaucratic power is challenged from time to time by the rentier bourgeoisie, and it comes into conflict with the workers and the employee middle class (i.e., the lower stratum of the professional class), which press for more democracy. However, although political power historically changed from authoritarianism to democracy in national societies, in business organizations, despite all attempts at self-management, power remains hierarchical because market competition requires quick and coordinated decisions that have proved to only be viable in this way.

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# The political arena of major public works

## ARTICLE IN FOCUS

### Democracy and development in contemporary Brazil: The conflicts and articulation of interests in the São Francisco River project

Maria Rita Loureiro, Marco Antonio Teixeira and Alberto Ferreira

Unlike what occurred with the major construction projects of the military governments, such as Itaipu and Sobradinho, large contracts are currently not being implemented without the participation of various participants from the political powers, government bureaucracy and civil society. In "Democracy and development in contemporary Brazil: The conflicts and articulation of interests in the São Francisco River project", FGV-EAESP researchers Maria Rita Loureiro, Marco Antonio Teixeira and Alberto Ferreira analyze how this process occurs based on a study of the project for transposing the São Francisco River.

This project has been on the public agenda in Brazil for more than a century and a permanent object of dispute. Historically, some coalitions were favorable about the transposition. These coalitions essentially consisted of government technicians, state ministers and political leaders from the states that would benefit from the project (i.e., Pernambuco, Rio Grande do Norte, Ceará and Paraíba). However, other coalitions opposed the project. These coalitions consisted of political

leaders from states that potentially would be harmed by the transposition (i.e., Bahia, Minas Gerais, Sergipe and Alagoas) and economic groups linked to irrigation and power generation, organized civil society movements, academics, religious institutions and judges.

The project finally left the planning stage when the government prioritized it and included it in the Growth Acceleration Program (PAC). However, when the research was conducted, the execution level was 70% below the planned level of execution. Loureiro, Teixeira and Ferreira believe that underachievement occurred because of not only technical problems but also the legal challenges filed by the Public Prosecution Office and civil society organizations and audits and inspections by control bodies. "In other words, unlike what one reads in the press, the delay in executing large developments is not always only associated with supposed government inefficiency but on the contrary with the functioning of Brazil's democratic control institutions", they state.

According to the researchers, in the project to transpose the São Francisco River, "a possible new pattern of relationship between the state and society" was established. The "old political rules of cronyism" persist, such as incorporating construction work into the project that was demanded by representatives of the states that might be harmed and assigning positions to leaders who opposed the work. However, the relationships were also based on an increased sharing of decisions, with more participative formulation and implementation arrangements.

Therefore, the work was renamed the Integration Project because it aimed not only to transfer water to the semi-arid region but also to revitalize the São Francisco River basin and to advance other programs for improving economic conditions for the social groups that would suffer if the policy were only to consider the transposition of the river.

Loureiro, Teixeira and Ferreira note that this process presented the managers with challenges, which required that they possess the political skills to articulate interests and construct consensus in addition to technical and administrative training. "The introduction of the São Francisco River project became a highly politicized process, since an attempt was made to neutralize or recover from the political losses that had occurred when it was first formulated. As a result, the bureaucratic agencies were frequently transformed into places for representing interests", the researchers observe.

The authors of the study believe that this reveals the institutional weakness of the political parties with respect to constructing and articulating projects for the nation and in contrast to the prominent role played today by state bureaucracies in public policies. This politicization of the process occurs in the bodies that introduce the policies and in those responsible for their control, which create the need for negotiation to overcome operational obstacles in demanding adjustments to the project.

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# Corruption is damaging the health of Brazilians

## ARTICLE IN FOCUS

### The sickness of corruption: The misappropriation of funds and public health in Brazilian municipalities

George Avelino and Ciro Biderman

**T**he health sector is considered to be a primary target of corruption worldwide. However, in research on this topic, significant gaps remain, primarily because of the difficulty of measuring the size and impact of corruption in such a complex area. In "The sickness of corruption: The misappropriation of funds and public health in Brazilian municipalities", FGV-EAESP professors George Avelino and Ciro Biderman attempt to develop an objective way to measure the effect of corruption on health indicators, such as infant mortality rates and the percentage of hospital deaths.

In the scientific literature, the following effect is frequently discussed: by affecting the supply of public services, corruption negatively influences the results of state actions and causes a deterioration in social indicators. To demonstrate the accuracy of this observation, Avelino and Biderman used as their starting point audit reports from the Federal Controller General's Office (CGU), the health indicators provided by Brazilian municipalities on the DATASUS website and a series of controls



made available by official organs.

The CGU program audits transfers from the federal government to the municipalities. Sixty municipalities with fewer than 500,000 inhabitants are included in each random selection of candidates for auditing. This process informs a published report that presents information regarding irregularities that relate to purchasing fraud, the misappropriation of public funds for private gain and overcharging on goods and services.

On the basis of this report, Avelino and Biderman construct an index that reveals that corruption jeopardizes health standards related to mortality in hospitals and healthcare institutions. This occurs because suitable equipment, which should be acquired with the funds that are embezzled through fraudulent actions, is ultimately not available.

One of the largest corruption scandals in Brazil's health sector was attributed to the 'bloodsucker mafia', which falsified ambulance purchases by municipalities. Ambulances are vital for transferring the sick to healthcare units, particularly in emergencies. In the absence of such equipment, the percentage of deaths in hospitals decreases and the percentage of deaths on public roads and in residences increases.

The research of Avelino and Biderman demonstrates the need to fight corruption to guarantee an improvement in healthcare. This sector is vulnerable to corruption because it is surrounded by uncertainty. Who will fall sick, when they will become sick, what type of treatment will be necessary and how efficient the treatment will be are not precisely known. Patients have insufficient information for seeking the best price and quality, and various participants are involved in the process: government, health insurance plans, health systems, hospitals, suppliers and patients. An additional challenge in Brazil is the Single Health System (SUS), which introduced a series of benefits owing decentralization but ultimately rendered resource control difficult because of the complexity of funding in the system.

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# The farce of popular participation in the São Paulo Municipal Chamber

## ARTICLE IN FOCUS

### The institutionalization process of participation in the São Paulo Municipal Chamber: An analysis of budget public hearings (1990-2010)

Gabriela de Brelàz and Mário Aquino Alves

Every year since 1990, the Municipal Chamber of São Paulo has been obliged to hold at least two public hearings to discuss the city's budget, which is the most significant legislation to be approved in the year. However, according to Gabriela de Brelàz, from the Federal University of São Paulo, and Mário Aquino Alves, from FGV-EAESP, whose study "The institutionalization process of participation in the Municipal Chamber of São Paulo: an analysis of budget public hearings (1990-2010)" was published in *RAP- Revista de Administração Pública* (Journal of Public Administration), this opportunity for participation has been used in a therapeutic manner, i.e., in a way that draws in and protects civil society.

The authors analyzed 14,000 pages of shorthand notes related to 252 public hearings and technical meetings held between 1990 and 2010, examined 209 newspaper articles and conducted 23 interviews to assess how society participates in approving the budget. They concluded that little time is provided for the opinions of civil society, that there is no possibility for dialogue and that the public hearings are ultimately an occasion to collect demands that are met in accordance with the

individual orientation of the parliamentarians who participate in the process, which is typical of a clientelistic system.

In the public hearings arranged by the Chamber, typically, either the Chairman of the Finance and Budget Committee (CFO) or the budget rapporteur opens the session. Then, the secretary or representative of the executive branch makes a presentation. Next, the councilors on the finance committee can ask their questions, followed by the other councilors of the house. The executive branch replies to the questions, and finally—often when little time remains before the end of the hearing—the session is opened to the representatives of civil society, who must be registered on a list to obtain permission to speak and who receive the right to speak for approximately three minutes.

The dynamics of the public hearing are such that civil society has no right to respond to the reply that they receive or to ask additional questions. Thus, according to the study's authors, such hearings do not favor a qualified discussion on public policies or the way in which the budget is applied or its effect. The representatives of civil society act as observers and interact in a system that is protected by the legislative branch, which arranges the hearings at times when there is little chance of participation, invites primarily citizens from their parliamentary support base and asks that demands be submitted in writing.

In turn, the demands serve to legitimize the amendments that are submitted by the councilors. "The demands of civil society function as a type of veneer, which covers the amendments that are to be included in the budget", state the researchers. Therefore, the legislative branch uses citizen participation to establish its position, thereby gaining strength in its conflictual relationship with the executive branch and obtaining legitimacy for its amendments.

Brelàz and Alves found that a "culture of spectacle" characterized by simulation predominates in the hearings: "This is a deceitful representation of democracy and a farce of the culture of participation, in which citizens believe they are participating and are players in the political system, when in fact they are nothing more than spectators".

The researchers conclude that the Chamber "opened itself up" to maintain the order itself, not to transform it. "It did not establish a truly participative system", they state. The participation of civil society has increased in recent years. However, this increase resulted from the end of the participative budget and the reduction in the role of the subprefectures. An institutional vacuum was created, and interaction with society became even more clientelistic, according to Brelàz and Alves.

Among other aspects, the study's authors believe that the following measures are necessary: to rethink the role of public budget hearings; to present the budget for discussion when it is being formulated (and not just when it is finished and only open to amendments); to expand the debate by theme; to guarantee an in-depth discussion with sector, theme and management councils; to implement other participative forums, such as representative councils in the subprefectures; and to establish channels of dialogue that transcend a physical presence in the Chamber "and that allow the citizens of a city the size of São Paulo to participate not as viewers passively watching a spectacle unfold on the hearings stage but as active citizens".

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# How cities can work together to solve their problems and prosper

## ARTICLE IN FOCUS

### Innovation in intermunicipal cooperation in Brazil: The experience of the Federation of Santa Catarina State Municipalities (Fecam) in the building of public consortiums

Fernando Luiz Abrucio, Eliane Salete Filippim and Rodrigo Chaloub Dieguez

Municipalities have been independently unable to formulate and implement all of the public policies that they require. Therefore, they have sought to associate themselves with other municipalities to jointly solve their problems. However, how can they create an association that will remain stable and function well over time? This question motivated researchers Fernando Luiz Abrucio, from FGV-EAESP, Eliane Salete Filippim, from the University of Western Santa Catarina, and Rodrigo Chaloub Dieguez, from Valec Engineering, Construction and Railways, to study a special case of consistent management of intermunicipal cooperation in Brazil: the Santa Catarina State Federation of Municipalities (Fecam).

Fecam emerged in 1980 from a strong tradition of cooperative processes between Santa Catarina State municipalities. The city halls felt the burden of the lack of an organization that could link the municipality associations with the state and federal governments. Fecam is an entity outside the municipalities—it can even mediate conflict between them—but it is also the result of their coordination. For the authors of the study, what makes Fecam strong is precisely its role as a mediating organization that is perceived to be neutral by local governments.

Another factor that strengthens this association is that in addition to the activities that defend the interests of its members (i.e., advocacy), Fecam provides technical assistance to the city halls. The body has a workforce of 27 employees, all on contract on a CLT labor legislation basis, who serve 293 municipalities in the legal, accounting, social, taxation, environmental, administrative, technological, tourism and culture areas.

According to the authors of the study, which was published in RAP (Journal of Public Administration), “other associations of municipalities can repeat this pattern provided they manage to build their legitimacy with the mayors and assemble a professional structure of support for local governments, with the declared intention of building models of territorial associationism”.

Fecam also operates directly in the establishment and organization of intermunicipal consortiums. One such consortium is the Consortium of Information Technology in Municipal Public Management (Ciga). Before the establishment of Ciga, which develops IT tools, the municipalities were dependent on companies that provide technology and official communication services. The consortium works to develop new solutions. Ciga created the digital Official Gazette of Santa Catarina State Municipalities (DOM/SC), which provided greater flexibility, saved public funds and increased government transparency.

For the researchers, the success of associative arrangements is attributable to a capacity to reconcile innovations in form, by “breaking with the compartmentalized model of Brazilian federalism”, and in content, “because the permanence of the consortium arrangement is tied to obtaining concrete results for a problem of public policy”.

Abrucio, Filippim and Dieguez note several aspects of the Fecam experiment that require further development and that should be heeded by other association models of its type. First, civil society does not currently participate in Fecam. Second, a culture of results measurement and monitoring should be introduced, with the use of performance indicators. Finally, to create a favorable cooperative environment, the relationship between the state government and municipal bodies must be less competitive.

However, in the case of Fecam, competition occurs because the state government created Regional Development Departments (SDRs) without respecting the microregions of Fecam, which results in overlap and waste. Therefore, considering the state’s greater economic power, the municipal forums risk becoming weaker. “To strengthen the logic of intermunicipal consortium arrangements, it would be interesting if the other levels of government joined Fecam in the process of linking the municipalities for common regional goals,” the study’s authors advise.

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# How to promote learning between control organs and controlled institutions

## ARTICLE IN FOCUS

### Organizational learning of controllers and controlled agencies: Innovation and challenges in promoting accountability in the recent Brazilian democracy

Cecília Olivieri, Marco Antonio Carvalho Teixeira, Maria Rita Loureiro and Fernando Abrucio

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he inspection work of the government control agencies, such as the Federal Court of Accounts (TCU) and the Office of the Federal Controller General (CGU), has increased the transparency and accountability of the state and has also helped improve the quality of public management.

The relationship of the CGU and the Ministry of Social Development with the Fight Against Hunger (MDS) exemplifies this potential for organizational learning. The auditing process was studied by researchers Cecília Olivieri, from the University of São Paulo (USP), and Marco Antonio Carvalho Teixeira, Maria Rita Loureiro and Fernando Abrucio, from FGV-EAESP. The results of the study were published in the American Journal of Industrial and Business Management.

The interaction between the CGU and the MDS, in particular, with respect to the National Social Assistance Agency (SNAS), started in 2004. In that year, the SNAS was preparing the rules

for the Single System of Social Assistance (SUAS), which was introduced in 2005 to organize social services into a protection network for families that benefit from income transfer programs. The main regulations concerned the application of resources in this decentralized system, which covers the three levels of government.

The CGU analysts and the SUAS managers met on two occasions. The first meeting occurred before the CGU audited a sample of randomly selected municipalities, and the second meeting occurred after the inspection, when the MDS validated the report prepared by the CGU.

According to those interviewed from the MDS and the CGU, although not always harmonious, the relationship provides a learning opportunity for both parties, which is rare. "In most cases, the Ministry resists the recommendations of the control agency and the latter, in its turn, is reluctant to alter its internal auditing processes to fit the particular requirements of the programs," observe the study's authors.

In the studied case, the CGU analysts considered the specific characteristics of the SNAS and the structure of the MDS, although this approach required a longer auditing time than is normally required. Regarding the MDS, the study's authors observed three learning gains. First, because of the demands of the CGU for detailed rules from the SUAS, the regulations of the latter were improved.

Second, by noting problems in the implementation of the SUAS in the municipalities, the CGU induced the SNAS to review its regulations and the incentive and control mechanisms of the Municipal Executive Powers. In the beginning, this review generated stress among SNAS employees. However, over time, these employees understood that the information produced by the CGU audits could help the MDS determine what was occurring at the delivery point of the system and improve its management. Because the CGU is an agency that is external to the Ministry, it provides a view "from outside" that has helped the SUAS managers identify failings that they would have been unable to perceive independently. Thus, the managers realized that only designing an innovative policy was insufficient; they also had to monitor and create mechanisms of control and punishment.

Third, the CGU demands resulted in organizational restructuring because they legitimized requests by the SNAS to the MDS to hire employees and to acquire for funds for SNAS control activities. The SNAS created a team to address the issues raised by the inspection and to interact with the CGU.

The researchers believe that the following elements were necessary for this learning process: first, meetings between the CGU analysts and the managers to discuss the SUAS; second, the predisposition of both parties to understand the view and the position of the partner; third, the retention of the leaders of both teams in their positions to avoid the loss of previous knowledge; fourth, the fact that the MDS is a new ministry and the SUAS is still being created, which provided a degree of malleability; and fifth, the privileged position of the MDS as manager of the Bolsa Família (Family Benefits program) in being able to obtain resources for its actions. The last two factors resulted from contingencies and cannot necessarily be replicated in other contexts; however, the first three factors can be encouraged in other cases, according to the study's authors.

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# Changing the asymmetrical relationship between small farmers and large industries

## ARTICLE IN FOCUS

### Sustainable rural development and production integration in family farming: Contributions from social management to the co-production of the public good

Zilma Borges de Souza, Mario Aquino Alves and Marco Antônio Carvalho Teixeira

**T**o what degree does the integration of family farmers with agro-industrial chains benefit small landowners? This question guided a study by FGV-EAESP professors Zilma Borges de Souza, Mario Aquino Alves and Marco Antônio Carvalho Teixeira in the municipality of Tupandi, which is prominent in Rio Grande do Sul for its production of poultry and hogs.

The town was selected as an object of the research because it has a permanent public support policy for family farming. The Agriculture Development Fund in the municipality (Fundat), which was established in 1993, was essential for the introduction of a production integration system with large companies. Because the properties in Tupandi, which are 10 hectares on average, are located on rocky, sloping ground, the Municipal Department of Agriculture and the Environment viewed poultry and hog breeding as an appropriate use for the land. Therefore, it decided to fund earthworks and to supply tiles to enable the construction of poultry houses and pigsties.

Because industry only makes a series of demands and does not finance producers, public funding



is the only way to help these small landowners become economically viable. In addition to Fundat, which is municipal, the small landowners rely on a federal line of credit from Pronaf. The average cost of constructing and automating a poultry house is R\$200,000, which constituted a barrier to the participation of the poorest producers.

After performing a field study, the authors of the study concluded that although production integration enables the farmers to increase their income and enables the municipality to develop, substantial progress is necessary before a balanced relationship between the parts of the production chain can emerge. Although the small landowners can rely on the support of various social agents, such as the town administration, trade unions, credit cooperatives and banks, the industry establishes the (inflexible) negotiation rules.

Therefore, the farmers alone bear the risks of the activity. When animals die on their property, the farmers suffer the loss. In the research interviews, the farmers were unable to precisely state how many animals enter and leave their properties. Therefore, they are remunerated based on what they are told by the industry and are thus vulnerable to the information that is made available to them regarding their own production.

Before integration with the large industries, the landowners produced chickens and hogs on a small scale by using the traditional ways of managing them. However, with large-scale production, which may reach as many as 25,000 chickens in a single poultry house and 500 hogs in one pigsty, the work becomes exhausting. One producer reported that in the winter, he must resupply the furnaces with wood every three hours to keep the poultry houses warm. The producers are frequently audited by technicians from the industry. The rules and control impose a production method that substantially differs from the method passed down from father to son for generations.

The producers are also highly dependent on one or two large companies. In 2009, when a crisis occurred in the multinational chicken industry, several owners went months without producing. The problem was only resolved when the industrial plants of this particular company were leased for ten years to another company, which re-established the integration relations but which assumed no responsibility for the debts and losses incurred by the producers during this period. During this crisis, many producers only survived because they had production alternatives and because family members were involved in nonagricultural activities.

In the analysis by Souza, Alves and Teixeira, these multiple activities are a way to decrease the dependence of the producers. However, in addition to supporting diversification, the local agents should adopt other attitudes to change the asymmetrical relationship that has been established. For the development to be sustainable, the authors propose what they term social management—as opposed to strategic management. Social management refers to a production strategy that uses networks and partnerships, in which solutions are shared and in which all participants can be held accountable. In this logic, the farmers not only perform production or trading functions but also determine how the natural resources are employed and in what way the land is occupied.

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# The new owners of public space

## ARTICLE IN FOCUS

### Bringing the horizon back in: The mid-range approach to organizational studies

Peter Spink

The large demonstrations that occurred in Brazilian cities in June and July 2013 revealed that government bureaucracy no longer has a monopoly on the management of social problems and that the nongovernmental organizations (NGOs) that are invited to attend certain forums are incapable of independently transforming public issues. In the article “Bringing the horizon back in: The mid-range approach to organizational studies”, FGV-EAESP professor Peter Spink describes this change while demonstrating how a “process of democratic experimentation” is occurring in the daily lives of various participants.

According to Spink, in the ten years during which the Center for Public Administration and Government Studies of FGV-EAESP collected examples of innovation in state and municipal governments (from 1995 to 2005), the result was achieved by a government department working alone in only 20% of the cases. In the remaining cases, other agencies or NGOs assisted. These organizations were local: resident associations and community organizations (11%), small businesses (11%), public policy councils (9%), Catholic religious organizations (6%), professional associations (including Rotary International and Lions Club) (6%), local voluntary services and NGOs (4%), farmer

associations (4%), local trade union branches (4%), trade associations (3%) and many others.

Spink observes that despite the predominant idea that our lives are governed by the rational decisions of an authoritarian government (i.e., one that imposes penalties and allocates institutional responsibilities) in the public arena of daily life, there are no referees and few rules. In practice, most individuals try to ensure that resources are allocated to the areas to which these individuals would like them to be allocated.

In these circumstances, the service planner, who is concerned with the cumulative impact of various policies, and the public (i.e., we citizens in our daily lives) must ask ourselves how to solve certain issues. Thus, the author of this study argues that a tense area of “public action” that is occasionally collaborative and often conflictual will exist. Such action will include, on the one hand, multiple intersections between government action and public policies and, on the other hand, social movements and community actions.

Spink also observes that there are different ideas of public and of action, which often are associated with different perspectives of power. There is the language of the budget and of planning practices, and there is the language of rights. There is the language of direct mobilization regarding highly practical issues, and there is the language of solidarity and philanthropy. Each one conditions, or executes, public policies.

Therefore, according to Spink, many social questions are unique, and they cannot be repeated in other contexts. Thus, the first concern must be to find ways to cope with the existing circumstances. “We have to solve locally based issues with locally based actions that are derived from locally based knowledge”, observes the author.

Spink comments on the case of the M’Boi Mirim region in São Paulo, which has approximately 600,000 inhabitants. According to a document from the Municipal Department of Assistance and Social Development (SMADS), this area has 79 different service units that are capable of serving 16,610 individuals. Of these 79 units, the local administration directly administers only 3. The remaining 76 units are managed by organizations that were operating in the region long before the city administration organization and the social system arrived.

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# A citizen's perspective of e-government

## ARTICLE IN FOCUS

### Rethinking e-government performance assessment from a citizen perspective

Alexandre Fernandes Barbosa, Marlei Pozzebon and Eduardo Henrique Diniz

**G**overnments have increasingly used information technology (IT) to transform the provision of public services to the population. However, these technological platforms are not always evaluated from the perspective of the citizens who will ultimately use these services. Normally, the performance assessment of the so-called e-government focuses on operational, financial and administrative efficiency, not the political and social impacts on society.

A performance measure that considers social dimensions requires models and indicators that account for the perspective of citizens. In "Rethinking e-government performance assessment from a citizen perspective", which appeared in the *Public Administration* journal, researchers Alexandre Fernandes Barbosa from CETIC.br, Marlei Pozzebon from HEC Montreal, and Eduardo Henrique Diniz from FGV-EAESP, develop a model for assessing public services that includes the citizen perspective.

To this end, a case study was conducted on the e-government program implemented by the city of São Paulo. The São Paulo portal offers public services over the Internet for 11 million inhabitants and covers 31 subadministrations and 96 local districts. Interviews were conducted with citizens, the employees of companies that also use the services, those responsible for implementing the website and public administrators.

The interviews with citizens and corporate users enabled the authors to identify dimensions for

assessing the performance of e-government that are not considered priorities for public managers. For citizens, performance indicators should assess whether a service meets their needs, whether the website is convenient (i.e., its practicality, comfort, scope and service variety) and whether the website's communication channels (i.e., the ease with which messages can be sent, the quality of the replies, the level of respect) function well. For companies, in addition to these three aspects, the question of trust in the website (including information authenticity and integrity) was emphasized.

These aspects do not appear in the interviews with public managers, although those managers who are responsible for implementing e-government mentioned the issues of convenience and the meeting citizen needs.

All of the groups shared concerns about the quality of the website's services (including the added value to citizens, search mechanisms, usability, browsability, organization, language and simplicity) and about the relationships between citizens and the government (e.g., more specific communication channels with local authorities). Citizens, companies and public managers also shared a concern about the quality of face-to-face, in-person services, which obviously is not a concern of those responsible for implementing e-government.

For the public managers, the most important question related to the efficiency of public administration. Another aspect that only appears to be a concern of this group is the transparency of the administration. "There are significant differences in how the groups within and outside government perceive the performance of e-government," state the researchers. "Public managers continue to place a disproportionate emphasis on questions of internal efficiency".

The study identifies nine areas for evaluating e-government performance. Seven of the areas (i.e., understanding citizen needs, website convenience, the quality of website services, the website communication channel, the quality of the in-person services, the relationship between citizens and government, and trust in the website) were suggested by citizens and company users. In the case of those responsible for the website's implementation, all of the mentioned areas are already included in the other two groups. The two remaining areas (i.e., the efficiency of public administration and the transparency of the administration) complement the interests of the public managers.

"Despite public administration inevitably investing significant financial and technological resources in its e-government programs, the evaluation of its performance remains strongly directed toward internal efficiency results," state the study's authors. "We hope that with a model that considers citizens' needs this will begin to change".

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# The multiple narratives on public policies

## ARTICLE IN FOCUS

### Narrative-based studies on public policies: The process of creating a program for the revitalization and development of the historic center of Santos

Lúcio Nagib Bittencourt and Isleide Arruda Fontenelle

**A**t the beginning of the 20th century, Santos experienced its belle époque. However, with the end of the coffee cycle, the city's economic, social and cultural landscape was changing, and the center, which was a symbol of the golden age, was eventually abandoned. Then, at the end of the same century, an association between the municipal government and businesspeople resulted in a program known as Alegria Centro or Brighten up the Center, a successful initiative aimed at revitalization. However, could the history of Santos reflect a saga in which the heroes of Alegria Centro are ultimately glorified?

In an article published in *Cadernos Gestão Pública e Cidadania* (Public Management and Citizenship Notes), Lúcio Nagib Bittencourt, a PhD student in Public Administration at FGV-EAESP, and Isleide Arruda Fontenelle, a professor at FGV-EAESP, demonstrate that this narrative is not consensual. By giving different participants in the public policy of the Alegria Centro program a

voice, the researchers discovered that the story could be told in different ways that are inconsistent with one another.

For example, views differ regarding when the revitalization process in the Santos historic center began. For some individuals, the process began in 1989, when the regulation on a subzone of historic and cultural interest in a region included the exemption of the IPTU tax on properties located there. For others, the process began in 1998, with the review of the Master Plan. For the businesspeople, the process began in 1994, when they created the Centro Vivo (Living Center) Association.

Differences in views are even more visible when the participants cite their reasons for the Alegria Centro initiative. Some participants emphasize the protection of the local historical heritage and the impetus to job creation, whereas for others, the essential factor is the appreciation in property prices.

In the narratives that cite 1989 as the beginning of the process, the participation of unions and neighborhood improvement associations is referenced. In the narratives that cite 1998 as the beginning of the process, civil society participation occurs through meetings in municipal councils. On both sides of the discussion, pro-activism is clearly reserved for local government. In narratives that cite 1994 as the beginning of the process, businesspeople are referenced as drivers of the revitalization movement. However, the inhabitants of run-down tenements complain about being left out of the process.

Nevertheless, a consensual symbol appears to unite the participants involved in the revitalization of the center of Santos: the tram. The return of the tram to the streets of Santos is recognized by all as the result of intervention in the central area. Therefore, the tram has assumed another meaning, becoming an emblem that connects present and past. "This constitutes a strong indication that the design process of the revitalization policy of the center also involves the mobilization and valorization of specific points of local culture, whether the architectural heritage, the history, the memory or the identity," state Bittencourt and Fontenelle.

The authors favor an analysis of micronarratives of public policies, such as that conducted in this study, as a way to expand the idea of what is public in the processes of designing public policies. By listening to the voices of different participants, one perceives that it is difficult to believe in clichés regarding "the broad participation of civil society". The assessment of a policy is also rarely consensual, as certain narratives would have us suppose. "The debate must be broadened with the participation of various players, social groups or citizens, facilitating a meeting of the minds of the different players in these dynamics, thereby making them plural", conclude the article's authors.

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# How to fight racial discrimination in the workplace

ARTICLE IN FOCUS

## Which foot first? Diversity management and affirmative action in Brazilian business

Eliane Barbosa da Conceição and Peter K. Spink

Since 1980, in the United States, there has been an increasing interest in the management of diversity in the workforce. This interest derives from not only the need to address an increasingly heterogeneous labor market but also the demand for an egalitarian workplace. There have been debates on the most effective means for fighting discrimination against minorities in organizations, and opinions have been sharply divided.

On the one hand, the potential of diversity management practices for overcoming inequalities and improving business performance has been emphasized. On the other hand, management practices have been argued to represent a threat to the achievement of rights because they focus on the performance of the companies to the detriment of the defense of minority group rights. According to proponents of the latter view, the best way forward lies in affirmative action, that is, special measures adopted by the state that aim to eliminate historically constructed inequalities. Between the two positions, there are those who believe that affirmative action can be reconciled with diversity management.

In their article "Which foot first? Diversity management and affirmative action in Brazilian business", Eliane Conceição and Peter Spink, who are involved in this debate, evaluate whether diversity management practices in Brazil can eliminate workplace inequalities or whether measures and sanctions by the state must be used to achieve this goal.

The authors conducted research focused on racial inequality. According to Conceição and Spink, Brazil must make substantial efforts before equal opportunity and treatment is achieved for black men



and women. Racism, which is due to centuries of enslavement and is reproduced in everyday life, is aggravated by the myth of racial democracy—the belief that racial discrimination does not exist in Brazil.

The sector that was selected for the study was the banking sector. This sector was selected because banks have been directly pressured by the Labor Ministry Justice Department (MPT) to take action to further equality and because they have adopted modern managerial practices.

The analysis was conducted at three levels. On the first level, which is referred to as the macronational level, Brazilian laws and public actions to promote racial equality in the workplace were examined. On the second level, referred to as the meso-organizational level, the ways in which banks that are headquartered in Brazil address questions of diversity and equality were investigated. On the third level, which is termed the microindividual level, the historical role of blacks in the national labor market and the factors that contribute to their unequal participation were examined.

The research revealed that at the macronational level, affirmative actions for fighting racial inequality in the workplace are not adopted or promoted by the state. Conceição and Spink emphasize that the only program that has been implemented is the “Promotion of Equal Opportunity for All”, which is an MPT [Labor Prosecution Office] initiative adopted in response to the inertia of the executive and the legislative branches of government in serving groups that are discriminated against.

At the meso-organizational level, the authors observed that the introduction of diversity management practices for blacks was experienced resistance. According to the Ethos Institute, only 6% of the 500 leading Brazilian companies have a diversity program related to race. In banks, specifically, the participation of blacks in the labor force was 21% in 2009. Furthermore, blacks earned 15% less than whites for performing the same functions and occupied only 5% of the executive positions. With the goal of changing this reality, the Brazilian Banking Federation (Febraban) agreed to a series of actions with the MPT. However, according to the authors, after four years, the situation had changed very little.

At the microindividual level, Conceição and Spink emphasize that there has historically been an educational gap between whites and blacks. The paucity of academic qualifications of blacks excludes them from the best positions in the labor market—a justification repeatedly offered by managers for the small participation of Afro-Brazilians in management positions and for the nonadoption of diversity practices. Nevertheless, even when they have the same educational level, black men and women receive smaller salaries, which indicates that the differences in participation result from racism.

Based on the analysis of the Brazilian case, the authors conclude that Brazilian organizations are unlikely to implement diversity programs for blacks without state coercion. This reluctance occurs because in Brazil, the adoption of this type of practice has meet substantial resistance, not only because of its liberal propositions, but also because of the historical denial of racial inequality. As an alternative action, Conceição and Spink propose the public exposure of organizations that do not respect the rights of minorities. This proposal may seem aggressive for the current business scene; however, it has had substantial positive effects when it has been used.

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# The interests behind public policies

## ARTICLE IN FOCUS

### Critical aspects of public policies

Francisco Fonseca

**G**overnment policies and programs, which are generically known as public policies, are viewed by citizens as natural, neutral and consensual. According to Francisco Fonseca, who is a professor at FGV-EAESP, this “generous” image of public policies, in which everyone gains and in which no one loses or disagrees, “is not only false but represents a veritable trap to understanding its meaning and the extent to which it covers up struggles for power”.

In the article “Critical areas of public policies”, which appeared in the Brazilian online journal *Cadernos EBAPE.BR*, Fonseca defends the idea that public policies should be regarded as the expression of a broad web of interests that are permeated by conflict. In fact, the conflicts can be clearly perceived in the budgetary decisions related to a particular policy, in the number and qualification of civil servants involved in their achievement and in the institutional apparatus that is mobilized.

As examples, the author cites two central questions regarding the occupation of metropolitan space: means of transport and the property market. In the case of urban mobility, according to Fonseca, bus corridors and the expansion of the public transport fleet tend to be accepted if the structure of incentives for the automobile industry and the free transit of automobiles remain unaffected. In the case of the property sector, historically, a number of city councilors have been financed by this industry, and the zoning laws tend to be lenient to large interests. “Many of the ills of

our cities are the result of this power structure, which is rarely confronted politically or institutionally despite the existence of 'public policies'", states the FGV-EAESP professor.

For Fonseca, reformist governments will be progressive only if there are protagonists in the municipal environment who are capable of being aware of and confronting the established interests that are currently able to veto more profound social changes.

"But how, therefore, can the unmistakable social advances of the last decade in Brazil be explained?" asks the researcher. The cost for these advances was the surrender of the PT (Workers Party) to the established rules (i.e., private campaign financing, broad and contradictory alliances, and negotiation of the government program) and a commitment to designing public policies that are not radical.

According to the author, reforms (e.g., the expansion of credit, the increased real purchasing power of the minimum salary, the income transfer programs and the activation of the internal economy) can thus be made stealthily, without scaring the elite. "It is, however, forbidden to encroach on the large fortunes, on profits and on the business environment," states the researcher.

For Fonseca, ultimately, progress toward equality is stilted, or policies toward equality must exist side by side with other, clearly conservative "public policies" (e.g., the disproportionate support provided to agribusiness and nonconfrontation by the large media oligopolies). Consequently, Brazil continues to exhibit alarming indices of inequality.

According to the author, for "public policies" to be more inclusive, expressive and "radical" ("in the sense of getting to the root of the problems with a view to changing them"), the established interests that sustain the Brazilian political system and that block profound changes must be confronted.

Fonseca supports the so-called "radicalization of democracy" through various actions, such as the increased expansion of participation and deliberation in decision-making arenas, both institutional and social; the simplification of jargon-ridden language of government, beginning with the budget; the intensification of decision-making transparency; and a review of the media oligopoly.

According to the FGV-EAESP professor, only with the support of social movements, the establishment of institutional channels of political participation and the intensification of transparency will it be possible to change the rules of the "political game", in which today the privatization of public life and the fiscal-taxation-budgetary core predominate. "In this way, one can say that it is possible to 'do more' from the fiscal, taxation and budgetary viewpoints without 'public policies' as a whole and social ones, in particular, becoming mere appendices. This implies fundamentally confronting the big established powers," Fonseca declares.

Fonseca concludes that "only consistent, systemic and transformational 'public policies' will be able to reverse, even if in the medium-term, the abysmal socio-economic and political inequalities, among other aspects, that still dominate Brazilian society".

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# Countries with traditional banks perform better during financial crises

## ARTICLE IN FOCUS

### Back to basics in banking theory and varieties of finance capitalism

Kurt E. Von Mettenheim

**T**here is no tendency in the world toward financial capitalism, which is the predominant model in the United States. The last crisis demonstrated that the countries that use the traditional banking model, which concentrates on the two basic functions of accepting deposits and providing loans, suffered fewer losses than those that are centered on trading securitized assets. This view is advocated by Kurt E. Von Mettenheim, a professor at FGV-EAESP, in his article “Back to basics in banking theory and varieties of finance capitalism”, which appeared in the *Accounting, Economics and Law* journal.

In Europe, according to Mettenheim, liberalization, monetary union and the competitive pressures of capital markets did not result in a convergence toward a financial system that he terms “market-oriented”. Between 2004 and 2011, cooperative banks increased their share in the supply of credit in countries such as France, Germany and Italy, which reached respective shares of 56%, 17.5% and 32% of the market. As in emerging economies, in European countries, cooperatives, savings banks, mortgage banks and state-owned development banks hold a significant market share.

Meanwhile, in the United States, significant changes have occurred in recent decades with the decline of traditional banks and the growth of securitized products and services traded on the secondary market. Banking concentration was also substantial in 2010. Four banks (i.e., JP Morgan Chase, Citibank, Bank of America and Wells Fargo) controlled approximately 45% of the country's banking assets and, if we include Goldman Sachs, approximately 95% of the derivatives market.

Mettenheim does not oppose derivatives. On the contrary, for him, derivatives represent an important risk management instrument. Nevertheless, the researcher notes that in the United States, credit derivatives increased explosively in value in the years that preceded the crisis. They are traded on the over-the-counter market, controlled by a small number of financial institutions and outside the regulations for banking and the capital markets.

According to Mettenheim, whereas banks in countries with systems based on traditional banks have stricter regulation and supervision, banks in the United States have been acting freely, with operations that do have controls, that are not within the stock markets and clearing houses and that are not explicitly recorded in their balance sheets.

However, at the time of the crisis, the major banks ultimately received substantial amounts of money in government rescue packages (over US\$16 trillion), which for the article's author is related to a high-pressure and lengthy lobbying process. "Politics is clearly important here, both in explaining the turn toward deregulation and for the use of the doctrine 'too big to go under'", states the researcher.

Meanwhile, Mettenheim believes that finance capitalism, which is centered on traditional banks, fared better. The researcher suggests that traditional bank financing softens economic shocks, whereas the capital markets suffer tremendously in crises. Additionally, in share markets, renegotiations in times of crisis only occur according to the forces of supply and demand, whereas in the finances of traditional credit, relationships are more personalized and more collaborative. Traditional banks also work with longer horizons and monitor companies more effectively.

According to IMF estimates, during the last crisis, in terms of GDP, decreases of 23% in France and 11% in Germany were below those of 31% in the United States and 25% in the United Kingdom, which follows a model similar to that of the US. The fiscal cost of the crisis was 1% in France and 1.8% in Germany, also below the 4.5% fiscal cost in the US and 8.8% in the UK. The increase in public debt was 17.3% in France and 17.8% in Germany compared with 23.6% in the US and 24.4% in the UK.

The cost of rescuing banks was also much lower in countries with institutions that follow the traditional model of loans and deposits. "Instead of increasing the efficiency and effectiveness of finances, the nonregulated, market-centered banks increased their influence on public policies and imposed higher costs on society through discretionary capitalizations by the Central Bank and other policies that have arisen since the crisis," concludes Mettenheim.

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# Federal programs and local innovation

## ARTICLE IN FOCUS

### Public policies and municipalities: Innovation or adherence?

Marta Ferreira Santos Farah

Public policies in Brazil are more decentralized today than in the 1980s. Nevertheless, according to an analysis by Marta Ferreira Santos Farah, a professor at FGV-EAESP, the protagonistic position of municipalities, which played an essential role in public policy innovation during the country's return to democracy, has diminished since the 2000s, and they have become implementers of federal programs.

At the time of the 1988 Constitution, local governments were regarded as a privileged venue to exercise and build democracy, and they introduced policies that opposed those prevailing during the authoritarian period. Additionally, municipal administrations were considered able to guarantee the increased efficiency and effectiveness of federal government action. Therefore, according to Farah, "the municipalities were a veritable laboratory of experiments in public policies in a country that had everything to rebuild in this respect".

In a database of over eight thousand innovative initiatives by subnational governments between 1996 and 2006 as part of the Public Management and Citizens Rights Program (a partnership between FGV-EAESP and the Ford Foundation), 82.12% were municipal. However, such initiatives were unevenly distributed across the country and among municipalities of varying sizes. That is, there was a regional disparity, with a relatively greater presence of municipalities in the country's southeastern and southern regions and larger municipalities.

Reducing inequality between the regions and between municipalities in the public policy decentralization process—as reflected in the unequal capacity for fostering innovation—was one of

the primary justifications for the recent effort at federative coordination on the part of the federal government, according to Farah. The federal government not only began issuing general guidelines on policies but also took direct and exemplary action through the creation of federal programs in various areas, which municipalities are encouraged to join. However, this adherence is conditioned by the fulfillment of a broad and detailed set of prerequisites. Between 2008 and 2011, the number of federal programs that were “destined for municipalities” increased from 186 to 216.

Farah notes that many of these federal programs were inspired by pioneering postdemocratization local initiatives. An example is the Family Health Program, which was influenced by the municipal actions of Niterói and Londrina. Another example is the School Benefit (the precursor of the Family Benefit), which was introduced in the Federal District and Campinas.

According to the researcher, after an “incubation” period, certain initiatives were linked to federal programs or policies to meet the challenge of reaching over 5500 municipalities in all regions throughout the country. In the case of the Family Health Program, one year after it became a federal program (1995), 150 municipalities had adopted it. This number reached 5284 in August 2011. The broadest dissemination occurred with the School Benefit. One year after the creation of this federal program (2002), 5545 municipalities (99.7% of all the municipalities in Brazil) had joined the program.

According to the FGV-EAESP professor, the federal programs reach the municipalities with existing definitions for their content and form of implementation and typically with fairly strict limits. Access to the resources is conditional on compliance by the municipalities with the rules of each program. Thus, the federal government can direct the action of local governments and standardize municipal action.

For Farah, this redefinition of municipal participation in the “public policy system” involves opportunities and risks. “On the one hand, this can lead to strengthening the role of inducing the normatization of policies by the federal government policies, with the argument that this will guarantee a reduction in inter-regional and inter-municipal inequalities,” states the researcher. “On the other, there is a risk of instituting a top-down pattern of policy formulation and implementation, in which everything is decided and prescribed in the formulation phase, which would run contrary to the principles that guided democratization and decentralization as well as inhibit local creative responses”.

The researcher believes that the ideal solution would involve federative coordination that establishes nonhierarchical and cooperative relations between the federated bodies. Subnational governments participate in the formulation of federal programs through various forums (such as pacts and conferences) in various initiatives. Extending the principle of discussion and negotiation to the implementation phase of policies and programs is a considerable challenge— particularly, in an environment that is characterized by substantial disparities between municipalities and that may involve an interruption and discontinuation of services. “However, just the adoption of this viewpoint will enable the creative capacity of local governments and players to be recognized and valued, which can inspire new policies and the reformulation of policies and programs already underway,” concludes the FGV-EAESP professor.

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# A solution for the appreciation of the exchange rate

ARTICLE IN FOCUS

## The value of the exchange rate and the “Dutch disease”

Luiz Carlos Bresser-Pereira

According to economist *Luiz Carlos Bresser-Pereira*, professor emeritus at FGV-EAESP Business School in Sao Paulo, commodity exports, in which Brazil enjoys substantial a competitive advantage, should be taxed. In his article “The value of the exchange rate and the ‘Dutch disease’”, which appeared in the Brazilian Journal of Political Economy, Bresser-Pereira argues that without this measure, the exchange rate will continue to be overvalued, which will jeopardize the export of manufactured goods with greater added value.

According to the professor, the exchange rate is in a state of chronic imbalance owing to a phenomenon referred to as the “Dutch disease”. The expression originated in the 1960s, when economists found that the discovery and export of natural gas in Holland was causing the florin (the currency at the time) to appreciate, which threatened exports of other products, whose prices became internationally less competitive.

Therefore, the “Dutch disease” is caused by the exploitation of abundant and cheap resources in a country whose production and exports are compatible with an exchange rate that is more overvalued than the rate that would render industrial businesses that use cutting-edge technology competitive. According to Bresser-Pereira, for such businesses to be viable, their productivity would have to be higher than that of similar companies in other countries in a proportion at least equivalent to the appreciation caused by the “Dutch disease”.



In addition to the imbalance caused by natural resources, the economist discusses a second factor that can trigger the “Dutch disease”: the existence of cheap labor. If the difference between worker wages in different countries is very high, companies in the country in which the labor cost is lower will have lower comparative costs. Consequently, the exchange rate will tend to converge to a level that will render exportation feasible, based on the low wages. The companies that pay higher wages will hence become economically unviable.

According to Bresser-Pereira, in countries that suffer from the “Dutch disease”, there are two exchange rates: The first is the exchange rate of equilibrium, on which the market tends to converge; this rate tend to be overvalued. The second is the rate that he terms the exchange rate for industrial equilibrium, i.e., the “real balanced exchange rate”. The market is likely to fluctuate with respect to this exchange rate to render those companies that use cutting-edge technology internationally competitive.

In terms of value, the economist observes that the equilibrium value corresponds to an “exchange rate that covers the cost plus a profit margin that is satisfactory for the efficient businesses that produce goods tradable in the foreign market,” whereas the value in force (and in chronic imbalance) equals a rate that covers cost plus margin only for commodity companies and/or those companies that use relatively cheap labor. That is, in terms of value, the exchange rate is a comparison between the productivity and the wages of companies in one country and another.

Therefore, Bresser-Pereira proposes a way to neutralize the “Dutch disease”: a tax on commodities that corresponds to the difference between the current exchange rate, in imbalance, and the industrial balance rate, i.e., between the value of the rate that only remunerates the commodities sector and the value that would also benefit the industrial sector. Thus, what the commodity producers would lose in taxation, they would gain in a proportionate depreciation of the local currency. The new rate to which the exchange would float would be that of industrial equilibrium. Who would pay the bill for this change? According to Bresser-Pereira, the entire population would pay the bill because the depreciation in the local currency would cause a relative increase in the prices of goods.

However, because compensation for commodity producers would most likely not occur immediately, Bresser-Pereira believes that these producers would resist taxation, as would the workers, whose real wages would decrease in the short term because of the currency devaluation. In his view, this situation would be temporary, and it could be managed by other government measures.

The researcher also suggests the creation of an international fund with the revenue derived from the tax to prevent an influx of these resources, which would result in a re-appreciation of the exchange rate on the supply side. The government could also use part of the funds to establish a commodity price guarantee fund to overcome the sector’s opposition. If the government opts for alternative uses for the tax income, such as social investments, demand for imports would increase, resulting in an at least partial re-appreciation of the exchange rate and a reduction in the current account surplus caused by the tax. “The ‘Dutch disease’ is therefore not easy to neutralize”, concludes the study’s author.

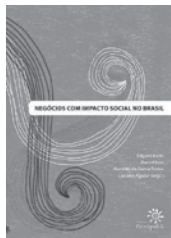
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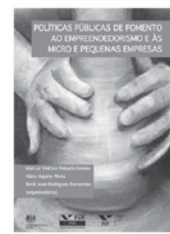
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