

**What can Business Associations do to stimulate Local and
Regional Economic Development?
Experience from Santa Catarina, Brazil**

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1 Introduction

It is not without irony that in the current era of globalization the issue of local and regional development receives increased attention. It is the result of a very simple fact: There are a few thousand companies operating on a global scale, but there are millions of firms which don't, and both affiliates of multinational firms and SME rely on localized factors to sustain their competitiveness. In fact, the demands on localized factors are increasing, for instance because firms are concentrating on their core competence and thus rely increasingly on a structure of supporting firms (suppliers, subcontractors, service providers) and supporting institutions (e.g. Porter 1998). Stimulating this supporting structure increasingly becomes a task of government and non-governmental actors at the local and regional level – they are the first to feel the need, but in many cases they are also the only ones who can do anything as central government refrains from meso-level policies.

The problem is that both local and regional government and non-governmental actors are rarely prepared (in the technical sense of the term) to fulfill this role. Thus, the formulation and implementation of local and regional development policy becomes an exercise in trial-and-error, especially the latter, unless the actors scan experiences elsewhere to get an idea of what may work, and what won't. This paper will tell the story of some such trial-and-error-exercises in the state of Santa Catarina in Southern Brazil. This experience is relevant in the context of this seminar as in all the cases business associations played a pivotal role in local economic development policy. By “economic development policy” I mean the whole set of industrial policy, technology policy, employment promotion, business promotion, and other policies aimed at creating productive system and jobs, and enhancing the competitiveness of firms.

In the following section I will briefly outline the setting in which decentralization of economic development policy making took place in Brazil. In the subsequent sections I will present a number of case studies of business associations' involvement in local and regional economic development policy making.

2 The setting: The transformation of Brazil's economic development model

Brazil has been pursuing an inward-oriented development model since the 1930s. Import-substituting industrialization led to dynamic economic development. However, the model created a number of distortions and suffered from several inherent defects, the most important ones being an overburdening of the state, little competition in many product markets, an inadequate financial system, and a persisting vulnerability to current account crises. There is no doubt that Brazil would not possess the current level of industrialization without the import substitution policy. However, there is also little doubt that this model was exhausted in the 1980s, and that the crisis of that decade was less due to external factors and more to internal causes (Meyer-Stamer 1997).

Brazil's central government explicitly abandoned the import-substitution strategy in 1990 and established a time-table for a gradual opening-up of the domestic market, with the last step to be done in 1993. It was only in 1994 that government finally succeeded in combating inflation, which had run at four-digit-levels before. Accordingly, firms were in for a rough ride in the 1990s. Until 1994 they had to deal with increasing competition due to lowered import barriers in an extremely turbulent environment, not only in terms of hyperinflation but also caused by government stabilization efforts. After 1994, the macroeconomic environment finally was relatively stable, but not exactly business-friendly, since the currency was overvalued, access to credit remained complicated, interest rates remained high, transaction costs also remained high, and government continued its practice of occasionally changing the rules of the game.

These changes created a completely new setting regarding deliberate efforts to stimulate and shape economic development. Central government had been the key agent in economic development policy until the early 1990s. However, after 1994 it largely refrained from continuing this role. The locus of economic development policy moved to lower levels. And as competitive pressure on firms was constantly increasing, there were growing demands on business associations to support firms' efforts to enhance competitiveness.

2.1 The changing role of government

Being the key agent in economic development policy meant that central government agencies chose the industrial sectors to be targeted, picked domestic entrepreneurs and foreign companies which, individually or jointly, were to set up factories, founded firms in certain "strategic" sectors (such as steel), financed the whole venture, and regulated and controlled it. This kind of industrial policy meant that government was, in the last resort, held responsible for many aspects of industrial development, like bailing out firms which got into crisis or managing mergers to consolidate sectors in crisis. However, government's role started to change in the 1980s, and more profoundly in the 1990s.

The main change in the 1980s was a diminishing capacity of government to fill its traditional developmentalist role. In the first place, it did not succeed in its efforts to stabilize the macroeconomic framework. Second, it was facing severe restrictions regarding its role as the main source of finance for economic development. Third, its governance capacity suffered in the late phase of military dictatorship, and things did not really improve under civilian rule (from 1985 onwards).

In the early 1990s, government regained a little bit of its traditional role, as it tried to support the industrial transformation process induced by the opening-up of the market, in particular via a program to assist firms in increasing efficiency and quality. Moreover, there was a specific industrial policy which, by means of reducing taxes for small, popular cars, sought successfully to stimulate the passenger car industry.

After the successful anti-inflation-program, the Plano Real in 1994, government quite explicitly refrained from industrial policy (except for measures to stimulate the passenger car industry). Economic policy-making focused exclusively on maintaining the stabilization effort. In fact, some Brazilian observers have argued that the team of economists which was responsible for Plano Real did not only not really care about the immediate impact of their policy on the productive sector. They rather tended to have a skeptic view regarding its development potential, and thus created conditions which led to a profound reshuffling of ownership structures in the productive sector – from the state and national private businesses to multinational firms, as they perceived the latter as more efficient and less prone to oligopolistic practices. Even if all this is mere speculation, there is no denying of the fact that Brazil has moved from a nationalistic stance (which shaped the 1988 constitution) to opening its arms wide to multinational firms.

Brazil has been an important target for foreign direct investment in the past. However, inflows shrank dramatically in the late 1980s and early 1990s; in fact, there were net outflows in some of those years. With the end of inflation, Brazil again looked like a very promising market, and FDI inflow grew steadily. On the recipient side, this gave rise to a mad contest between federal states to come up with fiscal incentives in order to attract foreign firms (Varsano 1997). Especially in the car industry, summing up all the incentives, foreign firms probably got new factories virtually for free. Nevertheless, it is important to note that with these efforts the locus of development policy moved from the federal to the state level, and in some cases to the local level. It was mostly a one-sided development policy, mainly offering fiscal incentives to attract FDI. But it led to a change in the mindset of decision-makers at state and local level. They accepted that development policy was no longer an exclusive prerogative of the central government, and they started to learn that it is possible to formulate and implement economic promotion policies at the state and local level.

2.2 Types of business associations

Talking about decision-makers at state and local level, it is important to realize that this includes not only government representatives. It also includes business associations, research institutions and universities, and in some cases also trade unions. In the specific case of Santa Catarina, business associations were the most important among the non-governmental actors. In order to understand their role, it is useful to understand the structure of the system of business associations in Brazil.

There are basically four types of business associations in Brazil. First, there are Employers' Associations (*sindicato patronal*). They were created in the 1930s as part of a corporatist system; they are the counterpart to trade unions (*sindicato dos trabalhadores*). Membership is mandatory. Sindicatos are organized branch-wise at the local level (at least, that is the basic rule; in practical terms, some sindicatos are organized at the level of regions, and the definition of what exactly is a branch is not quite exact). The peak organizations of sindicatos

at the state level are the Federations, one for industry, the other for commerce. At the national level, there are Confederations of both industry and commerce.

Traditionally, sindicatos focused almost exclusively at collective bargaining. It was only in some cases that they consistently voiced the interests of the sector or offered further services to affiliated firms. One reason for the limited activity was that the membership was diverse, and it was complicated to synthesize common interests. Another reason was mandatory membership – fees are collected by government, together with other taxes and social security contributions, and there was no obvious reason to enhance legitimacy.

Second, there are Chambers of Industry and Commerce (ACIs). They are organized at the local level, and membership is voluntary. They also form a Federation at the state level, and the Federations in turn form a national Confederation. However, whereas a few Federations of Industry have a high profile in public discussions (most notably FIESP in the state of São Paulo, the industrial heartland), Federations of ACIs have little if any profile. In fact, ACIs tend to have a relatively low profile as well. The traditional pattern is one of a club of the leading local firms, with one or two meetings per month, often over lunch; with one or two professionals; and with hardly any services for member firms. Their local standing is based on the fact that other local actors perceive them as the voice of the most powerful local companies.

Third, there are Associations of Micro and Small Enterprises. Membership is voluntary, and they are organized at the local level, with state-level and national peak organizations. The difference, compared with ACIs, is that they are much more bottom-up organizations, uniting the segment of small firms which hardly have a voice in the sindicato and the ACI and suffer from all sorts of discriminations and problems.

Fourth, there are some specific business associations which grew out of the frustration of the low effectiveness of the established associations. Most prominent are IEDI and PNBE. IEDI technically is a think tank rather than a business association, but it is seen as the voice of a group of prominent, successful national firms which grew rapidly in the closed market environment. PNBE is an organization of dynamic small and medium-sized firms. Both are mainly lobby organizations, trying to articulate the interests of relatively homogeneous segments of the private sector.

Overall, it is hard to give any general evaluation of business associations in Brazil. In all four categories, there is a wide spectrum from very active to practically inoperative organizations. It is not wrong to say that they play a limited role, but such a statement is always apt to falsification since there are always examples which show the opposite. The problem is that the way a given business association works is to a large extent dependent on all sorts of idiosyncratic factors. That is, in a given locality and with given conditions a business association may assume a very high profile. So far, isolated cases do not translate into a nation-wide trend. But there are numerous encouraging experiences, and at least in the case of

Santa Catarina business associations have consistently raised their profile over the last ten years.

3 Case studies of the role of business associations in local and regional economic development policy in Santa Catarina

Santa Catarina (SC) is one of the three southern states of Brazil, located between Paraná and Rio Grande do Sul. Large parts of the state were only colonized after the middle of the last century, with a strong influx of immigrants from Italy and Germany, but also from Polonia, Bohemia, Hungary, Ukraine, and other European regions. Economic development was mostly based on smallholder agriculture. It was only after WWII, and especially since the 1970s, that a strong industrial based emerged. Industrial development in SC has distinct features: it is based on local entrepreneurship rather than foreign direct investment or state-owned firms, and there is a strong element of clustering, particularly in metal-engineering and electrical machinery, textiles and knitwear, furniture, ceramic tiles, food processing (especially chicken and pork meat and soybeans), and plastic products. Economic dynamism in the 1970s and 1980s was significantly above the (already quite high) Brazilian average. The overall standard of living is comparable to that of South European countries at the time of their entry into the European Community. SC has about 4.8 million inhabitants, and per-capita-GDP was US\$ 6,370 in 1997.

Despite its inherent strengths, industry in SC came under strong adjustment pressure in the 1990s. Even though it was more competitive than industries elsewhere in Brazil, it was not quite prepared for globalized competition. The adjustment pattern was similar to that elsewhere in Brazil – investment in new machinery, reorganization to enhance efficiency and quality, and employment cuts. One result was a constant decrease in industrial employment. Increasing unemployment was one of the factors which led local actors to get preoccupied with local economic development. Another was the race to attract FDI. State government and some cities entered into this race, but with remarkably little success. This, in turn, was a further motivating factor for efforts to stimulate the endogenous potential.

4 The state-level employers' association, FIESC

FIESC, the state-level peak-organization of the sindicatos (the local employers' associations), has established itself as an important business support organization since the early 1990s. The origin of this move was the economic crisis, combined with the election of a new president who had straightforward ideas about a possible strategic role of his organization.

In practical terms, business support was organized via three affiliates of FIESC. Two of them existed already, IEL and SENAI. Furthermore an international business center (CIN) was

created. It provides access to national trade-related databases, as well as to the UN Tradepoint system and the EU trade information and promotion system. CIN's head office is located in the head office of FIESC in the state capital, but it has set up offices in several cities in the interior of the state.

4.1 Instituto Euvaldo Lodi

An existing department of FIESC, the Instituto Euvaldo Lodi (IEL), was profoundly reorganized. In the beginning, it was a small entity with five employees, and its main function was matchmaking between universities and firms for internships. Today, it is a substantial organization with more than 30 employees, offering a number of services to firms. Two specific projects are explained below. Other activities include employment of a former employee of FINEP, a central government agency which finances research and innovation projects. This person, who possesses intimate knowledge of FINEP's programs and application procedures, was able to assist SC firms so that they could grab much more than the fair share of FINEP funds. Another activity was the creation of a small venture-capital fund. Another activity is the creation of a support structure for emerging software firms (Softpolis). An ongoing activity is the organization of research and advisory activities on local innovation systems, a program launched by the National Federation of Industries, where SC is the pioneer place for conducting such projects.

Projeto Ecogoman (IEL)

One of IEL's activities was the Ecogoman project. It involved Brazilian and German textiles and starch firms, government, and research organizations. It aimed at adapting to the specific Brazilian circumstances a process to recycle starch used in the finishing of textiles fabric. So far, the starch content in effluents poses significant problems for wastewater treatment as it causes a high demand for oxygen. GTV, a German machine building firm, had developed an equipment which not only recycled 85 % of the starch but also reduced use of water and electricity and allowed the recycling of other inputs like colours and caustic soda. This equipment, however, had been developed to deal with synthetic starch whereas Brazilian firms commonly use natural starch based on manioc.

The project was launched in 1995 due to the initiative of the textiles research institute in Denkendorf / Germany (ITV), which had been working with firms in Brazil before. It persuaded a group of Brazilian firms to lobby for a joint project under the umbrella of scientific-technological cooperation between Germany (BMFT / BMBF) and Brazil (Ministry of Foreign Affairs). A group of six Brazilian firms was formed: four home textiles firms (Artex, Döhler, and Karsten from Santa Catarina, and Alpargatas Santista from São Paulo) and two starch producers (Inpal, Inquil). They joined a project with a group of seven German manufacturers of equipment, starch, and textiles. The project is governed by a steering committee that consists of CNPq (Brazil's national science council), IEL/SC, BMBF and DLR

(as executive agency of BMBF). IEL/SC is responsible for coordinating the Brazilian side of the venture. The costs of the project which have been estimated at R\$ 6 million were divided between the governments of Germany, Brazil, and the state of Santa Catarina, and the firms involved.

The first phase of the project involved the training of Brazilian engineers in Germany, starting in November 1995. The first months of 1996 saw the testing of starches, conducted by Brazilian researchers in Brazil. In June 1996 the equipment from Germany arrived. Getting it through customs, avoiding to pay import taxes which would have amounted to about R\$ 1.5 million, was no easy task. It was mainly due to IEL's effort that both aims were achieved. Most spectacularly, IEL succeeded in persuading the state government to give a waiver on import duties; it pointed out that this was, first of all, a research project and not a commercial venture. When the equipment arrived by mistake in Santos in the state of São Paulo rather than a port in Santa Catarina, IEL persuaded the secretary of finance of Santa Catarina to seek a waiver from CONFAZ, the council of the state secretaries of finance, a fact that may have positive implications for future projects of this kind which may also count on import duty exemption.

Practical tests started in August 1996 at a plant of Alpargatas Santista in São Paulo. They were conducted by a team of five Brazilian engineers who were employed by IEL on a full-time basis, German engineers who repeatedly stayed in Brazil for several weeks, and firm's engineers who worked with the project as a part of the regular workload. It soon became obvious that adapting the equipment to natural starch would be more complicated than expected; at the end of the test phase at Alpargatas the expected recycling ratio was still missed by far. However, there was a learning process, and things improved after the equipment was transferred to Döhler in Joinville in March 1997. In November 1997 the equipment was transferred to Karsten in Blumenau. By March 1998, the recycling ratio had got close to the desired level of 85 %, and recycling ratios for other inputs were above expectations. The project was formally concluded in September 1999. At that time, it was uncertain when the firms would actually adopt the process, since the necessary investment is in the range of US\$ 1-2 million.

The Ecogoman project will in any case lead to sustained capacity building. The Brazilian engineers involved in the project are going to be employed at the Environmental Center of SENAI in Blumenau; the idea is to use their know-how to offer support to firms for further upgrading in environmental technology.

Benchmarking

In 1996, IEL was co-responsible for a diagnosis of industrial competitiveness of four branches of industry in SC (Meyer-Stamer et al. 1996). One of its observations was a lag in competitiveness between a few leading firms and the majority of companies. However, another result was that most of the companies were not at all aware of this fact. In order to

raise awareness, and to create the preconditions for measures to improve competitiveness, the study recommended to do benchmarking.

Benchmarking exercises have been conducted since 1997 by a professional of the Federation of Industries (FIESC) together with professors of universities, starting with seven firms in the textile sector. It was based on a methodology developed by International Institute of Management Development (IMD Lausanne) which had been applied in several European countries. The results of the research in Santa Catarina could thus be compared with the performance of European firms. They showed that there was a substantial gap between participating firms in Santa Catarina (which are supposed to be the most competitive local firms) and leading European firms, especially with regard to the tangible results of the implementation of new management techniques. In a broader sense, the result was only partially what had been intended – the involved firms realized how much work they had to do to catch-up with foreign competitors, but many of the even less-competitive firms did not want to get involved in the project.

Industrial policy

A less successful example of IEL's work regards the formulation of an industrial policy proposal for the state. Before 1991, industrial policy-making, if it took place, occurred at the state planning secretariat. The administration of Governor Kleinübing (1991-1994) delegated this activity to FIESC, not the least because Kleinübing and the president of FIESC were close friends. Inside FIESC, the task stuck with IEL. However, IEL was unprepared to take over this activity. It had no dedicated staff for this activity, and neither people with much experience in this field. As building an internal capacity took its time, IEL contracted a private consulting firm to prepare a diagnosis of the competitiveness of SC firms and to suggest an industrial policy. The consulting firm started its work in 1992 and presented its report in 1993. By this time the revitalization of IEL was underway, and IEL's director did his best to sabotage the consulting firm's activities whose report was in fact never published, and its main suggestion, the creation of a Fórum Santa Catarina, consisting of leading businesspeople and political agents, was never even seriously considered, even though the report itself had no severe flaws (except being overly optimistic regarding the capacity for action of actors in SC).

The subsequent state government (Governor Paulo Afonso Vieira, 1995-1998) has been even less active in the field of industrial policy. It tried to reconstruct the planning secretariat but did not get very far with this, mainly because it allocated only a handful of people to this activity, and the secretary soon became involved in a public scandal because of fraud in one of his former offices. Leaving industrial policy making with FIESC was out of the question since Afonso Vieira was from a different party than his predecessor. Industrial policy mainly consisted in reformulating a fiscal incentive program for new investment.

There are two lessons to be drawn from this experience. First, even though business associations may have a rough idea of what might be an industrial policy, formulating such a policy is a process which requires a lot of specific know-how. Unless an association has a good planning or research or policy department, it is unlikely that it will be able to conduct such a task. Second, it is not wise for a business associations to get too much involved with a given government, since there is always the chance that one of the opposition parties wins the next election, and in this case today's close relationship is tomorrow's feud.

4.2 SENAI

The vocational training system, SENAI-SC, is administrated as a relatively autonomous department inside FIESC. SENAI-SC has 16 vocational training centers all over the state. It has an independent source of income, based on a levy of 1 % on the wage sum which is collected by central government and redistributed to the state-level SENAI administrations. However, since the number of employees in the formal sector has decreased substantially in the 1990s, SENAI had to look for other sources of income. What it found was, most of all, charging fees for training courses.

The traditional main task of SENAI has been vocational training at the secondary level (apprenticeship), mainly in generic qualifications such as mechanics, electrician, car mechanics, etc. Training lasted for three years and was entirely conducted inside the SENAI school. The quality of this apprentice training was quite high, but not quite efficient since it was expensive and reached only a small group of youth. In quantitative terms, on-the-job-training inside firms has always been much more important than SENAI training. With the shrinking financial base, SENAI reduced its effort in apprenticeship training. Instead, it has expanded courses to train technicians (above the apprentice level), and it has started to create courses at the higher education level. Moreover, it has started to expand its offer of short-term courses (with a typical duration of 200 hours), which typically take place at night. Some of them are actually sold entirely to one firm and conducted on the firm's premise. Another innovation was to organize courses in a way that emulates the German "dual" model, where the theoretical part is taught at school and the practical training takes place inside firms.

Apart from amplifying and modifying its training activities, SENAI has started to found technology centers. The basic idea is to have one technology center for each of the important clusters. So far, five of these centers exist (metal-engineering, ceramics, textiles, food processing, informatics). Their main tasks are technical assistance to firms, especially SME, testing and certification, and specialized training courses.

Apart from new courses, the main innovation in SENAI-SC's work has been a much stronger customer focus. Traditionally, it was not rare that the director of a given school knew best what was good for his customers. It was also not rare that directors and teachers had never seen a company from inside, let alone worked there. Over the last years, many schools have

established a much closer contact with the local and regional business community, in some cases as a result of pressure from local business associations.

5 Creating locational advantages in a ceramic tile cluster – the case of Criciúma

The leading cluster in Brazil's ceramic tile industry is located around Criciúma in the south of SC. It consists of two large and ten medium-sized, locally-owned tile manufacturers which are responsible for a third of Brazilian production and two thirds of Brazil's tile exports.

After a decade of strong expansion, the cluster came under serious pressure in 1989/1990, as the economy stagnated due to macroeconomic stabilization efforts. This led to the collapse of the construction market, and the sales of the firms decreased by about a fourth. At the same time, real interest rates went up and penalized those firms which had pursued debt-financed expansion and modernization strategies in the years before. The largest firm filed for the Brazilian equivalent of Chapter 11 in 1991 (*concordata*), and some other firms were on the brink of financial collapse. Yet, in the end all survived due to a vigorous adjustment effort.

This adjustment effort included more than just in-house activities, and business associations played a crucial role. Until the crisis, the two large firms, or more specifically the two owner families, were deadly rivals, and the smaller firms avoided contact with the large ones for fear of being taken over. When one of the large firms got into financial trouble, the creditors forced the family out and professional managers in. This was one important precondition for overcoming rivalries based on personal aversion and establishing closer links between the firms. Such closer links were created in the following years, stimulated and facilitated by the local sindicato and the ACI. The sindicato was headed by the owner of one of the medium-sized firms, whereas the ACI's president came from a metal-engineering firm. Both engaged in a deliberate effort to create "collective efficiency", i.e. to emulate the structures of the two leading places in the world regarding the production of tiles, the industrial districts in Sassuolo (Italy) and Castellón (Spain).

Their knowledge of these places was due to the fact that the worldwide leading producers of capital equipment are located in Sassuolo, and many of the main suppliers of inputs are located in either of the two places. So actors in Criciúma had lots of opportunities to study how the global leaders in their industry organize their operations. Studying this not only meant observing, but also sending employees for internships to firms and technology centers in Italy and Spain.

Organizing collective efficiency in practical terms meant several things:

- Stimulating direct contacts between professionals from the firms, by means of the sindicato organizing seminars and conferences, but also via direct contacts, e.g. as part of a joint benchmarking exercise.

- Joint efforts to attract suppliers. They have started to persuade suppliers from elsewhere in Brazil and from abroad (Italy, Spain, USA) to set up factories in the Criciúma region, and they have taken care not to create a monopoly on the supply side by trying to attract competing suppliers.
- Joint efforts to strengthen training. One of the large firms opened its vocational training center for students from the other firms. The firms jointly lobbied for the creation of a course in ceramics technology at the local university, which was established in record time.
- Joint efforts to create a technology center, the Center for Ceramics Technology (CTC), modeled after a similar institution in Spain and managed by SENAI. Getting this venture off the ground involved a lot of tough bargaining by the Criciúma firms, and there was literal collective action: The presidents of the leading firms boarded a business jet to get to the state capital, Florianópolis, and invaded first the office of the President of FIESC and afterwards that of the state governor to press them for firm commitments for support and financing of CTC. An important element of support was the relocation of a specialized laboratory from the Federal University of Santa Catarina (UFSC) in Florianópolis to CTC.
- Collective action to get a connection to the Bolivia-Brazil pipeline for natural gas which will be completed by the end of 1999, thus significantly reducing the energy cost.

Three factors facilitate cooperation. First, suppliers of inputs and vendors of equipment stimulate exchange among firms. For instance, if a vendor (typically an Italian firm) has set up a given equipment in one of the firms, he will use this as a showcase for other local firms.

Second, local actors share the notion that local firms should stick together to maintain their position vis-à-vis domestic competitors. Apart from one large firm that is located elsewhere in Santa Catarina, managers in Criciúma point out that their main competitors are located in a cluster in the state of São Paulo (Santa Gertrudes). These firms, they say, are mainly small and medium firms which are lean and agile and thus cause a permanent performance pressure on firms in the Criciúma cluster.

Third, firms' engineers claim that production technology is on the whole standardized so that there is little risk of losing crucial secrets by information exchange between firms. Thus, the competitive pattern plays an important role in explaining cooperation.

Competitive advantages lie rather in original design and in logistics. Regarding design, firms used to copy Italian designs in the past. Some firms have started to develop their own designs recently, inter alia by emulating the Italian experience of the 1970s, i.e. contracting prominent national artists to create a unique tile design.

Regarding logistics, it is important to look at the domestic commodity chain of the tile industry. This commodity chain is essentially supplier-driven. The tile producers operate a number of distribution centers in various parts of the country, and they have their own

showrooms in some major cities. Apart from direct sales to final customers, they deal mostly with individual shops and construction firms. Those producers fare well which can deliver a wide variety of products, and do this quickly, without having huge stocks.

Beyond this, firms have come up with various ideas to strengthen their competitive position. One of the large firms has an Internet-based virtual showroom. One of the medium firms has started two-day courses for tilers as a reaction to customer complaints about poor quality; according to the firm, this is not due to the product but the inadequate qualification of tilers. The firm pays the trip and an allowance, and the tilers also receive a box with tools.

All in all, two factors appear to be most important to explain this experience. First, fierce rivalry and non-cooperation has led some firms to the brink of bankruptcy. They have learned the hard way that it can be useful to balance competition and cooperation at the local level. Second, there was strong leadership from business associations. And it is interesting to note that especially the ACI has chosen a broad approach, not just organizing missions of businesspeople to Italy but also encouraging the creation an Institute of Italian Culture.

6 Organizational Development in Chambers of Industry and Commerce (ACIs)

The conventional model of Chambers of Industry and Commerce (ACIs) has been described above. It was in such a setting that in 1991 a partnership project was launched which involved the Chamber of Arts and Crafts for Munich and Upper Bavaria (HWK) and three ACIs in the northeast of SC (Joinville, Blumenau, Brusque). The starting point was the idea of the president of one of the ACIs that such a project might help in upgrading local small firms, especially in non-durables (like bakeries) and consumer-oriented services (like car repair). However, it became soon obvious to the German expert in charge of coordinating the project and his Brazilian colleagues that lack of technical and managerial capacity of small firms was only part of the problem. In their view, the main problem was the inadequate functioning of the ACIs. They offered hardly any services, and their lobby work was basically ad-hoc – whenever local or state government had passed a law that created additional obstacles for private business they tried to have it revoked, rather than working systematically to prevent that such laws were passed in the first place.

So in the initial phase the goal of the partnership project was redefined – from strengthening small firms to stimulating organizational development in ACIs (Müller-Glodde 1993). This is not to say that small firms were no longer the target of activities. Far from it: pulling small firms into the ACIs became the main instrument to leverage organizational development. The ACIs began to organize *núcleos setoriais*, working groups of about ten to twelve owners of small firms, organized at branch-level so that there are typically working groups of car repair shops, bakeries, carpenters, restaurants, furniture, supermarkets, and many others. The ACIs trained professionals (“consultants”) to work as moderators and facilitators, preparing the reunions (usually bi-weekly), conducting them, and doing the follow-up. Actually, their

existence is a key issue for two reasons. First, the meetings of the working group are organized in a way which is quite different from normal meetings. Not only is there the consultant who moderates, but he also uses the “Metaplan” visualization technique so that the group’s work process and progress is clearly visible, and the meeting has a visible result. Second, the ACIs usually did not have something like a consultant before. In fact, they had hardly any professionals at all. So hiring a qualified professional to work as a consultant with núcleos was quite a leap.

What started as a moderate intervention – organizing a handful of working groups of small businesses – unlocked a profound change in the ACIs. They expanded the number of employees, creating new demands on the leadership of the executive secretary. They expanded the number of member firms, creating new demands on the elected directors who all of a sudden found it necessary to justify their actions (or rather the lack of it). In some cases, small business owners actually became presidents of ACIs. They had to work out a PR strategy to keep the enlarged membership base informed. And they had to launch a more systematic lobbying effort, based on complaints and proposals from the enlarged membership base. Overall, the ACIs moved from the club model to the service & lobby-model – offering services to member firms (most notably the work of the consultants) and organizing lobbying; the latter in several cases led to ACIs professionals changing into the city administration, being in charge of economic development, and in one case to nominating an ACI president for the mayor election, which he actually won. And this happened not only in three ACIs. As it became obvious that the partnership project had tangible effects (which included trips for ACIs directors, executives, and consultants to Bavaria to know a completely different model of business associations, and trips of HWK specialists to SC to give specific technical assistance to núcleo firms), more ACIs asked to get involved with the project. In the end, 20 ACIs were affiliated with the project. They had altogether more than 120 núcleos with more than 1,600 participating firms. In the larger cities, the number of members of the ACI grew two- to threefold.

When the first phase of funding from the German side came to its end in 1996, and it was time to define whether to continue the partnership project (in the way it had started, i.e. with manpower input from HWK and financial support from the Ministry of Development Cooperation), it was decided to expand the effort. The 20 ACIs involved in the project created a separate organization, Fundação Empreender (FE), which hired the project workers. FE started a joint venture with SEBRAE, the parastatal support organization for micro and small enterprises, to disseminate the work methodologies developed in the project to other ACIs in SC. 20 ACIs in larger cities (i.e. between 30,000 and 200,000 inhabitants) were selected for what was called Projeto Empreender. Within the first 30 months, 138 núcleos with 1,762 firms were created in these ACIs.

It is important to note that the traditional orientation of ACIs, the commitment with the social and cultural development of the community, not only survived all the changes but was probably reinforced. This commitment is an important factor in motivating ACIs to get

involved in local economic development policy. The following two case studies will explain under which circumstances this may work, or may have just a limited impact.

7 Local economic development led by a business association: the case of Mafra

Mafra is a city of about 50,000 inhabitants which is located at the border between SC and Paraná, where it has a twin city, Rio Negro with about 35,000 inhabitants. Even though only a third of Mafra's population is living outside the boundaries of the urban parameter, it is basically a rural place. Mafra's industry is resource-based – sawmills, furniture and other wood products, brick manufacturing; the only apparently “modern” firm is a ceramic tile manufacturer whose performance indicators, however, are below those of competitors elsewhere in SC. Mafra has got a somewhat stronger profile in services (especially wholesale and retail trade, medical services, and education) as it is the center of a micro-region encompassing a number of smaller towns. Per-capita-GDP was about R\$ 4,800 in 1995 (at that time, the Real had about at 1:1 parity with the Dollar), i.e. 20 % below the average of SC.

Economic promotion activities started in the mid-1990s. In 1996 local government succeeded in attracting a factory of an U.S.-firm which will employ 85 employees at its final stage. The firm is producing surface replacements for truck tires, using a high-tech process. There were no subsequent investments, but this experience created a consciousness regarding the possibilities of local activities. In 1997, a new mayor entered office who picked the former president of the local chamber (ACIM) as secretary for economic development. Both participated in 1997 in a seminar on concepts and instruments of local economic promotion organized by Fundacao Empreender (FE). In 1998, ACI and city government invited FE to support the elaboration of an economic development strategy, called “Projeto Marketing Municipal”. The proposal of the FE consultants was to conduct a quick appraisal of competitive advantages and disadvantages, based on the general lines of the Participatory Learning & Action concept (Meyer-Stamer 1998b), rather than entering a tiresome, complicated, and overly complex process of strategic planning (which is quite popular, albeit not quite successful, in Brazil). The basic idea was to come up with a limited number of concrete proposals to improve the economic potential of Mafra, proposals which might be implemented and generate visible results within a short period of time (like three months), thus motivating the local actors to proceed with such activities, and maybe become more audacious regarding subsequent proposals.

The appraisal exercise was conducted in September 1998 by two FE consultants, accompanied by the executive secretary of ACIM. The main findings were

- relatively weak structure of industry, overall mediocre competitiveness of industrial firms, but some potential in trade and agriculture;

- an adequate structure of support institutions, especially regarding education and vocational training, a highly competent agricultural extension NGO (BNAF), two credit cooperatives for agricultural development with some potential, and a very high credibility of ACIM;
- a critical financial condition of the city government;
- a strong commitment of local leaders and organizations to get involved in economic promotion as a result of a sense of a looming crisis, plus a strong commitment to collaboration between organizations and associations.

The proposals of the FE consultants included conceptual issues and concrete suggestions. Regarding conceptual proposals, the consultants tried to convince local actors that the main approach to local economic development should be to mobilize existing potentials (rather than trying to create from scratch some structures in areas which appear to hold a lot of potential, like conference tourism where Mafra so far has next to nothing to offer). They also tried to get across the message that economic promotion should be about creating a difference, a specific local profile which cannot easily be replicated elsewhere, a profile which creates a localized competitive advantage. Concrete suggestions included connecting local agriculture with local trade, strengthening existing industries (for instance by launching energy efficiency programs), and developing a difference in the area of tourism. The subsequent activities of ACIM focused mainly on agriculture/trade, tourism, and energy (as mentioned above, SC is being connected to the Bolivia-Brazil pipeline for natural gas, and it is crucial for the region of Mafra with its energy-intensive resource-based industries to get connected).

7.1 Linkages between local agriculture and local trade

Activities in this respect built on the existing initiatives of BNAF, which had gone on for two years and so far had gone more or less unnoticed by other local actors. The work format of BNAF was based on a new concept of associativism. BNAF encouraged smallholders to form associations with about ten members, each initially focusing on just one product. Each association is accompanied by BNAF's consultants. Each smallholder who wants to enter an association is obliged to pass through a week of training at EPAGRI, a government agricultural research and advisory agency. At the beginning, the main product was tomatoes which were grown in simple, cheap greenhouses (consisting of a wooden frame covered with robust transparent plastic). Subsequently, new products were introduced, including some cultures for greenhouse cultures (zucchini, cucumbers, melons, and strawberries) as well as other products (milk, honey, beans, snails, and rabbits). BNAF receives a small amount of government subsidies and is otherwise reliant on financial support from its target group, i.e. families owning small properties. It is scanning worldwide experiences in agricultural innovation; BNAF consultants have paid visits to Israel, France, China, and Mexico to get first-hand information on new techniques. In September 1999, BNAF gave assistance to 800

smallholders in Mafra as well as neighboring towns, with more families waiting to be integrated.

The cooperation between BNAF and ACIM involved two aspects: linking BNAF and its clientele with local trade, and conflict resolution. Linking local small producers with local trade was no easy task. Local supermarkets had tried to purchase vegetables from local producers before, but this had failed due to unreliable and predatory behavior of the producers. Ever since local producers had sold their products to wholesale traders in Curitiba (two hours away from Mafra), and supermarkets had purchased fruit and vegetable there. Convincing the supermarket owners to give it another try with local producers, this time with the intermediation of ACIM and BNAF, involved intense persuasion by the executive secretary of ACIM. Initially, it involved only tomatoes (with everybody being better off – producer prices were 31 % higher, purchasing prices for supermarkets 22 % lower, and the consumer price dropped by 15 %), subsequently being expanded to other products. Local marketing of milk involved one association investing in equipment to sterilize and package the milk. Producer prices rose from R\$ 0,16 to R\$ 0,41, with the producers still selling it at a much lower price than large firms. It happened thus that the association won a bid to supply local schools against large competitors like Parmalat.

An unexpected effect of the link between producers and trade, and of the trust which quickly built between BNAF and ACIM, was that local trade firms started to deposit money at one of the local credit cooperatives which is working closely together with BNAF. Initially, this involved an amount of about R\$ 600,000, which by September 1999 had grown to more than 4 million and then also involved the other credit cooperative. While in September 1998 BNAF had various projects in the drawer and was desperately, and with little success, looking for funds, today the situation has reversed – BNAF has to work hard to put all the money at productive use.

Conflict resolution by ACIM so far involved two cases which might have blown the whole experience. First, BNAF had come up with the idea to organize joint purchases of all the affiliated smallholders. It turned out that the best way of organizing this was to organize an open auction, with the suppliers bidding against each other until the lowest acceptable price for various inputs was reached. The suppliers reacted by asking ACIM for support in forming a cartel to deal with BNAF. It took the executive secretary of ACIM several meetings to dissuade the suppliers from proceeding with this scheme, mainly by pointing out the fact that local agriculture is going through a period of crisis (since traditional cultures are becoming less productive and earning lower prices, while interest rates have been raised to extremely high levels during the last three years), and that it was in the long-term interest of suppliers to strengthen local producers.

Second, apparently one of the representatives of a large milk producer bribed a health inspector of the city government to classify the milk produced by the association as hazardous. The inspector inspected the association's installations at ten o'clock in the morning, and by 3 p.m. came up with the incriminating exam. The manipulation was

immediately obvious since the next laboratory is located in Curitiba; it was technically impossible to have an exam in hands within such short time. The association alerted ACIM, which immediately called for a meeting. It was decided to send a sample to Curitiba for an examination, and ACIM was to call the local newspapers immediately to alert them of the inspector's fraud. This worked just fine – the real exam arrived the next day, showing that the milk was just fine; the newspapers published this result, thus reinforcing the standing of the local producer; and ACIM successfully lobbied with the mayor to have the corrupt inspector fired.

7.2 Tourism and paleontology

In terms of tourism, Mafra has a lot of potential – a nice landscape, beautiful waterfalls, extensive forests, and so forth. However, this is no particular advantage since all the municipalities in the region have such a potential. The difference between Mafra and neighboring cities is the fact that Mafra has a number of important paleontological sites, which are not just normal sites but actually prove the hypothesis that millions of years ago Africa and America were a single continent. These sites have been known since the 1930s, but they have never been systematically explored or exploited. The existence of these sites came back to the memories of many local actors when such a site was uncovered during the earth-moving for the construction of the plant of the U.S. firm mentioned before, with an immediate intervention of federal authorities and an acute risk that the firm would cancel its investment. It was through swift action of several local actors that the findings could be secured in the local university, and construction could proceed.

Leveraging the paleontological sites to attract tourists was one of the suggestions of the Projeto Marketing Municipal. Local actors liked this idea, and ACIM convened a working group of representatives of several organizations, not only from Mafra but also from neighboring Rio Negro, to elaborate a project (among them a retired professor, an internationally renowned specialist in the field). The project which evolved was quite ambitious: Create a National Center for Paleontology, not just for tourism but also as a research center, especially catering to visiting researchers and groups of students from Brazil and abroad. It also took not long to find the ideal place: a big and very beautiful building in Rio Negro, constructed as a Franciscan seminar at the beginning of the century, abandoned since the 1970s and recently partially renovated.

It took some time to overcome short-sighted rivalries and jealousies between Mafra and Rio Negro to get the project moving. A big step forward took place in August 1999 when the working group, together with representatives from the two city governments and city councils, defined six separate elements which together make up the whole project, which are to be divided evenly between Mafra and Rio Negro. In September, a memorandum of understanding was signed by the two mayors, the two presidents of the city councils, and the two presidents of ACIs. Three persons were identified who will work full-time for the project – one paid by the city of Mafra, another one by the city of Rio Negro, and the third one by

both the state governments of Santa Catarina and Paraná. In terms of Brazil, such a project involving two cities from two different states is very unusual and a big achievement.

The direct economic effect has been estimated at R\$ 5 million per year. However, this calculation was based on very restrictive assumptions, and counted tourism income only. It is quite likely that the direct and indirect effect of the project, once it will be up and running (probably early 2000), will be more substantial. Apart from that, it will raise a lot of attention for Mafra, which so far is perceived as a relatively unimportant backwater, and it will enforce the self-esteem of local actors in Mafra and Rio Negro, thus creating favorable conditions for further projects.

8 Local economic dynamism with little collective action: the case of São Bento do Sul

There are different options when one presents the furniture cluster of São Bento do Sul. On the one hand, one can present it as a spectacular success story. With a share of 5.5 % of turnover and 3.16 % of employment in Brazilian furniture industry, it was responsible for about 40 % of Brazil's furniture exports in 1996 (Lanzer 1998, 31). Exports more than doubled in 1992 and 1993, and continued to grow, albeit at lesser rates, in the following years.

However, on the other hand one can tell quite a different story. The share of the furniture industry in manufacturing value added declined from about 2 % in 1970 to about 1 % in 1990. The analysis of the São Bento do Sul cluster which today is the leading furniture exporter in Brazil helps understand the reasons for this underperformance. The cluster shares structural features with other locations of the furniture industry: it is dominated by family-owned firms with a strong presence of micro, small- and medium-sized firms, there are no foreign companies, and the sector has never enjoyed much government support. The performance of the São Bento cluster, as the performance of the furniture industry as a whole, thus depends on individual entrepreneurs, i.e. the internal effort of firms and the way they connect to shape competitive advantage by means of joint action. In this respect what one detects is a remarkably passive stance. The firms react to occasional surges in demand, and this was by far the most important reason for the surge in exports in the 1990s, a surge that started from a very low level. But they do little to create competitive advantage, and they do hardly anything at all to create what Schmitz (1995) has coined "collective efficiency". There is, in other words, very little cooperation and joint action between firms, a fact that reflects the incentive structure that prevailed in the past. Thus, what appears as a success story at first glance turns out to be a piece of luck, and actually luck may run out. It also indicates that Brazil's furniture industry could have done much better had it relied more on effort and less on luck.

8.1 Structure and evolution of the cluster

The largest company in São Bento do Sul, the Rudnick group, is actually the fourth largest company in Brazil's furniture industry, with an overall turnover of R\$ 62 million. Rudnick is a somewhat unusual firm in São Bento do Sul as it produces mainly for the domestic market, and its products are mainly not made of pine. Most of the firms in the cluster produce Scandinavian-style products made of pine, mostly for export; some firms actually have an export ratio of 100 %. The size structure in São Bento do Sul is somewhat unusual as there are less micro- and small-firms than one might expect (Table 1).

Table 1: Size structure of furniture firms in the São Bento do Sul cluster¹

	Micro	Small	Medium	Large	unclear	Sum
Firms	87	45	31	1	45	209
Total of employees	980	2102	5823	580		9485

Source: Lanzer et al. (1998), p. 25.

Exporting pine furniture is a pretty recent phenomenon in São Bento do Sul. The first firms in the cluster started in the 1920s, producing furniture and artifacts based on wood from primary forests. The cluster evolved since the 1950s when employees of the pioneering firms started their own firms. It enjoyed a first period of growth in the 1970s. Between 1971 and 1980 production of furniture in Brazil doubled (Rangel 1993), and the São Bento do Sul cluster had a fair share of this expansion. It was a time when the furniture market was a seller's market. Whoever was able to produce a decent piece of furniture could sell it, and producers like those in São Bento do Sul who achieved a good product quality could earn a lot of money. With the macroeconomic turbulences in the early 1980s the situation changed profoundly: the market contracted in 1981 and even more sharply in 1983, and only in 1986 sales reached the 1980 level. However, this was mainly due to the consumption boom after Plano Cruzado, and sales dropped again sharply after that.

Firms tried to compensate for the decline in domestic sales by starting to export, but the results were modest at best. While production amounted to about US\$ 1.8 billion in 1989, exports peaked in that year at about US\$ 56 million. Firms from São Bento do Sul had a share of about one third. While this was little in absolute terms, it was important as it put them on the map for international traders in the furniture business.

Being known to international traders was the point of departure for the second boom in the industry. European sales firms had for quite some time purchased a substantial part of their merchandise in Eastern Europe. In the early 1990s, many Eastern European firms lost their competitiveness as government support vanished and productive efficiency was insufficient to compete without that support. This opened a window of opportunity for suppliers elsewhere

1 It is not clear which classification was used for this table. The usual Brazilian classification defines as follows: Micro firms < 20 employees, small = 20 - 50, medium = 51 - 200, large > 200. ABIMOVEL documents employ a different classification: micro < 16, small = 15 - 150, medium > 150.

in the world. European trading firms looked for suppliers elsewhere, and one of the places where they found them was São Bento do Sul. Firms there had just initiated a move from traditional types of wood to pine so that they could deliver immediately. In 1992 as well as 1993 exports more than doubled. Like in the 1970s, the atmosphere was vibrant, with opportunities proliferating.

This period of extreme growth was short-lived. In 1994/95, after the implementation of the Plano Real stabilization program, the Brazilian currency appreciated by more than 30 %, thus putting Brazilian exporters at a serious price disadvantage. Thus, growth dropped from 48 % (1994) to 24 % (1995). Things became worse when after 1996 the US-Dollar appreciated against European currencies, notably the German Mark. Export agents had calculated on the basis of a DM-\$-rate of 1.50. When the Mark continued to drop exports to Germany decreased dramatically as products became price-uncompetitive. Increasing exports to the U.S. in 1997 seemed to offer an alternative, thus explaining the 13 % export growth in that year (after just 3 % in 1996). However, with the stark devaluations of Asian currencies local firms found it increasingly difficult to compete with firms from Malaysia, Thailand and Indonesia. Exports actually dropped in the first half of 1998. It was only the devaluation of Brazil's currency in January 1999 which saved the cluster from a severe recession.

The domestic market offers no alternative to resume growth. First, demand is compressed due to uncertainty because of macroeconomic instabilities plus astronomical interest rates; according to ABIMOVEL, sales of national firms on the domestic market dropped from US\$ 6 billion in 1995 to 5.6 billion in 1996 to 5.2 billion in 1997. Second, it is difficult to sell pine furniture on the domestic market anyway as consumers regard it with suspicion. There was a first wave of pine furniture production in the mid-1980s, also from São Bento do Sul. However, firms started to sell them before they had really mastered the production process based on pine. According to local sources, furniture tended to fall apart or change its color due to inadequate drying and painting.

8.2 The furniture industry in São Bento do Sul in a cluster perspective

Passive advantages

The competitiveness of furniture firms in São Bento do Sul builds mainly on two factors, namely technological upgrading and passive cluster advantages. Regarding technological upgrading, it is notable that many firms are using state-of-the-art machinery, like numerically controlled machining centers or ultraviolet painting equipment. According to the firms, part of the exceptional profits of the high-growth years was used to purchase new machinery. Firms' owners regularly visit international fairs to identify current trends in technology.

Regarding passive cluster advantages, the factor most frequently mentioned by local sources is labor. It is, however, important to note that local sources refer to "labor culture", i.e. the

availability of workers who are first accustomed with the disciplinary requirements involved in industrial work, and, second, who have been working in the sector some time (if not for some generations). Formal qualification of workers is quite a different issue. Frequently, the majority of workers in a factory have not completed primary education, let alone participated in vocational training courses. Training takes place on-the-job.

Further passive advantages include the availability of inputs and machinery. There is one local varnish producer which was established in 1992 and has since enjoyed strong growth. Apparently, this firm has been able to leverage local demand to build a competitive advantage, thus creating the conditions to grab a notable share of the Brazilian market (where the leading firm has a market share of 60 % and is busily creating barriers to entry against potential entrants, so that entering the market and surviving is quite a success). Then there are manufacturers of inputs like door hinges and other accessories. There is also one important manufacturer of packaging material. Representatives of equipment vendors are present, and there are one small and several micro firms producing machinery. The small firm manufactures milling-machines and has established itself as a credible supplier of such equipment to smaller furniture manufacturers in the whole country.

With respect to the export boom, the most important passive advantage has been the presence of three major and some minor export agents. They are the intermediaries between local producers and foreign clients; local producers, except for some relative larger firms, do usually not deal directly with foreign customers.

Other segments where passive advantages might emerge appear relatively weak. For instance, transport firms are not particularly competitive, and a substantial part of furniture transport is managed by firms located in other municipalities. Subcontracting firms, both regarding machining of wooden parts and painting / finishing, do exist, but not in substantial numbers (e.g. three firms specialized in drilling, two in painting).

8.3 Active advantages

There are also some active advantages. The most notable one is FETEP, the technical school for the furniture industry. It was created in 1975 as the result of an initiative of local firms which sensed the necessity to have well-trained technicians available. Initially, the school came out strong, being regarded country-wide as a point of reference. It appeared like the paradigmatic case of firms uniting to create collectively a locational advantage. However, firms did not stay united, and they tolerated the decay of FETEP in the late 1980s and early 1990s. It is not clear what exactly was behind this process. Local sources cite factors like incompetent and arrogant leadership inside the school and the lack of leadership among the firms. However, one might speculate about further reasons, like hyperturbulent macroeconomic conditions which absorbed most of the attention of the firms, and the absence of an adequate institutional solution for the supervision of the school. In 1994/95, local actors

lobbied with SENAI to take over FETEP; this took effect by January 1, 1996. Today, FETEP is still in the process of reconstructing facilities and credibility.

Another important element is ARPEM, the association of small furniture firms which was founded in 1983 and today has 31 member firms. ARPEM organizes seminars and invites speakers, organizes joint presentations on fairs and joint trips to fairs abroad, and funds fact-finding trips of individual members abroad. Projects currently under evaluation are a joint shop for factory sales, and the organization of meetings inside the member firms; so far, meetings take place in a restaurant, and there is no practice of mutual visits to factories. – Essentially, ARPEM takes a role that one might expect from the sector's business association, the *sindicato patronal*, which, however, sticks to its legal mandate, i.e. wage negotiations.

A further outcome of joint action is the creation of the Centro de Gestão Empresarial, a complex of four small buildings where the ACI, the small business development service SEBRAE, some facilities of SENAI, the offices of the *sindicatos*, and a local branch of the International Trade Center (maintained by the state's federation of industries, FIESC) are located. There is, however, no indication that this complex is particularly important for the furniture industry.

8.4 Reasons for the absence of collective efficiency

One of the most notable features of the São Bento do Sul cluster is the very low level of cooperation, collaboration, and collective action, and thus the absence of collective efficiency. However, these are not unique observations but very much resemble findings in other clusters in Santa Catarina (Meyer-Stamer 1998a). Several factors explain a pattern of little interaction between firms, be it vertical or horizontal:

- Suppliers often were not available, thus making vertical integration a necessity. This point has been raised by some firms in São Bento do Sul as well, especially with respect to outsourcing activities like machining of certain parts and painting. However, other firms point out that they are reasonably happy with their suppliers in this respect.
- There was a hyperturbulent macroeconomic environment which introduced an incentive for firms to try to control as many operations as possible, and to minimize interfirm transactions as they were prone to give rise to opportunist behavior.
- The regulatory environment makes it impossible for firms to operate within the rule of law in every respect. Opening a firm to visitors runs the risk of making irregularities public. Moreover, there is the direct impact of the tax system and labor legislation which discriminate against interfirm transactions and outsourcing. Specifically, there are cumulative taxes on interfirm transactions, and there are regulations in the labor legislation which establish that a firm is to a certain degree responsible for the fate of its subcontractors, especially if a subcontractor is 100 % dependent on one contractor.

If the subcontractor defaults, the contractor has to indemnify the employees. Some firms in São Bento do Sul pointed at this aspect.

- Firms used to be very profitable, and augmenting vertical integration appeared as a sensible way to spend that money.
- There seems to be a lot of predatory behavior. A sarcastic characterization of São Bento do Sul is “Europe’s furniture subcontractor”. A typical sale would go like this: A trade firm in Europe, say Metro from Germany, would look for a producer of a piece of furniture, say a box made of pine with a predetermined design. It would ask an export agent in São Bento do Sul to make a bid, and it would provide price conditions at the margin of reality, indicating that firms elsewhere in the world might be in a position to meet those conditions. The export agent would then look around among local producers capable of delivering the necessary product quality, and a bidding process would start among them. This system establishes an incentive for local producers to be flexible, i.e. to be able to participate in whatever bid comes up. As long as the export business went fine, there was no obvious incentive for a firm to try to distinguish itself via product design, i.e. to develop a specific series or style of furniture, or at least to do market research and anticipate changes in style and taste. Thus, there was fierce local rivalry which often gave rise to predatory behavior. For instance, one of the larger firms told the following story. In 1997 it received an order from the U.S. that went beyond its production capacity. It asked a local competitor whether he would be willing to subcontract part of the lot. During the negotiations, the competitor was very inquisitive about the customer and conditions of the contract. The competitor then got directly in contact with the customer, offering the same product for a somewhat lower price.

A finding from the study of Lanzer et al (1998, 74) further illustrates the prevalence of local rivalry. They asked firms about the most important competitors. 50 % of the respondents mentioned firms in the cluster, 45 % firms elsewhere in Santa Catarina, and 50 % firms elsewhere in Brazil (principally in Bento Gonçalves), whereas only one third mentioned firms outside Brazil.

Regarding the local business culture, this structure does not only create a climate of mistrust between producers. It also gives rise to a tense relation between producers and export agents; local actors describe this relation with phrases like “The producer is the hostage of the export agent”.

8.5 The competitive potential of the furniture cluster in São Bento do Sul

According to export agents, firms from São Bento do Sul have a competitive advantage when it comes to producing pine furniture with higher value-added (that is, higher than so far). In this segment there is no competition from Asian firms due to insufficient technological

capability, and even East European firms seem to have difficulties entering into this segment, at least at competitive prices and response times. At the same time, products from São Bento do Sul are cheaper than those manufactured in EU countries. Specifically, pine furniture with higher value-added would mean cupboards or wardrobes with detailed design features, or furniture that is made to look old.

Under the current conditions, such competitive advantage is based on the combination of the production capability of firms with the marketing savvy of the local export agents. This constellation is disadvantageous for two reasons. First, it is vulnerable – thousands of jobs depend on the ingenuity of literally a handful of people. Second, it shelters producers from necessary learning processes. They display a certain tendency to dream of the ‘good old days’ when they could sell a huge lot of furniture, say ten containers, with a substantial profit. There is, however, strong evidence that these days are by and gone. Today’s demand is more differentiated, like a lot which just fills one container. In fact, it is almost by definition that higher valued-added furniture will sell in smaller numbers than traditional bread-and-butter products.

Given this change in demand, producers are facing two challenges. The first one has to do with the area in which their main competence rests, that is production. They have to manage the transition of organizational structures from something like mass production, or at least production of large lots, to flexibility, i.e. the efficient manufacture of small lots. This may mean introducing concepts like cellular manufacturing which are so far not being employed. Apart from that, firms will be well-advised to deal more systematically with quality management which so far follows the control model rather than the total quality concept; for instance, there is so far no furniture firm certified according to ISO 9000.

The second challenge is to get to know the customer and his fancies much better. This means, first of all, that firms have to understand that ‘the customer’ means people like people like the readers of this paper rather than wholesale traders. Manufacturers have to accompany tendencies regarding fashion and style much closer. This means, for instance, that firms’ directors and managers have to leave São Bento do Sul much more often than they use to. A poll of the São Bento do Sul branch of FIESC’s International Trade Center in 1997 revealed that almost all local furniture manufacturers expose at the local furniture fair. However, just 5 % put their products on display at fairs in São Paulo, Arapongas and Bento Gonçalves, the other important furniture fairs in Brazil (which may make sense as they produce mainly for exports). However, firms are hardly present at fairs abroad, either. 3 % display their products in High Point (USA), 2 % in Birmingham (UK); and just 8 % of the firms visit the fairs in Cologne and Paris (without putting products on display). Being more present at such events would be an important first step to expose local firms to final markets. Visiting firms abroad might also help to open-up minds. In the medium, it may be useful to explore proposals like cooperation with design firms in Europe and the U.S.

In both fields there is an obvious scope for cooperation and action by business associations. Firms might unite to bring in speakers for seminars and consultants for flexible production

and quality management. Firms might jointly organize trips to fairs abroad, and to visit firms elsewhere in Brazil and abroad. The funny thing is that in discussions about cooperation representatives of local firms come up with projects which are much more ambitious, like joint purchasing, sharing of machinery, or joint sales. Such activities run a high risk of failing due to opportunist behavior, especially in an uncooperative environment such as in São Bento do Sul. Some such cooperation projects have been initiated in the past, have failed, and have thus reinforced the uncooperative culture. Seminars and trips hardly offer an opportunity for opportunist behavior and can thus help to overcome this culture.

The main challenge for furniture producers in São Bento do Sul is to formulate a strategy to establish themselves as a niche producer on the global market, in this case for high-value pine furniture. Firms have to work together among themselves, and with institutions like FETEP, to create a competitive advantage. The inability to do so in the past is an important feature in understanding the unimpressive performance of Brazil's furniture industry. And there is little reason to believe that in São Bento do Sul things will change easily as there are two strong obstacles to collective action and a stronger role for business associations:

- The un-cooperative culture is deeply entrenched. Mistrust between firms prevails, and there is no obvious reason why firms should be able to create collective efficiency based on trust. This applies also to the branch-level association, the *sindicato*. Things are somewhat different regarding ARPEM, but it only represents a small segment of the cluster. It must also be mentioned that foreign buyers inadvertently undermine efforts of local cooperation. They often play local firms against each other, using the culture of mistrust and reinforcing it.
- The ACI is handicapped by the fact that, even though furniture is the most important industry in São Bento do Sul, four of the five largest firms belong to other branches (dishware, household artifacts, car parts, home textiles). They resist any strong action of the ACI towards the furniture industry.

We conducted a Projeto Marketing Municipal initial appraisal in October 1998. Many of the observations made before are based on this work. The main conclusion of the appraisal was that the conditions for a sustained Marketing Municipal effort in São Bento were unfavorable, especially due to the weaknesses of business associations. Subsequent events, or rather the absence of them, at least from the side of the ACI and the *sindicato*, confirmed this conclusion. Recent activities to strengthen the locale came from other actors. First, the city government succeeded, working together with the state government, to attract a furniture machinery manufacturer from Portugal. Second, São Bento do Sul's furniture industry is a target of a federal government program to increase exports. This is mostly the result of a lobbying effort of the current director of FETEP. Third, AMPE is continuing its work, and it recently started to collaborate with a local architect to come up with original designs.

9 Conclusions

What makes the difference between an ineffective and a dynamic business association? The cases presented before suggest an unambiguous answer: acute problem pressure. In the case of Santa Catarina, there are business associations all over the place. There are 110 *sindicatos* affiliated to FIESC, and the state federation of ACIs has 129 members. Few of the *sindicatos* have moved outside the traditional pattern of behavior, and the dynamic development of 40 ACIs was due to an external impulse. Sticking to well-established patterns of behavior is the safe option, and is perfectly rational, unless there is a strong necessity to break out of the established pattern. This necessity had the shape of economic crises – at the branch level, like in the ceramics case, or in terms of increasing unemployment, like in many of the larger cities where ACIs are increasingly concerned of and involved in local economic development policy.

One of the main differences between a business and a business association is the role of opportunity. While it may be highly important for the individual business, it is much less so for the business association. Business is about risk-taking; collective action is about risk-alleviation. In practical terms this means that in a situation where the local economy goes reasonably well but could do much better, provided there was collective action to create additional competitive advantages, it is unlikely that such action will materialize. Comparing the experiences of Criciúma and São Bento may clarify this argument: In Criciúma, business associations are constantly active in order to improve the economic performance, but there this behavior is a kind of business-as-usual ever since economic crisis put them onto a different development trajectory. In São Bento, business associations do not have a tradition to get involved in creating locational advantages, and therefore the opportunity to upgrade the furniture cluster is not being realized.

Another issue is the role of work methodologies. Willingness to do something is one thing, and is often quite an achievement, but actually know how to get it done is something quite different. Work methodologies for local economic development include concepts to guide strategy formulation as well as specific techniques. Projeto Marketing Municipal builds mostly on the Concept of Systemic Competitiveness (Altenburg et al. 1998, Esser et al. 1996) and on Michael Porter's work on localized competitive advantages (Porter 1990). Regarding specific techniques, various experiences have verified that the use of visualization techniques (like "Metaplan") is extremely helpful to ensure that meetings are effective, efficient, and have concrete results.

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