



organizações  
& sociedade

83







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Organizações & Sociedade: O&S / Universidade Federal da Bahia, UFBA : Núcleo de Pós-graduação em Administração, NPGA/Editora da Universidade Federal da Bahia, EDUFBA. - vol. 1, n. 1 (1993)- . - Salvador: UFBA: NPGA/EDUFBA, 1993-  
v. il. : 26cm

Trimestral, 2005-  
Quadrimestral, (1997 - 2004).  
Semestral (1993 - 1996).  
ISSN 1413-585x

1. Administração - Periódicos. 2. Organizações - Periódicos.  
I. Universidade Federal da Bahia. Núcleo de Pós-graduação em Administração, NPGA/Editora da Universidade Federal da Bahia, EDUFBA. II. Título: O&S

CDD 658



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MAYORAL QUALITY AND MUNICIPAL PERFORMANCE IN  
BRAZILIAN LOCAL GOVERNMENTS

Claudia N. Avellaneda  
Ricardo Corrêa Gomes

555

ELECTIONS AND LOCAL GOVERNMENT  
PERFORMANCE IN BRAZIL

Pedro Luiz Costa Cavalcante

580

THE SCOPE AND IMPLICATIONS OF SPIRITUALITY:  
A DUAL APPROACH

Anselmo Ferreira Vasconcelos

600

SUSTAINABLE FOOD CHAINS: THE ROLE OF COLLECTIVE  
ACTION AND GOVERNMENT INCENTIVES

Silvia Morales de Queiroz Caleman  
Guilherme Fowler de Avila Monteiro  
George Hendrikse

618

WHY MICROFINANCE INSTITUTIONS EXIST: LENDING  
GROUPS AS A MECHANISM TO ENHANCE INFORMATIONAL  
SYMMETRY AND ENFORCEMENT ACTIVITIES

Diego Antônio Bittencourt Marconatto  
Luciano Barin Cruz  
Gilnei Luiz de Moura  
Emidio Gressler Teixeira

633

FAIR TRADE IN BRAZIL: CURRENT STATUS, CONSTRAINTS  
AND OPPORTUNITIES

Marilia Bonzanini Bossle  
Daiane Mülling Neutzling  
Douglas Wegner  
Claudia Cristina Bitencourt

655

THE ROLE OF STAKEHOLDERS IN SOLOMON'S TEMPLE:  
AN EXPLORATORY STUDY

Roberto Bazanini  
Ernesto Michelângelo Giglio

674

WORK/HOME BOUNDARY LIMITS: A STUDY OF  
EVANGELICAL PASTORS' DAILY LIVES

Antônio Carlos Guidi  
César Ricardo Maia de Vasconcelos

691



SUMÁRIO – VOL 24 / N° 83

CAPACIDADE GERENCIAL DOS PREFEITOS E O  
DESEMPENHO DE MUNICÍPIOS BRASILEIROS

Claudia N. Avellaneda  
Ricardo Corrêa Gomes

555

ELEIÇÕES E DESEMPENHO DO GOVERNO  
LOCAL NO BRASIL

Pedro Luiz Costa Cavalcante

580

O ÂMBITO E IMPLICAÇÕES DA ESPIRITUALIDADE:  
UMA ABORDAGEM DUAL

Anselmo Ferreira Vasconcelos

600

SISTEMAS AGROINDUSTRIAIS SUSTENTÁVEIS: O PAPEL DAS  
AÇÕES COLETIVAS E DOS INCENTIVOS GOVERNAMENTAIS

Silvia Morales de Queiroz Caleman  
Guilherme Fowler de Avila Monteiro  
George Hendrikse

618

POR QUE AS INSTITUIÇÕES DE MICROFINANÇA EXISTEM:  
GRUPOS DE EMPRÉSTIMOS COMO MECANISMO PARA  
O AUMENTO DA SIMETRIA INFORMACIONAL E DAS  
ATIVIDADES DE *ENFORCEMENT*

Diego Antônio Bittencourt Marconatto  
Luciano Barin Cruz  
Gilnei Luiz de Moura  
Emidio Gressler Teixeira

633

COMÉRCIO JUSTO NO BRASIL: STATUS ATUAL, GARGALOS E  
OPORTUNIDADES

Marilia Bonzanini Bossle  
Daiane Mülling Neutzling  
Douglas Wegner  
Claudia Cristina Bitencourt

655

O PAPEL DOS STAKEHOLDERS NO TEMPLO DE SALOMÃO:  
UM ESTUDO EXPLORATÓRIO

Roberto Bazanini  
Ernesto Michelângelo Giglio

674

LIMITES DAS FRONTEIRAS TRABALHO-LAR: UM ESTUDO  
SOBRE O COTIDIANO DOS MINISTROS EVANGÉLICOS

Antônio Carlos Guidi  
César Ricardo Maia de Vasconcelos

691

# Editorial





Dear O&S readers,

This is the second O&S Annual English Edition and the last edition of 2017. We made and implemented many decisions during 2017 aimed at improving our processes regarding the academic community of Administration in Brazil.

One of these decisions was the insertion of our request for authors to possibly translate their articles into English if approved for publishing. Until now, we have avoided this editorial policy because we understand that authors should be free to choose the language in which to publish their works. However, responding to the requirements of our index bases and the demand for internationalization of national journals, our editorial policy is to make authors aware of this possibility when having an article approved for publication by O&S.

This year we initiated and reinforced some important actions, including among others: consolidation of our partnership with IBEPES; approval of the proposal for financial support from CAPES; reduction of operating costs; request for inclusion in the Scopus and EBSCO databases; website improvement.

We conclude 2017 with volume 24, number 83 of O&S positive that we will maintain our level of quality and respect with our authors, evaluators, editors and institutional partners. Moreover, we are proud because O&S has been considered in 14 areas in the latest CAPES evaluation.

The first article, "Mayoral quality and municipal performance in Brazilian local governments", by Ricardo Corrêa Gomes and Claudia Nancy Avellaneda, tests the influence of managerial quality on organizational performance using a panel data set of 827 Brazilian municipalities from the state of Minas Gerais. After testing for the effect of political, economic, and ideological factors and controlling for other municipal factors, the authors find that mayoral quality fails to explain variance in property tax collection. Rather, political factors (legislature support and electoral cycle) seem to be more strongly correlated with municipal property tax collection.

The second article in this edition, published for Pedro Luiz Costa Cavalcante entitled, "Elections and local government performance in Brazil", specifically aims to investigate how institutional arrangements and electoral competition affect local government performance. The theoretical basis is electoral democratic theory, which broadly highlights elections as instruments of citizen's control in retrospective and prospective voting approaches. The empirical evidences suggest that electoral competition does not present direct effect on government performance, however, ideology and citizens' participation do. Therefore, this paper helps to expand our understanding of political system impact on policy outputs, which is extremely important not only for academic purposes but also for supporting policymakers' decisions.

The third article, entitled "The scope and implications of spirituality: a dual approach", by Anselmo Ferreira Vasconcelos, uses a dual approach to shed more light on the topic of spirituality by clarifying what it embraces. It examines the secular literature as well as collects related teachings and tenets from Spiritism Doctrine. The author argues that we live in a suitable moment on this planet to take advantage of the transformative potential derived from spiritual knowledge for the betterment of humanity. The evidence gathered here shows that by developing our own spirituality we can transform ourselves and our creations, including society and institutions.

The fourth article, by authors Silvia Morales de Queiroz Caleman, Guilherme Fowler de Avila Monteiro and George Hendrikse, is "Sustainable food chains: the role of collective action and government incentives". In this paper, the authors examine the role of collective actions as supporting elements of a long-lasting, sustainable food supply chain. The main contribution of this article is to link the idea of a sustainable supply chain and the collective action problem (horizontal coordination) that may

be required in order to deal with externalities related to the provision of sustainable products. Results show that horizontal mechanisms of cooperation maintain positive levels of sustainability, even in the absence of direct payments by the government.

The fifth article, "Why microfinance institutions exist: lending groups as a mechanism to enhance informational symmetry and enforcement activities", by Diego Antônio Bittencourt Marconatto, Gilnei Luiz de Moura, Emidio Gressler Teixeira and Luciano Barin Cruz, puts focus on the economic motivation for the existence of microfinance institutions (MFIs). In doing so, the study contributes to the debate regarding why MFIs exist and, especially, what mechanisms are used to address the risks associated with their operation. In examining the reasons why some individuals are regarded as "non-bankable", the authors lay out the basic economic logic that motivates the exclusion of this population from formal credit markets. Moreover, the authors show how lending group methodology overcomes the credit dilemma which sustains and increases the exclusion of the poorest from these formal credit sources; the increase of both the informational symmetry and the enforcement capacity of MFIs through the enhancement of their screening, monitoring and enforcement activities; and also the importance of context and gender for lending group success.

The sixth paper, entitled "Fair trade in Brazil: current status, constraints and opportunities", by Marília Bonzanini Bossle, Daiane Mülling Neutzling, Douglas Wegner and Claudia Cristina Bitencourt, answers the question: "How is fair trade currently organized in Brazil and what are the constraints and opportunities involved?". The authors analyzed a database of 277 Brazilian organizations linked to fair trade, followed by in-depth interviews with Brazilian experts. Results show that fair trade has grown between 2005 and 2012 due to the support of institutions and public agencies, even if organizations still face financial difficulties. Although it has grown as a public policy, its development has strengthened the concept and the groups involved, providing a good perspective for the internal market. Fair trade has a social role and a political nature, and attracts the attention of policymakers regarding social programs and the support of fair trade organizations.

The seventh paper, "The role of stakeholders in Solomon's temple: an exploratory study", by Roberto Bazanini and Ernesto Michelângelo Giglio, describes the role of stakeholders in the symbolic goods market of religion. Drawing on qualitative research and based on the salience model of stakeholders, the objective is to analyze the importance that Solomon's Temple megachurch has for the Universal Church of the Kingdom of God (UCKG), as a competitive factor for achieving competitive advantage in the market of religious goods and services. Respondents' perceptions indicate that the construction of megachurches provides a competitive advantage if the stakeholders are identified and continuously monitored, because of the attributes of power, legitimacy and urgency.

"Work-home boundary limits: a study on evangelical pastors' daily lives" is the eighth and last paper, by authors Antonio Carlos Guidi and César Ricardo Maia de Vasconcelos. In this paper, the authors analyze the mutual influence between the process of negotiating work-home boundaries and personal and social identity or, in other words, the method of adapting and managing domestic and professional conflicts which interfere with the harmony of evangelical pastors' work and personal lives. A qualitative study was conducted in order to achieve the aims proposed, involving an interpretative approach with the pastors of a specific ecclesiastical institution: The Assemblies of God in Brazil. The results reveal that the sharp distinction seen was that the subjects were more likely to mingle interactions in work-home boundaries. The boundary-negotiation tactics were shown to be multi-functional, as they have dual function techniques, used both to segment and integrate the work-home boundary.

We wish excellent reading and our best to all in 2018!

Ariadne Scalfoni Rigo  
Editor



# Artigos





## MAYORAL QUALITY AND MUNICIPAL PERFORMANCE IN BRAZILIAN LOCAL GOVERNMENTS

Claudia N. Avellaneda\*  
Ricardo Corrêa Gomes\*\*

### Abstract

We test the influence of managerial quality on organizational performance using a panel data set on 827 (out of 853) Brazilian municipalities of the state of Minas Gerais over a six-year period (2005-2010). The intra-country and intra-state comparison controls for potential institutional, historical, and cultural variables. Local managerial quality is assessed in terms of mayoral education and experience (public and reelection), and municipal performance is operationalized as property tax collected per capita and property tax collected as a percentage of total revenue. The study covers the four years of the 2005-2008 mayoral administration and the first two years of the 2009-2012 administration. After testing the effect of political, economic, and ideological factors and controlling for other municipal factors, we find, contrary to our expectations, that mayoral quality fails to explain variance in property tax collection. Rather, political factors (legislature support and electoral cycle) seem to be more strongly correlated with municipal property tax collection. Specifically, municipalities in which the mayor enjoys more partisan support on the city council tend to collect more property tax. Moreover, compared to the first three years of mayoral administration, in the last year of mayoral administration – that is, during the mayoral election year – municipalities tend to reduce their property tax collection.

**Keywords:** Performance in public organizations. Mayors. Minas Gerais. IPTU.

## CAPACIDADE GERENCIAL DOS PREFEITOS E O DESEMPENHO DE MUNICÍPIOS BRASILEIROS

### Resumo

Nós testamos a influência da capacidade gerencial no desempenho organizacional empregando dados em painel de 827 (dentre 853) cidades brasileiras do Estado de Minas Gerais num período de seis anos (2005-2010). A comparação dentro do país e dentro do estado é um controle para potenciais variáveis institucionais, históricas e culturais. Capacidade gerencial local é avaliada em termos do nível educacional e experiência do prefeito (experiência em cargos públicos e reeleição), o desempenho municipal é operacionalizado em termos de arrecadação de IPTU per capita e arrecadação de IPTU em relação ao total da Receita. O estudo compreende os quatro anos da administração 2005-2008 e os dois primeiros anos da administração 2009-2012. Após testar os efeitos dos fatores políticos, econômicos e ideológicos e controlando outros fatores relacionados ao município, nós descobrimos, ao contrário de nossas expectativas, que a capacidade gerencial do prefeito falha em explicar a variância da arrecadação de IPTU. Fatores políticos (suporte legislativo e ciclo eleitoral) parecem ser bem mais fortemente correlacionados com arrecadação de IPTU. Especificamente, nos municípios em que

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o prefeito goza de apoio partidário na Câmara dos Vereadores a arrecadação de IPTU é maior. Além disso, ao comparar com os três primeiros anos da administração, o último ano as prefeituras tendem a reduzir a arrecadação de impostos.

**Palavras-chave:** Desempenho de organizações públicas. Prefeituras municipais. Minas Gerais. IPTU.

## Introduction

A crisis of confidence in government has encouraged the search for solutions that both recover citizens' support and improve government performance. To achieve these goals, development efforts have shifted focus from central government to local governments (WORLD BANK, 1997). This shift is grounded in the expectation that local governments are closer to citizens and have better information on citizens' needs. This first-hand information is expected to contribute to government efficiency, effectiveness, and responsiveness, which in turn are expected to boost citizens' support for government. As a result, in those countries whose constitution does not stipulate a formal separation of power for subnational governments (e.g., Colombia, Bolivia), or whose federations are not truly autonomous (e.g., Venezuela), scholars have suggested and practitioners have adopted fiscal, political, and/or administrative decentralization (RONDINELLI, 1981). With the adoption of decentralization, a great deal of responsibility has shifted from central to local governments. Municipalities are now responsible for planning and delivering social programs and for collecting and managing taxes to support these programs. Despite the generalized increase in autonomy and responsibility, municipal performance varies considerably. This variance in response leads us to our research question: *What drives municipal performance?*

The literature on public organizational performance has presented political, economic, and socio-demographic factors to explain variation in organizational performance. Among the political influences, scholars refer to government ideology (SWANK, 2002), mechanisms of control (SANTISO; BELGRANO, 2004), partisan support (DOIG; HARGROVE, 1987, 1990), divided government (CLINGERMAYER; WOOD, 1995), citizens' participation (BLAIR, 2000), politicians' motivation (ANDERSON, 2003; GIBSON; LEHOUCQ, 2003), and electoral competitiveness (HOLBROOK; VAN DUNK, 1993). Among the economic determinants, studies examine budgets, gross domestic production (GDP), and level of development. Finally, as a socio-demographic explanation, scholars point to the size and nature of the target population (DURANT; LEGGE, 1993; AVELLANEDA, 2009a, 2009b; WALKER; DAMANPOUR; AVELLANEDA, 2010). This set of political, economic, and socio-demographic explanations, however, focuses on factors external to the organization (macro level), neglecting the potential influence of internal factors, such as the elected public manager (micro level). As Pandey and Moynihan (2006, p. 9) state, "no group of political actors is more important to the operation of public agencies than elected officials".

To address this research gap, this study seeks to contribute to the literature on local governments, organizational performance, and public management by exploring the effects elected public managers have on municipal performance. Specifically, we suggest that managerial quality influences municipal performance. Local managerial quality is assessed in terms of mayoral education and experience (age and previous mayoral service), and municipal performance is assessed with two indicators of property tax collection: property tax collected per capita and property tax collected as a percentage of total tax revenue. We test the managerial quality thesis using a panel data set on 827 Brazilian municipalities of the state of Minas Gerais over a six-year period, thus covering the four years of the 2005-2008 mayoral administration and the first two years of the 2009-2012 administration.

In Brazilian local governments, as in most of Latin America, the elected mayor, (*prefeito*), performs both political and administrative duties. (There is no separate, appointed public manager.) Brazilian municipalities serve as effective settings in which to study the influence of the public manager on municipal performance, because

they are among the most decentralized and autonomous units in all of Latin America (NICKSON, 1995; COSTA, 1998; SAMUELS, 1998, 2004; TITIUNIK, 2009). Indeed, the strength of Brazil's subnational governments encourage Brazilian politicians to aspire to governor- and municipal-level positions after serving in congress at the federal level in Brasilia (SAMUELS, 1999, 2000).

After testing the effect of political, economic, and ideological factors, and controlling for other municipal factors, we find that, contrary to our expectations, mayoral quality fails to explain variance in property tax collection. On the contrary, political factors (legislature support and electoral cycle) seem to more closely correlate with municipal property tax collection. Specifically, municipalities in which the mayor enjoys more partisan support on the city council tend to collect more property tax. Moreover, compared to the first three years of mayoral administration, in the last year of mayoral administration – that is, during the mayoral election year – municipalities tend to reduce their property tax collection.

By identifying the drivers of municipal performance, this research also seeks to contribute to the literature on governance and development in developing countries, which continues to be understudied (GRINDLE, 1997, 2000, 2009). Finally, far from undermining the explanatory power of existing demographic, socio-economic, and political/institutional factors, this study tests their impact alongside the influence of managerial quality. In doing so, the study tests the applicability of governance propositions generated in the U.S. organizational context to developing-country municipalities.

### Brazilian municipalities

Brazil's territorial area is 8,514,876 km<sup>2</sup>, covering more than half of South America. According to 2010 World Development Indicators (WORLD BANK, 2010), Brazil's gross domestic product was US\$2.09 trillion and its estimated population was 195 million. Brazil's political history is marked by a long period of military involvement. The military governed Brazil in alliance with the civilian economic and social elite between 1964 and 1985. In 1985, the military handed over power to a civilian government, following an indirect election in which a compromise candidate, Tancredo Neves, was chosen.<sup>1</sup> However, it was not until 1989 that the first direct presidential election took place. The Brazilian 1988 constitution provides for federal governments, and Article 30 guarantees the independence of state and local levels of government. As of June 2010, Brazil had 5,562 municipalities across 26 states and a federal district, with populations ranging from 800 to more than 11 million residents and averaging 33,145 inhabitants (see Tables 1 and 2).

**Table 1 – Municipal population distribution by region and group of inhabitants.**

Group of inhabitants	N. of municipalities	N. of municipalities in the region				
		North	North-East	Center-West	South-East	South
Up to 10,000	2,661	183	662	267	812	737
10,000-20,000	1,292	100	557	104	326	205
20,000-50,000	1,033	115	416	65	289	148
50,000-200,000	448	42	132	26	170	78
200,000-500,000	93	8	15	3	47	20
500,000 and more	35	2	12	2	17	2
Total	5,562	450	1794	467	1,661	1,190

Source: IBGE (2010).

<sup>1</sup> However, Neves died before he could assume office, so his position was taken by his vice-president, José Sarney, who had been a member of the pro-military party in Congress during the dictatorship.

**Table 2 – Demographic and economic characteristics of the Brazilian municipalities by region.**

Region	Population	% pop.	N. of municipalities	GDP per head*
North	14,623,316	8%	450	7,620
Northeast	51,534,406	28%	1,794	4,440
Southeast	77,873,120	42%	467	13,210
South	26,733,595	15%	1,661	13,000
Central	13,222,854	7%	1,190	11,260
Brazil	183,987,291	100%	5,562	9,910

Source: IBGE (2010).

\*Figures in Brazilian real.

\*\*The Federal District (Brasília) is not included in these figures.

Brazilian municipalities are economically diverse, and this diversity is mainly a function of the region in which the municipality is located.<sup>2</sup> Despite their economic diversity, the concentration of political power at the subnational level encourages federal legislators to consider the federal legislature as a stepping stone to the subnational level, where the real power resides (SAMUELS, 1999, 2000). As a result, the prevailing political ambition among Brazilian politicians is to be governor of their home state or mayor of its capital.

Unlike the United States' two forms of local government – council-manager and mayor-council – in Brazil, as in most Latin American countries, there is a unique local form: a strong, elected mayor (*prefeito*). The Brazilian Constitution of 1988 (Article 29) stipulates a legislative body, *câmara de vereadores*, that oversees a directly elected mayor and whose members are concurrently elected for a four-year term. Based on municipal population, the legislative body consists of no fewer than nine and no more than 45 members (the latter specified for municipalities with more than 5 million inhabitants).

During military rule from 1964 to 1985, direct elections for mayors continued in many small and medium-sized municipalities. In state capitals and other important cities, however, the military prevented mayoral elections (SAMUELS, 2000, 2004). These continuous-but-partial mayoral elections, along with the effective suspension of the states' intermediary role between municipal and national executive governments, led local politicians to claim credit for the implementation of municipal projects. Consequently, municipal political autonomy increased during the period of military rule (TITIUNIK, 2009, LITSCHIG; MORRISON, 2009, SAMUELS, 2000).

In 1985, the party of the dictatorship, Partido Democrático Social (PDS), lost the presidency to the major opposition party, Partido de Movimento Democrático Brasileiro (PMDB), though the election was indirect rather than popular. Following this decision in 1985, mayoral elections were held again in the state capitals. The 1988 elections subsequently became the first in over two decades in which all municipalities elected their own mayors (LITSCHIG; MORRISON, 2009). In 1989, the first direct presidential elections took place. Since 1996, both the mayor and the municipal legislature have been elected in general elections every four years.

Brazilian mayors are elected for a four-year term and may be reelected in only two consecutive elections. To serve as mayor, the constitution requires candidates to be Brazilian citizens older than 21 years (versus 18 years for the legislative body), and to reside in the electoral circumscription and affiliate with a political party. Mayors perform both political and administrative functions. In cities with more than 200,000 inhabitants, mayoral elections require the winner to obtain more than 50 percent of the

<sup>2</sup> Brazil's most populous municipalities – Belo Horizonte, Campinas, Cuiabá, Curitiba, Florianópolis, Porto Alegre, Rio de Janeiro, and São Paulo – are located in the richest regions of Brazil.

vote, often requiring the use of run-off elections.<sup>3</sup> However, according to the calculations of the Instituto Brasileiro de Administração Municipal (IBGE, 2010), municipalities with fewer than 20,000 inhabitants make up 71 percent of total Brazilian municipalities<sup>4</sup> (see Table 1), so most municipalities do not have this 50 percent requirement. Local elections are not concurrent with state, presidential, and congressional elections; they are held in the second year between the state and national elections.

Brazilian municipalities receive most of their funds from federal and state transfers, which make up, on average, 75 percent of municipal revenues. However, depending on municipal fiscal capability and regional development, transfers can account for as much as 99 percent (e.g., Nova Palmeira in Paraíba State) or as little as 20 percent (e.g., Bertioga in São Paulo State) of the municipal revenue (National Treasury Secretary 2010). Municipalities also collect their own revenues from sources such as property tax, sales tax, royalties, and property transfer tax (see Table 3).

**Table 3 – Federal and state transfers and local revenues of Brazilian municipalities.**

Federal transfers	State transfers	Local revenue
<ul style="list-style-type: none"> <li>• 22.5% of income tax</li> <li>• 25% of tax on industrial products (IPI)</li> <li>• 50% of rural property tax</li> <li>• 70% of tax on gold and financial operations (Gold/IPF)</li> </ul>	<ul style="list-style-type: none"> <li>• 25% of value-added tax (ICMS)</li> <li>• 50% of vehicle registration tax (IPVA)</li> </ul>	<ul style="list-style-type: none"> <li>• Service tax (ISS)</li> <li>• Urban property tax</li> <li>• Frontage tax</li> <li>• Property transfers (ITBI)</li> </ul>

Source: IBGE (2010).

In the Brazilian Constitution of 1988, Article 30, Chapter IV establishes municipal responsibilities, which include preserving natural resources and cultural heritage as well as parceling land and providing local services, such as public transportation. Municipalities also share responsibility with the federal and state authorities to provide basic education (covering pupils from 6 to 15 years old) and health services (IBGE, 2001, 2002, 2004). In 2000, the Cardoso administration passed the Fiscal Responsibility Law (FRL). This law makes public officials legally liable for any infractions and requires state and municipal authorities to: 1) restrict their deficits, and 2) disclose revenue, spending accounts, borrowing, and budget allocations. As in Colombia, but in contrast to some other Latin American countries (most notably Chile), Brazilian municipalities may borrow from commercial banks on a short-term basis and under certain circumstances. Municipalities may spend up to 60 percent of their net revenue on operational costs (SOUZA, 2002). Municipalities must spend at least 25 percent of transferred monies, which derive from federal income tax, on education (FUNDEF)<sup>5</sup>, and 15 percent on health services (the Unified Health System).

The next section addresses the drivers of organizational performance to derive the pertinent hypotheses.

## Explaining public organizational performance

Existing explanations for government performance have emerged from organizational studies conducted in the United States' context. The present study tests their applicability when transferred to the municipal level in developing contexts. Factors understood to influence performance are grouped into three categories: political/institutional, demographic, and socio-economic.

<sup>3</sup> Each of the 27 governors must also achieve more than 50 percent of the vote, leading to a run-off between the top two candidates if necessary. State legislatures have only one chamber. The deputies are elected through an open-list system in which the state serves as one constituency.

<sup>4</sup> Brazil has 3953 municipalities with less than 20,000 inhabitants (IBGE, 2010).

<sup>5</sup> A national curriculum and national evaluation agency was established alongside a new funding system, FUNDEF, to guarantee a minimum for education spending throughout the country.

## Political support

In the public sector, unlike the private sector, political support determines managers' power and effectiveness (MEIER; O'TOOLE JUNIOR, 2002; FERNÁNDEZ, 2005; RAINEY, 1997). Without political support, public managers are likely to exhibit cautious behavior, avoidance of risk taking, lack of flexibility, and decline in innovation, all of which affect managers' performance (THOMPSON; RICUCCI, 1998; PANDEY; MOYNIHAN, 2006). Although political support can be manifested through formal and informal mechanisms, such as intergovernmental networks (AGRANOFF; MCGUIRE, 1998; O'TOOLE JUNIOR; MEIER, 2004), formal political support for elected public managers comes primarily from three directions: above (high ranking officials), parallel (legislative support), and below (electoral support).

*Support from above:* in settings where the acquisition of extra resources involves great diligence and negotiation with leaders at higher levels, those who enjoy political support at higher levels are likely to be the winners. Ricucci (1995), for example, finds that successful federal executives enjoy strong support from superiors as well as from other key political actors. In school districts, Fernández (2005) also hypothesizes that a school board's support for the superintendent influences school performance. In a municipal setting, however, political support from higher-ranking officials may be a function of party alignment.

In the Brazilian context, the relationships among the president, governors, and mayors are conceived as equal and, given the country's size, mayors often act as campaigners for both the president and the governors. To expand municipal revenues, mayors rely a great deal upon governors, as do governors with respect to the president. Affiliation with its governor's and/or president's party should therefore increase the chance of a municipality receiving additional transfers. Brazilian governors are considered the "power brokers" in Brazil's legislative and distributive politics due to 1) their control of nominations to the most important offices, 2) their overall control of state-level politics via pork-barrel funds, and 3) their influence on their state's congressional delegations through broad clientelistic networks (AMES, 2001a; ABRUCIO, 1998; CAREY; REINHARDT, 2001; MONTERO, 2005; SAMUELS; ABRUCIO, 2000; SAMUELS, 2002). Brazilian governors also control municipal access to substantial resources apart from state transfers, which derive from value-added tax (ICMS) and vehicle registration tax (IPVA) (IBGE, 2010).<sup>6</sup> In addition to granting extra funds, governors may also provide mayors with technical and administrative assistance to carry out municipal functions, such as tax collection. The same can be said about aligning politically with the president, as those municipalities may be targeted to receive extra resources. Therefore, governors' political support for mayors is expected to contribute to municipal performance.

*H1: Municipalities whose mayor's political party aligns with that of the governor and president are more likely to perform higher in terms of property tax collection than municipalities whose mayor, governor, and president differ in party affiliation.*

*Local legislative support:* municipal capabilities also depend on partisan support for the mayor in the municipal council. Because council members either approve or reject the mayor's proposals, the greater the council's partisan support for the mayor, the more likely it is that his or her proposals will succeed in the legislative agenda. Studies of the U.S. Congress and state legislatures confirm greater success in the passage of proposals among members of the majority party (ELLICKSON, 1992; MOORE; THOMAS, 1991). At the municipal level, council members' partisan support for the mayor is expected to influence approval of his or her proposals, such as the implementation of aggressive and innovative mechanisms to avoid tax evasion.

<sup>6</sup> Brazilian governors' power has origins in the foundation of Brazil's Old Republic in 1891, when a highly decentralized federal system, known as the "Politics of the Governors," was put in place (SAMUELS, 2004). During this period, state governors decisively dominated the country's politics, and although the military governments of 1930-1945 and 1965-1985 sought to debilitate them, governors' power was never completely dismantled (SAMUELS, 2004). By the time democracy returned in 1985, it was clear that governors were still crucial players in the political arena.

In the Brazilian context, a legislative body similar to a city council, the *câmara de vereadores*, oversees the directly elected mayor. These municipal legislators are concurrently elected for a four-year period through open-list proportional representation. Given the electoral rules, Brazilian municipal legislators' partisan support for mayors is unstable. As Stevens (2005) states with regard to Brazilian local politics, "[At] the local level, a number of high profile last minute defections on the part of both mayors and senior council members have increased calls for reforms to prevent candidates switching parties in such a manner" (1).<sup>7</sup> Guaranteeing council members' political support therefore becomes a priority for mayors. These observations lead us to the following hypothesis:

*H2: The greater the mayor's partisan support in the city council, the higher the municipal performance in terms of property tax collection.*

*Support from below:* Doig and Hargrove (1990) claim that successful leadership emerges from constituents' support. When managers lack political support from the community, their initiatives are unlikely to succeed, no matter how well designed the programs. Therefore, constituents' support for the elected public manager should also contribute to organizational performance. This view is shared by Fernández (2005) and Meier and O'Toole Junior (2002), who test for the impact of community support in their models of organizational performance in the U.S. context. In both studies, the influence of community support on organizational performance is positive and statistically significant. The influence of community support on organizational performance may vary across contexts. However, in the Colombian context, Avellaneda (2009a) tests for the influence of citizens' support on municipal performance, finding no evidence of it. These inconsistent results suggest that the influence of community support on organizational performance varies across contexts, calling for more tests.

In Brazil, citizens' party identification is very weak, resulting in high electoral volatility (KINZO, 2003; DESPOSATO, 2006). This low party identification is attributed to the high fractionalization of the party system (KINZO, 1993; SHIDLO, 1998), which leads to party switching (DESPOSATO, 2006), weak party discipline, and a lack of strong ideological platforms (AMES, 2001a, 2001b; MAINWARING, 1991, 1993, 1999; KINZO, 2003). Scholars also point to Brazil's electoral rules – such as open-list proportional representation and vast at-large statewide districts – as the cause of both candidate-centered (rather than party-centered) competition and a weak party system (MAINWARING, 1991, 1999; KINZO, 2003; DESPOSATO, 2006). As Moisés (1993, p. 577) states, "Brazilians don't vote for parties, they vote for people". This weak party loyalty makes citizens' support for the mayor's party a valuable asset, which in turn should ease the implementation of mayors' programs, such as enforcement of tax evasion mechanisms. Therefore,

*H3: The greater the mayor's margin of victory, the higher the municipal performance in terms of property tax collection.*

## Local government ideology

Other veins of literature suggest that public finance is a function of government ideology. The "government ideology thesis" builds on the idea that parties are not only vote seekers but also office and policy seekers (PETRY, 1982). Liberals prefer high spending and high taxes while conservatives prefer low spending and low taxes. Studies find evidence for this thesis at the state and national level. Alt and Lowry (1994), who examined public finance in the U.S., demonstrate that party affiliation influences spending. Kontopoulos and Perotti (1997) also provide cross-national evidence for these liberal and conservative preferences.

<sup>7</sup> One of the best known examples of local legislator defection was the case of Rio de Janeiro's 2004 mayoral election, featuring a last minute defection by Roberto Tripoli after being elected as council member under the Brazilian Social Democrats' (PSDB) ticket. As a result, Jose Serra of the PSDB, who won the mayoral election, saw the city council's presidency go to an opposition member, Roberto Tripoli himself, despite the fact that Tripoli and Serra had run on the same ticket (STEVENS, 2005).

Unlike the United States, but similar to Colombia, Brazilian local politics is characterized by a fractionalized party system. Dissatisfaction with the party system and candidate-centered competition has resulted in the proliferation of new parties. For instance, mayoral elections moved from only two parties winning mayoral office in 1982, to 16 parties in 1988,<sup>8</sup> 26 parties in 2000, and 20 parties in 2004 (LITSCHIG; MORRISON, 2009, p. 5-6; TITIUNIK, 2009, p. 6). Although the proliferation of parties makes it difficult to classify them in terms of ideology, the expectation is that parties with more conservative platforms tend to favor lower taxes and may not enforce tax collection.<sup>9</sup>

*H4: Municipalities headed by conservative mayors are more likely to decrease property tax collection than municipalities whose mayors are not conservative.*

## Socioeconomic explanations

Complementing the institutional and political explanations, another view focuses on demographic and socio-economic factors to explain organizational performance. Durant and Legge (1993), Lewis-Beck and Alford (1980), and Mazmanian and Sabatier (1989) contend that the success or failure of any organizational policy or program is a function of the size and nature of the target. According to this view, program implementation tends to succeed when the target group is small and homogeneous because it eases identification and classification of eligible recipients. Schneider and Ingram's (1993) "social construction hypothesis" and Lineberry's (1976) "underclass hypothesis" also refer to the nature of the target, thus fitting within the demographic set of explanations for organizational performance. According to these two propositions, governments enforce laws more aggressively on groups with negative social status (due to group bias) and/or perform better in upper or middle class areas (due to class bias).

Brazilians' social, economic, and demographic inequalities are notoriously obvious across their five regions.<sup>10</sup> Brazil's GDP is most concentrated in the south-east region,<sup>11</sup> followed by the south and the center-west, while the north-east and north are the poorest regions.<sup>12</sup> Likewise, population is concentrated in the south-east region, followed by north-east, south, north, and center-west regions (see Table 2).<sup>13</sup> Based on Linberry's "underclass hypothesis," municipalities with more favorable

8 In 1988, Brazil's inflation rate was 1000 percent, which created discontent and perceptions of corruption. These beliefs triggered dissatisfaction with the party system, resulting in the proliferation of "new parties seeking disgruntled voters" (LITSCHIG; MORRISON, 2009, p. 6).

9 Congress remains highly fragmented between different political parties, the most prominent being the Workers Party (PT) on the left, the center-left Brazilian Social Democrat Party (PSDB) and its allies, the center-right Liberal Front Party (PFL) and the centrist Brazilian Democracy Movement Party (PMDB).

10 Brazilian states also exhibit inequalities in terms of political power. In fact, the states of São Paulo and Minas Gerais have provided almost all of the Brazilian presidents. Moreover, during the period of military rule (1964-1985), the majority of politicians came from these two states. This unequal representation is explained in terms of São Paulo's economic power and Minas Gerais' high number of municipalities (863 as of September 2010).

11 Where Rio de Janeiro (R\$ 17,010) and São Paulo (R\$ 15,050) are regarded as the most important states in terms of wealth creation. A Brazilian real equated to 0.58 US dollar (as of September 2010).

12 The north region includes the states of Acre, Amapá, Amazonas, Pará, Rondônia, Roraima, and Tocantins. The northeast region includes the states of Alagoas, Bahia, Ceará, Maranhão, Paraíba, Pernambuco, Piauí, Rio Grande do Norte, and Sergipe. The central-west region is made up of the federal district of Brasília, and the states of Goiás, Mato Grosso do Sul, and Mato Grosso. The states of Espírito Santo, Minas Gerais, Rio de Janeiro, and São Paulo form the southeast region, and the states of Paraná, Rio Grande do Sul, and Santa Catarina make up the South region.

13 According to the Brazilian Statistical and Geographic Institute, which is in charge of the census, the highest-density state is the Federal District (the Brazilian capital) with more than 400 people per square kilometer; the north region, which includes the Amazon Rain Forest, has the lowest population density. The state of Roraima is the least densely populated with less than two people per square kilometer. Rio de Janeiro and São Paulo are the second and third most densely populated states with 353 and 160 people per square kilometer, respectively.



socio-economic conditions should perform better. For instance, in terms of tax collection, inhabitants in wealthy localities are more likely to have the monetary resources to pay taxes. Consequently,

*H5: The wealthier the population of the municipality, the higher the municipal performance in terms of property tax collection.*

### Managerial quality

Local governments operating under similar political and socio-economic conditions can vary in their performance. This variation suggests that even when accounting for factors external to the organization (political support and socio-demographic conditions), internal factors matter in explaining performance. At the municipal level, a key internal factor is the public manager, the mayor, who politically and administratively manages the municipality. Although governmental performance is a function of collective action, a great deal of its success or failure is also a function of the actions of individual, qualified managers (COHEN, 1988; COHEN; EIMICKE, 1995; HAASS, 1994; LYNN JUNIOR, 1981, 1987, 1996, 2003). When the qualifications of public leaders are not adequate, as Cohen and Eimicke (1995, p. XVI) state, "most of the public managers are ill-equipped to deliver quality leadership".

Public managers in the 21st century face complex and shifting challenges, which may be easier to overcome when the manager is qualified in terms of education and experience. Qualified mayors can also take advantage of the positive institutional, political, demographic and socio-economic characteristics of the municipality. Even when these contexts are favorable to performance, if the mayor is unable to exploit them, these advantages will remain unrealized opportunities. In developing contexts, however, many municipalities are led by unqualified mayors who fail to capitalize on opportunities and on human and financial resources. This lack of competence has led scholars to describe a "management gap" in developing countries: "The term implies that Third World countries, on the whole, manage less effectively, even if they already have individuals and organizations whose performance is high by any standard" (KUBR; WALLACE, 1984, p. 4). In fact, scholars contend that the determining factor in the success or failure of government is public management (BOYNE, 2003, 2004; LYNN JUNIOR, 1981, 1987; MEIER; O'TOOLE JUNIOR, 2002; O'TOOLE JUNIOR; MEIER, 1999). Lynn Junior (2000, p. 15) defines management as "the exercise of judgment or discretion by actors in managerial roles". However, in developing country municipalities, the lack of managerial judgment and discretion has obstructed effectiveness and performance.

Qualified mayors would be expected to fill this "management gap". A qualified mayor, for example, is expected to know whom to hire or to retain to achieve the administration's goals. Even if the mayor is not proficient in all municipal duties, qualified mayors are expected to have good judgment in selecting their close advisers. Even under circumstances in which mayors must work with incumbent staff, mayors can adopt other strategies to attain goals, such as innovation, networking, personnel training, reward systems, revenue expansion, enforcement mechanisms, and promotion of citizen participation. In addition, qualified mayors are more likely to inspire confidence, appropriately structure organizational sub-units, and communicate both clear assignments and operational proceedings to achieve effectiveness.

Although the managerial quality thesis may seem obvious and simplistic, there have been few empirical tests of it. Avellaneda (2009a, 2009b), however, explains Colombian municipal performance as a function of mayoral quality (among other factors). Specifically, Avellaneda finds that the more educated the mayor, the more likely that Colombian municipalities perform higher in terms of provision of education, social spending, and tax property collection. Given the contextual similarity between the Brazilian and Colombian municipalities, such as the level of development, decentralized and fractionalized political power structure, and dual mayoral role as manager and administrator, this study proposes the same expectation. Therefore,

*H6: The more qualified the mayor, the higher the municipal performance in terms of property tax collection.*

## Research design

In this study, the unit of analysis is the municipality. The data cover 96.9 percent of the municipalities of the second most populous Brazilian state, Minas Gerais. Minas Gerais has 853 municipalities with populations ranging from 884 to 2,350,000 inhabitants (Belo Horizonte – the capital), a mean population value of 18,744, and a standard deviation of 40,693. Data availability limited our analysis to 827 municipalities over a six-year period (2005-2012), thus covering the four years of the 2005-2008 mayoral administration and the first two years of the 2009-2012 administration. A large number of municipalities, like those in the other 25 Brazilian states, are small, with populations below 20,000.

Municipal operations within the State of Minas Gerais reflect those of Brazil more generally, and, therefore, serve as a representative sample of the country. Approximately 10 percent of the Brazilian population lives in Minas Gerais, distributed throughout 853 cities. Minas Gerais has the most cities of any Brazilian state, followed by São Paulo with 644. The State's geographical limits cover 7 percent of the Brazilian territory, corresponding to a demographic density of 33.4 people per km<sup>2</sup>. According to the most recent data from the Brazilian Institute of Geography and Statistics (IBGE), Minas Gerais contributes 9 percent of the country's Gross Domestic Product.

With respect to social indicators, the illiteracy rate of the state is 8.31 percent, while the Brazilian average is 9.61 percent. The absolute poverty rate of Minas Gerais is 25.6 percent, which is 11 percent lower than the country as a whole. The life expectancy of the population in Minas Gerais is 75.3 years, compared to 73.8 years for the full Brazilian population. The unemployment rate for the state in 2010 was 10 percent lower than the country rate (6.8 percent and 7.6 percent, respectively). Combining the social and economic conditions of the state, its Human Development Index value is, according to the United Nations Development Programme, 0.727, which is close to that of the whole country at 0.731.

In the realm of public finance, Minas Gerais' revenues account for 10 percent of all revenues collected by all the states, second only to São Paulo, which collects 27 percent of revenues. In terms of tax collection, Minas Gerais collects approximately 10 percent of the total amount collected, again following São Paulo, which collects 33 percent of nationwide taxes.

Our choice of Minas Gerais as a case study derives from the state's large number of municipalities and the state's close resemblance to the national profile with respect to the social indicators described above. Brazilian municipalities are favorable settings in which to test the managerial quality thesis for several reasons. First, Brazilian municipalities exhibit a high degree of autonomy, as they are responsible for the provision of health, education, transportation, and other public services, as well as for tax collection. Second, the 827 Minas Gerais municipalities for which we have data offer considerable socio-economic and demographic variation. Third, the six-year period under study covers two mayoral administrations, thus allowing for variation in mayor's qualifications. The result is a unique pooled time series data set.

### Data and dependent variables

The data come from several Brazilian institutions: the Brazilian Institute of Geography and Statistics (IBGE), the National Treasury Secretary, the Superior Electoral Tribunal, and the Federal Budget Secretary. To obtain this data, one of the authors visited the agencies.

*Dependent variable:* there is no perfect indicator to measure organizational performance, primarily because performance involves assessment along several dimensions, such as equity, efficiency, effectiveness, accountability, and

responsiveness, (BOYNE, 2002). Although Brazilian municipalities are responsible for delivering numerous services, many of these responsibilities are shared with the state and/or the federal government. For example, health care is provided through a combination of municipal, state, and federal efforts, whereas secondary education is the responsibility of the municipality and the state, and tertiary education is the responsibility of the municipality and the federal government. Our approach, therefore, is to assess municipal performance by focusing on a task that is the sole responsibility of the municipality.

We considered municipal expenditure, grant acquisition, and tax collection as potential performance indicators. While we also acknowledge citizens' assessments as measures of performance, we sought an objective rather than subjective measure. While municipal spending reveals municipal preferences across policy areas, it fails to indicate effectiveness, efficacy, or accountability. Municipal grant acquisition, in contrast, can be used to assess local effectiveness in obtaining additional revenues. However, grant acquisition is tied to intergovernmental relations and organizational capacity, which are beyond the scope of this study. Consequently, this study employs two objective measures of performance that assess municipal effectiveness within the scope of intramunicipal function: the amount of property tax collected per capita and the share of property tax collection as a percentage of total tax revenue.

Brazilian municipal chambers set their municipalities' property tax rates each year for the year ahead. Despite this system-wide mechanism, there exists a great deal of variation in property tax collection, as many municipalities depend largely on monies transferred from federal and state governments. For example, in 2007, several municipalities collected no revenues from property tax due to either operational difficulties or political practices, such as mayors condoning penalties for unpaid property tax as a strategy to gain political support (DOMINGOS, 2011). Moreover, mayors have full discretion over both changing the property tax rate—in which case, the new rate must be approved by the city council—and implementing strategies to boost property tax collection, which in Brazil is called *Imposto sobre a Propriedade Predial e Territorial Urbana* (IPTU). Collection rates also vary because, in the Latin American region in general, both property and income tax collection are central challenges for governments due to an evasion culture, state ineffectiveness (BERGMAN, 2009), and the informality of public offices (SMOLKA; DE CESARE, 2006). The variation in tax collection across municipalities makes property tax collection an appropriate indicator for assessing municipal performance.

The data for this variable are drawn from the IBGE and the National Treasury Secretary. Values for property tax collection are reported in Brazilian real. We adjust these nominal values for inflation, using the 2008 Consumer Price Index as our deflator. These adjusted values are reported per capita in order to make the measure comparable across municipalities. Table 4 provides descriptive statistics for all the variables.

Our second dependent variable is the share of property tax collected as a percentage of total municipal revenue. Our expectation is that if a municipality is making an effort to increase its property tax collection, the proportion of total revenue represented by the property tax should be higher. The values of IPTU and total revenues were obtained from the Brazilian National Treasury and are reported in Brazilian real. We again adjust these nominal values for inflation, using the 2008 Consumer Price Index as our deflator. Because the beginning of the mayoral administration coincides with the beginning of the calendar year, it is possible to associate annual municipal indicators with a specific mayoral administration. At the end of the fiscal year, municipalities report these values in millions of Brazilian real to the Ministry of Finance. To calculate the share of IPTU collected as a percentage of total revenue, for each municipality-year we multiplied IPTU collected by 100 and then divided this figure by total revenue. The values range from 0.00001 to 14.27 percent. Table 4 presents the descriptive statistics of all the variables included in the analysis, and Table 5 presents their correlation matrix.

**Table 4 – Descriptive statistics.**

<b>Variables</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min.</b>	<b>Max.</b>
<b>Dependent variable</b>				
Tax property collection/capita	12.72	21.05	0	319.39
Tax property as percentage of total revenue	0.95	1.37	0.00 <sup>†</sup>	14.27
<b>Support from above</b>				
Mayor-governor party alignment	0.42	0.49	0	1
President-mayor party alignment	0.13	0.33	0	1
<b>Horizontal support</b>				
City council support (%)	2.51	1.329	0	100
<b>Support from below</b>				
Margin of victory	17.58	19.01	0	100 <sup>†</sup>
<b>Socio-economic factors</b>				
Municipal GDP/capita*	8,477.55	10,333.7	1,428.88	239,773.6
<b>Government ideology</b>				
Leftist government	0.19	0.39	0	1
<b>Managerial quality</b>				
Mayor's education	5.03	1.97	1	7
Mayor's age	48	10	23	85
Mayor's public experience	0.23	0.42	0	1
Mayor's second term	0.27	0.45	0	1
<b>Controls</b>				
Royalties	319,835	2.14e+06	0	4.99e+07
Number of properties	5299	11722	263	195786
Total grants	1.33e+07	2.94e+07	2.27e+06	8.43e+08
Total spending	823.62	672.91	1.93	5651
First administration year	.3	.46	0	1
Second administration year	.3	.46	0	1
Third administration year	.3	.46	0	1

0.00001

†Due to single candidate

Source: The authors.

Table 5 – Correlation matrix.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Property Tax Collection/cap	1																		
Tax Property/Total Revenues	0.87	1																	
Governor-Mayor Party Alignment	-0.04	-0.03	1																
President-Mayor Party Alignment	0.08	0.04	-0.17	1															
City Council Support	-0.06	-0.02	0.01	0.02	1														
Margin of Victory	-0.01	-0.02	0.01	0	0.17	1													
Leftist Government	0.09	0.07	-0.26	0.31	-0.12	-0.04	1												
GDP/cap	0.22	0.12	0	0.02	-0.07	-0.01	0.03	1											
Mayor's Education	0.15	0.18	-0.03	0.1	-0.04	0.04	0.09	0.09	1										
Mayor's Age	0.1	0.14	0.03	-0.07	-0.05	-0.06	-0.1	0.03	-0.17	1									
Mayor's Public Experience	0.03	-0.02	0.05	-0.04	0.01	0.03	0.01	0.06	-0.05	0.03	1								
Mayor's Second Term	0.04	0.01	0.01	0.04	0.18	0.16	-0.04	0.02	-0.01	0.08	0.38	1							
Royalties (lg)	0.12	0.04	0.04	-0.01	-0.06	0	0.05	0.13	0.07	0.02	0.07	-0.01	1						
Number of Properties (ln)	0.48	0.61	-0.02	0.04	-0.12	-0.07	0.1	0.15	0.29	0.13	-0.03	-0.04	0.12	1					
Lag Expenditures (ln)	0.46	0.32	0.01	0.04	-0.04	-0.01	0.04	0.23	0.12	0.09	0.07	0.03	0.1	0.49	1				
Total Grants (ln)	0.47	0.42	0.03	0.02	-0.17	-0.01	0.1	0.36	0.21	0.11	0.12	0	0.22	0.7	0.51	1			
First Administration Year	-0.03	-0.01	-0.06	0	-0.03	0.01	0.02	0.01	0.01	0.01	0.05	0.03	0.05	-0.01	0.02	0.09	1		
Second Administration Year	0.07	0.01	-0.06	0.01	-0.03	0.01	0.02	0.09	0.01	0.01	0.05	0.03	0.11	0.01	0	-0.01	-0.43	1	
Third Administration Year	0	0.02	0.03	0.01	0.03	-0.01	-0.02	-0.08	-0.01	-0.01	-0.06	-0.04	-0.11	-0.01	-0.01	-0.1	-0.33	-0.33	1

Source: The authors.

## Explanatory variables

*Political support:* to measure support from above, we employed a dummy variable equal to "1" when the governor's party affiliation was the same as the mayor's; otherwise "0" was assigned. We also created a dummy variable equal to "1" when the mayor's party affiliation aligns with that of the president. Municipal legislative support for the mayor is operationalized as the percentage of elected council members who were of the same political party as the mayor.<sup>14</sup> A positive and significant coefficient would provide support for the hypothesized relationships. Citizens' electoral support is operationalized as the margin of victory, in percentage, between the winner and the runner up. However, we do recognize that citizens's support for tax policies may vary over time. Unfortunately, there are no available data to test for this variation. However, we do control for administration year, which should account for variations across the progression of the administration. Data on citizens' electoral support are drawn from Brazil's Superior Electoral Tribunal.

*Government ideology:* we begin with the general framework that liberals prefer high spending and high taxes, while conservatives prefer low spending and low taxes. There is empirical evidence for this thesis at both the state and national levels (ALT; LOWRY, 1994; KONTOPOULOS; PEROTTI, 1997). In Brazil, however, the proliferation of parties makes it difficult to clearly divide politicians by ideology to test the government ideology thesis. Therefore, we compare leftist mayors, who may be associated with a more liberal position, against all other mayors. Accordingly, we use a dummy variable, labeled "1" when a mayor's party is considered leftist, and "0" otherwise. According to Carreirão (2006) and Power and Zucco Junior (2009), the Brazilian parties known by the acronyms PP, PFL, PRN, PDC, PL, PTB, PSC, PRP, PSL, PDS, and PRONA represent the right wing. PMDB and PSDB are regarded as central. PT (President Lula's Party), PDT, PPS, PCdoB, PSB, PV, PSTU, PCO, and PMN are regarded as left-wing parties. A significant and positive coefficient on the leftist ideology would provide support for our H4.

*Economic explanations:* municipal GDP per capita is a simple measure. Data derive from the Brazilian Institute of Geography and Statistics (IBGE).

*Managerial quality:* four indicators assess managerial quality: mayor's age, education, public sector experience, and reelection for a second consecutive term. Mayoral age, a proxy for experience, is a continuous variable. Given that the Brazilian Constitution, like all other Latin American countries, stipulates no specific requirements in terms of education and experience for mayoral candidates, mayors come to office with diverse backgrounds. Brazilian mayors include farmers, vendors, taxi drivers, teachers, priests, lawyers, engineers, physicians, private sector managers, and undergraduate students. A mayor's education is a categorical variable with values from 1 to 7. Category 1 contains those who can barely read or write their own name (2.81 percent in our sample); Category 2, those who reported having only incomplete primary education (17.09 percent); Category 3, those who completed primary education (8.55 percent); Category 4, those with only incomplete high school degrees (3.79 percent); Category 5, those with high school degrees (25.40 percent); Category 6, those with incomplete undergraduate degrees (3.795); and, finally, Category 7, those mayors who have formal undergraduate degrees (38.58 percent).

Mayors' public sector experience is measured with a dummy variable, which takes the value of "1" when the mayor had any type of prior public sector employment or appointment (at the local, state, and/or federal level) before taking office. Data on mayoral age, education, and public sector experience were drawn from the TSE, which compiles background data on mayoral candidates. Whether a mayor is serving in his or her second term is measured with a dummy variable, taking "1" when the mayor has been reelected consecutively; otherwise, "0."

*Control variables:* our analysis features five controls. First, we control for the amount of funding a municipality receives from royalties, as these monies may

<sup>14</sup> In this study, we did not include the percentage of council members whose political party was part of the winning coalition, mainly because coalitions tend to not be permanent.

discourage municipalities from enforcing tax collection. We log transformed these values to correct for skewness. Data on royalties derive from the National Treasure Database (Finbra).<sup>15</sup> Second, we control for the number of properties per municipality as an indicator of property density, log transformed to correct for skewness. These values were obtained from the IBGE website.<sup>16</sup> Third, the analysis controls for a municipality's total spending in the previous year, because the scope of expenditure in the prior year may encourage a municipality to focus on enforcing property tax collection in the following year. Values were log transformed. These data come from National Treasury database. Fourth, we take into account the amount of extra funding a municipality received through grants in the previous year, as these extra resources may discourage municipalities from enforcing tax property collection. These data were also obtained from the National Treasury database, and values were log transformed. Finally, we control for electoral cycles. According to the electoral cycle proposition, performance varies across years because during election years, in order to gain voters, politicians may adopt tax reduction policies (BUCHANAN; TULLOK, 1962; NORDHAUS, 1975). For instance, a mayor may offer tax discounts during an election year (that is, during the fourth administration year) in order to attain political support for his or her reelection and/or political party. Therefore, we include a dummy variable for first, second, and third administration year, leaving the fourth administration year, in which local elections are held, as the excluded category.

## Methods

Given the nature of the data (unbalanced panel data), we report three sets of estimations specific to the panel data structure: random-effects, fixed-effects, and Arellano-Bond generalized method of moments (GMM) estimates (ARELLANO; BOND, 1991). Table 6 reports the three estimations for the first dependent variable, and Table 7 reports the three estimations for the second dependent variable. The Variance Inflation Factor for the two specification models (given the two dependent variables) suggests that multicollinearity is not an issue (VIF is 2.75). In addition, the influence and leverage diagnostics reveal that no single one of the groups (municipalities) overly influence the estimations; therefore, no municipality-year is excluded.

**Table 6 – Explaining property tax collection/capita in Brazilian municipalities (2005-2010).**

	(1) Random-effects	(2) Fixed-effects	(3) Arellano-Bond
Lag property tax collection/cap			-0.42*** (0.06)
Governor-mayor party alignment	-0.37 (0.26)	-0.21 (0.26)	-0.33 (0.27)
President-mayor party alignment	-0.44 (0.85)	-0.61 (0.81)	-1.83 (1.59)
City council support	0.67*** (0.20)	0.63*** (0.22)	0.44* (0.23)
Margin of victory	-0.02 (0.01)	-0.02 (0.01)	-0.01 (0.01)
Leftist government	0.32 (0.56)	0.44 (0.55)	0.30 (0.55)

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15 Available from: <[www.tesouro.fazenda.gov.br/contas-anuais](http://www.tesouro.fazenda.gov.br/contas-anuais)>.

16 Available from: <[www.ibge.gov.br](http://www.ibge.gov.br)>.

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	(1) Random-effects	(2) Fixed-effects	(3) Arellano-Bond
GDP/cap	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Mayor's education	0.12 (0.09)	0.14 (0.11)	0.04 (0.13)
Mayor's age	0.02 (0.02)	0.01 (0.02)	-0.00 (0.02)
Mayor's public sector experience	-0.65 (0.54)	-0.71 (0.55)	-0.74 (0.61)
Mayor's second term	0.08 (0.60)	0.31 (0.60)	0.65 (0.64)
Royalties (ln)	0.07 (0.15)	0.10 (0.15)	-0.07 (0.06)
Number of properties (ln)	6.48*** (0.96)	-7.68 (8.63)	-51.88** (20.19)
Lag expenditures (ln)	4.47*** (1.26)	8.53*** (1.52)	-1.53 (1.38)
Total grants (ln)	-0.85 (1.48)	-5.48*** (1.85)	10.42*** (3.60)
First administration year	2.32*** (0.33)	1.46*** (0.27)	5.69*** (0.58)
Second administration year	4.73*** (0.38)	4.34*** (0.36)	5.39*** (0.69)
Third administration year	3.01*** (0.34)	2.20*** (0.26)	4.95*** (0.66)
Constant	-103.94*** (15.39)	18.72 (48.02)	284.93*** (99.33)
Observations	4,632	4,632	2,936
R-squared		0.08	
Arellano-Bond test AR(1): $p > z$			0.90
Arellano-Bond test AR(2): $p > z$			0.62
Sargan test, $p > X^2$			0.22
Number of municipalities	827	827	810

Source: The authors.

Robust standard errors in parentheses

\*\*\*  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.1$

**Table 7 – Property tax collection as a percentage of total municipal revenue (2005-2010).**

	(1) Random-effects	(2) Fixed-effects	(3) Arellano-Bond
Lag property tax collection/cap			0.42*** (0.06)
Governor-mayor party alignment	-0.00 (0.01)	-0.00 (0.01)	-0.00 (0.02)

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	(1) Random- effects	(2) Fixed- effects	(3) Arellano- Bond
President-mayor party alignment	-0.03 (0.05)	-0.03 (0.05)	-0.01 (0.04)
City council support	0.02*** (0.01)	0.02** (0.01)	0.01 (0.01)
Margin of victory	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
Leftist government	0.00 (0.03)	0.01 (0.03)	0.03 (0.03)
GDP/cap	0.00 (0.00)	0.00 (0.00)	-0.00 (0.00)
Mayor's education	0.00 (0.00)	0.00 (0.00)	0.00 (0.01)
Mayor's age	0.00** (0.00)	0.00* (0.00)	-0.00 (0.00)
Mayor's public sector experience	-0.03 (0.02)	-0.03 (0.02)	-0.04 (0.02)
Mayor's second term	0.01 (0.02)	0.01 (0.02)	0.05** (0.02)
Royalties (ln)	-0.01* (0.00)	-0.01 (0.00)	-0.01*** (0.00)
Number of properties (ln)	0.92*** (0.06)	-0.11 (0.31)	-0.29 (0.44)
Lag expenditures (ln)	-0.17*** (0.06)	-0.05 (0.06)	0.14** (0.07)
Total grants (ln)	-0.10 (0.07)	-0.10 (0.09)	-0.14 (0.12)
First administration year	0.14*** (0.02)	0.14*** (0.02)	0.14*** (0.02)
Second administration year	0.11*** (0.01)	0.11*** (0.01)	0.09*** (0.02)
Third administration year	0.10*** (0.01)	0.09*** (0.01)	0.08*** (0.02)
Constant	-2.46***	3.95**	2.81
Observations	4,632	4,632	3,689
R-squared		0.07	
Arellano-Bond test AR(1): $p > z$			0.03
Arellano-Bond test AR(2): $p > z$			0.70
Sargan test, $p > X^2$			0.20
Number of municipalities	827	827	818

Source: The authors.  
Robust standard errors in parentheses  
\*\*\*  $p < 0.01$ ; \*\*  $p < 0.05$ ; \*  $p < 0.1$

The Arellano-Bond estimation is specific to panel data analyses that include a lag of the dependent variable as one of the independent variables. This inclusion is

necessary because one year's tax collection can be affected by the previous year's tax collection. In other words, we are interested in estimating the parameters of the following model:

$$Y_{it} = Y_{it-1} + X_{it}\beta + \mu_i + \varepsilon_{it}$$

As the inclusion of the lag term ( $Y_{it-1}$ ) may be correlated with the unobserved individual-level effect ( $\mu_i$ ), the estimation first differences both sides of the equation and employs generalized method-of-moments (GMM) estimators, yielding the following model equation:

$$\Delta Y_{it} = \Delta Y_{it-1} + \Delta X_{it}\beta + \Delta \varepsilon_{it}$$

However, ( $\Delta Y_{it-1}$ ) can still be correlated with ( $\Delta \varepsilon_{it}$ ). Nevertheless, the Arellano-Bond statistics report that there is neither first-order nor second-order autocorrelation of the residuals for the estimation of the first dependent variable. For the second dependent variable, there is first but not second-order autocorrelation, suggesting that autocorrelation does not affect the estimation. We would reject the model if there were evidence of second-order, but not first-order, autocorrelation (ARELLANO; BOND, 1991). In the Arellano-Bond estimation, after taking the first difference, and lagging both the dependent variable and the endogenous explanatory variable, the number of observations decreases to 2,936 (for 810 municipalities) for the first dependent variable and 3,689 (for 818 municipalities) for the second dependent variable. In contrast, in the random-effects and fixed-effects estimations, in which no lag of the dependent variable is included, the number of observations for the first and second dependent variable remains 4,632 across 827 municipalities. Moreover, the Sargan test of model specification (over-identifying restrictions) reports that the null hypothesis ( $H_0$ : over-identifying restrictions are valid) cannot be rejected, indicating that our model specification is correct.

## Results

### Municipal property tax collection per capita (Table 6)

As we are interested in reporting findings that are robust across the three estimations, we focus on the variables showing robust statistical significance and consistent direction across two models. In general, results show high level of consistency in terms of direction and statistical significance across the three models. Out of the three variables operationalizing the role of political support, only the coefficient on legislature (city council) support (H2) is positive and statistically significant at the 0.01 (random-effects), 0.01 (fixed-effects), and 0.1 (Arellano-Bond) levels. Holding everything else constant, results suggest that the greater a legislature's partisan support for the mayor, the higher the property tax collection per capita. Therefore, H2 receives support. On the contrary, H3 receives no empirical support, as the coefficient on margin of victory fails to reach statistical significance.

Findings provide no support for the "government ideology" hypothesis (H4). Likewise, H5 receives no empirical support, as the coefficient on GDP per capita fails to reach statistical significance. Results reveal that no single one of the mayor's background characteristics shows statistical significance, meaning that managerial quality does not contribute to explaining variation in property tax collection in the Brazilian municipalities of Minas Gerais for the 2005-2010 period.

From our five municipal-level controls, the coefficients on the three dummies operationalizing administration cycle (first, second, and third administration year) and on expenditures are statistically significant at the 0.05 level across the three estimations (only two for expenditures) and with a consistent direction. Specifically, results reveal that municipalities tend to collect more property tax per capita in the first, second, and third mayoral administration year than in the fourth year of administration, which

is the baseline/excluded category. Also, after holding everything else constant, as a municipality increase its expenditures in a particular year, its tax property collection in the following year tends to increase, too. Moreover, although the coefficient on total grants is statistically significant across two models, the direction of the coefficient is inconsistent. However, if we rely on the fixed-effects estimation, which tends to be more conservative, we could say that as the amount of grants awarded to a municipality increase, its property tax collection tends to decrease, holding everything else constant.

Finally, also note that the Arellano-Bond estimation, which reports estimators in first-difference with robust standard errors, also includes a lag of the dependent variable because, as stated earlier, one year's tax collection is expected to influence the next year's. Indeed, the results show that the coefficient on the lag of the dependent variable is statistically significant at the 0.05 level. Because the Arellano-Bond estimation includes a lag of the dependent variable as one of the independent variables, autocorrelation might be an issue. However, the Arellano-Bond statistics suggests there is neither first nor second-order autocorrelation in the first difference of the residuals. Lastly, the fixed-effects estimation suggests that the specification model explains 8 percent of variation in municipal property tax collection per capita.

#### Property tax collection as a percentage of total municipal revenue (Table 7)

Again, as we are interested in reporting findings that are robust across the three estimations, we focus on the variables showing robust statistical significance and consistent direction across two models for the second dependent variable, tax collection as a percentage of total municipal revenue. As with the first dependent variable, results from Table 7 show high levels of consistency in terms of direction and statistical significance across three estimations. Out of the three variables operationalizing political support, only the coefficient on legislature (city council) support (H2) is positive and statistically significant at the 0.01 level for the random- and fixed-effects estimation models. Holding everything else constant, results suggest that the greater a legislature's partisan support for the mayor, the higher the tax collection as a percentage of total revenue. That is, H2 receives support. Findings provide support for neither the "support from below" hypothesis (H3), the "government ideology" hypothesis (H4), nor for the social-economic hypothesis (H5).

In line with the results for our first dependent variable, not one of the variables operationalizing managerial quality shows statistical significance, except for the coefficient on mayor's age, which shows statistical significance in the random-effects (0.05 level) and fixed-effects (0.1 level) estimation. However, the size of the coefficient is very small, indicating that its impact on tax collection is minimal. Therefore, H6 fails to receive empirical support. From our five controls, the coefficients on royalties and on the three dummies operationalizing administration cycle (first, second, and third administration year) are statistically significant. Specifically, after holding everything else constant, as the amount of royalties a municipality receives increases, its property tax collection as a percentage of total tax revenue tends to decrease. In addition, results reveal that municipalities tend to collect more property tax as a percentage of total tax revenue in the first, second, and third mayoral administration years than in the fourth year of the administration, which is the baseline/excluded category.

The fixed-effects estimation suggests that the specification model explains almost 7 percent of variation in property tax collection as a percentage of total tax revenue. Moreover, given that the Arellano-Bond estimation includes a lag of the dependent variable as one of the independent variables, autocorrelation might be an issue. However, the Arellano-Bond statistics suggest there is first but not second-order autocorrelation in the first difference of the residuals.<sup>17</sup>

<sup>17</sup> Evidence of second-order but not first-order autocorrelations would cause us to reject the model (ARELLANO; BOND, 1991).

## Discussion and conclusions

This study assesses the impact of political, economic, and managerial factors on municipal performance in terms of property tax collection. We hypothesize that not only political and socio-economic aspects but also managerial quality affect municipal property tax collection. To test our propositions, we employ six years of data (2005-2010) for 827 municipalities of the Brazilian state of Minas Gerais, covering the four years of the 2005-2008 mayoral administration and the first two years of the 2009-2012 mayoral administration. Our key proposition, managerial quality, is operationalized as mayoral education, general experience (age), public sector experience, and job-related experience (reelection). Our study employs two different indicators of property tax collection: property tax collection per capita and property tax collection as a percentage of total municipal revenue. For each of these two indicators of municipal performance, we run three estimations (random-effects, fixed-effects, and Arellano-Bond) specific to the panel data structure in order to report findings that are consistent in both statistical significance and direction across the models.

In general, results show high levels of consistency across the three model estimations. Contrary to our expectations, we find no relationship between mayoral (managerial) quality and property tax collection. Evidence from the Brazilian municipalities shows that mayoral age, education, public sector experience, and job related experience (reelection), do not appear to contribute to property tax collection. These findings contrast with those of studies that find a positive relationship between managerial quality (assessed as superintendents' quality) and the performance of U.S. school districts (FERNÁNDEZ, 2005; MEIER; O'TOOLE JUNIOR, 2002), between managerial team quality and the performance of municipal organizations in Israel (CARMELI, 2006), and between mayoral quality and property tax collection in Colombian municipalities (AVELLANEDA, 2009b). The contradictory findings may indicate that the four proxies for mayoral quality employed in this study fail to capture other types of experience that would have a stronger effect on a mayor's ability to devise strategies to promote tax collection. For instance, whether the mayor has private sector experience may be more relevant in explaining variance in tax collection. Unfortunately, data on mayors' private sector experience were not available.

Contrary to the findings of studies focused on the developed world, government ideology in Brazil is unrelated to property tax collection. We suggest three interpretations for this finding. First, context matters; therefore, propositions developed in the developed world may not apply in developing settings. Second, Brazilians' weak party ideology and low party discipline (AMES, 2001a; MAINWARING, 1991, 1999; KINZO, 2003) leads to party switching (DESPOSATO, 2006) and weakness of political institutions. Third, the relatively large number of political parties and movements makes politics more personalistic than issue-oriented.

Findings from this study do suggest that city council partisan support for the mayor is positively correlated with property tax collection. This evidence may highlight the important role that city council members play in property tax collection, as the council is the body that (1) authorizes increases in tax rates, (2) approves mayors' proposals to pardon accrued interest as a strategy to incentivize property tax payment, and (3) approves mayors' proposals to reschedule, modify, or extend deadlines for tax payments. As Mullins and Wallin (2004) point out, enactment of tax rate or levy increases require both public discussion and a legislative vote. Given the key role of these legislators, mayors may feel unable to influence public policy without significant political support in the city council. Little is known, however, about the background characteristics of those elected to the city council. The influence of the local legislature found in this study calls for further exploration into the background and gender composition of Brazilian *vereadores* (council members) as well as their influence on other fiscal indicators and administrative decisions.

Results provide support for the flying paper effect (HINES; THALER, 1995), as municipalities that receive more grants and royalties tend to collect lower property tax. In other words, results suggest that Brazilian municipalities are discouraged from enforcing property tax collection when they are awarded with additional monies. Future studies should further explore the effect of grants and royalties on municipal performance operationalized across other dimensions.

Findings also provide strong evidence that municipalities collect more property tax during first, second, and third mayoral administration years than during the last year of mayoral administration, which is the election year. This finding is in line with the expectation that during election years, politicians either fail to enforce tax collection or grant tax cuts in order to gain political support for their campaigns or their parties in the upcoming elections.

Finally, this analysis of Brazilian municipalities adds to the few empirical studies assessing the impact of mayoral quality on local finances in a Latin American setting. By focusing on the mayor, this study blends politics and public management because in Brazil, as in most developing settings, the local political leader and the municipal manager are one and the same. The "strong, elected mayor" is the most common form of local government in Latin American countries. The implications of this study, however, point to the significance of both legislative partisan support and the electoral cycle in explaining variance in property tax collection. Although the findings of this study appear to undermine the role of mayoral quality on municipal performance, more studies are needed in which mayoral quality can be operationalized more directly, for example in terms of networking, innovation, and including citizens in the decision-making process.

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**Submission date: 12/02/2015**

**Approval date: 31/03/2016**

## ELECTIONS AND LOCAL GOVERNMENT PERFORMANCE IN BRAZIL

Pedro Luiz Costa Cavalcante\*

### Abstract

The 1988 federal Constitution introduced a complex and innovative institutional arrangement that not only reestablished political rights and democratic procedures, but also reinforced decentralization as a fundamental guideline for policy implementation in Brazil. As a result, municipalities have become pivotal actors in the policymaking process. Scholars of Latin American politics have given much emphasis to the causes and determinants of decentralization, but not much has been done toward a more general understanding of how this increased decentralization has affected policymaker behavior and policy outcomes. This paper aims to do exactly that. Specifically, it investigates how institutional arrangements and electoral competition affect local government performance. The theoretical basis is the electoral democratic theory that broadly highlights elections as instruments of citizen control in retrospective and prospective voting approaches. The research employs a large-N cross sub-national analysis based on a dataset of electoral, partisan, socioeconomic and public financial information collected from over 5500 municipalities. Local governments' performance, our dependent variables, are synthetic indicators formulated from 2009 nationwide surveys on public education, health, housing and welfare services. The OLS regression results confirm the hypothesis that politics variables do matter in how politicians make decisions and implement policy under the new Brazilian democratic Era. The empirical evidences suggest that electoral competition does not present a direct effect on government performance, however, ideology and citizen participation do. Therefore, this paper helps to expand our understanding of a political system's impact on public policy outputs, which is extremely important not only for academic purpose but also to support policymakers' decisions.

**Keywords:** Elections. Public policy. Decentralization. Local government performance. Brazil.

## ELEIÇÕES E DESEMPENHO DO GOVERNO LOCAL NO BRASIL

### Resumo

A Constituição Federal de 1988 introduziu um arranjo institucional complexo e inovador que não só restabeleceu direitos políticos e procedimentos democráticos, mas também reforçou a descentralização como uma diretriz fundamental às políticas públicas no Brasil. Como resultado, os municípios se tornaram atores fundamentais no processo de formulação e implementação de políticas públicas. Os estudiosos da política latino-americana deram muita ênfase às causas e determinantes da descentralização, mas pouco avançaram em entender como o aumento da descentralização tem afetado o comportamento dos formuladores e os resultados das políticas, em termos mais gerais. Este artigo pretende fazer exatamente isso. Mais especificamente, investiga-se como arranjos institucionais e competição eleitoral afetam o desempenho do governo local. A base teórica é a teoria democrática eleitoral que destaca os instrumentos de controle do cidadão em abordagens de votação retrospectiva e prospectiva. A pesquisa emprega a análise transversal

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(*cross-section*) baseada em um conjunto de dados de informações eleitorais, partidárias, socioeconômicas e de finanças públicas coletadas de mais de 5500 municípios. Os desempenhos do governo local, nossas variáveis dependentes, são representados por indicadores sintéticos formulados a partir de pesquisas oficiais nacionais de sobre educação pública, saúde, habitação e serviços de assistência social. Os resultados da regressão OLS confirmam a hipótese de que a política importa no processo de tomada de decisões e na implementação de políticas na atual Era democrática brasileira. As evidências empíricas sugerem que a competição eleitoral não apresenta efeito direto sobre o desempenho do governo, no entanto, ideologia e participação dos cidadãos sim. Portanto, este artigo ajuda a expandir nossa compreensão do impacto do sistema político sobre os resultados das políticas públicas, o que é importante não apenas para fins acadêmicos, mas também para apoiar o processo decisório nos governos.

**Palavras-chave:** Eleições. Políticas públicas. Descentralização. Desempenho do governo local. Brasil.

## Introduction

The 1988 federal Constitution introduced a complex and innovative institutional arrangement that not only reestablished political rights and democratic procedures, but also reinforced decentralization and citizen participation as fundamental guidelines for policy implementation in Brazil. As a result, municipalities have become pivotal actors in the policymaking process.

Scholars of Latin American politics have given much emphasis to the causes and determinants of decentralization, but not much has been done toward understanding how politics affects policymaker behavior and policy outputs under this new democratic setting. This paper aims to do exactly that. Specifically, it investigates how a political system's aspects, such as electoral competition and citizen participation, among others, impact local government performance. This issue became even more relevant in comparative policy analysis due to the fact that policy results in Brazil are extremely diverse. Put differently, despite the advances provided by the new legal framework and the governance improvements after two decades, inequality is the word that best defines policy implementation in this country.

It is noteworthy that the Brazilian cities are also heterogeneous in others aspects, such as geographic, social and economic dimensions. However, are these structural factors the only reasons for the variance in policy outputs? This paper's main argument disagrees. The hypothesis to be tested is that the political system's dynamics at a sub-national level under the new democratic Era impact governmental performance.

The basis is that those who make decisions on public policy, e.g. elected officials and parties, respond to incentives and constraints, as electoral rules or the level of political participation (CLEARY, 2007; IMMERGUT, 2006; PUTNAM, 1999). In other words, the understanding of a policy's determinants comes from the choices' intentionality. Policy outputs are consequences of the decision making process in which stakeholders are affected not only by structural factors, but also by democratic political dynamics.

The inquiry employs a large-N cross sub-national quantitative analysis based on electoral, partisan, socioeconomic and geographic data collected from almost every Brazilian municipality. Synthetic indicators, formulated from 2009 nationwide surveys on public education, health, housing and welfare policies, are our dependent variables – local government performance.

Besides this introduction, the article is organized in five other sections. Next, the institutional and political transformations embedded in the democratization process are discussed, considering their importance to understanding the current framework of social policy implementation. In the section three, the descriptions of the indexes of local government performance are presented. The fourth section begins with some theoretical background followed by the variables used in the statistical models. Finally, empirical results and conclusions are debated in the last two sections.

## Democratization and institutional changes in Brazil

After twenty-one years of military regime, in the mid 80's Brazil began to experience a transition to democracy. Although some civil and political rights, such as the freedom of association, right to assemble and to vote were restored in the beginning of this decade, the country was governed by a politician not elected by the people's vote until 1990. The federal Constitution of 1988 came to intensify the democratization process, reestablishing social rights and new institutional arrangements for public policies.

There is consensus that the Brazilian welfare system before the Constitution was essentially corporatist, political and financially centralized in the federal government (DRAIBE, 1990; MEDEIROS, 2001; IPEA, 2009). Social policies were very restricted and fragmented. In other words, the targeted population was restricted, mostly, to urban workers and their benefits, and services were provided by a dispersed range of organizations.

During Constitutional debates, nonetheless, pressures for a proactive state in the social area and for a fair division of responsibilities and revenues among government levels were evident. Social movements and interest groups lobbied congressmen for the following demands: inclusion of population sectors not covered by welfare or other social policy; permanent and transparent mechanisms of policy financing; equal rights between urban and rural workers; citizens' participation in the policymaking processes and; above all, fiscal and administrative decentralization. Consequently, the decisions changed for good public policy and states' responsibilities in Brazil. By law, health, education, housing and welfare programs became compulsory governmental with citizen's rights to all in need.

Universalistic principles came along with a remaining corporatist basis (ESPING-ANDERSEN, 1991; CARVALHO, 2002) in the new social policy framework that included mandatory governmental expenditures in public health and education, welfare benefits without previous contributions and labor rights, such as a national minimum wage, public pension system and equivalent treatment for rural workers. Therefore, the formal assumptions were formulated to accomplish widespread and equal access to public policy, in order to move towards a universalistic model of a welfare state.

Regarding policy management, local politicians transformed the social sector as a result of intensive lobbying. Their demands involved the restructuring of federative relations, local communities' empowerment, governmental efficiency and efficacy and also an opening process to citizens' participation in policymaking (SOUZA, 2004).

Consequently, political, fiscal and administrative decentralization were reinforced (ARRETCHE, 2000; MONTERO; SAMUELS, 2004). The Constitution established the federal state as an immutable clause and all municipalities became autonomous entities, an innovative feature in federative nations. Every governmental level – federal, state, Federal District and municipal – have executive and legislative branches elected by people for a four-year period, except for federal senators that have eight-year terms in office. In addition, all government levels share a certain degree of administrative autonomy and a range of responsibilities, mostly concerning fiscal and social policy.

Because of these characteristics, Brazil is one of the most decentralized countries in the world (SAMUELS, 2004; ABRUCIO, 2005). Nevertheless, there is a dilemma in the country's governmental relationships that alternate between cooperative and competitive federalism. The latter consists of a division of responsibilities in order to preserve autonomy and competition in certain policy areas. On the other hand, the former means that all governmental authorities have the same range of obligations in the interest of a joint policymaking process (ELAZAR, 1987). Definitely, the Brazilian Constitutional decisions became closer to the cooperative model, since it states that important social policy implementation, such as welfare, education, health and housing, shall be common responsibilities among local, state and federal administrations.

Despite this ideal purpose difficulties in systematically adopting these formal requirements in many policies have prevailed. Most of them lack institutional mechanisms of intergovernmental coordination and cooperation. Hence, policy implementations have been heterogeneous processes so far that may vary accordingly to the issue's salience in the agenda, specific framework, division of responsibilities and financial resources.

Moreover, there are three aspects to which the literature converges to a certain degree of consensus. First, local governments' pivotal role is due to their proximity to people's preferences and Brazil's continental dimensions. Secondly, federal administration is a protagonist player, mainly because of its financial and regulatory powers. Finally, as well as in other successful decentralization processes, in Brazil the process is highly dependent on the implementation framework formulated to simultaneously constrain and motivate sub-national officials to cooperate. This kind of strategy is grounded in agreements about governmental duties and technical and financial support from federal administration (ARRETCHE, 2004; KAUFMAN; NELSON, 2004).

The most important social policies in Brazil are the ones with the same formal and informal rules for every municipality. The legal and operational frameworks, broadly established by the 1988 Constitution and, above all, implemented by the federal governmental, are supposed to embrace impersonal and technical procedures. For instance, municipal expenditures in education and health policies are legally established as federal intergovernmental transfers. Nevertheless, these frameworks do not explain all policy outputs, since local government performance is far from homogeneous. This highlights how crucial it is to investigate the determinants of local politicians' behavior.

## Measuring governmental performance

Given the 1988 Constitutional outcomes, this analysis is focused on management and implementation of the most developed social policies in the country: education, health, housing and welfare. I begin with a brief description of the method used to measure local government performance, its description, followed by an overview of each social policy.

How can local government performance, our dependent variable, be measured? Performance in public affairs is an extremely complex subject that may involve a vast range of approaches. In order to analyze local politicians' behavior and test the impact of the political system on them, I choose to examine policy outputs of education, health, housing and welfare instead of their outcomes. The former more precisely reflects local government decisions and actions, whereas policy outcomes are more influenced by structural variables and by other programs from different governmental levels, known as the marble cake problem (SHARKANSKY, 1967).

Policy outputs are complicated to define and manage as well, since they can involve a large set of indicators. It is worth mentioning the important literature about the determinants of public service performance conducted by relevant scholars (MEIER; O'TOOLE, 2002; BOYNE, 2004). Differently from this paper's approach, they primarily investigated the impact of management strategies on organizational performance, which is, normally, measured by the quantity and quality of outputs, efficiency, effectiveness and equity. In that sense, I formulated synthetic indexes that combine several indicators of two policy-output dimensions: institutional capacity and service provision. These indexes are based on 2009 nationwide local government surveys (MUNIC/IBGE) and datasets from the Ministries of Education, Health and Social Development. Because these datasets are composed of a broad list of variables, the research employs principal component analysis (PCA) to aggregate and reduce the data to just four indexes for each dimension. The appendix describes how these synthetic indexes are formulated, including their thematic indicators that basically encompass a set of indicators that expose important aspects of both dimensions. Considering the great population and size differences among cities in Brazil, the synthetic indexes

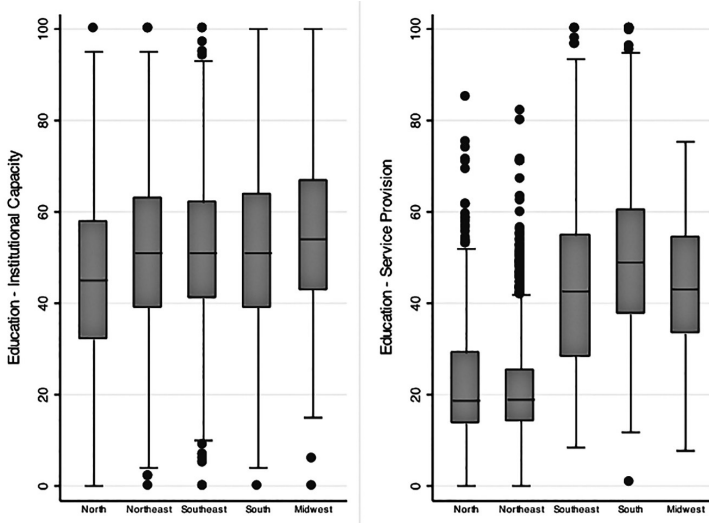
were elaborated after separating the cities into seven population ranges. After being normalized, the indexes vary from 0 to 100<sup>1</sup>.

The institutional capacity indexes intend to depict an overview of the local government framework of each social policy. They include indicators of sectors' human resources, departments' organization, legislation and management tools, management resources and intergovernmental relations. The second performance measurement, service provision indexes, is based on different indicators of each social policy, because their features and frameworks are highly distinctive. In sum, these indexes demonstrate the variety and scope of social services provided by municipalities.

It is worth mentioning that in both cases, despite the fact that most of the primary data were collected between 2008 and 2009, it is impossible, for instance, to know precisely when a specific management tool was established or a social service started being provided. Because of this, the research's basic assumption is that policy implementation is not a product of a single term of office, but a result of incremental process.

Regarding the education policy, many important changes since 1988 have generated an entirely new administrative and financial framework. Local governments have become responsible for basic education, from kindergarten through junior high school, and legally forced to invest 25% of their budget on it (FRANZESE; ABRUCIO, 2009). In 2007, a federative fund (Fundeb) was approved in an effort to increase policy resources, consequently, to improve the quality of educational systems. Furthermore, federal transfers to sub-national governments are based on technical requirements, such as number of child enrollment. Although education access has been universalized, its quality is far from the developed country stage and is also characterized by inequalities in many perspectives.

The education indexes distribution by region, presented visually in Figure 1, demonstrates their intense variance either intra and inter regions in both dimensions. The institutional capacity's indexes have a heterogeneous pattern with a standard deviation around 17 in almost all regions, which can be noticed by the symmetries of the distributions around the median value (box's darker line). The Midwest has the highest average (55) and the highest standard deviation (17.5). In terms of service provision, there is a clear difference among intra-regional dispersion. It is evident that the poorest regions, the North (23) and Northeast (21), have index averages lower than the national (35).



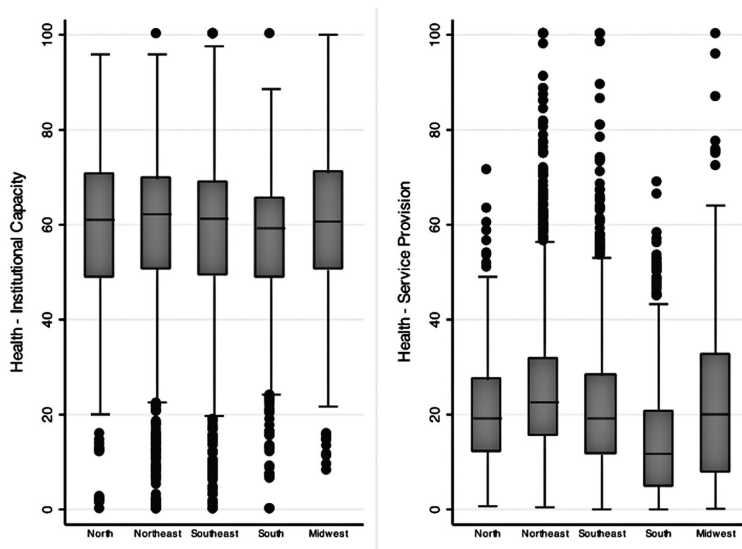
**Figure 1 – Institutional capacity and service provision indexes – education, by region.**

Source: The author.

<sup>1</sup> Table 4 in the Appendix shows the dependent variables' descriptive statistics.

The circumstances are not different for health policy. During the 90's, the federal government conducted an intense decentralization process in order to implement the constitutional principles of universal and free health services for the entire population. The Unified Health System (SUS) framework is grounded in regionalized and hierarchical resource transfers to sub-national administrations that also have counterpart funding (ARRETCHE, 2002). Although far from ideal, there are important improvements in health policy compared to past decades. SUS has included a significant portion of the population in the public system, expanded the range of services offered and transformed the centralized model to a truly federative arrangement. As a result, there has been considerable growth of health care units, from about 29,000 in 1985 to 77,000 in 2005, mostly at the municipal level (IPEA, 2009).

Nevertheless, the health policy implementation is clearly asymmetric among local governments. The composite index distributions; outlined in figure 2, confirm the heterogeneity in both institutional capacity and service provision, although the first dimension presents a more homogenous distribution among regions. In this case, the expected lower performance between North/Northeast and the other regions is not noticeable. In both cases, the highest averages were in the Northeast and Midwest, whereas the South has the worst performance. One possible explanation may be the higher demand for public health services in the poorest regions of the country, considering that in South and Southeast municipalities the private sector has a greater representation.



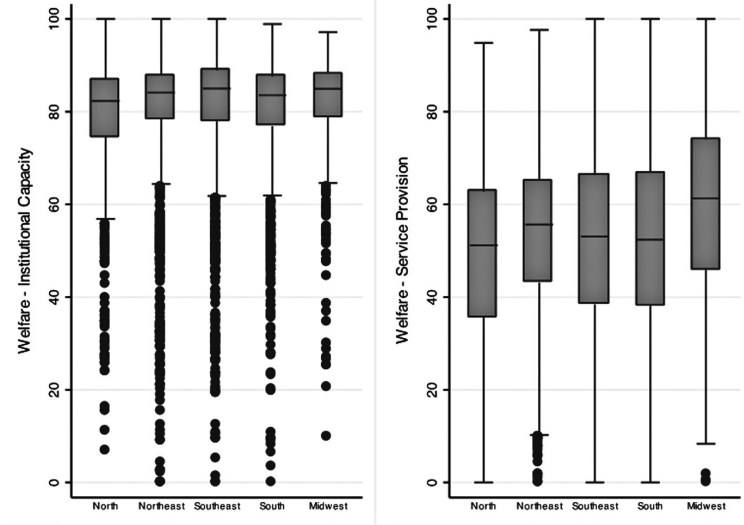
**Figure 2 – Institutional capacity and service provision indexes – health, by region.**

Source: The author.

In a subsequent transformation process, welfare was characterized by private sector dominance and residual actions. Even though the 1988 Constitution introduced new scope and objectives, particularly conceiving of social welfare as a right and formally part of the Social Security system in Brazil, its implementation was poorly organized, without effective coordination among all governmental levels. The area undertook its national plan only in 2004 with a complete new framework based on public services and income transfers focused on the poorest. The recently created Unified Welfare System (SUAS) is quite similar to SUS, in particular, because it established decentralization and intergovernmental partnerships as guidelines. Accordingly, the new governance arrangement aims to turn local government into a pivotal player. Nevertheless, differently from health and education, the federal government

concentrates on budgeting and regulation. In fact, the welfare institutionalization process is still ongoing, which reflects on how local government performance is described.

Focusing on social welfare’s outputs, figure 3 confirms the perceived disparity among municipalities. From a regional perspective, it is evident how the index distributions are more intense in the service provision dimension; while the institutional capacity disparities among the regions are quite slighter. In both dimensions, the North’s municipalities have the worst performance (76 and 49) and Midwest cities stand out positively (81 and 58).



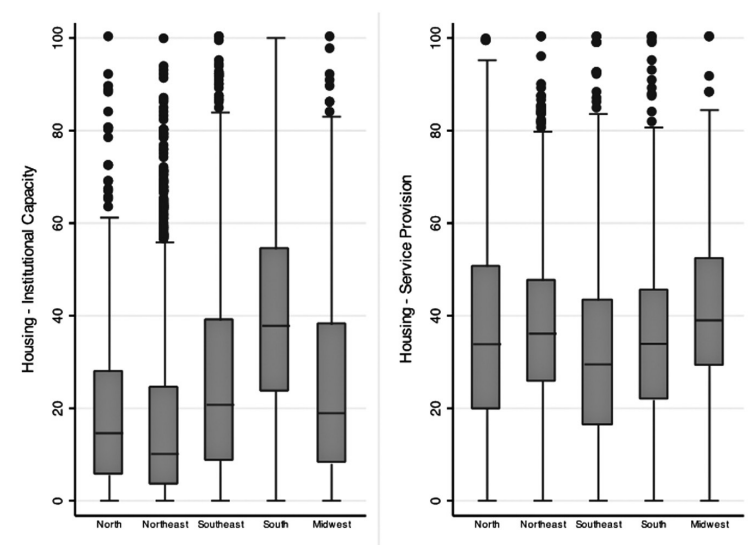
**Figure 3 – Institutional capacity and service provision indexes – welfare, by region.**

Source: The author.

Finally, Brazilian public housing policy is the most financially centralized and less regulated among these four sectors. The decentralized process was not successful, partly because of the lack of regulation in the Federal Constitution that did not define management responsibilities among governmental levels, leading to an uncoordinated implementation process (ARRETCHE, 2000). Only in 1995 did the National Urban Development Policy propose a more decentralized framework for federal expenditures. In 2004, the National Housing Plan was approved and since then it represents the main guideline for this policy implementation. Formally, among other principles, it highlights the need for joint action articulated at the three levels of government, although its actual results are not well-evaluated so far (MINISTRY OF CITIES, 2010).

Given this context, it is reasonable to understand the greatest disparity among social policy indexes, which is reflected by the highest standard deviations, approximately 22 and 18 in institutional capacity and service provision indexes. They are really large, especially compared to the housing indexes’ averages, around 25 and 34, respectively. As shown in figure 4, unlike the other sectors, the housing implementation variability is also revealed by data asymmetry, i.e., the median lines within the box are not equidistant from the ends, which can be related to the low degree of institutionalization of this policy. Regarding the averages, Southern municipalities (40) in the first dimension and the cities from the Midwest (40) present the best performance in the provision of housing services.





**Figure 4 – Institutional capacity and service provision indexes – housing, by region.**

Source: The author.

### Policy determinants in Brazil

After all, what are the causes of policy outputs? It is, definitely, not a simple question. Since the 50's political scientists, economists and policy analysts have studied the impacts of socioeconomic and political variables on governmental performance. Hence, this subfield of comparative politics has changed the analytical strategy from thick description to Large N studies. In doing so, it has experienced a substantial progress in both theoretical and methodological basis, including an evident improvement in statistical techniques (BLOMQUIST, 1999).

Recently, Imbeau, Pétry and Lamari (2001) reviewed the subfield literature in order to elaborate a taxonomy of policy determinants. On one hand, advocates of the 'convergence' school argue that political and institutional differences do not matter in explaining a policy's outputs, since industrialized societies have become increasingly homogenous. As a result, they face the same social and economic problems; because of this governments implement similar kinds of solutions. On the opposite side, some scholars support that politics do matter, arguing that economic and social factors cannot be neglected, but political variables are relevant in explaining governmental outputs as well.

Overall, the literature's main goal, particularly in political science, is to identify and measure the effects of political systems, in their many aspects, on public policy in order to test core assumptions of the electoral democracy theory. In the accountability approach, democracy supposedly tends to produce governments controlled by and accountable to the voters in which political parties act as central players in an open, fair and regular electoral process. The belief is that electoral results and partisan rules, even informal ones, operate as democratic incentives and constraints to better politician performance (MANIN; PRZEWORSKI; STOKES, 1999). So, elections are the fundamental mechanism of accountability that allows citizens to assess their incumbents. The voter behavior varies between the retrospective to prospective voting logics. The first voters grade politicians' or political parties' past performance in office, rewarding them with re-election or punishing them with defeat at the polls (FIORINA, 1981).

Alternatively, prospective voting stresses that voters base their choice on expectations about future politicians' performance (MARAVALL, 2009). Obviously, these accountability mechanisms are conditioned by a minimalist definition of democracy in which election is not sufficient but rather a necessary requirement.

In the Brazilian literature, despite studies about the determinants of health policy (MARQUES; ARRETICHE, 2002), welfare program adoption (COELHO, 2010) and social expenditures in municipalities (RIBEIRO, 2005), the area of study is still undeveloped. Paradoxically, the political, institutional and administrative characteristics provide excellent conditions to undertake this type of comparative inquiry. Analyzing policy determinants in Brazilian municipalities generates some advantages. A large number of observations facilitate the findings' generalization (KING; KEOHANE; VERBA, 1994) and the focus on sub-national units provides a greater variation of the phenomena to be explained and controls for cultural and historic aspects as well (SNYDER, 2001).

In order to contribute to this subfield, the main goal of this inquiry is to test the hypothesis that not only structural factors cause the variance on policy outputs, but also that political system dynamics have influenced municipal performance in Brazil. As mentioned before, this comparative policy subfield is grounded in the assumption that stakeholder intentionality has, in many ways, an impact on policy outputs. Hence, it is fundamental to test how political variables, products of the new democratic Era, affect local governments' ability to perform well.

The first factor that should influence policy outputs is *electoral competition* that has been used as independent variables from the beginning of the subfield (KEY JUNIOR, 1951) through to more current inquiries (CLEARY, 2007). Under many perspectives, the core premise is that electoral competition functions as an accountability mechanism, in some sense of how threatened and worried the incumbent party should feel should feel about losing the next election. There are many ways to measure how competitive the elections are; I chose *effective number of parties' index*, the most common one that has an updated version formulated by Grigorii Golosov (2010):

$$N_p = \sum_{i=1}^x \frac{1}{1 + \left(\frac{S_1^2}{S_i}\right) - S_i}$$

Where,

$N_p$ : electoral competitiveness;

$S_1$ : the largest component of the number of votes or the number of seats received by a party;

$S_i$ : the number of votes or the number of seats received by the  $i$ -th party;

$x$ : the smallest component of the number of votes or the number of seats received by a party.

*Ideology* is also a common variable in most of the policy determinant analyses (IMBEAU; PÉTRY; LAMARI, 2001). The hypothesis borrows Anthony Downs (1957) view that leftist parties tend to have a more proactive position concerning governmental intervention in the economy whereas right-wing parties are supporters of less state involvement and the free market. Hence, it is expected that the more leftist a mayor's party is, the better his or her performance will be in social policy. To measure *ideology* I use a left-right estimation of the political parties in Brazil. The estimates, elaborated by Power and Zucco Junior (2009), are based on politicians' opinions about government intervention in the economy. The party scores vary from 0 (extreme left) to 10 (extreme right). I use the average from the last three mayors' terms of office.

The third and four factors intend to test how political relationships between different levels of government affect a municipality's capacity to perform. Therefore, the variables *governor* and *federal alignments* aim to check whether party differences among intergovernmental politicians facilitate or prevent cooperation in policy implementation, as the literature predicts (COX; MCCUBBINS, 1986; ARRETICHE; RODDEN, 2004). The first means that the mayor and the state governor are in the same party. On the other hand, federal alignment means that the mayor's party is part of the Presidential coalition. Both are measured in years from 1997 to 2008 (0 to 12 years).

Another important aspect in policy analysis is the influence of the legislative branch. Scholars have demonstrated how formal and informal institutions embedded in the Legislative-Executive relations matter to the decision and policy-making processes in Brazil (FIGUEIREDO; LIMONGI, 2006) and worldwide (STEIN et al., 2006). Despite the literature focus on the national level, this dynamic is relevant to study sub-national government as well, especially in Brazil where local representatives are elected and have a extensive range of duties and responsibilities, such as law approval, budgeting and governmental oversight, among others. This institutional arrangement entails a setting in which the local city council (*Câmara dos Vereadores*) may act as a veto player, borrowing George Tsebelis (2002) terminology. Consequently, I expect that the level of *legislative control*, measured by the percentage of local representatives that are members of the same party or winning coalition of the city's mayor, can influence his or her performance.

All these previous political variables include data from three municipal elections (1996, 2000 and 2004) and their subsequent mandates. As mentioned earlier, the assumption is that policy implementation is a result of an incremental process.

The last political variable that should be linked to policy outputs involves the theory of social capital. Robert Putnam (1999) argues that citizen involvement in public decisions tends to positively affect governmental performance. Thus, the *level of citizen participation openness* is a social capital *proxy* that measures how the municipality's social policies committees are organized and running. This variable follows the same technique employed on the dependent variables indexes, principal component analysis (PCA). The synthetic index is based on data of the existence, features and effectiveness of a municipality's committees, also separated by population range, all detailed in the paper's appendix.

Apparently, city wealth might affect policy performance, because local governments should be able to provide better services with a larger budget (GRAY, 1976). Therefore, *per capita income* is used not only as an independent variable, but also to condition the effects of electoral competition and ideology. In wealthier municipalities, because of their economic dynamism, these two variables would be more influential on social policy performance. Finally, considering the country's demographic diversity, the model also controls for municipalities of *North and Northeast* regions, *population* and *urbanization* rate. The latter is usually used as an important component of economic development that tends to expand governmental responsibilities. Because of the highly skewed distributions of the income and population variables, logarithmic transformations were used to make their distribution more approximately normal. Table 1 presents the list of independent variables – political and control ones – their sources and expected signs in terms of positive or negative relations to the dependent variables and descriptive statistics.

**Table 1 – Independent variables.**

Political Variables	Expected Sign	Source	Mean	Standard Deviation	Min	Max
Electoral Competition	(+)	Superior Electoral Court (TSE)	1,97	0,40	1,00	9,62
Governor Alignment	(+)	Superior Electoral Court (TSE)	2,83	2,71	0,00	12,00
Federal Alignment	(+)	Superior Electoral Court (TSE)	7,45	2,67	0,00	12,00
Ideology	(-)	Power and Zucco Junior (2009)	6,12	1,27	1,86	8,53
Legislative Control	(+)	Superior Electoral Court (TSE)	0,43	0,16	0,00	1,00
Citizen Participation	(+)	MUNIC/IBGE	0,39	0,17	0,00	1,00

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Control Variables	Expected Sign	Source	Mean	Standard Deviation	Min	Max
Income	(+)	IBGE	2,04	0,71	0,54	5,66
North and Northeast	(-)	IBGE	0,40	0,49	0,00	1,00
Urbanization	(+)	IBGE	0,64	0,23	0,00	1,00
Log Population	(+)	IBGE	9,42	1,14	6,73	16,21

Source: The author.

Using these set of variables to explain the local performance variety in the two dimensions selected, the research employs multiple regression analysis, more precisely, ordinary least square (OLS) method on a cross-section of data (WOOLDRIDGE, 2006). The research covers a majority of Brazilian municipalities, over 5500 units of analysis. The following equations are estimated:

$$Y = \beta_0 + \beta_{pol} X_{pol} + \beta_{int} X_{pol} \cdot X_{wealth} + \beta_{con} X_{con} + e$$

Where,

Y: synthetic indexes of administrative capacity and service provision (education, health, housing and welfare);

$\beta_0$ : Y- intercept;

$\beta_{pol}$ ,  $\beta_{int}$  and  $\beta_{con}$ : coefficients of political, interaction and control variables;

$X_{pol}$ : matrix of political variables;

$X_{wealth}$ : per capita income;

$X_{con}$ : matrix of control variables.

## Results

The following table shows the estimated coefficients and standard errors in parentheses. First of all, it is important to mention that all eight equations indicate F greater than the critical F-values. It confirms the paper’s hypothesis that when socioeconomic variables are controlled, political system variables have significant independent impacts on local government performance. However, these effects vary extensively, in particular, among the social policy areas. These findings are reasonable and coincide with the literature on policy determinants (BLOMQUIST, 1999).

Moreover, I observed similarities between both policy implementation dimensions, but also different patterns. Generally, the coefficients of determination are low, except for the education service provision. In this case, the control variables’ estimates, such as income, urbanization and region, are very high, which can explain the elevated adjusted R<sup>2</sup>. Despite the little explanatory power of the models, there are some interesting results.

Contrary to expectation, one of the most used political variables in the literature, electoral competition, does not reveal a consistent significant impact overall. In fact, it showed negative effects on welfare service provision and positive institutional capacity of housing policy. In most cases, electoral threat doesn’t seem to matter in how local governments organize and implement these policies. These results are intriguing, since theoretically the level of rivalry in electoral processes is supposed to produce better policy performance (CLEARY, 2007). These findings deserve further investigation.

Governor and federal alignments show little direct effects. Partisan alliance with the governor has negative impact only on welfare service provision, but with a weak effect. The proximity between mayor party and Presidential coalition show statistical significance just in education service provision, nevertheless, its substantive effect is also weak. On one hand, the empirical results contradict some of the literature findings (COX; MCCUBBINS, 1986; ARRETCHÉ; RODDEN, 2004), on the other; they confirm the perception that decentralization processes were predominant based on technical grounds instead of being partisan oriented. To put it another way, it is reasonable to infer that the bulk of legal and operational frameworks formulated after the Constitution of 1988 have been followed throughout the social policy implementation processes.

Table 2 – Determinants of local government's performance.

	Education			Health			Welfare			Housing		
	Institutional Capacity	Service Provision	Institutional Capacity	Service Provision	Institutional Capacity	Service Provision	Institutional Capacity	Service Provision	Institutional Capacity	Service Provision	Institutional Capacity	Service Provision
Electoral Competition	-2.1*** (0.77)	.12 (.58)	-2.72** (.72)	-1.8*** (.62)	-6 (.68)	-2.37*** (.81)	.76 (.98)	.14 (.85)				
Governor Alignment	.02 (.08)	.06 (.06)	.08 (.07)	.06 (.06)	.00 (.07)	-.17* (.09)	.04 (.10)	-.05 (.1)				
Federal Alignment	.05 (.08)	.17*** (.06)	-1 (0.08)	-0.05 (.07)	.07 (.07)	.01 (.01)	.13 (.1)	-.06 (.1)				
Ideology	-.55** (.21)	-.16 (.16)	-.43** (.20)	-.64*** (.17)	-.07 (.2)	-.78*** (.27)	-.36 (.27)	.31 (.23)				
Citizen Participation	12.9*** (1.41)	5.9*** (1.1)	7.5*** (.32)	1.1 (1.14)	8*** (1.26)	13*** (1.5)	4** (1.8)	6.52*** (1.5)				
Legislative Control	-1.0 (1.67)	7.44*** (1.26)	-2.07 (1.6)	1.36 (1.34)	1.8 (1.5)	2.83 (1.76)	3.56* (2.12)	7.65*** (1.84)				
Income (Log)	-.46 (.65)	11.9*** (.50)	1.33** (.62)	1.93*** (.53)	-.66 (0.6)	.20 (.7)	5*** (.83)	1.77* (0.72)				
Urbanization	.32 (1.12)	18.72*** (.85)	1.62 (1.06)	2.08** (.9)	4.56*** (1.0)	1.94 (1.18)	-8*** (1.4)	1.13 (1.24)				
North and Northeast	-1.6** (.65)	-12.86*** (.5)	2.0*** (.6)	6.18*** (.52)	-.88 (.58)	-.9 (.68)	-10.5*** (.82)	4.10*** (0.71)				
Population (Log)	1.27*** (.24)	1.26*** (.18)	3.0*** (.23)	4.47*** (.2)	.25 (.22)	5.8*** (.26)	1.75*** (.31)	.96*** (.27)				
Income * Electoral Competition	-.07** (.03)	-.03 (.02)	-.1** (.03)	-.7** (.03)	-.01 (.03)	-.00 (.01)	-.14*** (.04)	-.03 (.04)				
Income * Ideology	.03*** (.03)	-.02** (.01)	.03*** (.01)	.02** (.01)	.00 (.00)	-.00 (.03)	.02* (.01)	.00 (.01)				
Constant	42.4*** (3.14)	-.11.84*** (2.38)	33.04*** (3.0)	-22.21*** (2.53)	75.2*** (1.08)	-.07 (3.3)	6.36 (4)	12.45*** (3.5)				
F significance	.000	.000	.000	.000	.000	.000	.000	.000				
Adjusted R <sup>2</sup>	.03	.56	.03	.16	.02	.15	.10	.02				
N	5503	5503	5503	5503	5503	5503	5503	5503				

\* Significant at .1 level; \*\* Significant at .05; \*\*\* Significant at .01 level. Standard errors in parentheses.

Source: The author.

The Executive-Legislative relations' estimates are significant in three cases with coefficients relatively high compared to other political variables. Legislative control seems to result in better performance in education services and both dimensions regarding housing policy. Furthermore, partisan ideology coefficients presented in every policy areas and dimensions have negative signs. Some of them are significant which helps to support the expected influence of ideology on social policy implementation, e.g., the more leftist the local government is the more interventionist its performance in social policy tends to be (IMBEAU; PÉTRY; LAMARI, 2001). For instance, holding all other factors constant, in health institutional capacity, a reduction of one point in the ideology measurement reflects an increase of 1.15 in the municipality performance index, whereas the same variation in the ideology indicator tends to increase 1.2 in the welfare service provision index.

The degree to which citizens are able to participate in the policymaking process appears statistically significant in all policies. The impacts are positive and quite robust in many cases. For example, an increase of 10% in the citizen participation openness index generates an increase of 13 points in welfare service provision or education institutional capacity scores, *ceteris paribus*. These consistent effects confirm theoretical expectations and, consequently, Robert Putnam's hypothesis (1999) that higher social participation leads to better governmental performance.

A municipality's wealth impacts policy performance in five of the eight cases analyzed, as expected (GRAY, 1976). In some policy areas, such as housing and health, a higher level of city income *per capita* generates robust effects on performance indexes, holding all other factors constant. Regarding the interactive effects, although some of the political variables conditionalized by municipality income *per capita* presented statistical significance, most of them demonstrated coefficients substantial in a practical sense. The exception was one case in which a higher electoral competition decreases its influence on housing institutional capacity indexes as city income grows.

As projected, local performance is affected positively by urbanization, except for housing institutional capacity. So, in general, local governments respond in urbanized cities with a more structured and superior range of services in most of the social policies analyzed. In the same way, population seems to positively impact mayor performance. Concerning a city's geographic location, the *dummy* North-Northeast's results indicate a different pattern of effects. The empirical evidences are not sufficient to confirm the common knowledge that these regions would demonstrate worse performance based on their population's socioeconomic conditions. The results show that municipality performance varies substantially depending on the dimensions and policies observed.

Finally, an interesting finding is that politics impacts are indifferent regarding the degree of policy institutionalization. An institutionalized policy corresponds to a sector in which its framework is grounded in a set of rules that shapes actors and organizational actions and behaviors (PIERSON, 1995; NORTH, 1990). In Brazil, education and health are historically more regulated and structured than welfare and housing (FRANZESE; ABRUCIO, 2009). For instance, while the former have mandatory expenditures for all levels of government and intergovernmental transfers established by federal law, the latter have not reached this level of financing. Initially, we expected a minor influence of politics on more regulated policies; however, the empirical results are quite similar.

## Final remarks

Brazil is a successful case of a democratization process that, in a relatively short period of time, has reestablished political and civil rights and built a comprehensive and innovative social policy system. The new policy governance is grounded on constitutional rights, complex intergovernmental relationships and citizen participation. Because of these institutional transformations, analyses of democracy's impact on policymaking and its outputs are essential. In this context, this paper achieved its goal by featuring implications both in methodological and substantive aspects.

First, the research overcomes the many variables and small N problem of the decentralization case studies. The methodological strategy is able to minimize this dilemma by increasing its ability to generalize inferences. Besides, formulating original and comprehensive performance measurements that describe how municipalities organize and provide public services contributes to analyze a complex issue: the different levels of policy implementation. This operational technique may be an alternative to deal with the intrinsic complexity of studying policy outputs.

Regarding the substantive aspect, the empirical results demonstrate that political factors cannot be ignored in this kind of policy analysis. Notwithstanding, some important variables do not present a direct effect on government performance, such as electoral competition. Likewise, surprisingly, the effects of the interactions between income and political variables were generally not relevant. On the other hand, ideology and citizens participation results support the argument in favor of the actual influence of democratization on policymaking frameworks and outputs. Moreover, the research confirms previous findings that politics effects vary among policy sectors, although there weren't obvious patterns.

Lastly, it is evident in all cases that environmental aspects hold an exploratory position even more consistent than political system factors. However, it doesn't refute the hypothesis that politics variables do matter to how politicians make decisions and implement policy under the new Brazilian democratic Era. In doing so, this paper contributes to expand our understanding of political system impact on policy outputs, which is extremely important not only for academic purposes but also as decision making support for stakeholders.

In this sense, the paper's findings provide an interesting range of research questions that could be explored by case studies or Qualitative Comparative Analysis (QCA) strategies. In terms of content, issues such as the role of estate government in social policy or the determinants of policy outcomes are, among others, appropriate for a future research agenda.

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**Submission date: 24/02/2015**

**Approval date: 15/12/2015**

In this appendix, the method and primary data used to formulate the composite indexes of policy outputs, the dependent variables, and citizens' participation openness are described. A composite index is generally used to summarize complex or multidimensional data. In order to do this, the research employs principal component analysis (PCA), a type of factor analysis for finding patterns in data of a high dimension. Its goal is to create new variables from linear combinations of primary data (HAIR et al., 2005).

After selecting the primary variables, principal component analysis were run synthesizing in one final composite index, based on the first component, for citizens' participation openness, institutional capacity (IC) and service provision (SP) in education, health, welfare and housing policies. They were all elaborated after separating the cities based on population's range<sup>2</sup> and finally normalized, varying from 0 to 100. Table 3 shows their percentage of explained variance. The following tables present the primary variables with their measurement and sources.

**Table 3 – Factor % explained variance (by population range).**

Variable	1	2	3	4	5	6	7
IC - Welfare	46%	43%	45%	43%	43%	43%	44%
SP - Welfare	57%	48%	57%	42%	47%	41%	48%
IC - Education	31%	32%	30%	29%	29%	33%	31%
SP - Education	59%	58%	62%	61%	58%	46%	49%
IC - Housing	41%	41%	42%	41%	39%	42%	44%
SP - Housing	57%	52%	57%	56%	55%	57%	53%
IC - Health	24%	25%	29%	27%	28%	26%	37%
SP - Health	30%	33%	34%	43%	48%	44%	55%
Citizen's Participation	46%	47%	47%	46%	47%	45%	38%

Note: The proportion of explained variance by Initial Eigenvalues.

Source: The author.

**Table 4 – Dependent variables – descriptive statistics.**

Dependent Variables	Mean	Standard Deviation	Min	Max
IC - Education	51.2	16.8	0	100
SP - Education	35.2	18.9	0	100
IC - Health	58.0	16.1	0	100
SP - Health	21.0	14.5	0	100
IC - Welfare	79.6	14.8	0	100
SP - Welfare	53.0	18.9	0	100
IC - Housing	25.7	22.0	0	100
SP - Housing	34.6	18.4	0	100

Source: The author.

<sup>2</sup> The taxonomy from the Brazilian Statistical and Geographic Institute (IBGE) divides the municipalities into seven population ranges: up to 5,000 inhabitants; from 5,001 to 10,000; from 10,001 to 20,000 inhabitants; from 20,001 to 50,000; from 50,001 to 100,000 inhabitants; and 100,001 to 500,000; with over 500,000 inhabitants.

**Table 5 – Education.**

<b>Institutional Capacity</b>		<b>Source</b>
Human Resources	Educational employees (per 1,000 people)	Educational Census/INEP (2009)
Department Structure	Exclusive department (0 to 1)* Own municipal educational system (0 or 1)	MUNIC/IBGE (2009)
Legislation and Management Tools	Legal tools (0 to 1)** Issue regulated by statutory instrument (0 to 1)** Municipal educational plan (0 or 1)	MUNIC/IBGE (2009)
Management Resources	Education Funding (0 or 1) Teacher training: Human Rights, Gender, Race and Sexual Orientation (0 to 1)	MUNIC/IBGE (2009)
Interinstitutional Network	Partnerships (0 to 1)**	MUNIC/IBGE (2009)
<b>Service Provision</b>		<b>Source</b>
Number of Schools	Kindergarden (per 1,000 people)	Educational Census/INEP (2009)
	Elementary School (per 1,000 people)	
School facilities	% of Schools with computer lab	Educational Census/INEP (2009)
	% of Schools with science lab	
	% of Schools with rooms for special appointments	
	% of Schools with gym	
	% of Schools with kitchen Cozinha	
	% of Schools with library	
	% of Schools with reading room	
	% of Schools with playground	
	% of Schools with especial needs facilities	
	% of Schools with other facilities	
	% of Schools with food programme	
	% of Schools with Educational Service Specialist	
	% of Schools with Additional Activity	
School equipments	% of Schools with TV	Educational Census/INEP (2009)
	% of Schools with VCR	
	% of Schools with DVD	
	% of Schools with copy machine	
	% of Schools with satellite dish	
	% of Schools with overhead projector	
	% of Schools with printer	
	% of Schools with computer	
	% of Schools connected to the Internet	
% of Schools with high speed Internet		
IGD*** and Diversity Policy	Human rights education (0 or 1)	MUNIC/IBGE (2009)
	Schools able to accommodate people with disabilities (0 or 1) Rate of children with school attendance information (0 to 1)	MDS (2009)

\* 1 for exclusive department; 0.75 sharing with other department; 0.5 subordinated to the mayor e; 0.25 subordinated to other department;

\*\* 0 means none e 1 all alternatives.

\*\*\* IGD means Index of Decentralized Management and is used to assess municipal quality of Bolsa Familia implementation.

Source: The author.

**Table 6 – Health.**

<b>Institutional Capacity</b>		<b>Source</b>
Human Resources	Public health employees (per 1,000 people)	DATASUS
Department Structure	Exclusive department (0 to 1)*	
Legislation and Management Tools	Municipal public health plan (0 or 1)	MUNIC/IBGE (2009)
Management Resources	Health Funding (0 or 1)	
Interinstitutional Network	Partnerships (0 to 1)**	
<b>Service Provision</b>		<b>Source</b>
Facilities	Public hospital beds (per 1,000 people)	
	Additional beds (per 1,000 people)	
	Bed rests (per 1,000 people)	
	Health equipments (per 1,000 people)	DATASUS
	Physical Facilities of Obstetrics (per 1,000 people)	
Ambulatory Care	Municipal clinics (per 1,000 people)	
	Dental Offices (per 1,000 people)	
Unity health care	SUS Outpatient visits per resident	DATASUS
Immunization	Total of health centers (per 1,000 people)	
Saude da Familia programme	Shots per resident	
IGD Health	Teams (per 1,000 people)	MUNIC/IBGE (2009)
	Rate of families with health monitoring	MDS (2009)

\* 1 for exclusive department; 0.75 sharing with other department; 0.5 subordinated to the mayor e; 0.25 subordinated to other department;

\*\* 0 means none e 1 all alternatives.

Source: The author.

**Table 7 – Welfare.**

<b>Institutional Capacity</b>		<b>Source</b>
Human Resources	Welfare employees (per 1,000 people)	MUNIC/IBGE (2009) Welfare special edition
Department Structure	Exclusive department (0 to 1)*	MUNIC/IBGE (2009) Welfare special edition
	Service at the agency headquarters (0 or 1)	
Legislation and Management Tools	Computer systems (0 to 1)	
	Organic law mentions welfare (0 or 1)	
	Another legal instrument regulates welfare (0 or 1)	
	Issue regulated by statutory instrument (0 to 1)**	MUNIC/IBGE (2009) Welfare special edition
	Municipal welfare plan (0 or 1)	
Management Resources	Annual municipal plan review (0 or 1)	
	Frequency of monitoring municipal plan (0 or 1)	
	Welfare funding (0 or 1)	MUNIC/IBGE (2009) Welfare special edition
Interinstitutional Network	Welfare fund is a budgetary unit (0 or 1)	
	legal definition of budget percentage (0 or 1)	
Interinstitutional Network	Existence of legislation that deals with covenants (0 or 1)	MUNIC/IBGE (2009) Welfare special edition
	Types of covenants (0 to 1)**	
	Other partnernships (0 or 1)	
<b>Service Provision</b>		<b>Source</b>
Services Provided	Basic Protection Service (0 to 1)**	MUNIC/IBGE (2009) Welfare
	Special Protection Service (0 to 1)**	
Social Welfare services	Types of welfare services (0 to 1)**	MUNIC/IBGE (2009) Welfare
	Sistema Único de Assistência Social Management (0 to 1)**	
Terms of Service	Units of welfare service (0 to 1)**	MUNIC/IBGE (2009) Welfare special edition
Cash Transfer and Income Generation Policies	Conditional cash transfer program (0 or 1)	MUNIC/IBGE (2009) Welfare
	Income generation and productive inclusion programmes (0 or 1)	
	IGD (0 to 1)**	MDS (2009)

\* 1 for exclusive department; 0.75 sharing with other department; 0.5 subordinated to the mayor e; 0.25 subordinated to other department;

\*\* 0 means none e 1 all alternatives.

Source: The author.

**Table 8 – Housing.**

<b>Institutional Capacity*</b>		<b>Source</b>
Department Structure	Exclusive department (0 to 1)**	MUNIC/IBGE (2009)
	Municipal housing plan or formulating (0 to 1)***	
	Subdivision law (0 or 1)	
	Zoning law or similar (0 or 1)	
	Code works (0 or 1)	MUNIC/IBGE (2008)
Legislation and Management Tools	Land specific law created (0 or 1)	
	Specific law for improvement contribution (0 or 1)	
	Specific law of joint urban operations (0 or 1)	
	Specific law of neighborhood impact study (0 or 1)	
	Specific law for land regularization (0 or 1)	MUNIC/IBGE (2009)
	Municipal housing funding (0 or 1)	
	The Fund has financed projects on the last 12 months (0 or 1)	MUNIC/IBGE (2008)
Management Resources	Council Fund Manager (0 or 1)	
	The Fund collects from public budget and other sources (0 or 1)	
	Land regularisation programme (0 or 1)	MUNIC/IBGE (2009)
Interinstitutional Network	Partnerships (0 to 1)****	MUNIC/IBGE (2009)
<b>Service Provision</b>		<b>Source</b>
	Registration of families interested in housing programs (0 or 1)	
Housing Registration Policy	Informatized database (0 or 1)	MUNIC/IBGE (2008)
	Registration includes the nature of housing benefit claimed by families (0 or 1)	
	Housing program financed by other fund (0 to 1)	
	Construction of units through partnership or own initiative (0 to 1)	
Housing Programmes****	Acquisition of housing units through partnership or own initiative (0 to 1)	MUNIC/IBGE (2008)
	Improvement to housing units through partnership or own initiative (0 to 1)	
	Offering building materials through partnership or its own initiative (0 to 1)	
	Offering plots through partnership or own initiative (0 to 1)	
	Land regularisation through partnership or own initiative (0 to 1)	
Land Policy****	Urbanization on settlements through partnership or own initiative (0 to 1)	MUNIC/IBGE (2008)
	Municipality has issued in 2007 and 2008 licenses for deployment of new subdivisions and housing permits (0 to 1)	

\* Human resources in Housing policy is not available.

\*\* 1 for exclusive department; 0,75 sharing with other department; 0,5 subordinated to the mayor e; 0,25 subordinated to other department;

\*\*\* 1 for yes; 0,5 formulating e; 0 for no.

\*\*\*\* 0 means none e 1 all alternatives.

Source: The author.

**Table 9 – Citizen participation index.**

<b>Citizens' Participation Openness</b>		<b>Source</b>
Number of municipality's committees	0 to 18	
Composition (society/government)	Percentage (%)	
Committees' functions (consulting, deliberative, normative and auditing)	0,25 for each function	MUNIC/IBGE (2009)
Meeting in the last 12 months	% of committee with meeting in the last 12 months	

Source: The author.

THE SCOPE AND IMPLICATIONS OF SPIRITUALITY:  
A DUAL APPROACH

Anselmo Ferreira Vasconcelos\*

Abstract

This paper sheds more light on the topic of spirituality by clarifying what it embraces by means of a dual approach: it examines the secular literature as well as collecting related teachings and tenets from Spiritism Doctrine. Although the discipline of spirituality is relatively young and its ontology needs consensus, it is noticeable that spirituality adopts different and competing things. It unfolds through the deep understanding about the meaning of life, human nature, and the adoption of a transcendental perspective. It argues that we live in a suitable moment on this planet to take advantage of transformative potential derived from spiritual knowledge for the betterment of the human community. The evidence gathered here shows that by developing our own spirituality we can transform ourselves and our creations, including society and institutions. The approach of this endeavor reveals that both science and religion agree that the spiritual element permeates all things.

**Keywords:** God. Spiritism doctrine. Management systems. Spiritual capability. Spiritual needs. Spiritual transformation.

○ ÂMBITO E IMPLICAÇÕES DA ESPIRITUALIDADE:  
UMA ABORDAGEM DUAL

Resumo

Este artigo busca trazer mais entendimento sobre o tópico da espiritualidade através do esclarecimento do que ele abarca por meio de um enfoque duplo. Mais especificamente, examina-se a literatura secular, assim como são arrolados ensinamentos e princípios da Doutrina Espírita correspondentes. Embora a disciplina da espiritualidade seja relativamente recente e sua ontologia necessita de consenso, chega a ser notável que ela adote diferentes e paralelas coisas. Ela desdobra-se através do profundo entendimento a respeito do significado da vida, natureza humana e a adoção da perspectiva transcendental. O texto argumenta que nós vivemos um momento adequado nesse planeta para o aproveitamento do potencial transformativo derivado do conhecimento espiritual para o aperfeiçoamento da comunidade humana. A evidência colhida aqui mostra que através do desenvolvimento da nossa espiritualidade nós podemos transformar a nós próprios e as nossas criações, incluindo a sociedade e as instituições. O enfoque desse trabalho revela que ambas ciência e religião estão de acordo que o elemento espiritual permeia todas as coisas.

**Palavras-chave:** Deus. Doutrina espírita. Sistemas de gestão. Capacidade espiritual. Necessidades espirituais. Transformação espiritual.

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Although mankind has already reached an extraordinary stage of social development and well-being in many nations, not to mention the scientific and technological feats, it has not been enough to deal with all perils, traps, and signals of disruption of contemporary life. On the surface, it appears that we need more effective coping mechanisms in order to deal with such a range of problems and challenges. More specifically, we need to connect to a wiser knowledge or source on a daily basis to strengthen our inner capabilities or even develop new ones. At the same time, there is ample evidence showing that our civilization is facing a crucial moment. Notwithstanding the signals of progress, there exists a set of undesirable aspects permeating our planet such as: terrorist groups, blind faith, people alienation, intolerance, inequalities, hunger, wars, climate change, racial discrimination, extreme poverty, and plagues. Overall, this landscape suggests that such things have taken place because the elementary notions of spirituality have been sidelined. Nevertheless, "In an increasingly complex and materialistic world, understanding spirituality can also provide us with a new kind of tool for coping better with the challenges of our practical lives [...]" (WOLMAN, 2001, p. 8).

Therefore, the spiritual capability may be very helpful to engender people's inner-focused skills to handle unexpected events and situations, including inward problems. Indeed, this is a critical moment for the development of our species requiring a spiritual awakening so as to enact radical changes toward the betterment of every human being. In this sense, it is undeniable that the sort of "spiritual agony of the earth and its people is perhaps greater than ever before, calling on all our sensibilities and powers of attention" (KING, 2008, p. 42). In fact, the search for happiness, a life full of joy, worth living, social success, health, and flourishing are common human goals. Why should not spirituality be added to this list? (BOUCKAERT, 2011; KING, 2008). After all, the spiritual life is seen as a core component of human essence, that is, a "defining-characteristic of human nature" (MASLOW, 1993, p. 314). Although "everyone has a spiritual life", it is not absolutely taken for granted. Unfortunately, "many may ignore, actively deny or vigorously flee from the unseen order doesn't mean they are not spiritual beings; it only means they are trying to avoid, or are unaware of, the fact" (HOWARD; WELBOURN, 2004, p. 43).

Despite the relevance attributed to the theme of spirituality in people's lives and in distinguished cultures, it is astonishing that it has been somewhat ignored in the development of psychological needs theories. In fact, it was neglected by the most prominent theories of human needs (VAN DIERENDONCK, 2012). In contrast, systems scientists have paid attention to spirituality and describing it as "something essential" that has not been appropriately examined. It is believed that "the combination of scientific research and spiritual search, not only helps us to know how and why things happen the way they do but also tells us something about our own selves" (KHISTY, 2010, p. 116-117). Further, it is posited that research on spirituality may provide the necessary level of objectivity to the realm of subjective or, in other words, it brings science to the field of sacred knowledge (WOLMAN, 2001).

On the other hand, the concept of spirituality has gained impetus in contemporary discourse given that it has been associated with new social practices and cultural products sometimes labeled as "New Age." Unsurprisingly, nowadays people are comfortable to pursue spiritual beliefs or principles as long as they are not linked with any sort of religion (HUSS, 2014; ROSE, 2001). In this sense, it is worth pointing out that the spiritual search is regarded as "the attempt to identify what is sacred and worthy of devotion" (EMMONS, 1999, p. 91). Taken as a whole, therefore, we have now a very favorable momentum toward increasing consciousness related to the positive perspectives that encompass the topic of spirituality (VASCONCELOS, 2010). However, there remain many doubts about the meaning of spirituality given that its larger scope and implications go even further than those under the domain of theological literature (CALVANI, 2014). Accordingly, this paper attempts to contribute to fulfill this theoretical gap by offering suitable explanations and logical arguments to a very intriguing topic that challenges our understanding about the deeper meaning of reality in which we all are embedded.

The purpose of this paper is to shed more light on the topic of spirituality by clarifying what it embraces (i.e., meaning, core aspects, implications to human life, benefits, potential connections with organizations, society and nature, among other things) by means of a dual approach (scientific and religious). Rather than trusting only one source of knowledge to unravel such a sensitive theme, it tries to elicit the best arguments of each. Thus, it reviews the secular literature, as well as collecting related teachings and tenets from the Spiritism Doctrine (SD)<sup>1</sup>. Spirituality, in its purest sense, is a sort of raw material intensively explored by SD teachings. Indeed, it provides insightful and interesting answers to many transcendental issues raised here.

Given the complex nature of the subject, I hasten to point out that organizational issues (a major topic of this publication) are, broadly speaking, embedded throughout the analysis. Regarding the difficulties to explore it exclusively under such a perspective, because the literature is scarce, oftentimes it is tacitly underlined. However, the general aspects that are examined here are certainly useful to institutions, organizations, and individuals. By assuming that spirituality "touches every aspect of contemporary life" (WOLMAN, 2001, p. 11) it then becomes important to determine whether the pertinent body of knowledge corroborates such a view. At this juncture, it is germane to point out that

There are many signs that we are spiritually progressing, not regressing – that a new spiritual birth is occurring in our contemporary world, which is a new world based on new experience, new vision, and the perception of a new global community. It is a universal, ecological, and mystical spirituality deeply linked to the perception of nature, of the world as a whole, and our place in it [...] (KING, 2008, p. 22).

Therefore, after this brief introduction, the following section of the paper essentially examines the modern origins of spirituality. Subsequently, it tries to define spirituality. Thirdly, it discusses what spirituality encompasses and other-related aspects, as well as exploring its development and practices. Fourthly, it analyzes its potential benefits. Finally, it depicts some implications, challenges, and conclusions.

## Modern origins

To begin with, it is important to clarify that spirituality is fundamentally related to our own origin (KARDEC, 2003a). By all means, it is not a novel theme, yet it is regarded now as a prominent subject related to the quality of life of both children and adults. Accordingly, education may perform a key role to prepare future generations about how to deal with it in an appropriate manner (WOLMAN, 2001). To some extent, the notion of spirituality has permeated the human journey on this planet since the ancient times. When our ancestors greeted some deity – perhaps the thunder, sun, moon or other physical manifestations – they were essentially connecting with a superior power and enacting a kind of spiritual ritual. By drawing on the shamans or priests' counseling or guidance to solve their daily problems or to ask protection from some bad spirit they revealed to believe in something more powerful. These practices continue to take part in many people's lives worldwide. Furthermore, it is worth remembering that the spiritual issue is so intertwined with humankind's trajectory that both the Old and New Testaments are replenished with teachings related to spirituality.<sup>2</sup> However,

1 *Spiritism or Spiritist Doctrine is a relatively new doctrine given that it has been around for just a century and a half. Despite this, its thoughtful tenets and principles have been disseminated worldwide, especially in Latin and North America, as well as Europe. Unlike other traditional religions, its principles are strongly supported: by faith in the hereafter; on the phenomenon of the spirits' messages and teachings through mediums; on Jesus Christ's teachings (the Gospel) and his behavior as a paradigm of perfection to be followed by all human beings; and by the practice of charity (see, e.g., VASCONCELOS, 2012, for a synthesis of its principles).*

2 *For example, we find in Isaiah (11:2) the following excerpt: "And the spirit of the LORD will rest upon him, the spirit of wisdom and understanding, the spirit of counsel and might, the spirit of knowledge and of the fear of the LORD" (Webster Bible Translation; available at: <http://biblehub.com/wbt/isaiah/11.htm>). The apostle Paul, in turn, remarked in 1 Corinthians 10:4: "And all drank the same spiritual drink: (for they drank of that spiritual Rock that followed them: and that Rock was Christ)" (Webster Bible Translation, available at: [http://biblehub.com/wbt/1\\_corinthians/10.htm](http://biblehub.com/wbt/1_corinthians/10.htm)).*



there is some consensus indicating that the modern spirituality studies have gained impetus since the second half of the nineteenth century (e.g., HUSS, 2014; VAN DER VEER, 2009). In this regard, it is noteworthy Allan Kardec's (2003a) findings related to *spirits' manifestations* and spiritual life.<sup>3</sup>

The term "spirituality" has retained its adherence to the intangible world, that is, the metaphysical, incorporeal, and immaterial. Nevertheless, it has also been perceived as a blend of (sometimes conflicting) constructs and issues such as: religious, metaphysical, moral, subjective, private, experiential, physical, material, public, social, economic, and political arena, to name a few. At present, the dual perception (i.e., the spiritual and the corporeal/material) has become blurred in the current definitions and usages of the term (HUSS, 2014). Also noteworthy is that spirituality seemingly encompasses our relationships by means of a range of distinguished things such as sacredness of life, nature, the universe, and thus it is no more conceptually limited to the traditional places of worship (TACEY, 2004).

### Trying to define spirituality

Although the discipline of spirituality is relatively young and its ontology needs consensus, it is noticeable that the concept of spirituality adopts, as highlighted above, different and competing things. As rightly noted by Twigg and Parayitam (2006), "People often employ a spirituality term depending on the context and purpose" (p. 118). By examining some definitions, Ashar and Lane-Maher (2004) posit that "Spirituality is an innate and universal search for transcendent meaning in one's life" (p. 253). Similarly, Chamiec-Case (2006) proposes that spirituality is the "*person's search for and fulfillment of that which gives ultimate meaningful purpose to their lives*" (p. 21, italics in the original). Seen as a mindset, it is posited to cover a set of goals related to transcendental, inclusive, universal, and sacred. Proponents of this line of reasoning argue that spirituality is more concerned with the general good in detriment of selfish interests (SRIRANGARAJAN; BHASKAR, 2001, p. 95). In contrast, to Van Dierendonck (2012) spirituality represents a way of "living according to an inner truth, an awareness of an inner spiritual dimension" (p. 689).

Note that these definitions emphasize the idea of one's *search for* something greater and seemingly conducive to the feelings of self-fulfillment and meaning. Within this understanding, the locus is always the individual. On the other hand, Mitroff and Denton (1999) have gone even further by proposing that

Spirituality is the fundamental feeling that you are a part of and connected to everything, the entire physical universe and all of humanity. It is also the belief that there is a higher power or god – whatever it is and whatever we call it – that governs everything. Spirituality is not only *believing* that everyone has a soul, but *knowing* this and being in constant communication with one's own soul (p. 46, italics in the original).

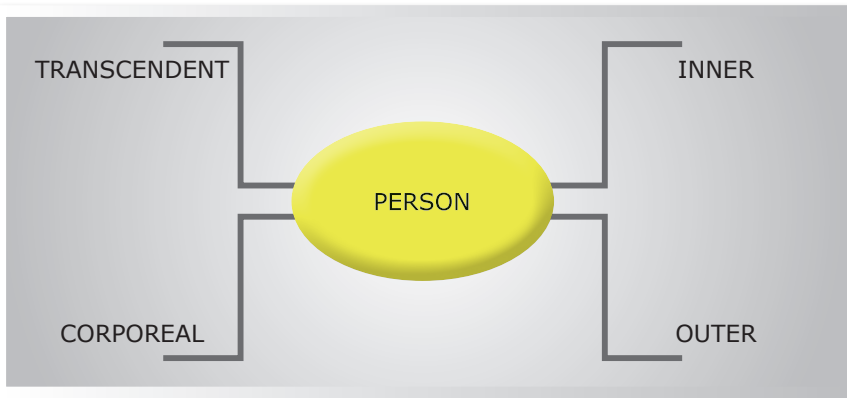
The insightful definition depicted above broadens the general comprehension about what spirituality means by adding the notions of connection, integration,

<sup>3</sup> *"It was in 1854 that Prof. Rivail heard about the "turning tables", a mediumistic phenomenon that was agitating Europe. In Paris, he did his first studies on Spiritism. He applied the experimental method in order to peruse the new science, that is, he never formulated pre-conceived theories; he observed intently; he compared and deduced the consequences; and he always looked for reason and logic in the facts. He questioned the Spirits, made notes, and organized the data he had. That is why he is called the Codifier of Spiritism. The authors of the Doctrine are the Superior Spirits. At the beginning, Rivail's objective was just his own education. Only later on, when he realized the materials he had formed a body of knowledge and had the scope of a Doctrine, he decided to publish a book for the education of all. And thus, he launched The Spirits' Book on the 18 of April 1857. He adopted the pseudonym Allan Kardec, his name in a previous life, in order to differentiate the Spiritist works from the pedagogical works he had previously published" (THE SPIRITIST PSYCHOLOGICAL SOCIETY, 2014). In a related vein, it is worth pointing out that many SD supporters believe that the modern spiritualist movement started even earlier the events abovementioned. Rather, it is believed that it started in Hydesville, New York, on a late March day in 1848 involving rapping communication among the Fox sisters and the spirit Charles B. Rosna (see, e.g., FIRST SPIRITUAL TEMPLE, 2014, for an interesting description of the case).*

inseparability, and mysticism in which everyone is bound. In a related vein, spirituality has also been described as covering “all human experiences”, particularly those derived from human imagination, creativity, resourcefulness, as well as the relationships with oneself, other, or a transcendent reality, and finally being expressed through different symbols (e.g., divine, energy, God, love, silence, spirit, unity, and wisdom) (KING, 2011; LOZANO; RIBERA, 2004).

At a most fundamental level, however, spirituality is regarded as “wisdom for living” (KING, 2008, p. 31). Seen in this way, it embraces the development of love, the search for a common bond between individuals, the experience of selflessness, and service to others (VAZIN, 2013). Broadly speaking, when our own spirituality is triggered, it enacts “the greatest of our potentials” (PARGAMENT; MAHONEY, 2005, p. 654). In parallel, spirituality has been described as a process that activates the universal strengths which rest inside all of us ready to be put into action whenever we want (VASCONCELOS, 2008). It unfolds through the deep understanding about the meaning of life, human nature, and the adoption of transcendental perspective. Taken together, such aspects shape a micro and macro view about everything that surrounds us. At the same time, it inspires our behavior, attitudes, thoughts, and decision makings.

By and large, theorists agree that spirituality is a concept hard to define and describe (EMMONS, 1999; KING, 2010; VAN DER VEER, 2009), given that it is simultaneously seen as a multi-faceted construct, multi-dimensional, and multi-level phenomenon (GOTSIS; KORTEZI, 2008; PANDEY; GUPTA; ARORA., 2008). Illustrative of such an understanding is the proliferation of neologisms such as creation spirituality, ecospirituality, ecofeminist spirituality, global spirituality, integral spirituality, interfaith spirituality, and interspirituality, to name a few (KING, 2008, 2011). Indeed, King (2011) adds new conceptualizations to the spiritual concept. In her view, it makes sense, for example, the usage of the word *spiritualities* (the plural of spirituality) given that such a perception embraces a set of ideas, practices, activities, and commitments that permeate human lives (both individually and communally). Such a perception captures more complex and transformative dynamics whereby our efforts toward sparking deeper awareness and responsibility are entwined with an ample spectrum of layers that shape the reality. In essence, as posited by King, spirituality involves a strong desire to put into action the thorniest process of both inner and outer transformation (and anecdotal evidence shows that it is not an easy endeavor), critical self-reflection, and usage of our spiritual capabilities in a manner that one can nurture our own lives and all people around us. Overall, the literature leads to the conclusion that the personal spiritual transformation involves one’s inner life (i.e., a review and change of beliefs, held values, perceptions, and opinions toward the sacred) and outer life experience (through attitudes, behavior, and personal agency). Accordingly, the individual starts to build a more meaningful corporeal life because it tends to be inspired by the wisdom of transcendent knowledge (see Figure 1).



**Figure 1 – Basic dimensions of spiritual transformation.**

Source: The author.

It appears that "People who have strong inner spiritual resources are perceived as leading a desirable and a moral good life" (VAN DIERENDONCK, 2012, p. 697). On the other hand, evidence shows that we are living in dispirited societies. And it is a paradox because one speaks or writes about spirituality in the contemporary era than ever before. To transform our world in which every human being may have the possibility of a more enriched trajectory, it is vital, therefore, that we awake our own spirituality. After all, it is a human capacity, which is not necessarily engendered by a religious belief; nonetheless, it is clearly manifested through a moral understanding and behavior throughout life (THOMPSON, L. J., 2004).

As noted earlier, spirituality has been addressed as an alternative to religion, notwithstanding the spiritual ideals have been largely nurtured by philosophical and religious teachings (KING, 2008). Furthermore, spirituality is seen as non-dogmatic, non-exclusive, gender-neutral, and non-patriarchal (ALLEVATO; MARQUES, 2011). Although spiritual knowledge is strongly anchored within religions, there exist alternative paths as well. For example, it is suggested that "The emergence of spirituality as a concept enabled the inclusion of a variety of traditions under the rubric of universal morality without the baggage of competing religious institutions and their authoritative boundary maintenance [...]" (VAN DER VEER, 2009, p. 1106).

### What is spirituality after all? Other-related aspects

Other constructs have been aggregated to the concept of spirituality bringing more complexity to the topic. In a certain stream of research, it is argued that "we are able to define spirituality less and less, because it includes more and more" on the grounds that it contains "*a multitude of activities and expectations*" (TACEY, 2004, p. 38, italics added). It has been associated with values and ethics (WESTON, 2002) as well as something essential for human flourishing (WILLIAMS, 2003, p. 1); it is linked to intuition and the right-brain (HOWARD; WELBOURN, 2004, p. 102); and it is some way connected to one's routine, that is, within the practical and physical aspects of life (BLANTON, 2007; HUSS, 2014). Moreover, it is posited that spirituality gives rise to novel taxonomies, as well as shaping new lifestyles, social practices, and cultural artifacts. In doing so, it blurs the current distinction between the realms of religion and the secular (HUSS, 2014, p. 51). Thus far, the evidence gleaned from the literature appears to converge to the conclusion that

Spirituality has become diverse, plural, manifold, and seems to have countless forms of expressions, many of which are highly individualistic and personal. Spirituality is now for everyone, and almost everyone seems to be involved, but in radically different ways. It is an inclusive term, covering all pathways that lead to meaning and purpose. It is concerned with connectedness and relatedness to other realities and existences, including other people, society, the world, the stars, the universe and the holy. [...] (TACEY, 2004, p. 38).

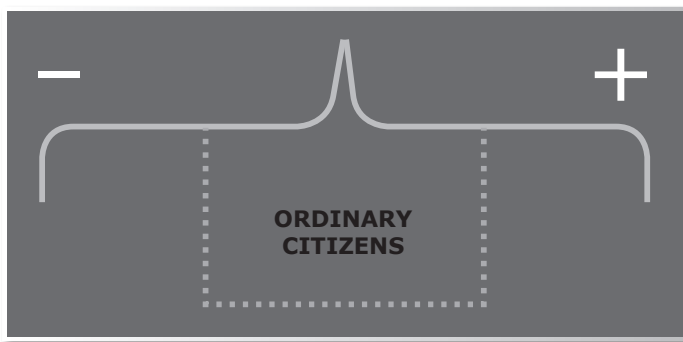
In a nutshell, the term spirituality "seems to be a neat catch-all" (ROSE, 2001, p. 193). It is so plentiful that it appears to involve everything. In its broadest sense, it is seen as "true leaven, a fermenting agent that may influence and shape every aspect of human life" (KING, 2008, p. 3). On the other hand, theory also contemplates a view toward the dark and potentially destructive side of life. Within this perspective, some aspects are particularly emphasized such as greed, exploitation, environmental degradation, abuse of power, failures, as well as instances like the individual, the organization, and the systemic paradigm (MCGEE; DELBECQ, 2003, p. 96; ZINNBAUER; PARGAMENT, 2005). In doing so, researchers confer more legitimacy to its meaning and scope. Darker realities, society malfunctioning, destructive leaderships, misbehavior, and mismanagement are also some salient features of our world. Such a conceptual framework suggests that "spirituality is not inherently good" and highly dependent on "the specific form of the individual's search for the sacred" (PARGAMENT; MAHONEY, 2005, p. 648). All in all, it seems that everyone has his/her own spirituality, but the direction or polarity in which it is used hinges upon individual free will. Such an understanding

is, by the way, reinforced by religious research. For instance, “[...] As the acts of men are the product of their *free will*, they retain the stamp of perfection or imperfection of the spirit that animate them [...]” (KARDEC, 1858, p. 117, italics added).

Therefore, our free will is vital in the process of enhancement of our spirituality. In a related view, it is advocated that “A spiritual perspective would argue that our spiritual duty is to use our free will to help and not harm others to further their ends (LIPS-WIERSMA; NILAKANT, 2008, p. 59). In this sense, Figure 2 tries to encapsulate this whole idea by presenting a continuum that ranges from an absolute negative pole to another completely positive one. Thus, the former embraces, for instance, well-known evil characters such as Adolph Hitler, Joseph Stalin, and, Osama bin Laden, inter alia. The common ground among them was their destructive leadership and guidance, as well as their intolerance and lack of love toward their neighbors. In a few words, they simply left tragic legacies for humankind. Importantly, this paper does not explore all potential damages, disruptions, and complexities yielded by such sort of leadership. Nonetheless, this is a theoretical endeavor that certainly deserves further attention.

In contrast, the latter embraces well-doer characters such as Jesus Christ, Saint Francis, Mahatma Gandhi, among others, whose lives were strongly linked to myriad of positive benefits, miracles, and teachings left to the human beings. More specifically, they left legacies of wisdom and love. Meanwhile, I surmise that in a more centralized position lies the overwhelming majority of humankind whose spirituality oscillates frequently between more positive and negative spiritual states. As noted by King (2008), we all have spiritual needs because it is basic to us human beings. Eventually, it may not be clearly addressed, but all human needs “are deeply intertwined with the spiritual, since anyone fully alive has to forge meaning out of the labors and trials of human existence” (p. 41).

Although many people have the ability of working their own spirituality, it does not mean that they are already capable of only doing well. I suspect that many people in this world are, in fact, unable to think right, cultivate positive emotions, and have good attitudes all the time or in a disciplined way. Perhaps it is fair to admit that they attempt - during the most part of their lives - to improve their degree of spirituality by working on their failures, misbehaviors, and misdemeanors. Conceivably, there are also a sizable number of people in this group that barely, if so, awakened to this matter, but they are not necessarily wrongdoers. They are most likely people with less interest in transcendental or religious matters. I propose that they are *not absolutely* urged by higher values, moral concerns or an ethical mindset. I predict that the need of ongoing self-criticism yields low effect on them. At the same time, the notion of self or ego satisfaction seems to dominate most of their wishes. In other words, they frankly do not nurture their souls with superior thoughts and goals as they should do. Hence, it is germane to understand that authentic spiritual growth sidelines “the self as the source of ultimate concern” and places “family, community, humanity, and divinity” at the core of the deliberations and thoughts (SHORE, 1997, cited in EMMONS, 1999, p. 109). In essence, spirituality involves personal transformation (EMMONS, 1999).



**Figure 2 – Continuum of spirituality.**  
Source: The author.

The need for understanding spirituality is suggested as a “struggle for life” and must be implemented in all stages of life. It is conceptualized as a “force of survival”, a “power for change”. Nonetheless, spirituality is also connected and developed through a range of experiences of suffering and pain” (KING, 2008, p. 178), given that these states take part in people’s daily lives embracing equally the poorest and the richest, outstanding intellectuals and common citizens, saints and evil individuals, and so on” [...] (KING, 2008, p. 178). For this reason, the Earth is appropriately considered as a world of tests and atonements (KARDEC, 2003b)

Importantly, Tacey (2004) argued that science itself is not at odds with spirituality as it used to be. In this regard, theorists have striven to provide useful conceptual frameworks for spirituality. For example, Harmer (2010) proposes a holistic conceptual model of spirituality composed of four concentric and interdependent circles, namely: conceptual complexity – which lies in a deeper level of personality and represents how an individual forms, maintains, and interprets spiritual beliefs and experiences; spiritual beliefs, which are constituted of the universal values hold by an individual inspired or not by a religious doctrine; spiritual presence, which moderates, so to speak, the spiritual principles and spiritual path; and finally the spiritual practices that consist of a set of activities or practices toward exploring spirituality. The author suggests that his conceptual model can be useful in several domains, but particularly in leadership development. Liu and Robertson (2011), in turn, provide a spirituality continuum, which covers distinct levels of self-identity. Rather, it is proposed that lower spirituality is derived from a more independent self-construal (i.e., a low level of connection between the self and others). By contrast, the higher spirituality denotes a more interdependent self-construal (i.e., greater interconnection between self and others). The model also presents two intermediate stages, that is, relational and collective self-identity. Interestingly, it has also been advocated that “In its broadest terms, spirituality is more than just another object of study” (KING, 2010, p. 246). Besides, King (2008) suggests that three interdependent understandings of spirituality have been developed so far, namely, lived experiences, a wide range of teachings and counsels, and spirituality as a field of study.

### *The stances where spirituality works out*

Contemporary research outlines very different stances that are somewhat subject to the domain of the concept of spirituality. Overall, it is clear that distinct streams of research have provided theoretical development of this topic. For example, the most explored vein focuses on the individual, given that spirituality is construed, in this way, as a process strongly grounded on subjective, fluid, and idiosyncratic perception (ASHFORTH; PRATT, 2003). Furthermore, it usually leads to self-reflection that culminates in identifying weaknesses that need to be fixed (JOHNSON, 2009). As suggested above, the individual is always the major agent of a spiritual transformation. As such, an authentic spiritualized leader tends to change the mindset, as well as inspiring almost everyone around him/her in a very positive, helpful, and beneficial manner.

Nonetheless, as previously highlighted, spirituality has gained broader understanding throughout the last decades. In this sense, researchers have also proposed spirituality as the essence of management systems. Thus, all stakeholders that are somewhat entwined with one’s business should be target of caring, concern, and dignity (MITROFF, 1998). Similarly, Johnson (2009) argues that “Spiritually motivated individuals and organizations strive to live by universal principles such as love, truthfulness, and respect for human rights and dignity [...]” (p. 79).

These proposals exhibit a substantial theoretical advance, given that some companies around the world still treat their employees as slaves. Following this line of reasoning, it is also suggested that a larger framework of spirituality embraces the issues of social justice, equity, diversity, the marginalized, the unheard, and children (BLANTON, 2007). Going further, King (2008) posits that an integral spirituality should comprise both personal and social concerns. In doing so, it would encompass punctual

global problems that have been causing increasingly widespread concern. Rather, such spirituality would emphasize social issues linked to civil society, economy, business, management, and governance. Obviously, this is an absolutely inclusive view in which both personal and the deeply social transformation of society are equally addressed. Understood in this way, therefore, we live in a suitable moment in this planet to take advantage of transformative potential derived from spiritual knowledge for the betterment of human community.

### Its development and practices

Assuming that spirituality is in fact a human need, then all this discussion leads to the imperative of its development in order to extract its best properties. In a sense, when one pays heed to this need it appears that the heart, will, mind, intellect, and awareness tend to dovetail in an optimal manner so as to reach the ultimate reality or the divine (TEASDALE, 1997). Furthermore, "All life needs tending, nurturing, caring for, and human life especially requires physical, mental, and moral care for body, mind, spirit, and soul. *That means human life needs spirituality like the body needs breath and blood to flourish*" (KING, 2008, p. 177, italics added).

In addition, there is some evidence that "Ever more people are becoming conscious of the need for a spirituality that is commensurate with the deepest aspirations of our world" (KING, 2008, p. 188). Accordingly, the attainment of spiritual ends engenders worthwhile, unified, and meaningful experiences of lives (e.g., EMMONS, 1999). Further, as put by Stoltz-Loike (1997), "*Spirituality represents another side of us, and this side grows or shrinks depending on the amount of time we invest in its development*" (p. 152, italics in the original). It is undeniable that the personal transformation toward embracing more spiritualized principles demands the pursuing of noble goals (e.g., meaningful, valuable, and purposeful). In other words, "It involves the emptying of oneself", as suggested by Emmons (1999, p. 91). In a related vein, King (2008) argues that this *spiritual hunger* may be conducive to "a life of deeper significance than that of material goods, consumerism, and exploitative capitalism" (p. IX). In a more transcendent level, a spiritual message channeled by the spirit *Emmanuel* through the medium Francisco Cândido Xavier<sup>4</sup> shed more light on this subject.

Spiritual growth, with its blessings of light, is also an instructional course.

Students who enroll in school but then constantly skip classes only abuse the institution, because merely enrolling does not mean they are taking advantage of their classes. Unless they learn the alphabet, students will never be able to put words together, and without words, they will never be able to put a sentence together.

*An identical process applies to the evolution of the spirit* (XAVIER, 2013, p. 215, italics added).

As spirituality has been conceptualized as a form of handling with "ordinary life" and "its daily relationships and responsibilities" conducive to a better comprehension of our global environment (KING, 2010), so its development implies a deeper understanding about our role in this dimension of life. Certainly, we are living a corporeal life to carry out a useful mission, regardless of our religious beliefs. Rather, people from all walks of life are enjoying an earthly existence to develop their potentialities and employ their capabilities to help the progress of humankind. Bear in mind that such goals are obviously the cornerstone to engender the world betterment and people spiritual transformation.

<sup>4</sup> Francisco Cândido Xavier (1910-2002), also known as Chico Xavier, was one of the world's most distinguished mediums. Astonishingly, he psychographed 412 books during his life and never admitted to being the author of any of them. He used to say that he just wrote what the spirits told him. For this reason, he never accepted a cent derived from sales of those books. Importantly, Chico Xavier's spirits' books sold more than 20million copies and he gave all the copyrights to charity institutions and Spiritism Doctrine groups since the first book was published.

Taken together, it seems that the core of one's spiritual development is entwined with a strong commitment to do well and reciprocate somehow the received help and support. Such a conclusion is reinforced by Jesus Christ's teaching whereby he warned us: "Therefore all things whatever ye would that men should do to you, do ye even so to them: for this is the law and the prophets" (Matthews, 7: 12; Webster's Bible [on-line]). Although, modern spirituality is associated with "lived experiences" related to "our bodies, to nature, to our relationships with others and society" (KING, 2008, p. 4), such understandings are not at odds with ancient teachings. At this juncture, it is worth resorting to Kardec's (2003b) insights related to a "good person" that largely corroborate such a view.

Thus, according to Kardec (2003b), the truly good people fundamentally comply with law, give love and charity, practice self-criticism, and ask themselves if all possible good was done and if anyone may have any reason to complain about them. This kind of individual believes in God, as well as in his goodness, justice, and wisdom. Their submission to God's will is entire. Having faith in the future, they accordingly place spiritual conquests as the centerpiece of their personal aspirations. Furthermore, they accept and understand all setbacks, sufferings, frustrations, and deceptions without complaint.

They really feel good about in providing benefits and services as well as the tears they dry and the comfort they offer to those who are suffering. In a larger measure, they enjoy being servant citizens by helping humanity without thinking in personal rewards. Importantly, the imperative of doing good always works out as a compass to them. They are benevolent with anyone and do not care about people's race or beliefs, given that they regard all men and women as their truly brothers and sisters. The good persons are described as humble persons, which repudiate the idea of having their talents pointed out in detriment of others.

On the contrary, they appreciate to highlight the potential and qualities of their peers. Besides, they are not lured by the thought of "any personal advantage" because they acknowledge that everything they have will be taken away some day. In this sense, they are aware that all their assets are ephemeral belongings and, as such, they will be held accountable for any misuse. If they are in charge of higher positions in society, they treat their fellows with kindness and benevolence, because under God's laws all human beings are equal. Finally, they use their power to enhance fellows' morale without pride. Overall, Kardec provided solid arguments concerning how to develop spirituality.

In light of this, it is argued that the development of a spiritual life is closely linked to the practice of wisdom, compassion, and love for our neighbors and ourselves (KING, 2008). Further, it is related to the experience of enjoying full awareness, intensity, freedom, sensibility, opening "to the most subtle and deepest aspects of reality" that lead to the borders by triggering the process of creativity and, for this reason, it has increasingly drawn the attention of artists and scientists (LOZANO; RIBERA, 2004, p. 178). However, King was very accurate by proposing that the core of spiritual development "is the deepening of reflection and an honest attitude toward oneself – an authenticity that recognizes truth and acknowledges a reality greater than oneself" (2008, p. 13). This thought is absolutely consistent with SD principles, which emphasize the need of knowing ourselves and working toward attaining our moral perfection (KARDEC, 2003a, 2003b). In fact, Kardec (2003a) addressed this topic by asking the spirits:

*How can intellectual progress lead to moral progress?*

'By making man comprehend good and evil; he can then choose between them. The development of free-will follows the development of the intelligence and increases the responsibility of human action' (question nº 780 and respective answer, p. 318, italics in the original).

Building on SD teachings, Vasconcelos (2010) argues that the individuals that are concerned with incorporating virtues into their personalities, acts, and thoughts should consider it as an ongoing exercise. Such an effort may prevent them from suffering in their future lives. Importantly, evidence suggests that all human beings

are capable of developing their own spirituality, regardless of materialistic concerns, fast-paced modern life, increasing competitiveness, or lack of time to practice self-reflection exercises (ROZUEL; KAKABADSE, 2010).

Concerning its implementation, it is worthy of pointing out some acknowledged forms of spiritual practice, which leads to transformative states. Taken together, they basically indicate one's spiritual tools preferences. For instance, it is posited a range of spiritual copying mechanisms, namely, prayer, meditation, sacred reading, presence and participation at liturgy and rituals, music, chanting, yoga, walking, meditation, faith in God, staying tuned to our intrinsic divinity, introspection, helping others, exploring nature, cultivation of silence, retreat, intellectual activism, emotional encounters, and moral activities (ASHFORTH; PRATT, 2003; BACCHUS; HOLLEY, 2005; BIBERMAN, 2009; CAVANAGH et al., 2004; KHANDWALLA, 1998; LOSONCZ, 2004; TEASDALE, 1997). Obviously, spirituality is largely disseminated through religion or religiosity, but it may be also expressed through "a person's attitude and stance toward the outside world, the world of social organization, and to the view he or she has of past, present, and future" (WOLMAN, 2001, p. 128). Further, it implies cultivating states of faith and hopefulness, potentially conducive to suppressing the feelings of fear and pessimism (NUR, 2003).

On the other hand, King (2008) wisely notes that the need of spirituality is equally useful in other terrains such as homes, schools, workplaces, marketplaces, in economics, and politics in order to foster a general perception of spirituality and moral commitment. There is no denying that all institutions can improve substantially by incorporating the knowledge of spirituality. Thus far, research devoted to the workplace has been extremely compelling. For example, many researchers associate the practice of spirituality with work because it enriches one's daily work experiences and contributions aiming at higher good (e.g., GULL; DOH, 2004; KINJERSKI; SKRYPNEK, 2004). In addition, spiritually-based organizations may pursue both material and non-material values, namely: trust, loyalty, success, diversity, pleasure, happiness, care, and profit as a mean to promote general well-being (see, e.g., VASCONCELOS, 2015, for a more comprehensive review). It appears that they are committed to the sharing of wealth, disseminating knowledge, well-being of their customers, engendering progress, and collective well-being (VASCONCELOS, 2011). These companies tend to yield no dangerous or shoddy products, avoid abusing employees, and accept the responsibilities of their products and services for society (MITROFF, 2003). Nevertheless, companies that build on the notion of spirit are usually engaged in treating their employees with dignity and respect, not as economic agents or just as inputs of production (PFEFFER, 2003). In sum, these organizations appear to be engaged in doing good to humanity (FRY; MATHERLY; OUIMET, 2010; MARQUES, 2007; MILLIMAN et al., 1999; PAVLOVICH; CORNER, 2009; VASCONCELOS, 2008).

Similarly, SD teachings and writings cover individuals, society, politics, environment, technology, nature, and organizations responsibilities as well (e.g., PAIVA, 2014; TRIGUEIRO, 2010; VASCONCELOS, 2009). In this regard, the internationally acknowledged medium Divaldo Pereira Franco<sup>5</sup> psychographed a message from the spirit of *Joanna de Ângelis* specifically related to the role of organizations. In her view, although companies have made inroads into the betterment of life, they are also accountable for many disruptions and miseries worldwide like moral, economic, and social violence (FRANCO, 2004). In fact, it is clear that organizations have to implement considerable improvements in order to better meet human needs. Nonetheless, we cannot forget that if companies often offer undesirable or shameful contributions to society, it is the result of their people's low level of spirituality and held values.

*5 Divaldo Pereira Franco (1927- ) is currently regarded as the most prolific living medium worldwide given that he has already psychographed (i.e. channeled through psychic communications) 255 books and has sold more than 8 million copies. These books were translated into 17 languages. He is a restless spokesman of SD tenets having given more than 13,000 speeches in more than 2,000 Brazilian cities and 64 countries located in 5 continents. He has spoken at conferences in almost 50 universities located in different countries of South and North America, Europe and Africa. He has also received around 700 honors from American, Canadian, and Brazilian universities, as well as one honorary doctoral degree (FRANCO, 2014).*



## Potential benefits

The potential benefits derived from the spiritual practices are noteworthy. Such a sensitive issue also deserves an analysis for the sake of its impact on human life. Accordingly, one must bear in mind that spiritual experiences do not hinder us from handling the twists and turns of life, but they can otherwise improve our psychological health (NOBLE, 2001; VAN DIERENDONCK, 2012). In a broader sense, the notion of spirituality enhances endeavors, revitalizes individuals and groups, and restores their hope (KORAC-KAKABADSE; KOUZMIN; KAKABADSE, 2002). As an inner strength ready to be explored, it can trigger the sense of innovation and inspiration on (KATES, 2002). King (2008) notes that the spiritual knowledge may provide the necessary energy and insights needed to transform people, workplaces, and global society. Within this perspective, spiritual strengths may lead to excellence in corporate decision-making, interpersonal relationships, and organizational culture. In an individual instance, it may enhance the intellect, sensitivity (particularly toward one's fellows and nature), the sense of altruism, prudence, and the capability of choosing the best paths in life. As pointed out by Thaker (2009), "progress will not be focused only towards increase in luxurious comforts and worldly profits; it does not lead to channeling wealth and power into the hands of only a privileged few" (p. 187).

If spirituality has "the potential to provide balanced perspectives on all manner of organizational issues", as suggested by Crossman (2010, p. 599), then it may offer the same benefit for individuals in their personal problems, challenges, and dilemmas. After all, anecdotal evidence indicates that many people around the world want to be nurtured by a vision containing elements of hope, flourishing, and life abundance. Indeed, spiritual knowledge and wisdom can feed our souls and the planet (KING, 2011). When spirituality is rightly understood, it strengthens our purpose of life, self-esteem, and positive affect (KASHDAN; NEZLEK, 2012; VAN DIERENDONCK, 2012). Furthermore, it is closely intertwined with basic dimensions of human life such as intrinsic motivation, leadership, interconnectedness, simplicity, moderation, and happiness (BOUCKAERT, 2011). In turn, managers may benefit themselves by keeping abreast of these themes. In doing so, they may start to consider their career challengers under the framework of a higher purpose or noble mission, as well as performing their duties inspired by values such as tolerance, alterity and friendship, particularly when they need to work in different cultures with foreign customs. In contrast, spiritual knowledge may bother some people by subtly forcing them to leave their comfort zone. Therefore, it may be a painful process to enact, especially to less spiritualized individuals, that is, those unable to see entirely the benefits from it.

Finally, the development of spirituality does not depend on religious beliefs or structures. Again, religions may eventually help the individuals to find out their spirituality (i.e., their inner universe), but the power of changing and transformation lie on them, that is, on their own spirits' will. As a result, the task to incorporate the wisdom derived from it is always a solitary endeavor. In this regard, religions may be, at best, a path to inspire it.

## Implications, challenges, and conclusions

As expected, the concept of spirituality has many implications and challenges clearly outlined by research. First of all, it demands a personal recognition and the acceptance of individual responsibility that needs to be developed toward the understanding of building the common good, the interconnection with all life spheres, as well as the motivation of serving mankind and planet (GARCIA-ZAMOR, 2003). Second, one must bear in mind that "Spirituality cannot be bought and sold" (PORTH; STEINGARD; MCCALL, 2003, p. 251). As previously highlighted, it demands huge efforts to be developed and practiced on a daily basis. Third, it is unreasonable to expect that the betterment of the planet, organizations, society, and humanity will be achieved without the strong commitment to developing and practicing spirituality

on a larger scale. Definitely, we are more than a material organism or a simple body (KARDEC, 2003a; THOMPSON, M., 2004). Forth, we and our institutions need to incorporate universal values and spiritual literacy; otherwise, our civilization could be destroyed or at least seriously compromised. Fifth, as remarked by Lázár (2004), "Spirituality challenges economics by looking for humanity not in the material wealth, but in the inner wealth, in creative and responsible being" (p. 88).

On the other hand, perhaps we never had as many opportunities to research spirituality as we have nowadays (e.g., EMMONS, 1999; TACEY, 2004). In fact, there are clear research avenues to be explored. For example, it is important to peruse how people (i.e., particularly, CEOs, managers, politics, and rank-and-file workers) handle with the topic of spirituality. How do they develop, if so, their own spirituality or, stated differently, how do they nurture their souls? Further, it is tantamount to identify how they construe the concept of spirituality and how does it influence their lives? How do they define the practice of spirituality? How do they apply it in their work? In a related vein, one can explore which forms they use to keep abreast of this subject. Taken together, these are some research questions that may deserve empirical examination.

In essence, "We need ideas to think and work with, to inspire and transform us. To consciously develop spiritual literacy by providing education and fostering spiritual awakening is one such idea" (KING, 2008, p. 194). Some authors conclude that institutions are incapable of being spiritualized (cf. CALVANI, 2014). Nonetheless, the evidence gathered here shows that by developing our own spirituality we can transform ourselves and our creations, including society, organizations, and institutions. In addition, it is worth pointing out that the polysemic nature of spirituality encompasses different instances, roles, and aspects. In other words, theory exhibits an ample understanding about the meaning and scope of spirituality and, in so doing, it is aligned with SD tenets. More specifically, Kardec's (2003c) investigations showed that "*the spiritual element has an active part in the economy of the universe*" (p. 20, italics added). Overall, the dual approach of this endeavor reveals that both science and religion are in accordance that the spiritual element permeates all things.

## Acknowledgments

The author is very grateful to Jüergen Menner, the editors Ariádne Scalfoni Rigo and Sandro Cabral, and two anonymous reviewers for their helpful comments and suggestions on an earlier version of this article.

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**Submission date: 22/09/2015**

**Approval date: 10/03/2016**

## SUSTAINABLE FOOD CHAINS: THE ROLE OF COLLECTIVE ACTION AND GOVERNMENT INCENTIVES

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### Abstract

We examine the role of collective actions as supporting elements of a long-lasting sustainable food supply chain. This article's main contribution is to link the idea of sustainable supply chains and the collective action problem (horizontal coordination) that may be required in order to deal with externalities related to the provision of sustainable products. In addition, we analyze how the presence or absence of government incentives shapes collective action in the food industry. We base our analysis in a simple formal argument inspired by case studies regarding sustainable farming in Brazil and the Netherlands. Results show that horizontal mechanisms of cooperation maintain positive levels of sustainability, even in the absence of direct payments by the government.

**Keywords:** Sustainability. Food chain. Collective action. Institution. Incentives.

## SISTEMAS AGROINDUSTRIAIS SUSTENTÁVEIS: O PAPEL DAS AÇÕES COLETIVAS E DOS INCENTIVOS GOVERNAMENTAIS

### Resumo

O papel das ações coletivas como elementos de suporte para a manutenção de sistemas agroindustriais sustentáveis é analisado nesta pesquisa. A principal contribuição está em relacionar a ideia de uma cadeia de suprimento e o problema das ações coletivas (coordenação horizontal) que podem ser requeridas para lidar com a externalidade envolvida na provisão de produtos sustentáveis. Adicionalmente, analisa-se como a presença ou a ausência de incentivos governamentais impactam as ações coletivas neste setor. Para tanto, desenvolve-se um argumento formal simples inspirado em estudos de caso relacionados com a produção agrícola sustentável no Brasil e na Holanda. Os resultados apontam que mecanismos de cooperação horizontal sustentam níveis positivos de sustentabilidade, mesmo na ausência de pagamentos diretos feitos pelo governo.

**Palavras-chave:** Sustentabilidade. Cadeia produtiva. Ações coletivas. Instituições. Incentivos.

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## Introduction

The governance of sustainable supply chains is not a trivial issue (CARTER; ROGERS, 2008). Since sustainable products are difficult to verify and to measure (BÉNABOU; TIROLE, 2010) and because they demand specific investments to be produced (CALEMAN et al., 2013; SARKIS; ZHU; LAI, 2011), transaction costs become pervasive. Perhaps more importantly, a rural producer within the supply chain must not only be concerned about his or her own sustainability efforts but also must consider the initiatives and associated potential negative externalities generated by other producers. If a single producer within a sustainable supply chain fails to comply with sustainability rules, all producers may suffer the reputational effects.

Considering this general background, we examine the role of collective actions as supporting elements of a long-lasting sustainable food supply chain. This article's main contribution is to link the idea of sustainable supply chains and the collective action problem (horizontal coordination) that may be required in order to deal with externalities related to the provision of sustainable products. In addition, we analyze how the presence or absence of government incentives shapes collective action in the food industry.

According to Ostrom (2009), collective action happens when more than one individual join efforts in order to achieve an outcome. In the specific case of rural production, the most intuitive expression of a collective action is the building of a producers' association (i.e., horizontal coordination among producers). According to Meinzen-Dick and Di Gregorio (2004), collective action is becoming cornerstone to achieving success at the farm level, although it is often undervalued and misunderstood. The purpose of developing collective actions in rural production is threefold: (i) to influence policy formulation and advocacy; (ii) to provide easier access to production services (e.g., credit) and inputs (e.g., fertilizers); and (iii) to encourage local development (RONDOT; COLLION, 2001). Additionally, there is evidence that acting collectively represents a means for rural producers to enhance their bargaining power (CROOK; COMBS, 2007; MARKELOVA et al., 2009).

Nevertheless, the effective role of collective actions in the structuring of sustainable chains is an open issue. Hagedorn (2002), for instance, argues that among other elements, collective actions offer selective incentives to avoid free riding in the management of common pool resources in cooperatives. According to Hagedorn (2002, p. 20), "agri-environmental co-operatives become an additional element in the institutional environment of farms and in the networks within existing rural areas". However, *what are the particular factors at work?*

To obtain new insights into this issue, we examine and compare the role of collective actions in two distinct settings: the Netherlands and Brazil. Based on comparative assessment of the case studies, we then sketch a simple formal argument. We focus on the structuring of an incentive system given the possibility of hold-up in the transaction between rural producers and a processing industry under different government incentive regimes. Our results support the general idea that horizontal mechanisms of cooperation are capable of supporting positive levels of sustainability, even in the presence of potential hold-up and in the absence of direct support from the government.

## Literature review

The definition of a sustainable supply chain is not a trivial one, as it varies according to the theoretical lenses applied to investigate it. In general terms, a sustainable supply chain encompasses "the strategic, transparent integration and achievement of an organization's social, environmental, and economic goals in the systemic coordination of key inter-organizational business processes for improving the long-term economic performance of the individual company and its supply chains" (CARTER; ROGERS, 2008, p. 368).

Seuring and Muller (2008) stress the external pressure set by different stakeholders (e.g., ONGs, customers, and government agencies) in order for companies to design a sustainable supply chain. Particularly important is the role of organized pressure groups: they function as central triggers because companies fear consumer boycotts, something that may also lead to reputation loss. As a consequence, companies have incentives to behave as coordinators, demanding their vertically related suppliers perform according to environmental and social rules. This, however, is not a trivial task since sustainability encompasses a multiplicity of dimensions, as well as conflicting interests about the ends and the means of sustainability production (DIXIT, 2002).

Besides the building of vertical relations and the identification of focal companies which behave as coordinators, the role of horizontal coordination among producers is becoming a cornerstone to achieving success in sustainable food supply chains (MEINZEN-DICK; DI GREGORIO, 2004). Horizontal coordination could be exemplified by a collective action among producers represented either by farmers engaging in a formal cooperative organization or rural producers becoming members of a production association<sup>1</sup>.

The term collective action encompasses a broad set of concepts derived from different approaches. Meinen-Dick and Di Gregorio (2004) argue that a collective endeavor is often narrowly taken as a formal arrangement but its definition might be more general, involving all voluntary action taken by a group to achieve common targets. Ostrom (2009) assumes that collective action happens when more than one individual joins efforts in order to achieve an outcome. Specifically in the case of rural production, a collective action may be expressed by actions such as joint sowing and/or harvesting of the land, use of common facilities to market the product, maintenance of natural resources with common pool initiatives, among others.

It is interesting to note that authors who are keen on studying formal organizations in rural areas prefer to adopt the term "farmers' organization" when referring to collective actions (e.g., REARDON; BARRETT; BERDEGUÉ, 2009; HELLIN; LUNDY; MEIJER, 2009; STOCKBRIDGE; DORWARD; KYDD, 2003). The main focus of the studies associated with this tradition is on examining the mechanisms for enhancing market access and agro-processing facilities, reducing information asymmetry and protecting specific investments made by producers in face of the need of adding value along a productive chain<sup>2</sup>. Also, in this broad concept of collective actions, the cooperatives as a formal organizational structure are part of a relevant branch of research. It seems that the main point to consider an action as a collective one is the joint engagement of independent actors, be it through a common property regime or through coordinated activities across individual entities (HELLIN; LUNDY; MEIJER, 2009).

Markelova et al. (2009) examine three broad categories of factors that are likely to affect collective actions: (i) the group characteristics, (ii) the type of product and market; and (iii) the institutional arrangement. The latter encompasses the type of organizational structure as well as the rules and the monitoring and enforcement tools that are relevant to ensure the sustainability of the collective action.

The role of institutions in exerting pressure towards sustainable practices in a supply chain should not be neglected. Sarkis, Zhu e Lai (2011) argue that in developed countries incentives set by law and regulations improve environmental awareness and management practices. For instance, the Common Agriculture Policy (CAP) regulates farming in the European Union and aims to improve agricultural sector competitiveness and its sustainability over the long term. Among a set of policy instruments, compensation for farmers who pursue environmentally friendly practices is a particularly important one.

*1 Menard and Klein (2004) points out that collaborative or network organization, such as cooperatives, joint ventures or other hybrid forms, implies a decision of pooling resources which often rely on relational contracts, even though they do establish some formal mechanisms for coordination.*

*2 Rondot and Collion (2001) use the term "producer" rather than "farmer" in order to cover all types of agricultural production, including livestock and fisheries.*

Based on this theoretical background, in the next section we present two cases of collective actions in sustainable food supply chains. We compare a case from the Netherlands and one from Brazil. We also highlight the differences in government incentives between the two countries.

## Sustainable food supply chains: two experiences

### The Netherlands

The Dutch case illustrates a scenario in which government incentives (i.e., direct payment), aligned with the benefits of cooperation, represent a strong mechanism toward the maintenance of long-term sustainability efforts.

#### **Government incentives**

Farming in Europe is ruled by the Common Agriculture Policy (CAP), which was created in 1962 after signature of the Treaty of Rome. In 1992, CAP drivers moved from product to producer support and the focus turned to be on farmer income and not on product price. Also in 1992, CAP incorporated aspects of sustainability, offering compensation to farmers who pursue environmentally friendly practices.

In its last version, CAP has the explicit aim of improving the European agricultural sector competitiveness and its sustainability. According to the European Commission (2013), the CAP reform 2014-2020 continues the reform path by reinforcing the role of providing a policy framework to support and orient European producers into three long-term objectives: (i) viable food production; (ii) sustainable management of natural resource and climate action; and (iii) balanced territorial development. In order to achieve these objectives, a new policy is offered. Sustainability will be achieved by the combined and complementary effects of a set of instruments in order to have agricultural lands eligible for *green direct payments*<sup>3</sup>.

The green direct payment, the major pillar towards sustainability under CAP, rewards farmers for meeting three mandatory agricultural greening practices or the equivalent: (i) maintenance of permanent grassland; (ii) ecological focus areas; and (iii) crop diversification. As the green payment is compulsory, it can stimulate producers to adopt good practices.

In the Netherlands, the legal framework supporting agriculture and livestock sustainability policies is even stricter than the legal framework under the CAP. Animal welfare is also a major concern. Statutory regulations and Government requirements, like the new Dutch Animal Act<sup>4</sup>, establish the rules for animal treatment. Specifically in regard to farm animals, the majority of welfare rules are related to housing and transportation. Examples are the abandonment of battery cages in 2012 and the government's restriction on long-distance animal transport within the EU (MINISTRY OF ECONOMIC AFFAIRS, 2014).

#### **FrieslandCampina: a case of producers' cooperation**

FrieslandCampina is a cooperative formed by the merger of two dairy cooperatives – Royal Friesland Food and Campina. The cooperative is one of the world's five largest

<sup>3</sup> The instruments are: (a) cross compliance (regulatory): farmers are obliged to keep the lands in good agricultural and environmental conditions; (b) greening (mandatory with financial support), with decoupled "green" payment per hectare; and (c) rural development (voluntary), with compensation for cost incurred and forgone income.

<sup>4</sup> Act of May 19, 2011, containing an integrated framework for rules on animals kept and related subjects (Law animals).

dairy companies with annual revenue of 11.4 billion euro<sup>5</sup>, counting on 19,487 members. The company has a global profile, supplying around 1 billion consumers in more than 100 countries in Europe, Asia and Africa with dairy-based beverages, infant nutrition, cheese and desserts. Apart from final consumers, the company also supplies manufacturers of infant nutrition, the food industry and pharmaceutical companies with ingredients and half-finished products (FRIESLANDCAMPINA, 2012).

The cooperative is fully committed to high quality, sustainability and transparency standards. The concept "from grass to glass", as stated on the cooperative website, highlights the awareness of value chain management and covers a wide range of concerns from global warming to animal welfare. Sustainability is a major issue to be considered in the value chain. The aim of lower CO<sub>2</sub> emission and more renewable energy, a more rational use of scarce natural resources like land and water, and the maintenance of nature conservation and biodiversity is present throughout the whole chain. Besides this, there are also social concerns such as the aging of farmers and the necessity to offer a positive perspective to young ones alongside the challenge of food security and safety.

The cooperative is also recognized for its Corporate Social Responsibility (CSR) which embraces four pillars: nutrition and health (combating nutrient deficiency); efficient and sustainable product chains (improving resource utilization); dairy development in Asia and Africa (helping small farmers in Asia and Africa); and sustainable dairy farming (setting the standards) (FRIESLANDCAMPINA, 2012).

In order to achieve these goals, the cooperative has to build a comprehensive work of principles for sustainable dairy among farmers. Regarding milk price, FrieslandCampina pays a guaranteed price to farmers, plus a bonus that depends on the annual cooperative performance. According to Riel and Ederer (2011), the guaranteed price is determined by averaging the price paid by competitors and by the quality of the milk supplied by farmers (measured by the amount of fat and proteins).

Regarding sustainable dairy farming, FrieslandCampina encourages dairy farmers to generate energy from renewable sources and to graze their herds outdoors by paying an outdoor grazing premium. Also, in order to improve animal health and welfare, there is a concern about the level of antibiotics used in farming activities. The aim is to reduce the level of antibiotics by 50% before 2020 and at the same time to increase the use of sustainable dairy housing to 5% (RIEL; EDERER, 2011).

Accordingly, sustainability is clearly a part of the cooperative aim and it is thoroughly inserted in its strategy. The members are encouraged to adopt sustainable practices and, as a consequence, market access is guaranteed. The point is that farmer members of FrieslandCampina have strong incentives to adopt and maintain long-term sustainable practices, with incentives either provided by the Agriculture European legislation (CAP) or the cooperative (FrieslandCampina). Both sources of incentives represent a virtuous incentive scheme for farmers to go green.

The case of FrieslandCampina in the Netherlands sheds lights on the scenario of government incentive combined with horizontal coordination. The next case, a beef producers' association in Brazil, illustrates a case of the absence of government incentives combined with collective action.

## Brazil

### Government incentives

The current Brazilian Agriculture Policy (BAP) involves multiple aspects and objectives. According to Barros (2010), the BAP's main objective is to help the country achieve economic and social development. Specifically, the aims are the assurance of food, fiber and energy, the generation of foreign exchange to sustain the national trade balance, and the assurance of farmers' income and social development.

<sup>5</sup> FrieslandCampina website: <<http://www.frieslandcampina.com/english/about-us/frieslandcampina-and-you.aspx>>.

According to Barros (2010), in the beginning of the 1960s, the BAP was focused on credit, minimum prices and a deliberate policy of grain storage. The objective was to enhance the adoption of technology via the offer of cheap credit and minimum price. Agricultural development was clearly anchored in the mechanization of production and the adoption of high performance inputs like fertilizers, seeds, pesticides; all inputs related to modern agriculture. In the 1990s, Brazilian agriculture faced a huge change due to the liberalization of domestic and foreign markets along with the deregulation of domestic markets. The levels of governments' support decreased and new policy instruments were created with the participation of private sources of financing. Farmers had to cope with a production environment characterized by less intervention in the market, less government spending and increased pressure for efficiency gains.

Accordingly, when compared to other countries, Brazil has a low level of official support for farmers and the majority of government payments to farmers are made in the form of credit subsidies, which are low in relation to the value of production (OECD, 2011).

Sustainability is another issue of great importance to Brazilian agriculture. Brazil holds a worldwide-recognized rich biodiversity with extensive areas in ecological hotspots (e.g., Amazon Rain Forest, Cerrado and Pantanal). The country is also an important international player in the agriculture and livestock commodity markets. These facts explain why Brazil draws a lot of attention concerning the issue of sustainability (FERREIRA et al., 2012).

According to OECD (2011), Brazilian agricultural policy is increasingly adopting environmental and sustainable criteria to guide the application of funding. Examples include agricultural zoning laws that farmers must respect in order to apply for credit and price supports, the Forest Code which determines legal protection for native vegetation, and a range of specific programs like the "Low carbon agriculture program". Some sustainable practices are already applied in Brazil, for instance no-till planting, integrated crop-livestock-forest systems, reduced deforestation, biological nitrogen fixing, pasture recovery and the treatment of animal residues.

It is worth noting that Brazil is making huge efforts to meet the objective of deforestation reduction and to turn to a more sustainable agriculture and livestock production. However, it is also noticeable that Brazilian agriculture policy toward sustainability is less developed than its European counterpart. There is not a source of direct payments to farmers regarding green production in Brazil.

### **ABPO (Brazilian Association of Organic Livestock): a case of beef producers' cooperation**

The Brazilian beef supply chain has faced several demands concerning its sustainability. In 2009, the Greenpeace report called *Slaughtering the Amazon* accused the beef sector of being responsible for most of the deforestation of the Brazilian Amazon. This report was a cornerstone in the discussion of beef sustainability in Brazil and has generated a set of demands and initiatives. The association between illegal deforestation of the rain forest (Amazon Forest) and cattle ranching in Brazil led the Brazilian meatpacking industry and retailers to sign a commitment agreement with the Brazilian Federal Public Attorney regarding sustainable livestock practices. The agreement involved the non-acquisition of cattle from deforested areas and from farms with social and/or environmental debts. Retailers required the guarantee that the beef sold by them did not originate in deforested areas.

It is under this context that the Brazilian Roundtable on Sustainable Livestock (GTPS<sup>6</sup>) was formally constituted in June 2009. Under the scope of GTPS, there are two main types of sustainable beef supply chains in Brazil: (i) one organized with farmers that operate independently; and (ii) the one in which farmers operate through collective actions. Both have to conform to a set of rules, such as the Forest Code

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<sup>6</sup> "Grupo de Trabalho da Pecuária Sustentável" (in Portuguese).

and the Brazilian Labor law. The Brazilian Association of Organic Livestock (ABPO<sup>7</sup>), founded in 2001, is an example of sustainable beef supply chains in which producers are engaged in collective actions.

The farmers participating in the association have a long-term relationship and share the production challenges in a region of difficult access, subjected to floods and with several specific issues related to the singularity of a fragile ecosystem with great biodiversity (the Pantanal Area). The farmers and local communities also have historical connections (properties are usually managed by several generations of the same family) and share habits and customs of the so-called "homem pantaneiro" ("man from the wetlands").

The relation between ABPO and an international well-known slaughterhouse was an example of a sustainable chain until 2013. The final product was organic cattle beef, commercialized under the coordination of the slaughterhouse. The beef was marketed with a specific label. From an organizational perspective, ABPO negotiated contract terms for supplying cattle for slaughtering; however, contracts were established individually between the farmers and the company. The contractual terms defined the duration of the commercial relation between the parties (usually 3 years), the price to be paid (5% to 10% above the average market price) and the criteria for classification of the slaughtered animal (weight, age and fat layers). In general terms, farmers and the meatpacking company maintained a long-term relationship, establishing formal, long-lasting contracts.

The contract between ABPO and the slaughterhouse prescribed a mutual exclusivity and the obligation of supplying 290 animals per month, beyond meeting all the rules established by the meatpacking industry for raising cattle.

In 2013, the contract was not renewed and the farmers had to bear the risk of selling animals on the spot market, and so lost the value generated by the investments in sustainable practices (hold-up event). With the emergence of this new scenario, ABPO started to look for new partners to maintain its core activity. The producers' association has established a new agreement with another company and the value of sustainability has not completely vanished.

Regarding the institutional environment that permeates this productive system, it is possible to clearly observe the influence of production rules (including specific legislation<sup>8</sup>) that must be followed by all members, as well as formal contracts and informal guarantees (cultural and historical values). In addition, the partnership accounts for the existence of audited stamps that certifies the origin and the quality of the cattle.

Perhaps more importantly, BAP does not provide any fixed payment to farmers in order to adopt sustainable practices. As there is not a direct incentive, when the meatpacking firm decided not to keep the contract with ABPO, there was a risk of value loss. Farmers could have decided to sell the animals as commodity goods on the spot market. In the end, sustainability was at stake. The collective effort of establishing a new agreement with another partner has guaranteed the maintenance of long-term sustainability. It is also important to stress that at this moment, ABPO is negotiating the price to be paid and the scale of production to meet the new partner's demand. Nonetheless, the farmers continue to follow production requirements to supply sustainable beef. This is only possible because producers recognize that there are gains in remaining sustainable once they are members of a producers' association.

Based on the comparative assessment of the case studies discussed above, in the next section we design a simple formal argument. We consider the transaction between farmers and a downstream agent (processing firm), which involves the potential payment of a premium for sustainability (i.e., bonus). Each farmer has to decide whether he or she will become a member of a producers' organization (collective action). The processing firm, on the other hand, can opportunistically refrain from paying bonuses to the farms.

<sup>7</sup> Associação Brasileira de Pecuária Orgânica – ABPO (Brazilian Association of Organic Livestock).

<sup>8</sup> See law n. 10.831, December 23, 2003.

## The sustainability of sustainable supply chains

In line with Caleman et al. (2013), we start from the assumption that the provision of sustainability requires specific assets. That is to say, investments in sustainable assets – or sustainable modes of production – present a potential loss of value if the product is not transacted as a “sustainable good”. For example, to certify to the customer that a particular food product comes from agricultural areas following sustainable practices, a company and other agents in the production chain must invest in dedicated monitoring facilities and certification practices. In this case, there is the possibility of opportunistic behavior of one or more parties involved in the transaction, with the resulting efficiency loss in the economic exchange.

First, we assume that farmers produce a sustainable product but do not engage in horizontal cooperation (i.e., he or she is not a member of a producers’ association). In this setting, we define that the farmer’s utility function depends on the market price for the product ( $p$ ), the premium paid by the processor due to the delivery of sustainability attributes ( $b_f(s)$ ), and the costs incurred for the production of the sustainable product ( $c_f(s)$ ). For simplicity, we assume that the costs associated with other aspects except the provision of sustainability are zero. Formally:

$$U = p + b_f(s) - c_f(s) \quad (1)$$

Where  $s \in [0,1]$  accounts for the level of sustainability that the farmer decides to deliver to the processor.

When  $s = 0$  the product does not present sustainability attributes, meaning that  $b_f(0) = c_f(0) = 0$ . In this case, the farmer will produce a non-specific product, receiving only the market price ( $p$ ), which we assume to be determined in a perfectly competitive setting. We also assume that  $b_f(s) > c_f(s)$  for  $\forall s \in (0,1]$ .

The processing firm, in turn, faces a profit function that depends on the product price on the retail market ( $p_R$ ), the bonus received for delivering a sustainable good to consumers ( $b_p$ ), the specific costs incurred in the marketing of a sustainable product ( $c_p$ ), and the payment made to the farmers  $p + b_f(s)$ . Formally:

$$\pi = p_R + b_p(s) - c_p(s) - [p + b_f(s)] \quad (2)$$

We assume that the retail price ( $p_R$ ) is determined in a perfectly competitive environment, so that in the absence of sustainability attributes the firm transacts a non-specific product, whose price the firm is unable to influence. A characteristic of the model is that the premium  $b_p$  and the cost  $c_p$  depend on the sustainability level delivered by the farmer. We assume that  $b_p(0) = c_p(0) = 0$ ,  $b_p(s) > c_p(s)$  for  $\forall s \in (0,1]$ , and  $p_R \geq p$ .

It is worth noting that within the market structure defined above, sustainability is described as a differentiating element capable of reducing the competitive pressure faced by the supply chain (producers + processing firm). Specifically, we consider that both the *total price* received by the farmer and the *total price* received by the processing firm consist of two elements: a basic component set by the competitive market forces ( $p$  and  $p_R$ , respectively) and a differentiating component, a bonus ( $b_f(s)$  and  $b_p(s)$ ). Because the premium depends on the level of sustainability ( $s$ ), the farmer is able to influence its income, thus departing from the perfect competitive result. The processing firm may design an incentive system in order to induce the producer to deliver some level of sustainability, so that it can also earn positive rents.

Accordingly, we examine the situation in which the processing firm can establish a contract with the farmer specifying the sustainability level to maximize the value

created in the transaction. Considering a sequential game framework, the processor knows that the farmer will supply a level of sustainability for which marginal benefit equals the marginal costs:  $b'_f(s) = c'_f(s)$ . Accordingly, the processing firm's profit maximization condition can be written as:

$$b'_p(s^*) = c'_p(s^*) + c'_f(s^*) \quad (3)$$

Equation (3) describes the dynamics of the equilibrium of the model. The processing firm will offer the farmer an incentive contract in which s/he demands the sustainability level  $s^*$  and pays the premium  $b'_f(s^*)$ . The farmer will accept the contract provided that the institutional environment is strong, so that the contract will be enforced and the producer will not act in an opportunistic manner (WILLIAMSON, 1985). Point A in Figure 1 illustrates this equilibrium. It is assumed that the marginal cost function is an increasing function of the sustainability level and that the consumer is willing to pay a positive premium, which decreases as the level of sustainability increases (i.e., decreasing marginal utility)<sup>9</sup>.

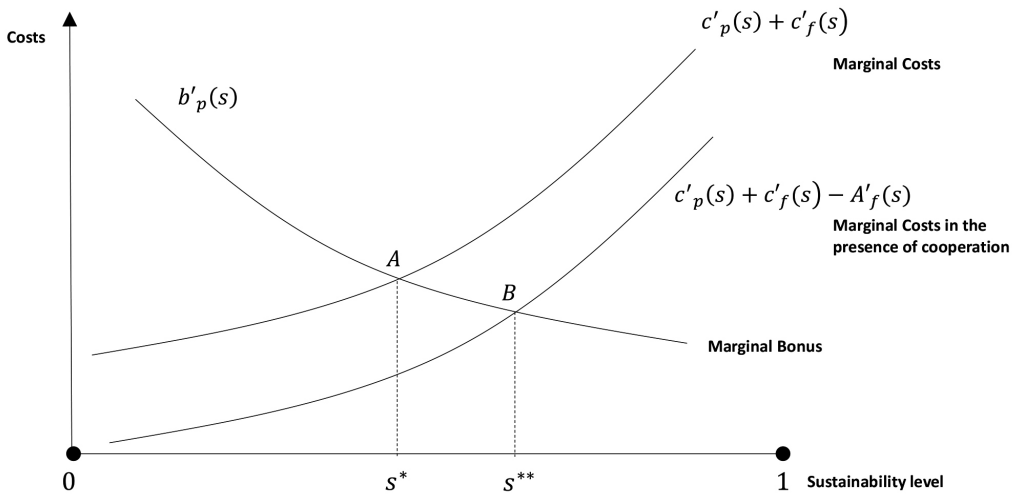


Figure 1 – Sustainability level.

Source: The authors.

### Opportunistic behavior and the role of government incentives

The preceding results are based on the assumption that the processing firm does not have incentives to behave opportunistically. If this is not the case, however, the firm may find incentives not to pay the premium  $b'_p(s)$  to the farmer once the sustainability level had been delivered. In such a situation, the farmer will have a disutility equivalent to  $p - c'_f(s) < 0$ , while the firm will have an increase in its profits.

Under a sequential game framework, the processing firm will act opportunistically as long as the short-term gain from breaking the contract is higher than the net present value of its profit under the contract. Formally:

$$(p_R + b'_p(s) - c'_p(s) - p) + \frac{(p_R - p)}{\phi} > \frac{p_R + b'_p(s) - c'_p(s) - (p + b'_f(s))}{\phi} \quad (4)$$

<sup>9</sup> With increasing sustainability, consumers will pay a positive premium. However, the consumer willingness to pay will decrease as sustainability increases because he or she may eventually be satisfied.



$$\frac{b_p(s) - c_p(s) - b_f(s)}{b_p(s) - c_p(s) + p_R - p} < \varphi \quad (5)$$

Where  $\varphi$  represents the discount rate.

It is interesting to note that the contract will be self-enforceable for a lower range of discount rates if the transaction is embedded in a weak institutional environment. In general, the existence of a legal apparatus is important because it establishes the rules to be followed by the parties in a transaction. Such rules – and its enforcement – interfere with the way transactions are carried out because they create incentives or transaction costs. When the institutional environment is weak, “episodes of economic and political instability induce high discount rates, which make the reputational costs of renegeing less relevant” (MANZANO; MONALDI, 2008, p. 76).

Aside from the general quality of the institutional environment, the government incentive policy towards sustainable production can influence contract stability. Let us suppose that the government sets an agriculture public policy according to which farmers receive a fixed payment ( $t$ ) for each level of sustainability that he or she delivers to the processor. The utility function of the farmer and the first order condition can then be expressed, respectively, as:

$$U = p + b_f(s) - c_f(s) + t.s \quad (6)$$

$$b'_f(s) = c'_f(s) - t \quad (7)$$

As a general consequence, in the presence of a fixed payment, the incentive provided by the processor (i.e., the amount of bonus paid to farmers) could be lower. The reason is that under the government policy, part of the costs undertaken by farmers to adopt a sustainable production could be covered by the fixed payment. In this case, the farmer may provide a positive level of sustainability even if opportunistic behavior is possible. That is to say, there is a premium  $b'_f(s) < b_f(s)$  so that:

$$\frac{b_p(s) - c_p(s) - b_f(s)}{b_p(s) - c_p(s) + p_R - p} < \varphi < \frac{b_p(s) - c_p(s) - b'_f(s)}{b_p(s) - c_p(s) + p_R - p} \quad (8)$$

Farmers will operate under such an arrangement as long as their indifference condition is satisfied:

$$b_f(s) = b'_f(s) + t.s \quad (9)$$

#### Farmers' horizontal coordination

Let us now suppose that the farmer is a member of a producers' association (collective action). When farmers engage in horizontal cooperation, some positive externalities emerge ( $e(s)$ ). One possibility is the occurrence of sub-additive costs related to the share of strategic information (ZYLBERSZTAJN; FARINA, 2010) regarding the production of sustainable products; another possibility is the enforcement of pro-sustainability efforts through informal institutions (OSTROM, 1990) in a way that reputation increases at low cost when compared to independent farmers. Particularly, we assume that the positive externality generated by a producers' association is an increasing function of the level of sustainability.

As a counterpart, when farmers structure a horizontal coordination mechanism, they have to bear the costs of internal governance  $c_G(s)$ , which encompasses the cost associated with the writing of compliance agreements, the cost of member entrance,

the cost of controlling free riding, etc. The existence of positive governance costs casts a shadow on the effective appropriation of the positive externalities of collective actions. For instance, free riding could be present and be so costly that the net value of the horizontal arrangement becomes negative. If the governance cost is higher than the benefit of horizontal coordination, there is no room (or no need) for farmers to adopt a collective action. Regarding our results, other incentives like pure premium prices and/or a strong institutional environment must be present in order to sustain a sustainable food chain<sup>10</sup>.

We assume that the cost of governance is also an increasing function of the level of sustainability. The higher the sustainability level that the producers intend to deliver, the higher the demand for control over all association members. Thus, the utility function of the farmer can be rewritten as:

$$U_A = p + b_f(s) - c_f(s) + A_f(s) \quad (10)$$

Where  $A_f(s) = e(s) - c_G(s)$  is the net individual benefit generated by the producers' association, assuming that the benefits and costs of the collective organization are equally shared among producers. The first order condition can then be expressed as:

$$b'_f(s) = c'_f(s) - A'_f(s) \quad (11)$$

Following the same reasoning presented above, the equilibrium is achieved when the processing firm offers the farmer an incentive contract in which s/he demands the sustainability level  $s^{**}$  and pays a premium  $b_f(s^{**})$  that satisfies condition (11):

$$b'_p(s^{**}) = c'_p(s^{**}) + c'_f(s^{**}) - A'_f(s^{**}) \quad (12)$$

Assuming that  $A'_f(s) > 0$ <sup>11</sup>, it follows that  $s^{**} > s^*$ . That is, the producers' association creates incentives for the farmers to produce a higher level of sustainable products. This happens because horizontal coordination reduces the marginal cost of sustainability production as indicated by point B in Figure 1. It is worth noting that this result does not depend on the presence of an incentive policy set by the government.

On the other hand, in the presence of an incentive policy and under the cooperation arrangement, the costs undertaken by farmers to adopt a sustainable production could be lowered by the fixed payment defined by the government and the gains from cooperation. Accordingly, the farmer's indifference condition would take the form:  $b_f(s) = b'_f(s) + t.s = b'^{t,A}_f(s) + t.s + A_f(s)$ , where  $b_f(s) > b'_f(s) > b'^{t,A}_f(s)$ .

### Discussion: reassessing the case studies

Based on the description made in the previous sections, it is possible to perform a more complete comparative analysis of the strategic variables and the coordination forms that characterize the case studies regarding the Netherlands and Brazil. The aim of this section is to highlight the roles of collective actions and government policy in supporting a sustainable supply chain. Table 1 presents the comparison between both cases.

<sup>10</sup> In more general terms, if free riding cannot be controlled at some minimal level, the whole foundation of the analysis is destroyed and the concept of equilibrium, and hence of the provision of sustainability, becomes meaningless.

<sup>11</sup> This condition is satisfied as long as  $\frac{\partial e}{\partial s} > \frac{\partial c_G}{\partial s}$ .

**Table 1 – Case comparison.**

<b>Model Variable</b>	<b>ABPO (Brazil)</b>	<b>FrieslandCampina (The Netherlands)</b>
Type of farmers' collective action	Farmer's association	Agriculture cooperative
Institutional environment (pro sustainability aspects)	Brazilian Forest Code; "Low carbon agriculture Program"	CAP (Greening pillar); Dutch Animal Act
Incentive structure	<ul style="list-style-type: none"> <li>Premium: <math>b_f(s) &gt; 0</math></li> <li>Net individual benefit generated by collective action: <math>A_f(s) &gt; 0</math></li> <li>Government incentive policy: <math>t = 0</math></li> </ul>	<ul style="list-style-type: none"> <li>Premium: <math>b_f(s) &gt; 0</math></li> <li>Net individual benefit generated by collective action: <math>A_f(s) &gt; 0</math></li> <li>Government incentive policy: <math>t &gt; 0</math></li> </ul>
Premium paid by the processor due to the delivery of sustainability attributes ( $b_f(s)$ )	5% to 10% above the average market price for the product	Guaranteed price plus a bonus that depends on the quality of the milk and the annual cooperative performance.
Government incentive policy: fixed payment for each level of sustainability	$t = 0$ No direct payments	$t > 0$ The green direct payment under CAP legislation
Externalities of farmers' collective action ( $e(s)$ )	$e(s) > 0$ (technical support; bargaining power to negotiate contracts with processors; differentiated prices)	$e(s) > 0$ (technical support; differentiated prices; outdoor grazing premium; CSR awareness throughout the whole supply chain)
Hold-up event	Yes (Contract breach in 2013)	No
Maintenance of the sustainable Supply Chain	Yes	Yes

Source: The authors.

It is clear the role collective action plays in Brazil regarding sustainable beef. ABPO is a producer association where the pooling of farmers' resources is at stake. In other words, ABPO exemplifies an effort in which collective action emerges as an important outcome to come up with sustainable practices. From our theoretical propositions, the existence of a collective action would be necessary to support a sustainable chain as long as: (i) the production of organic beef demands specific investments, opening up room for opportunistic behavior and hold-up events; (ii) the institutional environment in Brazil might be considered weak. Moreover, positive externalities are involved ( $e(s) > 0$ ); there is the emergence of bargaining power to negotiate with the processing industries to the benefit of farmers' income as well as the existence of a set of technical advice at the farm level that represent marginal benefits to farmers. Thus, despite not receiving direct incentives from the Brazilian government ( $t = 0$ ) and facing the possibility of not being rewarded by the processing industry ( $b_f(s) = 0$ ), farmers tend to accept the maintenance of a sustainable food chain by means of cooperative efforts.

The ABPO case presented here highlights the importance of cooperation in order to keep sustainability in face of hold-ups with the meatpacking firm. In 2013, the meatpacking industry did not renew the contract with the association, and farmers had to sell the organic beef at lower prices to the market. Long-term sustainability was certainly at risk. However, ABPO started to look for new partners to maintain the

value generated by the farmers. New agreements were established which guarantee the continuity of the sustainable supply chain, now with a different meatpacking industry. The point is: Would it be possible if farmers were not collectively organized? To put it differently, would it be possible in the absence of  $A_f(s) > 0$ ? We doubt it. This event shows us that sustainability might not be maintained in the absence of the farmers' association.

Accordingly, it is also reasonable to say that collective action among farmers is less decisive in keeping sustainable practices over the long term when strong incentives are provided by the government (i.e.,  $t > 0$ ). The actual importance of the horizontal cooperation in the presence of strong incentives offered by formal institutions (e.g., agriculture policies) depends on the amount of the direct payments provided by legislation to compensate for specific investments made by farmers to go greener.

This scenario is aligned with the dairy Dutch case. Direct payments provided from the European government and a widespread concern about sustainability in Europe – and particularly in the Netherlands – offer the background for sustainable farming. Also, cooperation is the pattern of agriculture production in the Netherlands, especially in the dairy sector (FRENKEN, 2014). With all these in mind, it is quite reasonable to assume that a sustainable food chain is far easier to achieve and maintain in the Netherlands when compared to Brazil. This result is aligned with our theoretical discussion, which asserts that in face of a strong institutional environment, incentives provided by collective action might not be so decisive.

### Concluding remarks

This paper investigates the incentive system through which a sustainable food chain might be built in order to enhance long-term sustainability. It considers the possibility of a hold-up event in the transaction between producers and the processing industry. The research is drawn from the perspective that sustainable practices demand an incentive system in order to generate and maintain value along the supply chain. The role of producers' collective action and government policy are particularly addressed.

The main results show that sustainability is highly dependent on incentives. Not considering intangible incentives like beliefs and self-commitments, it is clear that if a reward scheme is not built throughout the supply chain, the efforts to achieve sustainability at the farm level could not be sustained over the long term. The incentive scheme encompasses not only the reward paid by the processing industry to farmers but also the positive externalities that producers can gain by acting collectively. Yet an institutional environment that clearly motivates producers to adopt sustainable practices is another important dimension of the incentive scheme. Therefore, these three dimensions might operate jointly to build an incentive scheme towards sustainability.

It comes as a corollary that the maintenance of a sustainable food chain under an institutional environment with no direct incentives towards sustainability is threatened when farmers are not organized in collective action. When facing a hold-up event – for instance, the non-payment of premium prices to farmers by the processing industry – there is the risk that farmers would not continue to adopt long-term sustainable practices. Such risk is attenuated when the benefits provided by farmers' collective action are at least enough to cover the governance costs of the internal organization plus the specific investments made by farmers to go greener. Considering an institutional environment with direct payments, the role of collective action is counterbalanced by the incentives (direct payments) offered by institutions, and farmers' pro-sustainability efforts are more likely to be maintained over the long term.

Comparing Brazil to the Netherlands, the importance of cooperation among farmers to face the possibility of a hold-up event regarding non-payment of a bonus by the processing industry becomes even clearer. The BAP does not comprehend a formal incentive (i.e., monetary reward) towards sustainability when compared to the European legislation – or even more, when compared to Dutch regulations. Building effective collective actions among farmers is a way to promote and to sustain sustainability at the farm level over the long term in Brazil.

Considering the broader investigation of the role of the institutional environment and collective actions in promoting a sustainable food chain, some issues might have been left out in this research. The impact of penalties for not adopting sustainable practices, the failures of incentive transmission along the chain, the result of repeated interactions among players, the insertion of different possible hold-ups along the chain (for instance, consumers not willing to pay premium prices), the pattern and the cost of internal governance of producers' organizations and the role of informal institutions (e.g., beliefs and culture backgrounds) are some aspects that were not considered. These aspects give shape for a future research agenda.

Ultimately, a sustainable food chain is a complex arrangement. The results drawn from this paper can be applied to investigate other complexities besides sustainability. Quality attributes, food security, social and environment concerns, new technologies with diffuse property rights, traceability and others topics that characterize complex arrangements, and which involve the development of an incentive system, could benefit from this research.

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**Submission date: 10/11/2015**

**Approval date: 01/04/2016**

WHY MICROFINANCE INSTITUTIONS EXIST:  
LENDING GROUPS AS A MECHANISM TO ENHANCE  
INFORMATIONAL SYMMETRY AND  
ENFORCEMENT ACTIVITIES<sup>1</sup>

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Abstract

In this paper, we focus on the economic motivation for the existence of microfinance institutions (MFIs). In doing so, our study contributes to the debate regarding why MFIs exist and, especially, what mechanisms are used to address the risks associated with their operation. In examining the reasons why some individuals are regarded as “non-bankable”, we lay out the basic economic logic that motivates the exclusion of this population from formal credit markets. Next, we show how the lending group methodology overcomes the credit dilemma which sustains and increases the exclusion of the poorest from these formal credit sources. Through this, we point out the microfinance founding mechanisms: the increase of both informational symmetry and enforcement capacity of MFIs through the enhancement of their screening, monitoring and enforcement activities. We also highlight the importance of context and gender for the success of lending groups. Finally, we analyze these mechanisms in the Brazilian context.

**Keywords:** Microfinance. Screening. Monitoring. Enforcement. Lending groups.

POR QUE AS INSTITUIÇÕES DE MICROFINANÇA  
EXISTEM: GRUPOS DE EMPRÉSTIMOS COMO  
MECANISMO PARA O AUMENTO DA SIMETRIA  
INFORMACIONAL E DAS ATIVIDADES DE  
ENFORCEMENT

Resumo

Nesse artigo, analisa-se a motivação econômica para a existência das instituições de microfinança (MFIs). O trabalho contribui para os estudos a respeito do porquê as MFIs existem e, principalmente, de quais mecanismos são usados para lidar com os seus riscos de crédito. Ao analisar a razão pela qual há indivíduos pobres considerados “não-bancáveis”, apresenta-se a lógica econômica que motiva a sua exclusão dos mercados formais de crédito. Mostra-se como

<sup>1</sup> This research was supported by the Fundação de Amparo à Pesquisa do Estado do Rio Grande do Sul (FAPERGS).

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a metodologia de grupos de empréstimo soluciona o dilema de crédito que mantém e aumenta a exclusão econômica dos mais pobres. Baseado nesse racional aponta-se os mecanismos básicos fundantes da microfinança: o aumento da simetria informacional e da capacidade de *enforcement* das MFIs por meio do aumento da eficácia das suas atividades de avaliação, monitoramento e *enforcement*. Também se ressalta a importância do contexto e do gênero para o funcionamento dessa metodologia. Por fim, esses mecanismos são analisados no contexto brasileiro.

**Palavras-chave:** Microfinança. Avaliação. Monitoramento. *Enforcement*. Grupos de empréstimo.

## Introduction

Microfinance, briefly defined as an institutional mechanism to offer small loans and other financial services to low-income individuals normally excluded from formal systems of credit, has received increasing attention from very different populations and institutions: governmental and non-governmental development agencies, parties on both the left and the right of the political spectrum, various financial institutions, large pools of donors and social agents, the media, and research and academic institutions (MARCONATTO; CRUZ; PEDROZO, 2016). Despite the existence of ancient evidences for some of the fundamental principles underlying this type of solution (IZUMIDA, 1992), microfinance became better known with the appearance and growth of the Grameen Bank or Bank of the Poor, founded in 1974 in Bangladesh. The Grameen Bank, created by (and until quite recently led by) Nobel Peace Prize winner Prof. Muhammad Yunus, introduced the microfinance institution (MFI) as an alternative method to fight poverty. Underlying this development was the conviction that the strategies of governments and large international development agencies, together with free market attempts, have failed in recent decades to consistently reduce world poverty (BHATT; TANG, 1998; SNOW; BUSS, 2001; ROBINSON, 2001; WOLLER; WOODWORTH, 2001a, 2001b; ELAHI; DANOPOULOS, 2004; GLAUBITT; HAGEN; SCHÜTTE, 2006; CULL; DEMIRGÜÇ-KUNT; MORDUCH, 2009; BRUTON; KHAVUL; CHAVEZ, 2011).

Both the Grameen Bank and other pioneering MFIs have shown that the economic conditions of the poor can be improved through their own efforts, shattering the myth that economically disadvantaged individuals can only ascend the social pyramid with heavy external assistance (WOOLCOCK, 1999; MORDUCH, 2000; ROBINSON, 2001). In other words, the greatest contribution of these MFIs was that it ended the belief in the "non-bankable poor" (YUNUS, 2007). From that point until the present day, microfinance has diversified and spread around the world, and at present, it is considered to be a solid tool in the fight against poverty (CULL; DEMIRGÜÇ-KUNT; MORDUCH, 2009). Today, MFIs incorporate many different institutional designs, capital structures, and missions; they can be local and small or global and large, and they can serve fundamentally different target populations (MARCONATTO; CRUZ; PEDROZO, 2016).

Using institutional and social innovations, MFIs have achieved notably high loan repayment rates – approximately 95% to 98% (MORDUCH, 1999; WOOLCOCK, 1999). This result indicates that the poor, contrary to popular belief, can be "bankable"<sup>2</sup> if certain conditions are met (MORDUCH, 1999). Moreover, there are also other commonly cited collateral gains achieved through microfinance, including the empowerment of poor populations, especially women (MARCONATTO et al., 2013; BOEHE; CRUZ, 2013), and the improvement in their general conditions, health, and family education (WOOLCOCK, 1999; ROBINSON, 2001; RANKIN, 2002).

<sup>2</sup> By the term "bankable" the author means the minimum capacity of an individual to contract loans from financial institutions and repay them.



Although the microfinance literature which documents the positive and negative consequences of different types of MFIs around the world keeps growing (e.g. TAYLOR, 2011; SINCLAIR, 2012; ROODMAN, 2012), the debate surrounding the fundamental economic reasons for creating this type of organization seems to have diminished over time. Since the number of organizational structures and aims (ranging from social, economic, and hybrid objectives – BATTILANA; DORADO, 2010) for MFIs is multiplying, it is important to re-open this discussion. Both the creation of new MFIs and the management of those that are already operating require constant attention to the economic principles that allowed their activities to begin and that continue to justify and facilitate their existence. Ignorance of the basic dynamics that support microfinance may result in the creation of less efficient management policies and strategies or may even lead to the collapse of MFIs that, *a priori*, would be capable of achieving their economic and social objectives. Thus, by presenting and discussing the economic mechanisms of microfinance, our article has a two-fold objective: to contribute to the discussion on why MFIs exist and what mechanisms are used to address the economic risks associated with their operations; and to consider such mechanisms in the Brazilian context, demonstrating how they do, and do not, work in this country.

As will emerge in the following pages, we argue that, economically, MFIs exist because they typically incorporate more efficient risk reduction mechanisms than those used by formal credit institutions. This principle is at the core of MFI lending methodologies. The so-called lending groups have played a fundamental role in this context since the beginning of the microfinance institutionalizing movement, which took place in the 1970s and 1980s. Even if these institutional arrangements are not the only tool available today for mitigating the transactional risks of the poor borrowers who are the target population for MFIs, loan methodologies involving borrower collectives remain central to most MFIs around the world (CULL, DEMIRGÜÇ-KUNT; MORDUCH, 2009). However, the success of the lending group methodology has proved to be gender and context-dependent (CHURCHILL, 1999; HUNG, 2003; YUNUS, 2007), which means that it may not function properly under some circumstances. As we will show, this explains why individual-based credit methodologies have been preferred over the collective-based credit arrangements in some regions of Brazil.

Our article begins by elucidating why the so-called “non-bankable” individuals – mainly poor people – exist and presenting the logic which motivates their systematic exclusion from formal credit markets. After that, we review the economic basis for MFIs and present a conceptual framework that indicates how lending groups allow different MFIs to control the risks connected with their operations (and, thus, offer credit to those poor individuals who have previously been rejected at moderate cost and risk); this process is based on the increasing informational symmetry and enforcement capacity of MFIs (GHATAK; GUINNANE, 1999). We then discuss how and why the lending group methodology works (or does not work) in the Brazilian context. Finally, we discuss the implications of our study for the literature and practice of microfinance in Brazil and in the world.

### Why are the poor people, the “non-bankable”, excluded from the formal credit markets?

Why were microfinance solutions created when there already existed robust local financial markets? In other words, even in financially robust capital markets shaped by competition, why should those poor individuals who are normally clients of microfinance institutions be considered “non-bankable” and excluded from the formal economic sphere? To answer these questions, we must first respond to a more specific and directly related question: why do formal financial institutions such as banks restrict their offers of credit even when potential clients – for example, poor entrepreneurs seeking money – offer them higher interest rates for their loans?

Until the beginning of the 1980s, the theoretical mainstream within economics did not offer an adequate answer to this conundrum. According to the economic theory of market equilibrium – “perhaps the most fundamental economic principal until then” (STIGLITZ; WEISS, 1981, p. 393) – growth in the demand for credit should cause the interest rates charged for loans to rise to the point at which the excess demand no longer exists, creating a new equilibrium that is based on an interest rate that is higher than the previous one. Excepting some extreme situations, there would be no restrictions on capital. However, this phenomenon is not what is observed in reality. Instead, it is quite the opposite: mature and competitive financial markets that have an abundance of credit available for loans do limit their availability to poor people even if they are interested in acquiring loans at rates higher than those offered by banks (STIGLITZ; WEISS, 1981).

At the beginning of the 1980s, Stiglitz and Weiss (1981) proposed an explanation for this dynamic. They showed that, generally, the interest rates associated with loans and the volume of capital made available through loans are not only a function of the capital available versus the total demand for loans but also are tools that influence and limit possible damages stemming from informational asymmetry, as explained below.

They noted that interest rate increases stemming from increases in demand for credit tend to create two possible risks. These risks, *adverse selection risk* and *moral risk*, both stem from the informational asymmetry<sup>3</sup> between the agents offering and seeking credit and increase the likelihood of default by the latter. “The *adverse selection risk* exists when the borrower possesses characteristics that cannot be observed by the banks but which affect his likelihood of repaying the loan that he has contracted” (GHATAK; GUINNANE, 1999, p. 200). Because the bank does not possess all of the information about the borrower (which is natural given the cost and difficulty of obtaining this information), adverse selection makes it harder to screen the “safe clients” from the “risky clients”. Consequently, in turn, it becomes impossible to treat them in an individualized manner (KHAVUL, 2010). The bank thus tries to make such evaluations indirectly, requiring conditions for loans that only safe clients will likely accept. The interest rate itself partly fulfills this function: higher and lower interest rates affect the quality of the portfolio of borrowers because higher rates tend to drive off investors who are more averse to risk (those who are “safer”), thereby generating a higher concentration of borrowers with “risky” profiles and correspondingly increasing the likelihood of default.

The second type of risk mentioned (*moral risk*) involves incentives offered to clients that encourage them to take on riskier projects (STIGLITZ; WEISS, 1981). According to Ghatak and Guinnane (1999), a credit seeker will act to make the marginal benefit of his or her actions at least equal to his or her marginal cost. However, because the client’s responsibility for the total credit received is limited (unless he/she offers collateral for that credit) and because he/she may accrue gains independently of the debt, increasing loan interest rates creates a higher level of indebtedness, a greater need for returns from the project, and a rational incentive for the client to take riskier actions to increase the payoff (STIGLITZ; WEISS, 1981).

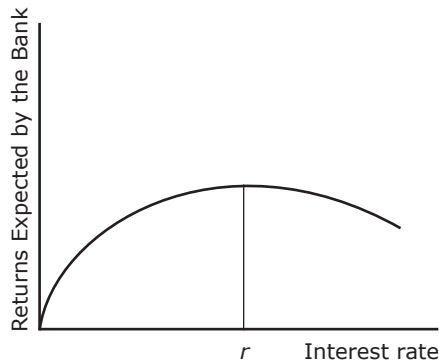
Another important element to consider is the capacity for sanctions by the bank (*enforcement*). According to Ghatak and Guinnane (1999), enforcement is a product

<sup>3</sup> Although we are approaching both risks in the context of credit markets, the fact is that any transaction may be subjected to some degree of adverse selection risk or moral risk. Two Nobel Prize winners, Akerlof and Williamson, have dealt extensively with these issues. Akerlof (1970) referred to the market of used cars to illustrate how the concept of asymmetry of information distorts the classic economic notion of perfect equilibrium. He showed that depending on the degree of the information asymmetry present between sellers and buyers, the sellers may be driven out of the market, diminishing its total size – just as it happens with the credit market. Williamson (1985, 1996, 2000) has shown how the asymmetry of information – and the two risks stemming from it – existing in the transaction costs borne by different parts engaged in an exchange, affects the design of the contract (understood as a governance device) of the transaction. In short, these two authors have further shattered the tenets of classical economics and contributed a great deal to the popularization and spread of the neoinstitutional economics, a theory that goes beyond the analysis of resource allocation to look at the various types of contracts channeling economic and social activity (WILLIAMSON, 2000).

not of information asymmetry but rather of the limited ability of the bank to apply sanctions to debtors. Thus, it depends on the legal-institutional framework in which both economic agents are embedded and on the characteristics of the transactional relationship between the two actors. A lower capacity for enforcement by the bank results in a higher risk associated with the loans offered.

Bank returns will ultimately decrease under the two aforementioned types of risks combined with a low level of enforcement, informational asymmetry, and an unfavorable legal-institutional environment. In other words, as can be seen in Figure 1, bank earnings increase to the degree that interest rates go up, but only until the point at which defaults by clients with insufficient funds begin to negatively offset the earnings generated by clients who promptly pay their debts.

To avoid the corrosion of its earnings by the increasing defaults, the bank will stipulate a maximum limit on its interest rates (represented by  $r$  in Figure 1), which, considered in liquid terms (with losses due to defaults subtracted), may be lower than the rates offered to borrowers in the market. That is, a configuration including higher interest rates combined with a riskier client profile (as is common amongst poor people), less prudent projects (from the bank's perspective), and a low capacity for sanctions (enforcement) against debtors motivates a rationale for restricting credit offers even where there is no lack of capital or absence of competition (STIGLITZ, 1990).



**Figure 1 – Interest rate that maximizes returns expected by the bank.**

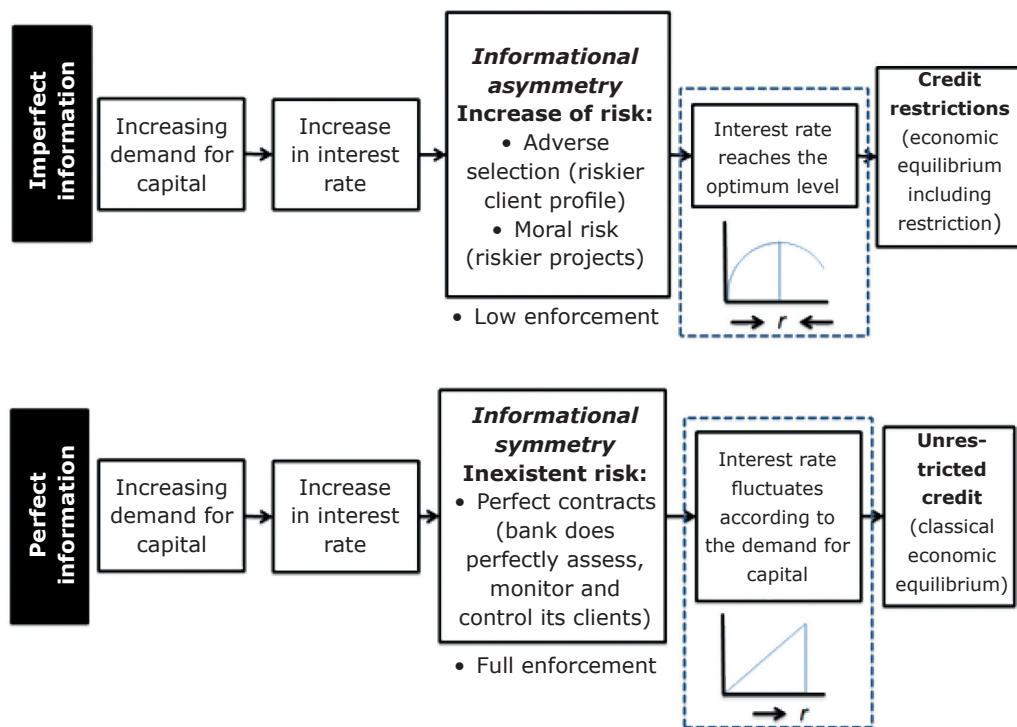
Source: Stiglitz and Weiss (1981).

Inversely, if a bank had perfect information and full enforcement, there would be no moral risk and no adverse selection, and it would be possible to create perfect contracts. Financial institutions would be able to differentiate safe from risky clients with total precision, using interest rates and requiring guarantees specific to each group and thereby eliminating the risk of default or balancing possible defaults with required guarantees (Figure 2 shows this difference between informational symmetry and informational asymmetry scenarios).

This figure presents the rationale that answers the question posed at this paper's outset: why do banks restrict credit offers to poor people even when they do not lack capital? The greater the informational asymmetry on the part of the bank with respect to its poor (potential) clients and the lower its capacity for enforcement, the greater the moral and adverse selection risks will be and, consequently, the higher the interest rate applied will tend to be (up to a specific limit). The restrictions on the credit offered will also be greater in such a case. (The inverse is equally true).

In accordance with this assumption, we can expect that increasing informational symmetry (and consequently reducing moral and adverse selection risks) and increasing the capacity for enforcement on the part of banks will tend to reduce the interest rates charged for loans along with an increasing availability of capital. However, both obtaining information (GROSSMAN; STIGLITZ, 1980) and creating enforcement mechanisms involve costs (STIGLER, 1970; GHATAK; GUINNANE, 1999). As we will

see in the two following sections, it is precisely in these transaction costs<sup>4</sup> that we can find the answers to the two first questions asked before: Why were microfinance solutions created, and why are the target clients of these institutions considered to be “non-bankable”?



**Figure 2 – Credit availability dynamics in cases of informational asymmetry and informational symmetry.**

Source: Adapted from Stiglitz and Weiss (1981).

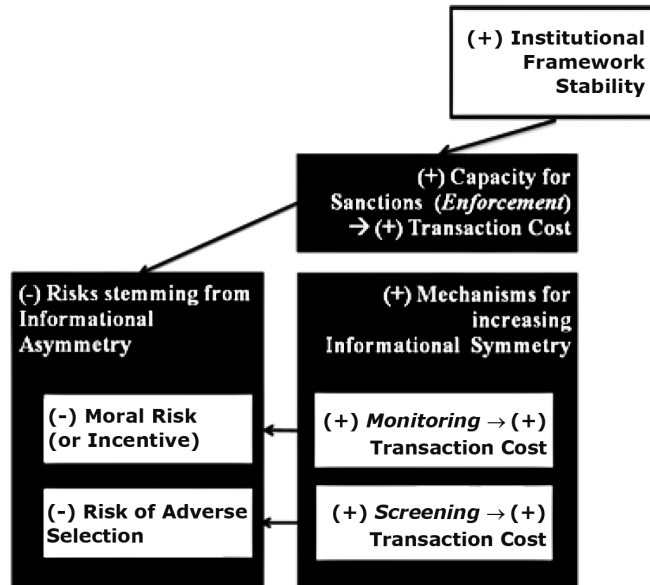
The costs of increasing informational symmetry and enforcement capacity as factors for excluding the poor individual (the “non-bankable”) seeking credit

According to Von Pischke (1991), the key to efficient credit transactions that maximize earnings for banks and poor borrowers is the ability of the actors involved to reduce the loan risks – adverse selection and moral risk, as explained above. In this topic we detail how the very same mechanisms that are put into place to reduce the risk of credit end up turning the poor people into “non-bankable”.

<sup>4</sup> Transaction costs are the costs incurred in making transactions, such as economic exchanges, and are extrinsic to the price of the goods or services themselves bought/sold through the transaction (WILLIAMSON, 1985). Transaction costs generally fall into one of three broad categories: enforcement costs, information costs and bargaining costs (in a very simple example, a buyer interested in acquiring a car has to bear the transaction costs of seeking information on where to buy his/her car and must search to find out the best price available). According to Williamson (1985) transaction costs are affected by the following transaction characteristics: frequency, specificity, uncertainty, limited rationality and opportunistic behavior. The more infrequent, specific, uncertain, ambiguous and vulnerable an exchange is to opportunism, the higher its transactions costs will be.

We begin by underscoring that banks must increase their informational symmetry and enforcement capacity and, therefore, reduce the levels of adverse selection risk and the moral risk of their credit transaction. Informational symmetry is normally sought by systematizing two chief activities that have been highlighted in the economic literature (SPENCE, 1973; STIGLITZ; WEISS, 1981; STIGLITZ, 1990; BHATT; TANG, 1998): the *screening* and *monitoring* of clients. (How to increase the capacity for *enforcement* is a third question to be considered, which depends mostly on primarily legal-institutional factors external to the transaction). Both actions, *assessment* and *monitoring*, should reduce the transaction costs associated with the exchanges that take place between banks and borrowers. However, these two mechanisms create expenses for financial institutions, thus bringing back new transaction costs. This is the reason why banks are forced to increase interest rates for clients: to ensure a return on the investments that the banks made in creating and operationalizing these mechanisms. The conceptual relationships between these elements are illustrated in Figure 3.

The goal of *screening* is to reduce the possibility of adverse selection – as previously explained – stemming from informational asymmetry (SPENCE, 1973). Normally, when more information is available with respect to actual or potential poor borrowers, the risk of adverse selection becomes lower, but the transaction costs for the bank also correspondingly increase. To reduce their likelihood of extending loans to low-income clients who are too risky, banks pay what they must to obtain and process this information. Screening requires that financial institutions develop a process for collecting and systematically verifying the data regarding their actual and potential clients. When this process is more efficient (as often determined by the level of resources used for the task), the likelihood that the bank will experience adverse selection will be lower. However, as we show next, it might be complex and very expensive to screen poor borrowers.



**Figure 3 – Mechanisms for increasing informational symmetry and enforcement.**

Source: The authors.

In addition to direct access to client information that allows their proper classification, banks use other tools to conduct screening. *Collateral* is one of the most common tools used by the bank to objectively distinguish between borrower profiles (STIGLITZ, 1990). Collateral can include various assets, normally fungible, that the

bank requires from its clients as payment for debt; in the event that the amount of the debt is not repaid, ownership of these assets is transferred to the bank. Normally, the larger the amount of collateral offered by the individual seeking credit, the lower the interest rate charged by the bank, and vice versa; concomitantly, the greater the collateral offered by the client, the greater his aversion to risk (STIGLITZ; WEISS, 1981). Clients who have less collateral to offer – such as those living under the poverty line – thus receive higher interest rates.

Assuming a constant increase in the interest rates charged by a bank, the best borrowers (safe clients), that is, those who have a higher income and are thus able to offer more guarantees to the banks, will tend not to contract loans. Thus, the banks' concentration of "risky" borrowers will increase. Briefly, this means that because better-off people have collateral to offer and thus avoid paying higher interest, a bank's client portfolio will tend to concentrate worse credit profiles – usually comprised of poor people – if its interest rates continue to go up. This reasoning shows that the interest rates charged by a bank also help to evaluate and screen different types of clients (STIGLITZ; WEISS, 1981).

The second process used to achieve greater informational symmetry is *monitoring*. By monitoring, we mean the bank's use of a set of control mechanisms to verify if the funds that its clients have received through loans are being used in a productive way, which is intended to reduce the likelihood of default (STIGLITZ, 1990). In other words, the objective of monitoring is to reduce moral risk on the part of clients. Due to asymmetry between incentives and responsibilities, clients may prefer to increase the risk of their actions to maximize their earnings, as explained above. As in the screening process, the greater the effectiveness of bank monitoring, the higher its transaction costs will be (normally). And, once more, the social and financial reality of poor borrowers may substantially increase the cost of monitoring them.

The capacity for sanctions (*enforcement*), as discussed before, does not increase informational symmetry. However, it indirectly reduces the problems of adverse selection and moral risk. In general, the objective of enforcement mechanisms is to influence behaviors on the part of the actors involved, ensuring that they conform to a particular degree with the rules governing these behaviors (STIGLER, 1970). From a bank's point of view, enforcement reflects the capacity to punish delinquent debtors. The absence (or an inappropriate level) of enforcement may result in reduced effectiveness for banks in evaluating and monitoring clients given that these activities do not work as well if no sanctions can be put in place in response to deviant behaviors. For this reason, Stigler (1970, p. 55) states that "all prescriptions for behavior require appropriate sanctions".

The effectiveness of enforcement depends directly on the level of resources assigned to the task (STIGLER, 1970) – for example, in the design and use of contracts – and on the institutional framework in which the actors in the transaction are embedded (STIGLITZ, 1989). The more intense the possible sanctions imposed by banks on their clients and the greater the likelihood that appropriate sanctions will be put in place by formal institutions (as reflected in the juridical security of the transactional environment, for example), the greater its capacity for enforcement will be. This, in turn, will diminish the risk associated with the transaction.

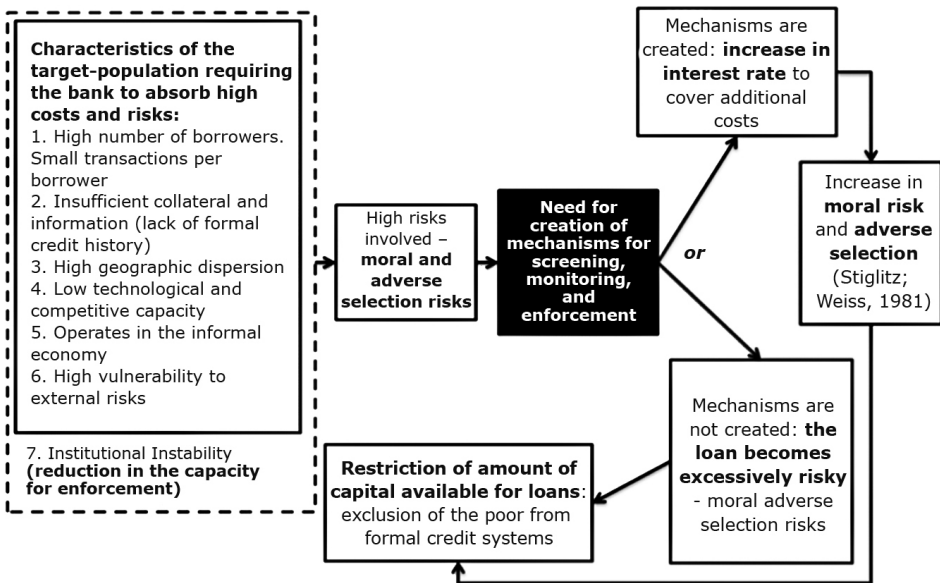
However, an increase in the capacity for sanctions on the part of the bank, as with evaluation and monitoring, will also increase transaction costs. Furthermore, normally, the lower the institutional stability of the transactional environment, the less it is guaranteed that formal enforcement mechanisms will work as intended and, thus, the greater the operating risks (STIGLITZ, 1990). (The inverse is equally true).

Now that we have explained (a) why credit restrictions exist even in capital markets with no lack of financing or competition (because informational symmetry increases the risk of adverse selection and moral risk, acting together with a low capacity for enforcement) and (b) what main mechanisms are used to increase the availability of capital and reduce its cost (increases in informational symmetry through potential client evaluation– screening – and actual client monitoring, with a concomitant increase in bank enforcement capacity), we can understand (c) why the poor clients

of microfinance institutions are considered “non-bankable” and are excluded from the formal economic sphere. Essentially, the low marginal returns obtained by banks on loans (given the high transaction costs required to manage a large number of low-income clients who each obtain small quantities of loaned capital and who possess individual characteristics that increase these costs), together with the operational risk associated with loans (stemming from informational asymmetry) and an insufficient capacity of the bank for the enforcement of borrower guidelines (considering the institutional flaws in the transactional environment and the imperfect nature of the tools that banks use to create sanctions), form the rationale for restricting the volume of capital to poor borrowers (STIGLITZ, 1990)

As was shown before, reducing risk for the loan operations targeting destitute borrowers would require a bank to engage in more intense client screening and monitoring activities. However, as was also stated above, the creation and maintenance of the operational structures used to evaluate and monitor a large number of low-income clients, each one borrowing a small amount of capital, require additional bank transaction costs. In other words, investments are necessary to operationalize these functions. It is logical to expect that the bank should seek to recoup these investments, which then will be included in the subsequently higher price of the loans granted (i.e., in the interest rate charged). Higher interest rates will then increase moral risk and the risk of adverse selection until the point at which, to avoid greater losses, the bank will restrict the volume of capital available for loans and label the poor borrowers as “non-bankable” (STIGLITZ; WEISS, 1981). Under these conditions, a credit dilemma is established in which the risks are high regardless of the choice made by the bank (whether to create protection mechanisms or not). Figure 4 illustrates this reasoning.

The third characteristic reported in the literature involves the geographical dispersion of low-income borrowers (HERMES; LENSINK; MEHRTEAB, 2006; GLAUBITT; HAGEN; SCHÜTTE, 2006; KHAVUL, 2010). Many of these borrowers are spread throughout large conflicted urban and rural regions that are distant and difficult to reach. This situation elevates the operational complexity of the bank – and, consequently, its costs for evaluation, monitoring, and enforcement – since the banks will require a distribution network to reach this poor population (KHAVUL, 2010).



**Figure 4 – The credit dilemma and the exclusion of the poor from formal financial markets.**

Source: The authors.

The fourth characteristic is the competitive and technological capacity of poor populations (YUNUS, 2007). Micro-entrepreneurs, the focus of microfinance initiatives, normally lack access to formal education, are often illiterate (GHATAK, 1999; KHAVUL, 2010), and do not have access to technologies used to obtain information, communicate, and manage their business activities. Thus, their capacity for management, competition, and survival tends to be lower than that of the larger *players* with whom they often need to compete.

Another characteristic of poor borrowers is their *locus* of activity: normally, these micro-entrepreneurs work within the informal economy (MARCONATTO; CRUZ; PEDROZO, 2016; KHAVUL, 2010), where little structured and reliable information about their activities and their financial situation can be obtained through the traditional modes of collecting information used by formal banks.

The combination of these characteristics results in the sixth characteristic, which is very typical in poor communities: a high vulnerability to various types of external risk (BHATTAMISHRA; BARRETT, 2010; KHAVUL, 2010). Because their low level of financial resources makes it difficult or impossible for these individuals to access basic services such as health, education services and insurance and because the governments of most developing countries are unable to properly provide these services, the lives and economic activities of these individuals are gravely and sometimes even fatally affected by events such as disease outbreaks, weather and climate changes, and minor economic and social changes. This high degree of vulnerability to multiple risks significantly increases their risk of default.

There is also a seventh element to consider – one that, although not a direct concern for the poor borrowers in particular, affects them by reinforcing their vulnerability to external factors and their transactional risks. This element is the lack of efficiency and effectiveness of the institutional environment within which they find themselves. As Stiglitz (1990) mentions, the corruption, inefficiency, and even the possible absence of the government in the poorest countries reduces the security of economic transactions and thus increases the risk of default on loan agreements, negatively affecting the capacity of bank enforcement (STIGLITZ, 1990).

In the next section, based on this discussion, microfinance will be presented as a strategy for mitigating these difficulties and democratizing access to capital, thereby reducing poverty. In the next section, we will show how microfinance solutions make use of differentiated institutional arrangements and techniques to carry out evaluation, monitoring, and enforcement more efficiently and at a lower cost than in formal credit institutions.

### Why microfinance solutions were created: reduction of transactional risks through a differentiated institutional arrangement

We started this paper by asking a central question: why are poor people, known as “non-bankable”, excluded from the formal credit markets? Then we explained that their exclusion finds an explanation in the economic logic of credit rationing. The efforts made by the banks to discover the credibility of their potential customers and enforce the repayment of their loans result in higher interest rates. This dynamic is bound to degrade the quality of the banks’ client portfolio. To avoid this situation, banks stop extending credit when the interest rates reach a certain threshold and poor borrowers find no loans available even if they offer to pay higher interest rates for them.

One of the greatest contributions of microfinance is precisely to break this vicious cycle (YUNUS, 2007). In other words, microfinance has been able to provide to poor populations which were *a priori* “non-bankable” (those with the characteristics indicated in Figure 4) an objective capacity for solvency. According to these authors, depending on the actual characteristics of these poor populations and of the institutional environment in which they exist, they may actually be incorporated into the credit market without creating losses for those providing capital – or even with gains for the



latter. As will be seen below, there are two principal interrelated factors that make this change in status for micro-borrowers: (1) *new institutional arrangements* supported by particular (2) *social and institutional mechanisms*.

Although there are certainly various methodologies for and modes of operationalizing microfinance, the so-called lending group, considered as the "most celebrated innovation of microfinance" (MORDUCH, 1999, p. 1.572), is almost a symbol of microfinance in itself and is today the main lending mechanism used by many MFIs around the world (STIGLITZ, 1990; VAN TASSEL, 1999; CULL; DEMIRGÜÇ-KUNT; MORDUCH, 2009). This structure makes it possible to reduce the default risk for the lender without prohibitive increases in transaction costs. The key is the opportunity the lender has to share the performance and cost of some of the evaluation, monitoring, and enforcement activities with the poor borrowers themselves (BHATT; TANG, 1998; KHAVUL, 2010). Given the earlier explanations, it is unsurprising that the institutional configurations that make this redistribution possible (and efficient) can create a lower equilibrium between costs and interest rates charged to borrowers. The expected effects of this new configuration, all other things being equal, are thus a decrease in the amount of interest charged and an increase in the volume of capital available for the loan.

Since their popularization through the example of the Grameen Bank, collective methodologies of lending groups have experienced an increasing diversification. Four internal socio-institutional mechanisms included in this model, although not universally used, are the most popular. These mechanisms comprehend the five main microfinance features cited by Morduch (1999) – peer selection, peer monitoring, dynamic incentives, regular schedule of payments, and collateral substitutes – which will be explained together.

The first mechanism is the *joint liability*. Although some loans are provided via collective arrangements without *joint liability*, this mechanism is used in the majority of collective lending strategies (GHATAK; GUINNANE, 1999). Joint liability connects the terms of repayment for each individual in a lending group to the performance of all of the other members of the same group (GHATAK, 1999). This means that the members of the group are considered to be responsible for their debts *and* for those of their colleagues: if an individual does not repay a loan, the others are responsible for this default.

*Self-selection*, or *peer selection*, is the second key mechanism used in the majority of lending groups (GHATAK, 1999; MORDUCH, 1999). If new individuals need to be selected to enter the group, whether to increase its size or to substitute for members who have left the group, they will be accepted only after the current members have reached a consensus, since they all will be responsible for paying his/her debts if he/she should default. When this is the case, groups are usually formed based on previously existing social ties among neighbors, friends, and others. In this way, poorer individuals can overcome their own lack of collateral, replacing it with "a sort of invisible collateral" (GHATAK, 2002, p. 2): the reputation of the borrower, a key factor in the peer evaluations that take place before one can enter better lending groups (GHATAK; GUINNANE, 1999), which offer better conditions, including lower interest rates.

The *operational dynamics* of lending groups also deserve attention. Although the operation of each microfinance program has its own peculiarities, lending groups are generally subjected to a schedule of small and frequent repayments and to subsequent meetings between their members and the microfinance institution (MORDUCH, 1999). In addition, MFIs interact in a more intense and direct way with these individuals through their credit agents, who are collaborators with a series of specific responsibilities. Although the exact definition of these responsibilities is determined by each MFI, they generally involve monitoring lending groups and providing direct assistance with their internal coordination activities. Meetings between the groups and the credit agents facilitate the joint tracking of individual enterprises, better performance evaluations, and, thus, a greater capacity for group monitoring. In addition, these meetings also create a forum for the discussion and application of

possible social sanctions (enforcement) for individuals who are in default, which tends to reduce potential moral risk (BASTELAER, 2000).

The fourth lending groups mechanism is the use of dynamic incentives (MORDUCH, 1999). In this technique, the amount of the loan is tied to objective borrower performance: individuals who are punctual in their payments have the right to continue to contract new loans, which normally become increasingly large. The possibility of obtaining larger amounts of capital functions not only as an incentive for clients to avoid defaulting but also gives them an incentive to intensify their evaluation, monitoring, and enforcement activities within their lending group. This is because if one of their peers defaults, then it will be impossible for them to obtain new and larger loans (BESLEY; COATE, 1995).

The union of these four mechanisms (joint liability, self-selection, operational dynamics, and dynamic incentives) allows a substantial part of the activities and transaction costs associated with evaluation, monitoring, and enforcement to be transferred from the MFI to its lending groups. In addition, according to various authors (BHATT; TANG, 1998; BASTELAER, 2000; GHATAK, 1999; MORDUCH, 1999; VAN TASSEL, 1999), these mechanisms allow for gains that are unlikely to be achieved by lenders on their own. Among the benefits are the elimination or attenuation of the difficulties stemming from the typical characteristics of populations interested in microfinance solutions (as presented above in Figure 4).

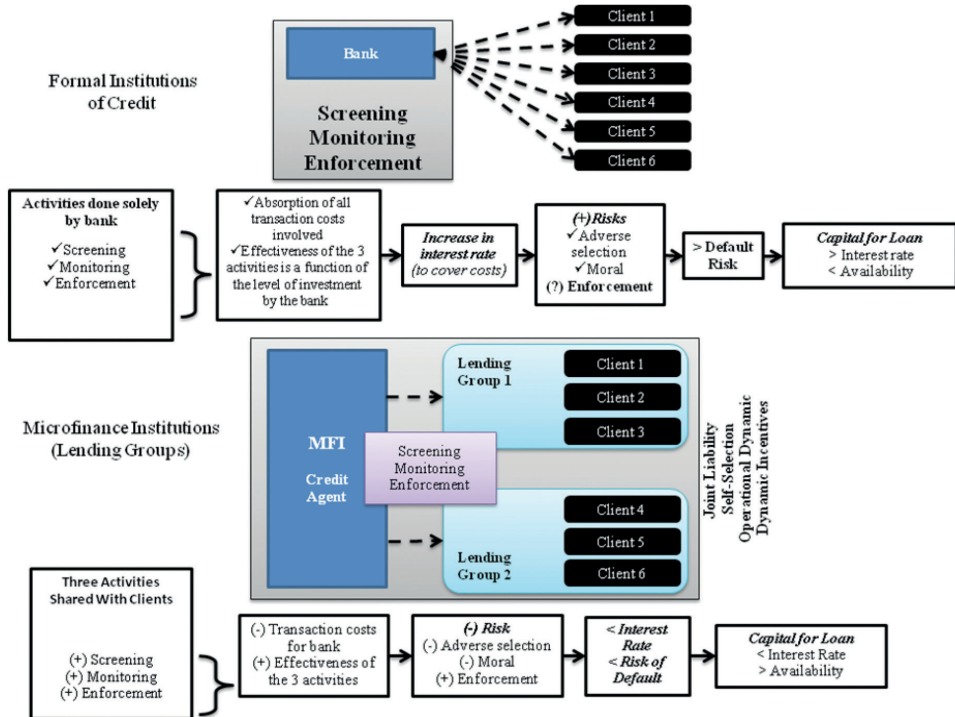
Ghatak (2002), Stiglitz (1990), Van Tassel (1999) and Morduch (1999), for example, show how self-selected lending groups use local knowledge to reduce informational asymmetry regarding borrowers and, simultaneously, to evaluate themselves, thus reducing both moral and adverse selection risks. Because group members have an interest in choosing the best partners to integrate into their groups (in order to reduce the possibility of default and thus increase their own chances of success), it is expected that they will be cautious in performing the selection process. Toward this end, members use previous knowledge from their social networks regarding new members and also employ pre-existing social ties of confidence and dependence. Because lending groups are usually formed locally (BASTELAER, 2000), borrowers are more likely to already know each other and to be familiar with the history, reputation, and competency of their peers. This familiarity allows them to more accurately evaluate their peers' risk of default (STIGLITZ, 1990). In addition, as Morduch (1999), Ghatak (1999), Stiglitz (1990), and others explain, the self-selection process used to form lending groups tends to bring together individuals with similar risk profiles in a process known as *sorting*, which indirectly facilitates bank evaluations.

Another advantage of making loans to self-selected groups with joint liability is that it reduces problems related to the geographic dispersion of borrowers. The literature shows that living together, on a regular basis and in close physical proximity in places that are often difficult for formal credit institutions to access, makes it easier to track the activities of each individual and his/her financial performance, reduce moral risk, and apply possible charges and sanctions to reinforce the need for payment if necessary. This is especially true when lending groups have frequent meetings. Sanctions can include not only the exclusion of the member in default from the lending group but also the exclusion of the borrower from future groups and social ostracism. These measures can reinforce the capacity of MFIs to enforce borrower requirements (BASTELAER, 2000).

In addition, joint liability encourages mutual support among borrowers because they will wish to reduce the likelihood of default by their peers (BASTELAER, 2000) for reasons intrinsic to their micro-enterprises or due to negative external impacts such as floods or droughts. This network interaction tends to increase the chances of survival of micro-enterprises created or enlarged through lending groups.

The combination of these social dynamics with the methodology of self-selected lending groups with joint liability makes it possible to create a differentiated institutional arrangement in which, as noted earlier, evaluation, monitoring, and enforcement are partially relocated from the financial micro-credit institution to its own clients – unlike formal institutions of credit, which tend to centralize these activities. Thus, as has been

previously explained, this configuration can reduce the difficulties mentioned in Figure 4 and thus increase the availability of capital for loans and reduction of the interest rates charged. Figure 5 summarizes this model, comparing it to the traditional loan method.



**Figure 5 – Why microfinance solutions were created: traditional credit organizations versus MFIs' lending groups.**

Source: The authors.

Beyond the internal mechanisms of lending groups, there are other factors to consider in explaining their success. One of those most discussed in the microfinance literature is gender (for instance, see SHARMA; ZELLER, 1997; HOSSAIN, 1988; KEVANE; WYDICK, 2001; JOHNSON, 2004; ARMENDÁRIZ; MORDUCH, 2007; YUNUS, 2007; D'ESPALLIER; GUÉRIN; MERSLAND, 2011). Modern microfinance began as a credit experiment carried out with a group of women (YUNUS, 2007) and worldwide today eight out of every ten microfinance clients are women (REED, 2015). The client base of Grameen Bank itself is over 95% women (GRAMEEN BANK, 2016). Indeed, evidence collected by 350 MFIs located in 70 different countries shows that women are substantially more diligent than men in the repayment of their loans (D'ESPALLIER; GUÉRIN; MERSLAND, 2011). Many reasons have been given for the superior repayment performance of women. They tend to be more conscious and conservative – less risk-taking – in their investments (ARENA, 2007; SHARMA; ZELLER, 1997; ARMENDÁRIZ; MORDUCH, 2007; AGIER; SZAFARZ, 2010); it is easier to assess and monitor female borrowers as they tend to engage in home-based economic activities (e.g. sewing, cooking, crafting etc.) (JOHNSON, 2004; ARMENDÁRIZ; MORDUCH, 2007; GOETZ; GUPTA, 1996; YUNUS 2007); other scholars, such as Yunus (2007), say that women are a better fit for lending groups because they are intrinsically more sociable and group-oriented than men, who are believed to be more individualistic.

Context is another element emphasized by the microfinance literature when it comes to lending groups. The success achieved by Grameen Bank was followed by an indiscriminate replication of its credit methodology throughout the world (HULME,

2000a, 2000b). After multiple failures and some wins, scholars have started to investigate why the lending groups succeeded in some regions while they were a flop in others. It has become clear that success requires an optimal fit between a MFI and its environment (BHATT; TANG, 1998).

As Woolcock (1999), Churchill (1999) and Bastelaer (1999, 2000) explain, collective arrangements of credit need social capital to function. The various forms of trust, the mutual sense of obligation, and the ability to commit and to apply social sanctions (e.g. peer pressure) – all components of social capital (PORTES, 1998) – are effective in decreasing the transaction costs incurred by lending groups (BHATT; TANG, 1998). Embeddedness, seen as the interpenetration of economic and non-economic (i.e. social) action (GRANOVETTER, 2005), is also a key component. According to Uzzi (1996, 1997) and Granovetter (1985, 2005), embeddedness improves the efficiency of economic interactions by, among other things, reducing the asymmetry of information that exists between exchanging partners and increasing the effectiveness of peer pressure. Granovetter (2005) explains how social networks enhance the effectiveness of economic transactions by three means: improving the flow and quality of information – which enables borrowers organized into groups to assess and monitor each other; by acting as a source of reward and punishment through peer pressure – the social sanction required for enforcement of delinquent borrowers; and by increasing the level of trust among the network’s members. Thus, without the embeddedness of social capital within the financial, the internal mechanisms of lending groups (e.g. joint liability, self-selection and the operational dynamic) are bound to fail. This explains why this collective arrangement has experienced mixed results in Brazil.

### Microfinance and lending groups in Brazil

As the legacy of laws and regulations listed in Table 1 implies, the history of microfinance in Brazil is strongly related to government initiatives and the participation of social actors and international development agencies. Microfinance was introduced to Brazil in the early 1970’s by the joint initiative of Acción Internacional and public banks operating in the northeastern part of the country (BARONE et al., 2002; NERI, 2008; LIMA, 2009). Indeed, the poorest region in Brazil, the Northeast has always been the hotbed of microfinance in the country<sup>5</sup>. As we see in Table 2, even though this region accounts for only 28% of the national population, it holds over half of the microfinance credit portfolios in Brazil.

**Table 1 – Legal landmarks of microfinance in Brazil.**

Law	Issued in	Key Matters
Law 9.790	Mar 1999	<ul style="list-style-type: none"> <li>• Institutes a new kind of legal organization – Civil Society Organization for Public Interest (OSCIP) – which has been adopted by many Brazilian MFIs. OSCIPs are nonprofit private organizations.</li> </ul>
Law 10.194	Feb 2001	<ul style="list-style-type: none"> <li>• Institutes the credit societies aimed at micro-entrepreneurs.</li> <li>• Channels governmental resources into programs and projects aimed at improving the poor populations’ access to credit.</li> </ul>
Law 10.539	Sep 2002	<ul style="list-style-type: none"> <li>• Allows public workers to join the OSCIPs’ boards.</li> </ul>
Law 10.735	Sep 2003	<ul style="list-style-type: none"> <li>• Regulates the channeling of part of the term deposits collected by formal financial institutions into credit operations towards the low-income population.</li> <li>• Institutes the Incentive Program in the Implementation of Social Interest Projects.</li> </ul>

continued on next page

<sup>5</sup> For instance, Crediamigo, the largest Latin American MFI, was founded in 1998 in the northeastern State of Ceará (NERI, 2008) and now serves more than two million active clients (CREDIAMIGO, 2016).

continued from previous page

Law	Issued in	Key Matters
Law 10.738	Sep 2003	<ul style="list-style-type: none"> <li>Creates a formal structure within Banco do Brasil (a public bank) for operation directly within microfinance.</li> </ul>
Temporary measure 226	Nov 2004	<ul style="list-style-type: none"> <li>Institutes the National Program of Production-Oriented Microcredit (PNMPO).</li> </ul>
Decree 5.288	Nov 2004	<ul style="list-style-type: none"> <li>Regulates the PNMPO.</li> </ul>
Law 11.110	Apr 2005	<ul style="list-style-type: none"> <li>Converts temporary measure 226 into law.</li> <li>This is called the legal landmark of microcredit in Brazil.</li> </ul>
Central Bank resolution 3.422	Nov 2006	<ul style="list-style-type: none"> <li>Specifies the microcredit operations aimed at the low income population and micro-entrepreneurs.</li> </ul>
Central Bank resolution 4.000	Aug 2011	<ul style="list-style-type: none"> <li>Changes the norms which regulate the channeling of term deposits held by formal financial institutions into microcredit operations.</li> </ul>
Law 12.666	Jun 2012	<ul style="list-style-type: none"> <li>Authorizes the State to subsidize part of the costs (by an equalization calculus) of the microcredit operations run by public banks abiding by the PNMPO directives<sup>5</sup>.</li> </ul>

Source: The authors – based on BCB (2006, 2011) and Brasil (1999, 2001, 2002, 2003a, 2003b, 2004a, 2004b, 2005, 2012).

**Table 2 – Distribution of credit portfolio and active clients in Brazil (2013).**

Region	Credit portfolio	%	Active clients	%
Mid-west	R\$ 235,998,927.00	4.6%	121,754	6.6%
Northeast	R\$ 2,650,288,653.00	52.1%	647,792	35.0%
North	R\$ 141,359,009.00	2.8%	75,146	4.1%
Southeast	R\$ 1,152,605,844.00	22.6%	664,141	35.9%
South	R\$ 907,931,856.00	17.8%	342,857	18.5%
<b>Brazil (Total)</b>	<b>R\$ 5,089,640,970.00</b>	<b>100.0%</b>	<b>1,852,498</b>	<b>100.0%</b>

Source: BCB (2015).

While the lending groups are the most common credit method used by Brazilian MFIs operating in poorer regions, this methodology has failed when applied to large, wealthier cities. Now individual lending is the first, if not the only, choice of MFIs located in the richest, more urbanized states of the country. As we explained earlier, context and embeddedness explain this trend.

The social configuration of the poor communities in São Paulo, Rio de Janeiro and most of the other large cities located within the southern and southeastern regions of Brazil are quite different from the social structures prevalent in the most destitute parts of the Northeast (NERI, 2008). While the latter have larger, rural, locally-rooted populations where people hold stronger and embedded social ties, the inhabitants of poor neighborhoods in states such as São Paulo tend to be more socially detached. It is not a novelty that, under normal circumstances, it is easier to know and trust a neighbor with a common origin and background who has lived a long time in the same small community<sup>7</sup> and with whom one has shared multiple social ties, than to

<sup>6</sup> This law has profoundly changed the competitive landscape of microfinance in Brazil because public banks such as Caixa Econômica Federal and Banco do Brasil are now able to offer microloans at prices that are much lower than the market-prices offered by private MFIs.

<sup>7</sup> Depending on the geographic regions, small communities can be formed within large slums. See, for instance, the case of Banco Palmas and Conjunto Palmeiras (MARCONATTO, 2013).

trust someone who is just another stranger amongst tens of thousands (CHURCHILL, 1999). The relational culture deepens the difference between these regions. Whereas Northeastern people are known for their social openness and candid profile (e.g. see MARCONATTO, 2013), the Southeastern populations are more likely to have a skeptical mindset. Thus it is not surprising that southeastern MFIs choose the individualized lending model.

The credit methodology adopted by Brazilian MFIs also seems to depend on their orientation. Even though we have not found evidence of a relationship between the type of MFI and their credit methodology, direct observation shows that while small, community-based MFIs tend to take collective approaches (such as the use of lending groups), large, private (for profit) banks running microfinance operations have a clear preference for individualized methods. Two notorious examples in the country are Itaú Microcrédito (MARCONATTO; CRUZ; PEDROZO, 2015) and Santander Microcrédito. Even the public banks Banrisul and Caixa Econômica Federal decided to implement the individualized microfinance approach.

Finally, the individual methodologies, initially thought impossible for microfinance operations, have absorbed many of the features that were initially exclusive to lending groups: dynamic incentives, high frequency repayment schedule etc. This has led to significant improvements in the repayment performance of individual-contract borrowers. So much so that Churchill (1999), Armendáriz and Morduch (2000), Giné and Karlan (2010), and Attanasio et al. (2011) have been able to show that both methods basically perform the same. Thus, this is another reason for MFIs operating in the southern parts of Brazil to prefer individual over collective methodologies of credit.

## Conclusions

The present article revisits the economic reasons underlying the existence of MFIs. The success of such operations in fighting poverty and their consolidation into a profitable business model has encouraged the spread of various types of MFIs (social, economic, and hybrid – BATTILANA; DORADO, 2010) around the world. The body of literature concerning MFIs has expanded as well, and the debate surrounding the consequences of the operations of these different types of organizations has attracted a large portion of the research attention on the subject.

Here, we emphasize the importance and need for focusing on the economic basis for the collective microfinance model. Understanding which activities reduce informational asymmetry (screening and monitoring) and increase capacity for enforcement allows us to understand the methodology of lending groups as a form of risk and responsibility sharing with the client community being served. This methodology makes it possible to co-manage risk independent of the type of vocation of the MFI, with greater possibilities of offering credit to individuals previously thought to be non-bankable. At the same time, we showed that the success of lending groups is highly dependent on their context as well as on the gender of the borrowers. That is why we showed that MFIs operating in large cities (such as São Paulo or Rio de Janeiro) will tend to adopt individual rather than collective lending methods.

For MFIs managers, this article provides a review of the concepts associated with the control of risks inherent in their day-to-day operations. A good understanding of screening, monitoring, and enforcement activities is essential to develop a growth strategy for MFIs and to implement shared risk mechanisms, such as in lending groups.

Our study can also be used to develop a research agenda which can unite the economic motivations and desired outcomes of microfinance organizations. Such studies could compare, for example, how different types of microfinance organizations establish ways of carrying out the screening, monitoring, and enforcement activities and which mechanisms they use for these purposes. In addition, future studies could explore if there are differences between these relationships in different institutional contexts. A comparison of the operations in developed and emerging countries and within these categories (e.g., in emerging countries on different continents) would be

useful and welcome in the literature. Additionally, longitudinal studies that analyze how the screening, monitoring, and enforcement mechanisms has evolved over time would also be pertinent to advancing microfinance research.

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**Submission date: 25/11/2015**

**Approval date: 19/07/2016**

## FAIR TRADE IN BRAZIL: CURRENT STATUS, CONSTRAINTS AND OPPORTUNITIES

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### Abstract

Fair trade has expanded worldwide as a formal certification, while in developing countries like Brazil, there is still a lack of information about this concept in a context of the growth of social businesses. To answer the research question "How is fair trade currently organized in Brazil and what are the constraints and opportunities involved?", we analyzed a database of 277 Brazilian organizations linked to fair trade, followed by in-depth interviews with Brazilian experts. Results show that fair trade has grown between 2005 and 2012 due to the support of institutions and public agencies, even if organizations still face financial difficulties. As it has grown as a public policy, its development has strengthened the concept and the groups involved, providing a good perspective for the internal market. Fair trade has a social role and a political nature, what might attract the attention of policy makers regarding social programs and the support of fair trade organizations.

**Keywords:** Fair trade. Social economy. Emerging economies. Solidarity economy. Brazilian certification.

## COMÉRCIO JUSTO NO BRASIL: STATUS ATUAL, GARGALOS E OPORTUNIDADES

### Resumo

Ainda são escassas as informações sobre comércio justo no Brasil, em um contexto de crescimento dos negócios sociais e da certificação internacional. Para responder à pergunta de pesquisa "Como é organizado o comércio justo no Brasil e quais são os gargalos e oportunidades envolvidas?", analisamos uma base de dados de 277 organizações brasileiras ligadas ao comércio justo e realizamos entrevistas em profundidade com especialistas. Os resultados mostram que o comércio justo cresceu entre 2005 e 2012 em virtude do apoio de instituições e agências públicas, mesmo que as organizações ainda enfrentem dificuldades financeiras. Uma vez que o comércio justo cresceu como uma política pública, seu desenvolvimento reforçou o conceito e os grupos envolvidos, proporcionando uma boa perspectiva para o mercado interno. O comércio justo tem um papel social e natureza política, o que pode chamar a atenção dos formuladores de políticas sobre programas sociais e o apoio de organizações de comércio justo.

**Palavras-chave:** Comércio justo. Economia social. Economias emergentes. Economia solidária. Certificação brasileira.

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## Introduction

**S**ocially oriented businesses aim to develop alternative ways to solve social and economic problems while new structures of production and marketing based on transparency and fairness are established (ALVES et al., 2016). The Fair Trade concept emerges from this concept.

Fair trade businesses are profit oriented, just as for traditional trade businesses, although there is the perspective of fair distribution of profits throughout the production chain, which includes taking into account both producer social conditions and environmental preservation in the perspective of product valuation (FRETTEL; SIMONCELLI-BOURQUE, 2003). Hence, fair trade is a concept that seeks to reinforce producer organization initiatives such as cooperatives, producer associations, and networks of small producers. At the same time, fair trade seeks to provide education to final consumers by informing them about product origin and production conditions (JAFFEE; KLOPPENBURG; MONROY, 2004).

Fair trade has been expanded worldwide as a formal certification that ensures final consumers about the transparency along the value chain both in relation to production and to the increased amount of available information for consumers. Currently, fair trade production initiatives exist in 74 countries, with 1,210 organizations benefiting the lives of approximately 1.5 million farmers, workers and their families (FAIRTRADE FOUNDATION, 2015).

The expansion of fair trade in Brazil is related to the willingness to strengthen the solidarity economy understood as an alternative concept to capitalism, by focusing on the centrality of business principles such as solidarity, cooperation and equality (SINGER, 2002; GAIGER, 2011). Governmental initiatives organized by Secretary of Solidarity Economy and Fair Trade, hosted by the Brazilian Ministry of Labor and Employment (SENAES/MTE, 2012) have a direct influence. The Brazilian System of Fair and Solidarity Trade (BSFST) was formally created in 2010 to promote development by encouraging social business throughout the country (MENDONÇA, 2011).

By developing this system (BSFST), Brazilian policymakers show that fair trade in Brazil means more than a specific kind of commercialization, and includes solidarity and social system values (MENDONÇA, 2011). From a different perspective, while a solidarity economy is a relatively popular approach in Brazil, its commercialization is a big challenge that has led public policies to include fair (and solidarity) trade as a core value in public policies to ensure that producers will flourish (MENDONÇA, 2011).

Brazil suffered political changes in 2016, creating a delicate scenario for this movement since little is known in terms of current government social development and support alternatives for work and wealth creation. At the same time, civil society involved in the development of BSFST is optimistic in terms of public and private institutions representation in the development of Brazilian fair (and solidarity) trade (GOMES; MENDONÇA, 2016). In this context, there is the perception of an increased interest in understanding how fair trade organizations have arranged their business. At first analysis, we can see that although organizations follow fair trade principles, some are not formalized regarding certification processes (a very important issue in the Fair Trade movement).

Thus, considering the expansion of fair trade at the international level, we can observe that there is still a lack of information regarding this kind of organization in developing countries like Brazil (SILVA-FILHO; CANTALICE, 2011; MOURA; COMINI; TEODÓSIO, 2015). For this reason, the research question that motivates this study is: How is fair trade currently organized in Brazil and what are the constraints and opportunities involved? The study aims to identify the characteristics of fair trade organizations and investigate constraints and opportunities for these organizations in an emerging country.

To achieve our objective, we have analyzed data from a survey conducted by the Brazilian National Government which mapped all existing social businesses in Brazil, including fair trade organizations. In addition, fair trade organization leaders,

experts, and representatives of international organizations engaged in fair trade in the country were also interviewed.

This paper is divided into six sections. After the introduction, we present a literature review of Fair Trade, its concept and history. In the third section we describe the method and in the fourth and fifth, the results and discussion. The final remarks are presented in the sixth section.

## Fair trade: concept and background

According to França Filho (2001), a solidarity economy congregates two historically separated notions: initiative and solidarity. For this reason, there is a different understanding for economic activities where solidarity and sharing play a central role in the meaning of development. Thus, solidarity economy initiatives combine their economic activities with the educational and cultural nature of actions, enhancing the sense of community and commitment to the social collectivity in which they operate (GAIGER, 2009).

Fair trade is part of the solidarity economy concept, understood as an alternative to conventional trade, regarding the needs of people involved, contributing to sustainable development by offering better trading conditions and protecting workers' rights (FRETEL; SIMONCELLI-BOURQUE, 2003; JAFFEE; KLOPPENBURG; MONROY, 2004).

Fair trade offers farmers more advantageous trading conditions and seeks to provide these farmers the opportunity to enhance their lives and to continue generating income in rural areas. It also offers customers access to information and the opportunity to be part of an initiative that seeks to alleviate poverty through everyday purchases and consumption of more sustainable products (FAIRTRADE INTERNATIONAL, 2011).

Fair trade is typically understood as an alternative market system that aims to rectify historically inequitable terms of trade between the geopolitical North and South and foster more direct producer/consumer linkages (JAFFEE; KLOPPENBURG; MONROY, 2004). Origins of fair trade organizations date back to the 1940s and 1950s, when Christian missions established Non-Governmental Organizations (NGOs) in developed countries to sell handicrafts produced in poor countries of the Southern Hemisphere. In the 1950s and 1960s, commercialization was also done by mail and in solidarity groups through Alternative Trade Organizations (ATOs) (DORAN; NATALE, 2011; FRIDELL, 2004).

Although a consistent growth of fair trade organizations occurred in the 1970s and 1980s, low sales volume offered little aid to small farmers and artisans. Network growth was also hampered by poor access to consumers, who still perceived fair trade products as low quality, and limited to volunteer workers for sales and the inappropriate use of marketing tools. In response to these limitations, fair trade organizations decided that their inclusion in traditional markets was required. Therefore, a strategic reorientation was held in 1988, and fair trade labeling was launched, allowing fair trade products to be marketed along with traditional retail channels (FRIDELL, 2004).

In this first initiative, the idea was to certify and purchase products from small producers at relatively higher prices than those offered by the market. The producers' counterpart would be to preserve the environment and to establish the criteria of solidarity and democracy in their relationships (FRETEL; SIMONCELLI-BOURQUE, 2003).

The process of certification enhanced the perception of quality in the market as well as the accuracy of information provided to consumers, including about the social aspects involved in production. Through certification, fair trade has grown worldwide (DE PELSMACKER; JANSSENS, 2007; FRIDELL, 2004; REED, 2009; RENARD, 2005).

Business growth was linked to the establishment of fair trade labeling as well as professionalization of fair trade shops and the entrance of these products into the food industry (GENDRON; BISAILLON; RANCE, 2009; LOW; DAVENPORT, 2005; RENARD, 2005). However, market growth has also led to debates regarding Fair Trade's fairness

(INGENBLEEK; REINDERS, 2013) and if growth could also bring negative consequences to maintenance of the status as an authentic alternative to free trade (STARICCO; PONTE, 2015). This inquiry might be related to another critical perspective, saying that social change actors can start to act similarly to what they oppose, which means in the fair trade case that mainstreaming can turn it into a new way of capitalist business (CHILD, 2015). Nevertheless, fair trade has consolidated in some markets as a benchmark for companies to develop and adopt standard fair rules (INGENBLEEK; REINDERS, 2013).

### Fair trade in Brazil

Despite a worldwide evolution in fair trade, an organized movement for fair trade in Brazil did not begin until 2001. According to Brazilian Service of Support for Micro and Small Enterprises [SEBRAE, in Portuguese] (2007), at that time several members of NGOs, solidarity economy movements, family farms, business, government and service providers began to discuss issues related to fair trade. Since then, fair trade in Brazil has not been limited to exports of goods to developed countries, but the actors have also developed new forms of internal trade.

Labels and certifications are still little recognized by Brazilian consumers. This stems from the lack of regulation in recent decades that has allowed the emergence and dissemination of many labels. According to Vialli (2010), there are about 600 ecolabels in Brazil that advertise sustainable production, many of them simply self-declared by their own companies without external accreditation. Within this universe of labels, fair trade labeling is among the least known (HAMZA; DALMARCO, 2012). Even among those Brazilian consumers who know the meaning of labels and could easily identify them on the products, most of them did not notice it when making purchases (HAMZA; DALMARCO, 2012).

The international fair trade trajectory has happened in parallel to demands by social movements in Brazil that aim to combat the social inequalities and instability in farming and labor relations. It spawned what is called today "Fair and Solidarity Trade", which is defined as an alternative commercial flow, based on compliance with criteria of justice and solidarity in trade relations and recognition of the autonomy of Solidarity Economy Enterprises (GOMES; MENDONÇA, 2016; ZERBINI; PATEO; SÍGOLO, 2010).

In 2004, the Brazilian Service of Support for Micro and Small Enterprises (SEBRAE) started investing in fair trade in Brazil, focusing on micro and small businesses. In 2005, a project of fair and solidarity trade was initiated by partnership with specialized consultants and the support of NGOs that aimed to enhance small producer access to this market (SEBRAE, 2007).

In 2006 a discussion group for fair trade with representatives of governmental departments linked to the Agriculture Ministry, Family Agriculture and Agrarian Development Ministry, Solidarity Economy Secretary and other departments was created. The constitution process for the Brazilian System of Fair and Solidarity Trade (BSFST) started through this discussion group.

In 2014, worldwide sales of certified fair trade products increased to 6.24 billion dollars, representing an increase of 10% over 2013 (FAIRTRADE INTERNATIONAL, 2015). This growth is attributed, among other factors, to the support from big companies, such as Starbucks, which buys fair-trade certified coffee, and Cadbury and Nestle chocolates.

According to Zerbin, Pateo and Sígolo (2010), with the signing of Decree 7358 (BRASIL, 2010), the government started investing in initiatives for enhancing economic inclusion, promoting democracy and generating equitable development. This decree encourages financial investments in projects that improve organizational capacity, infrastructure, training, promotion of market access, expansion of the program of sustainable public procurement and pricing rules (ZERBINI; PATEO; SÍGOLO, 2010).



Therefore, the development of fair trade in Brazil has its peculiarities, such as its development as a public policy, but always followed by joint actions from civil society. This made it a stronger movement, able to survive to changes in the political scenario. Considering its peculiar characteristics, and the willingness to develop an internal market instead of just selling to developed countries, our analysis includes investigation of its main characteristics, current status, motivations, constraints that organizations face, as well as opportunities to expand this specific market.

## Method

To achieve the main goal of this study, we conducted a two-step empirical research. In the first phase, we adopt a quantitative orientation research and present an analysis performed on a database collected by the Brazilian Ministry of Labor and Employment (MLE) from 2009 to 2013 to map the solidarity-based economy in Brazil, which includes fair trade organizations. In the second phase after this preliminary analysis, we conducted a qualitative research by visiting fair trade institutions and applying interviews to Brazilians experts in order to better comprehend previously collected quantitative data and to investigate their perceptions of the fair trade market in Brazil. Our intention was to highlight the way that these organizations are organized and the opportunities and constraints they face in Brazil. The complementarity between quantitative and qualitative research allow us to have a panoramic view about fair trade in Brazil and to also highlight some specificities that emerged from the in-depth interviews.

### *First step: a national survey on solidarity-based economy and fair trade*

The quantitative step of the research was based on a survey produced by the Brazilian Ministry of Labor and Employment (MLE). The survey was conducted nationwide between the years 2010 and 2012. The main objective was to map all Solidarity Economy Enterprises (SEE) existing in Brazil. The survey considered those characterized as collective organizations (associations, cooperatives, production groups, exchange clubs) as SEE, whose members collectively manage the activities and the allocation of the results, and that perform economic activities of production of goods, commercialization and solidarity consumption (KUYVEN; KAPPES, 2013).

The contacts at SEEs were obtained from regional government databases and also from previous surveys carried out by the Ministry of Labor and Employment (MLE). This procedure aimed to identify the greatest number of projects and ensure that the results were representative of the SEEs operating in Brazil. Data collection was performed by researchers through on-site visits to interview enterprise representatives.

The researchers found 19,708 SEEs whose representatives were asked about: a) general enterprise characteristics; b) members' characteristics; c) economic activities performed; d) the labor situation of members and non-members; e) investments, access to financial resources and support; and f) enterprise management.

Among the 19,708 SEE mapped in the research, we specifically selected the organizations that identified themselves as making part of fair trade networks (n=277). We analyzed the characteristics of these 277 organizations in terms of activities performed, starting year, support received, commercialization market, origin of resources, reasons to create the organization, main achievements, and opportunities and challenges faced by the organization. Data analysis was performed by using descriptive statistics.

The first phase gave us a panoramic view about fair trade organizations in Brazil and helped us to prepare the analysis of the second phase of our research, which aimed at in-depth qualitative analysis of the data collected.

## Second step: in-depth interviews with experts on fair trade in Brazil

In this phase, we visited fair trade organizations in Brazil and conducted in-depth interviews based on the literature review. The interviews were conducted by the authors, recorded and transcribed for analysis. We also used secondary data, mainly reports and publications of fair trade organizations, to complement data collection.

Since our aim was to further understand the current scenario, as well as to delineate motivations and perspective for the internal market, we searched for experts on the subject, as well as fair trade practitioners in terms of product commercialization. Initially, we interviewed an academic expert on fair trade (PhD in Agricultural and Food Economics by University of Reading, UK), a consultant and designer in social projects and the project coordinator of *Faces do Brasil*. Additionally, we also included representatives of organizations that base their operations on fair trade principles, such as *Girasol Cooperative* in Porto Alegre, the *Projeto Terra* in São Paulo and two certified organizations, *Justa Trama* and *Tênis*.

Additionally, to update information on the development of Brazilian certification (BSFST), and the overall concept, we undertook a key interview with the main coordinator of *Faces do Brasil* in 2016.

Visits and interviews lasted from 25 minutes to 2 hours. Table 1 presents the respondent's profile, his/her function and a brief description of their respective organization.

**Table 1 – Respondents' profile.**

Organization and Location	Function	Description of the respondent and/or organization
Unisinos (São Leopoldo)	Researcher and professor	The interviewed is a PhD in Agricultural and Food Economics and currently a researcher and professor at Unisinos. Unisinos is a large university in Southern Brazil.
Parceria Social/Brasil Social Chic (Rio de Janeiro)	Consultant and Designer	Parceria Social is a sustainability consultancy, and Brasil Social Chic is a distributor of fair trade products.
Faces do Brasil (São Paulo)	Project coordinator	Project coordinator of Faces do Brasil with a specialization in solidarity economy and Integration in Latin America.
Faces do Brasil (Rio de Janeiro)	Founder and main coordinator	Main coordinator and founder of Faces do Brasil, sociologist and specialist in public policy.
GiraSol Cooperative (Porto Alegre)	Two partners of the Girasol Cooperative	The GiraSol Cooperative consists of a group of professionals from different areas from the region of Porto Alegre, in Southern Brazil. Since 2006, they have been working for the promotion of fair and solidarity trade and conscientious consumption. GiraSol nurtures the development of rural and urban enterprises, especially small agro-ecological cooperatives, agro-industries and other groups.
Justa Trama	President of Justa Trama	Justa Trama operates on several fronts and in discussion groups about fair trade in Brazil and abroad. Justa Trama has fair trade certification and produces clothes with agro-ecological cotton.

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Organization and Location	Function	Description of the respondent and/or organization
Projeto Terra (São Paulo)	Manager of Projeto Terra	The Projeto Terra Institute is a nonprofit social organization that began in 2002 to create opportunities for market access to artisan products originating from Brazilian projects of income generation and social inclusion and/or for products with ecological content.
Tênis (Campo Bom)	Manager of Tênis	The interviewed is a sociologist and designer, who is the Tênis partner in Brazil. Tênis is a French organization that manages the chain that produces shoes and handbags exclusively using fair trade principles and agro-ecological cotton, natural rubber and vegetable leather imported from Brazil as raw materials.
Projeto Vila Tênis (Novo Hamburgo)		

Source: The authors.

Once we had data from all these interviews, based on a deductive orientation (MAYRING, 2000) we applied the content analysis (BARDIN, 2004). The content analysis allowed us to analyze and make specific inferences about fair trade development in Brazil, considering opportunities and constraints.

The use of multiple data sources allowed for triangulation of data, contributing to research validity and reliability (MAYRING, 2000). Thus, after completing the interviews and collecting secondary data, we described, analyzed and cross-referenced the information to reach conclusions. The next section presents the results of this research.

## Results – fair trade in Brazil

In this section, we present the main findings. First, we present the characteristics of Brazilian fair trade organizations, based on the national survey developed by the Brazilian Ministry of Labor and Employment (MLE). Next, we describe fair trade's current status in Brazil, followed by constraints and opportunities that were identified and analyzed in the qualitative step of the research.

### Characteristics of organizations linked to fair trade networks in Brazil

Results show that there is still a high level of informality in organizations related to fair trade networks in Brazil. Among the 277 organizations, more than 44% are not formally registered according to Brazilian law. Most of these organizations produce and commercialize (59.2%), or exclusively commercialize (24.9%) fair trade products.

Another characteristic is related to the different kinds of activities these organizations perform. Within the 111 different activities listed in the survey, we can stress agro-industrial production (27.5% of the organizations), handicrafts and souvenirs (25%), agro-industrial trade (9.1%), manufacturing and sale of apparel, clothing and garment (5.1%), and organizations for collective use of infrastructure, land and equipment (4.0%). The broad range of different activities performed by the organizations was unexpected considering that fair trade is still recent in Brazil when compared to international fair trade (MACHADO; PAULILLO; LAMBERT, 2008).

Most organizations were created since 2000 (72%), more specifically, 43.2% emerged since 2005, when Brazilian institutions and agencies started to support the creation of fair trade projects (SEBRAE, 2007; MENDONÇA, 2011). About 81% of surveyed organizations received some support or training along their development, in a wide range of areas such as managerial assistance, managerial, social and political

education, and marketing planning. Almost 35% reported support from micro and small-business support services (e.g. SEBRAE) while 35.6% received support from NGOs (35.6%), 29.8% from municipalities, 22.7% from universities and 21.3% from state governments.

The increasing number of fair trade organizations in Brazil can also be explained by the fact that since 2004 the Federal Government has intensified social programs to improve social conditions and income generation in disadvantaged classes of workers. Many farmers and workers could organize their production independently, looking for new and more profitable economic activities. This relation can be identified since 41.5% of the organizations are predominantly composed by people that are beneficiaries of these Conditional Cash Transfers (CCT).

Another contextual fact is that Brazil experienced an increased purchasing power at the base of pyramid. The expansion of social programs to reduce hunger, inequality and poverty allowed millions of people to leave extreme poverty and to enter the consumer market. Nowadays, many households can experience consumption of goods that go beyond the satisfaction of basic needs (ARNOLD; JALLES, 2014). The results of the governmental initiatives can be seen since there was a significant growth in household per capita income since 2003, with 7% a year from 2003 to 2009, in comparison to 1.3% from 1995 to 2003 (SOUZA, 2012).

Organizations are predominantly small-sized: 37.4% have up to 10 members and 53.8% have up to 20 members. Only 11.4% have more than 100 members, but within this group, organizations vary from hundreds to thousands of members (the largest has 5,500 members). According to respondents, 70.7% of organizations generate enough income to remunerate members. However, it is noteworthy that almost a third of them (29.3%) are unable to pay members.

### **Motivations for establishing fair trade networks and origin of resources**

The four reasons most cited by respondents for establishing their organizations are related to economic issues (see Table 2). Economic reasons come from the possibility of creating supplementary sources of incomes (57.4%), obtaining higher gains (44.4%), search for alternatives to unemployment (44.0%) and the development of a collective activity where all workers are owners (47.3%). Social reasons for creating the organizations were also cited by the respondents. The most reported reasons were the development of community capabilities (39.7%), social, philanthropic or religious motivations (34.7%) and the production of organic or green products (21.3%).

**Table 2 – Main motivations for establishing fair trade organizations.**

<b>Motivation</b>	<b>Nr. of citations* (N=277)</b>	<b>%</b>
Creation of a supplementary source of income	159	57.4%
Development of a collective activity in which all workers are owners	131	47.3%
Obtaining greater gains in an cooperative organization	123	44.4%
Alternative to unemployment	122	44.0%
Development of community capabilities	110	39.7%
Social, philanthropic or religious motivation	96	34.7%
Organizational alternative to develop qualification	81	29.2%
Enabling professional practice in a specific economic activity	69	24.9%
Production or commercialization of organic or ecological products	59	21.3%
Strengthening of an ethnic group	48	17.3%

\*Multiple answers were allowed  
Source: SIES (2013).

In addition, respondents were also asked to inform about the origin of resources that supported project launch. A large percentage indicated the use of members' own resources (67.9%). Only 27.8% indicated the use of public funds and 23.8% reported the use of donations from international organizations or NGOs. It reveals that most organizations were created by member investments. Public funds and NGOs played a secondary role in financially supporting the creation of these organizations.

### Commercialization market

Regarding market scope, most of the investigated organizations operate at the local (71.6%) or municipal level (76.4%). Only a small number commercialize products at the national (19.7%) or international level (10.7%) (see Table 3).

**Table 3 – Commercialization market.**

Commercialization market	Nr. of citations* (N=233)**	%
Local or community level	167	71.7%
Municipal level	178	76.4%
Regional level	96	41.2%
State level	90	38.6%
National level	46	19.7%
International level	25	10.7%

\*Multiple answers were allowed

\*\* The question was answered only by organizations that commercialize products.

Source: SIES (2013).

Most organizations commercialize their products directly to consumers (91.8%). However, 30.9% reported that they also commercialize products to retailers or wholesalers; 24.9% commercialize to government agencies and 17.6% commercialize to private companies. Another 19.3% sell to other social businesses and 13.3% carry out product exchanges. This result shows that due to the limitations of the exclusive fair trade markets and the special certifications required to commercialize at the international level, many organizations connect with alternative buyers (e.g. private firms, government agencies), to sell their products.

An important characteristic of fair trade is that consumers agree to pay higher prices based on producers' dedication to preserving the environment and ensuring solidarity and democracy in their relationships (FRETTEL; SIMONCELLI-BOURQUE, 2003). The organizations linked to fair trade networks in Brazil confirmed this characteristic is valued by consumers since 56.3% of them expressed environmental concern in the production of goods. Furthermore, 62.6% reported to be part of at least one social movement linked to sustainability, ecology, human rights, women empowerment or racial movements.

### Main constraints, achievements and challenges faced by the organizations

One objective of the study was to analyze what were the difficulties that Brazilian organizations linked to fair trade networks faced to produce and sell their products. Among the surveyed organizations, 68.7% reported facing difficulties surviving in the market. Several problems were mentioned, such as the lack of working capital (cited by 55% of the organizations), inadequate physical infrastructure for marketing (46.9%) and difficulty in shipping (44.4%). The previously reported lack of legal registration is a problem for 24.4% of the organizations. Without formal contracts, they are not able to provide invoices and to operate in certain markets. Table 4 shows the percentage of organizations that indicated each of the difficulties listed.

**Table 4 – Main constraints faced by the organizations.**

Constraints	Nr. of citations* (N=160)**	%
Lack of working capital	88	55.0%
Inadequate physical infrastructure for marketing	75	46.9%
Difficulty in shipping or high transportation costs	71	44.4%
Insufficient number of clients	59	36.9%
Competitors and middlemen	56	35.0%
Difficulty in maintaining supply regularity	54	33.8%
Precarious roads for shipping products	42	26.3%
Lack of legal registration	39	24.4%
Customers require time to pay	41	25.6%
Insufficient number of members to commercialize the products	35	21.9%

\*Multiple answers were allowed

\*\*The question was answered only by organizations that reported constraints operating in the market.  
Source: SIES (2013).

The last set of questions aimed to identify the main achievements and challenges faced by Brazilian organizations linked to fair trade networks. Group integration and successful collective action were highlighted as an achievement by 75.5% of respondents, followed by the generation of income or greater gains for members (70.4%). The development of self-management capabilities and the exercise of democracy was also a significant achievement according to 60.6% of the organizations. Besides this, organizations reported the social commitment of their members (54.9%) and benefits for their local communities (37.9%) as relevant attainments.

Despite these achievements, several challenges were cited by a high percentage of organizations (Table 5). Results show that a main challenge for most part of the organizations (74.7%) is reaching economic viability and generating adequate income for members. A slightly smaller percentage indicated the challenge of keeping the group together and working collectively (65.3%). Curiously, an even higher percentage of respondents indicated this item as an achievement. We infer that although many respondents noted group unity as an achievement, a union's continuity over time is a challenging and very complex task. The same reasoning refers to the ability to generate adequate income for shareholders, which was cited as a challenge by 74.4% of respondents, although previously it had also been indicated as an achievement by 70.4% of them (see Table 5).

**Table 5 – Main challenges faced by Brazilian organizations linked to fair trade networks.**

Challenges	Nr. of citations* (N=277)	%
Reach economic viability	207	74.7%
Generate adequate income for members	206	74.4%
Keep the group together and work collectively	181	65.3%
Promote cooperation with other social businesses	172	62.1%
Promote members' participation and organization's self-management	145	52.3%
Achieve members' politicization	120	43.3%
Ensure social protection for members (assistance, health care)	118	42.6%
Achieve greater environmental awareness	117	42.2%

\*Multiple answers were allowed

Source: SIES (2013).

## Fair trade in Brazil: perceptions from Brazilian experts

After presenting data from the survey applied to organizations involved in fair trade networks, we present results from interviews with experts who are working on different fronts to promote the development of fair trade in Brazil. For this, we present a perspective of these respondents about the current situation of fair trade in Brazil. Finally, we also discuss the main constraints and opportunities for fair trade in the country.

### Current status of fair trade

A major constraint for small organizations, communities and families working with artisan products is having access to markets. One of the key contributions of the organizations working to promote fair trade is precisely to enable small producer access to consumer market. Several consulting companies also facilitate producer access to markets. They are usually hired by companies that want to invest in fair trade and by other supportive organizations, such as the Brazilian Service of Support for Micro and Small Enterprises (SEBRAE). An example is *Parceria Social* (Social Partnership), which analyzes day-to-day processes for producers to act according to fair trade ideology.

In comparison with international fair trade, the main difference and specificity of the Brazilian case is its development based in public policies. In addition to the struggle to get state recognition for practices, fair trade organizations are responsible for applying resources in a systematic manner through projects and social programs (Coordinator of *Faces do Brasil*). In this sense, organizations such as *Faces do Brasil* develop strategies to expand fair trade more broadly, providing for more protagonism in trade relations, to increase the value of their products and services for households or commercial consumers.

Although there is little concern regarding certification in Brazil, it is expected that the Brazilian System of Fair and Solidarity Trade (BSFST) will contribute to its consolidation. BSFST is an important tool to overcome barriers faced by producers. The project coordinator of *Faces do Brasil* ratifies the result from the survey's descriptive phase (section 4.1), by stating that the main reason for producers to pursue fair trade certification is to increase their earnings, although they soon notice that the certification also transmits credibility in the production process.

So, initially, the motivation for producers to obtain certification is commercial. With the encouragement of *Faces do Brasil* and other organizations, producers realize the importance of the fair trade approach, which also focuses on social inclusion and environmental benefits. Over the long haul, producers are committed to not only follow principles in order to gain certification, but also to transmit the message and expand fair trade formally.

According to the consultant from *Parceria Social* and *Brasil Social Chic*, consumers often acquire products as an act of philanthropy. The manager of *Tênis* believes that motivations of fair trade consumers in Brazil are more social than ecological. However, it is believed that Brazil is under a process of development of consciousness about these products, since it is an incipient market in which fair trade started commercialization during the past 10 years, whereas in Europe (considered a mature market), it has been practiced for more than 60 years. In turn, the university researcher says that Brazilians associate the concept of fair trade with purchases made locally, as a way to strengthen local economies and have more direct contact with the producer. In this type of purchase, consumers pay the producer directly.

Respondents stress that there is a challenge in creation of a Brazilian consumer culture that fosters a change in the labeling process and in consumers who ask more information about the products. The project coordinator of *Faces do Brasil* believes that with support from the environmental movement, it is possible to create this culture and demonstrate the impacts of the consumption of fair trade products, comparing them with those of traditional commerce.

With respect to enterprise characteristics, there are varying profiles of gender, age and social reality according to historical foundations and even the area in which these groups are established. The consultant from the *Parceria Social* and *Brasil Social Chic* confirms what the survey described (section 4.1.1, Table 2) regarding motivations for starting a fair trade organization: "Fair trade is an opportunity for people, through their work, to live worthwhile in the correct way" (Consultant of *Parceria Social* and *Brasil Social Chic*).

Another issue involving fair trade in Brazil is competition with the traditional supply chain because a product may lose sales when it is analyzed based only on price. The fair price considers much more than raw materials, instead it includes the entire work time and efforts that were spent to make the product. Accordingly, the consultant for *Parceria Social* and *Brasil Social Chic* reports that producers often do not value their work because of problems with low self-esteem within the groups. Thus, the work of the consultancy is not only to embed the concepts of self-management and transparency. Further work is also necessary. The consultant for *Parceria Social* and *Brasil Social Chic* reports that a recent partnership began with a psychologist to try to reconcile the two objectives, fair trade and improved self-esteem, of those involved.

Transparency in the remuneration process is a key issue for fair trade. As reported by project coordinator of *Faces do Brasil*, all decisions are taken by the group and everything is decided cooperatively. Similarly, the distribution of profits is made annually through the financial surplus. The group decides whether it is better to redistribute, reinvest or conduct some alternative means of distribution.

### **Constraints on fair trade in Brazil**

One of the bottlenecks identified by respondents is the lack of productive capacity of the groups directly affecting the supply of products. Regarding the importance given to the certification by the producers the biggest problem is the lack of recognition by Brazilian consumers. Regarding commercial issues, for the president of *Justa Trama* and the manager of *Tênis*, the main challenge is to persuade consumers to choose this type of sustainable consumption. The *Tênis* manager also believes that most consumers in Brazil do not care or are unaware of the payment flow within the supply chain.

With respect to the production side, the university researcher warned about the risk caused by how under the fair trade principle only small producers can be certified, claiming that this could halt growth in the sector. Although the international rules of fair trade certification are limited to small producers, under the Brazilian System of Fair and Solidarity Trade, producer size is not included as a specific criterion. What matters is whether the production is in accordance with the principles.

Another question indicated by the university researcher and partners of the Cooperative *Girasol* regards how fair trade products are not seen as high quality. In this sense, it is important that producers receive technical training. Otherwise, consumers might buy a product only as philanthropy, which is not the objective of fair trade. The purpose is to expand the consumer market in a sustainable manner to benefit a greater number of producers and chains.

### **Opportunities for fair trade in Brazil**

In general, the perspective for the fair trade sector is good, according to the consultant for *Parceria Social* and *Brasil Social Chic*: "It's a very new market, where the gates have been opened". The president of *Justa Trama* also believes fair trade market is growing and that the development of the BSFST will help to expand the market. However, the university researcher and the partners of the *Girasol* Cooperative do not see good prospects for the fair trade market in Brazil:



[...] the cost of certification is very high, it is a very restricted market, which depends on the demands of European consumers. It is not worth it for the small producer. He may seek other strategies for differentiation, such as not having to pay a high price for a certification, without any guarantee of a market (University Researcher).

*Faces do Brasil* aims to create a Brazilian fair trade consumer market. This would help to transform the view that “fair trade is that ‘thing’ where rich people buy from the poor”, besides the fact that it would be better for the environment. To transform fair trade purchases from a charitable act into a politicized choice, it is important that Brazilian consumers recognize the higher value of a product produced following fair and solidarity principles and criteria. Although there are studies showing the increased concern Brazilians consumers have for sustainability and Corporate Social Responsibility (AKATU, 2013), there are well-known consumer barriers all over the world (MONT; PLEPYS, 2008).

In addition to producers, retailers are willing to work with fair trade. According to the consultant for *Parceria Social* and *Brasil Social Chic*, retailers who usually buy fair trade products are the “shops that already have a brand and a clientele with a greater purchasing power, since fair trade products are a little more expensive than others made in the traditional way”.

With respect to communication, information must be transferred efficiently for consumers. *Brasil Social Chic* communicates by using a label with its logo, stating the origin and fair trade principles: “This product promotes social inclusion through job and income generation for crafts and sewing groups”.

Expanding publicity is important in order to provide consumers with greater knowledge on the subject and to explain the work that exists within the fair trade supply chain. To reach a broad range of consumers, *Brasil Social Chic* began working on press relationships as a communication strategy, to appear in newspapers and magazines. The project coordinator of *Faces do Brasil* and the president of *Justa Trama* also reported that they are planning actions to promote trading. According to Hamza and Dalmarco (2012), dissemination of information in the media is a major factor in stimulating sustainable attitudes.

To follow and understand fair trade principles is critical for all groups involved. These principles must be firmly established, or, as the manager at *Tênis* states, they must be “in the companies’ DNA”. Although the concept has grown as a public policy, the trajectory of fair trade so far in Brazil has shown the relevant strength to keep moving forward, which can make it feasible even with political change. The participation of public and private entities to develop the BSFST, and the large number of actors involved in the development of an internal market, bring a positive perspective to fair trade in Brazil (Coordinator of *Faces do Brasil*).

Table 6 presents the main ideas and opinions of the interviewees concerning the issues outlined above. There is optimism about the growth of this type of trade in Brazil, although some constraints remain to be overcome. It is necessary that fair trade become better known and that consumers know and understand the impact of its consumption and its importance in the economy.

**Table 6 – Current status, constraints and opportunities for fair trade.**

Current status	Constraints	Opportunities
Fair trade has a strong <b>social</b> purpose, inclusion and income generation (Consultant of <i>Parceria Social</i> and <i>Brasil Social Chic</i> ; Manager of <i>Tênis</i> ).	<b>Absence of knowledge</b> (Consultant of <i>Parceria Social</i> and <i>Brasil Social Chic</i> ; Project Coordinator of <i>Faces do Brasil</i> ) and <b>awareness</b> (Partners of the <i>Girasol</i> Cooperative; Manager of <i>Projeto Terra</i> ) <b>among consumers</b> .	<b>Growing market</b> (Consultant of <i>Parceria Social</i> and <i>Brasil Social Chic</i> ; Project Coordinator of <i>Faces do Brasil</i> ; President of <i>Justa Trama</i> ), the <b>Brazilian System of Fair and Solidarity Trade</b> will help expand the market (Project Coordinator of <i>Faces do Brasil</i> ; President of <i>Justa Trama</i> ).

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Current status	Constraints	Opportunities
<b>Transparency and democracy</b> in decision making (Project Coordinator of Faces do Brasil). A time of debates and discussions on the subject (President of Justa Trama).	<b>Low value of labels</b> (University Researcher; Project Coordinator of Faces do Brasil; President of Justa Trama; Manager of Tênis).	The growth of fair trade depends on the <b>maturity of the consumer market and organizations</b> (Manager of Tênis).
<b>Brazilian links to fair trade purchases made locally. High cost of certification</b> (University Researcher).	<b>Difficulties in achieving certification</b> due to <b>high cost</b> (University Researcher; Partners of the Girasol Cooperative) and <b>language</b> (University Researcher; Manager of Projeto Terra).	<b>Retailers and enterprises are great supporters</b> , make a lot of product orders and give financial support to projects (Manager of Projeto Terra).
<b>Poor access to the markets by producers</b> (Partners of the Girasol Cooperative).	<b>Low production capacity</b> (Manager of Tênis), dependence on raw material producers (President of Justa Trama).	The stimulus for fair trade should contribute to <b>improvement of production practices and raising the quality of products</b> (Partners of the Girasol Cooperative).
Brazilians buy for the <b>fashion</b> (Manager of Projeto Terra).	<b>Quality and competition with other products and labels</b> (Consultant of Parceria Social and Brasil Social Chic; University Researcher).	It may be an interesting market for <b>export</b> , although it has risks (University Researcher).

Source: The authors.

## Discussion

By analyzing fair trade in Brazil, we identified challenges and opportunities and the need for integrated actions in the following dimensions (GOMES; MENDONÇA, 2016). In economics, through the development of fair and solidarity chains for national and local commercialization; in education, to grow awareness in society and consumer market; and in politics, to ensure practices to enhance justice and social equality (GOMES; MENDONÇA, 2016).

As noted in this paper, some difficulties faced in Europe in the 1970s and 1980s in fair trade networks growth (FRIDELL, 2004) are currently happening in Brazil. Empirical data analyzed in this research shows that there is still much to be done in order to make fair trade products more valuable in the Brazilian market. Among the difficulties cited by Fridell (2004) there are the small size of the fair trade market, restricted consumer access, a public perception of fair trade products being low quality and an inadequate use of marketing tools. These barriers are still found in Brazil and should therefore be addressed.

Fair trade is mainly based on labels and certification, which create advantages (DE PELSMACKER; JANSSENS, 2007; FRIDELL, 2004; GENDRON; BISAILLON; RANCE, 2009; LOW; DAVENPORT, 2005; REED, 2009; RENARD, 2005). However, this certification process is time demanding, highly expensive and mainly required in international consumer markets. Vieira, Aguiar and Barcellos (2010) address the negative aspect of certification, traditionally made by third-party organizations that end up receiving payment from all links in the production chain. This is ratified by the

university researcher, "the certifier gains from all links in the chain ... the producer has a cost... he [the certifier] gains from the importer, ... and still earns a percentage of sales in the grocery store".

Regarding this, with the new BSFST, there is the possibility of reducing the power of third-party certification in the fair trade supply chain. In this new system, production groups can supervise principle compliance by using participative guarantee systems, without depending on an external certifier. BSFST represent a political and economic project, since it institutionalizes the potential for social transformation of fair trade, as well as strengthening commercial relations based in principles that differ from the conventional ones (GOMES; MENDONÇA, 2016).

In addition, most Brazilian consumers still do not recognize certification nor are they concerned with product origin. Brazilian experts interviewed in this research confirmed this Brazilian consumer characteristic, which corroborates the findings of Hamza and Dalmarco (2012). Thus, the low number of certified organizations in Brazil can be explained by the lack of consumer interest and knowledge about fair trade. Because many fair trade products are more expensive as a result of the production process, their contents must be disclosed for consumers to realize the difference between fair trade and traditional products and be willing to pay for this difference. According to Gendron, Bisailon and Rance (2009), market access should be expanded to increase the customer base.

According to result from interviews with Brazilian experts, most fair trade happens locally. This statement can be confirmed when compared to the survey's result, where more than 70% of the respondents assert that they commercialize their products in local markets. However, when producers commercialize in traditional markets, they are exposed to competitors from all over the world and in these cases, all fair trade orientation for fair income generation is not taken into account.

This result corroborates the studies by Loureiro and Lotade (2005), Doran (2009) and Doran and Natale (2011), since they argue that there is competition with the traditional market, and there is still much to learn about fair trade consumers. Low and Davenport (2005, 2009) highlight the importance of a proper dissemination of the message of fair trade as well as the need to include items that are produced and marketed in an ethical manner in consumers' daily shopping.

However, there are also good perspectives. The survey analyzed in this research has outlined that in the last few years public support institutions and agencies seeking to increase the market of fair trade have been created, improving fair trade organization management. This support is important to minimize legal and managerial challenges. Despite these efforts, it must be highlighted that most surveyed organizations are still young, small and facing severe difficulties in achieving economic viability and generating adequate income for members.

Public support for fair trade organizations should be maintained for a longer period of time in order to help them consolidate. It is especially important considering that many beneficiaries of Conditional Cash Transfer (CCT) programs become members of fair trade organizations to complement their income and overcome poverty. As the organizations consolidate and become economically viable, their members become less dependent on social programs.

Finally, we must highlight the social role that fair trade performs as well as its political nature, since actions should be undertaken to raise awareness of issues of global justice, development and inequality (CLARKE et al., 2007). Thus, we found that fair trade products are distinguished mainly by their origin, not only their social origin, considering the inclusion of communities in the formal economy and market, but also with respect to preserving the environment. The organizations linked to fair trade networks in Brazil confirmed this characteristic since 56.3% of them expressed environmental concern and 62.6% reported to be part of at least one social, political or racial movement. This confirms that a significant number of fair trade organizations comply with solidarity criteria and try to promote justice and popular empowerment (ZERBINI; PATEO; SÍGOLO, 2010).

Vermeulen and Ras (2006) call attention to the challenge that the fair trade organizations face in their daily routine. Challenges arise because these organizations must include in their processes procedures that meet global demand and that promote positive impacts on the chain, in both social and environmental terms. This is perhaps a major step that remains to be taken by most organizations, and fair trade can be an alternative.

## Conclusions

With this research, undertaken in two phases, first analyzing data from a survey with fair trade organizations and second with in-depth interviews with Brazilian experts, it was possible to outline the current scenario and identify constraints and opportunities for fair trade in Brazil. Despite the assertion of Fretel and Simoncelli-Bourque (2003) that fair trade aims to reduce intermediaries, in Brazil, this is not the main focus. Indeed, that is a difficult proposition because Brazilian producers continue to need support and assistance, mainly to increase access to consumer markets and to have better training in order to add greater value to products. Thus, as pointed out by Martins (2011), more intermediaries are often needed to expand the market and develop communities.

Consumers play a key role in the growth of fair trade. If consumer awareness happens, according to the new movement of ethical consumption reported by some authors (FERRAN; GRUNERT, 2007; GOIG, 2007), fair trade will be an attractive choice. On the other hand, fair trade supply chains should know their consumers better (DORAN, 2009; DORAN; NATALE, 2011; LOUREIRO; LOTADE, 2005).

Regarding the spread of fair trade, a wider dissemination of concepts, with support from society, business, universities and government, might help. The bottlenecks indicated by the university researcher for the growth of fair trade in Brazil are the high cost of certification and the restricted market, which was confirmed by the analyzed survey.

Thus, companies and consumers have an important role in the expansion and dissemination of fair trade as well as in maintaining sustainable management of the entire supply chain.

This research also raised a set of new issues to be addressed in future studies. The survey showed that a high number of Brazilian organizations linked to fair trade networks are composed by beneficiaries of social programs. Future studies could analyze if this membership reduces their dependence on social programs and helps them overcome poverty. This information may have important implications for public policies regarding social programs and the support of fair trade organizations.

Another issue refers to the performance of fair trade organizations according to the origin of resources. Researchers could analyze whether organizations created with members' own resources reach different results than those created with the financial support of NGOs or public funds. To find a good balance between public and private financing of fair trade projects could positively influence their development and consolidation. We also recognize that the survey has limitations, such as a lack of information on the certification of Brazilian fair trade organizations. Future surveys should consider this information in order to allow a better comprehension of the fair trade market in Brazil.

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**Submission date: 24/05/2016**

**Approval date: 09/12/2016**

## THE ROLE OF STAKEHOLDERS IN SOLOMON'S TEMPLE: AN EXPLORATORY STUDY

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### Abstract

This paper aims to describe the role of stakeholders in the symbolic goods market of religion. Drawing on qualitative research, and based on the salience model of stakeholders, the objective is to analyze the importance of Solomon's Temple megachurch to the Universal Church of the Kingdom of God (UCKG) as a competitive factor in the market of religious goods and services for achieving a competitive advantage. The findings show that the respondents' perception indicates that the construction of megachurches provides a competitive advantage if the stakeholders are identified and continuously monitored because of the attributes of power, legitimacy and urgency. The contribution of the study is a discussion on the relevance of the applicability of stakeholder theory in the symbolic goods market of religion from the perspective of network relationships with other stakeholders.

**Keywords:** Stakeholder theory. Network relationships. Marketing strategies. Megachurches.

## O PAPEL DOS STAKEHOLDERS NO TEMPLO DE SALOMÃO: UM ESTUDO EXPLORATÓRIO

### Resumo

Esse artigo descreve a atuação dos stakeholders no mercado de bens simbólicos da religião. Por intermédio de pesquisa exploratória, de natureza qualitativa, o objetivo da pesquisa está em analisar a importância desse megatemplo para a Igreja Universal do Reino de Deus (IURD) como empresa inserida no concorrencial de bens e serviços religiosos para o alcance de vantagem competitiva. Os resultados da pesquisa mostram que a criação de megatemplos pode ser concebida uma situação real de mercado competitivo capaz de influenciar as estruturas de organizações religiosas pela visibilidade política e da mídia que ele proporciona. A contribuição da pesquisa está em discutir a pertinência da aplicabilidade da teoria dos *stakeholders* no mercado de bens simbólicos da religião por permitir estudar a criação dos megatemplos como estratégia de marketing a partir da perspectiva de redes de relacionamentos com outros atores.

**Palavras-chave:** Teoria dos stakeholders. Redes de relacionamento. Estratégias de marketing. Megatemplos.

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Based on liquid modernity, as suggested by Bauman (2013), instantaneity and change are factors of contemporaneity, especially since the fall of the Berlin Wall, and rapid technological development, as globalization imposes itself as a diverse process full of contradictions. This theme deserves consideration in the social sciences (ORTIZ, 2006).

From this perspective, the globalization of culture predominates a logic that assumes the transformation of cultural commodities or symbolic goods and their availability to global consumers worldwide, through continuous technological innovations presented in the media.

As a result of these innovations, the use of these new technologies has allowed symbolic market growth in all sectors of human activities, including religion, entertainment, sports and art. This is because in social relationships, people not only exchange goods, but also meanings and symbols. Therefore, the existence of a company in a symbolic goods market becomes as important as material goods.

Bourdieu and Miceli (1987) conceived of the existence of religious currency that embraces, on the one hand, the clerics, as producers of symbolic goods and, on the other, the layman's market, where the symbolic products are consumed.

Interestingly, in the symbolic market of sports, the building of large stadiums, such as Corinthians' Arena<sup>1</sup> and Allianz Park<sup>2</sup> are monuments of grandeur and majesty against the competition. Likewise, in the symbolic market of religion, megachurches represent the power of religious organizations in an increasingly competitive market due to the commodification of the sacred.

Currently, from the marketing theory perspective of the 4 Ps (product, price, promotion, place) proposed by McCarthy (1998), megachurches represent the quintessential framework of this enterprise, similar to modern shopping centers or supermarkets.

In this regard, Paegle (2008) suggests that in the supermarket of religious goods, the faithful should pick their way through *a la carte* products. This leads to individuality, with each of the faithful consuming a different form of religious experience.

Thus, in the symbolic market of religion, the commodification of the sacred quest to find value in things, activities and people goes beyond mere economic value. It provides a sense of life that is much more transcendent and profound than simply accumulating wealth and flaunting consumption, enabling the re-enchantment of the world.

The construction of Solomon's Temple is a „symbolic representation building“ which seems to rise above the reality of everyday life, guaranteeing a peculiar accolade. In other words, it is a socially legitimate framework for standards of conduct, meaning and value in the competitive nature of modern life. Products and services are presented like a show, meaning that religion is no longer to be guided by the sacred (*tremendum misterium*).

The research question is: does the construction of megachurches provide a competitive advantage in network relationships of religious organizations?

Drawing on qualitative research, and based on the salience model of stakeholders, the objective is to analyze the importance of Solomon's Temple megachurch to the Universal Church of the Kingdom of God (UCKG), as a competitive factor in the market of religious goods and services and their specific characteristics in the forms of communication, religious content and sociability of the agents.

This research's contribution is to discuss the relevance of the applicability of the Stakeholder Theory in the symbolic market of religion by studying the creation of the megachurches as a marketing strategy from the perspective of relationships with other actors in the same social field and establish relations between capitalist logic and religious doctrine.

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<sup>1</sup> Corinthians' Arena is a soccer stadium located in the city of São Paulo. It was built for the FIFA World Cup in Brazil and to provide Corinthians with their own home.

<sup>2</sup> Allianz Park is another soccer stadium owned by Sociedade Esportiva Palmeiras, a rival of Corinthians, also located in the city of São Paulo.

## Symbolic goods market of religion

The mediation practices giving rise to networked communication are changing our media culture and, in the process, our values and beliefs as citizens of a global network society (CASTELLS, 2011). They are also creating our networked life and world (HABERMAS, 1999), meaning that they are also changing the way we build our relationships with other people, organizations, and everyday life, by giving us the tools to design future environments.

Some of the main authors on stakeholder theory indicate that organizations should consider the relationships among groups that have a stake in the organization's activities and respond to their demands (FREEMAN, 1984; JONES, 1995; WALSH, 2005). Although some authors consider that stakeholder theory should be understood as moral guidance to managers (PHILLIPS; FREEMAN; WICKS, 2003; HASNAS, 2013), it is also useful to analyze empirical realities (DONALDSON; PRESTON, 1995). In this respect, several studies recognize that primary stakeholders are given priority by organizational stakeholders (MITCHELL; AGLE; WOOD, 1997; CLARKSON, 1995; JAWAHAR; MCLAUGHLIN, 2001).

In the last two decades, several works have been published on the entrepreneurial character of religious organizations operating in the market of symbolic goods, especially Bazanini (1998), Mariano (1999), Chaves (2002), De Oliveira (2002), Miller (2002), Jadon (2009), Magaldi Filho (2009), Miklos (2012), and Da Silva Moreira (2015).

Chaves (2002) differentiates religion from other spheres. Bazanini (1998) discusses the market dispute for control of the popular imagination between the UCKG and Rede Globo Television. Mariano (1999) states that religious organizations did not escape the logic of the market and the Roman Catholic Church with reference to mechanisms of meaning proposed by pastors and priests who present TV programs. De Oliveira (2002) discusses the professionalization of staff, fund raising, financial support for businesses and government, and attracting believers. Miller (2002) describes the competitive strategies of religious organizations. Jadon (2009) compares the persuasive strategies of the Universal Church of the Kingdom of God from a semiotic perspective. Magaldi Filho (2009) explains why contemporary human beings ceased trading freely to accumulate, resulting in a market that wants to be hegemonic, even using money as a path to healing and salvation. Miklos (2012) analyzes religious attitudes in cyberspace to discuss practices such as candles and prayers in virtual market procedures to win over potential followers. Da Silva Moreira (2015) asks about the future of religion under the impact of the culture of feeling and aesthetic inflation and possible emancipative potentials of their own religious experience and attempts to draw some aestheticized future consequences for religion in the field of aesthetics.

With particular regard to the creation of megachurches, Throup (2011) analyzes the symbolic use of the Temple in Jerusalem, focusing on building a replica of the Temple in São Paulo, characterizing it as "emblematic mysticism". In this case, the symbol is emptied of its original meaning and then reconstituted as the purpose of the organization which makes it. Smith and Campos (2014) engage in a discussion on the creation of megachurches in market terms. According to Amigo (2014), Solomon's Temple may be related to the spaces created for religion in modern megacities. However, none of these works deals with the relationship between megachurches and their stakeholders.

### The consumption of symbolic goods

Historically, the doctrine proposed by the Protestant sect of Quakers is the transcendental essence of the spirit of capitalism (WEBER, 1967), whose provisions have profoundly changed the worldwide organizational dynamics by using methods designed for efficiency, disseminated by Taylorism and Fordism's model of production.

Since its origins, Protestantism has always been characterized by the spread of the biblical message in different ways: preaching door-to-door, print media, electronic media, and public meetings, first in the street and then in soccer stadiums or on large rented lots. More recently, they have moved on to creating megachurches.

In Brazil, the phenomenon of megachurches is associated with the growing number of Evangelicals, especially Pentecostals, with political and media visibility. This has resulted in three factors that have become decisive for an enterprise to succeed: consumer dissatisfaction, the power of tradition and the divine fast food.

### **Consumer dissatisfaction**

Stark and Bainsbridge (2008, p. 27) claim that "human beings seek what they perceive to be rewards and avoid what they perceive to be costs". In this line of reasoning, when a particular religious practice occurs in small and medium-sized churches and the costs in terms of cash offerings (tithes), pressure group compliance, obedience to authorities and external control of morality are greater than desired, individuals look for other more satisfactory places of worship.

### **Power of tradition**

The growth in individualization and release from the weight of tradition resulted in the juvenilization process in a wide range of sectors of human activity. Bergler (2012, p. 4) describes this cultural phenomenon as a "process by which the beliefs, practices, and the religious features teenagers become accepted as appropriate for Christians of all ages". Thus, the cultural youth codes become a predominant script for religious worship. This is the case of a mass said by Father Marcelo Rossi, which is primarily aimed at young people, or a cult at the Church of the Resurrection in Christ. It is also the case of parades, such as the March for Jesus or even popular Evangelical religiosity practiced in everyday life.

### **Divine fast food**

The McDonaldization of symbolic religious goods is described by Ritzer (1993, p. 1) as a "process in which the principles of the fast-food restaurant will increasingly dominate American society and the rest of the world". In this line of reasoning, McDonald's does not sell food, but a system or way of life. This is in keeping with the view that in addition to products, it seeks to sell the ideology of capitalist thinking (STREECK, 2013).

### **Contemporary individualism**

The post-modernism thermometer of change makes a complex transition to a new type of society that Lipovetsky calls hypermodern. From a consumer perspective, it can still be described as a society of hyper consumption and contemporary individualism, causing people to seek quality of life, passion for personality, ecological sensitivity, abandonment of large systems of meaning and cult of participation and expression (LIPOVETSKY, 2009).

In these terms, religion submits to the aesthetic and the market, ceasing to be controlled by the rules that predict and program the behavior of individuals. The liturgies are spoken to produce psychological results, so messages should address practical or socio-religious problems, with the leader giving advice on issues such as the best way to dress, which candidates followers should vote for in elections and whether arranged marriages are a good idea. A consequence of these changes was the emergence of different groups of stakeholders as representative elements in the marketing of products and services.

### **The megachurches**

The term megachurch is the name given to a cluster of very large, mostly Protestant congregations that share several distinctive characteristics. A megachurch is a congregation of two thousand or more worshipers per week. However, size alone

is an insufficient characterization of this distinctive religious reality. These churches generally have similar identifiable patterns and share a common set of organizational and leadership dynamics including five basic features:

1. A conservative theological position
2. A charismatic, authoritative senior minister
3. A very active 7-day-a-week congregational community
4. A multitude of social and outreach ministries
5. A complex differentiated organizational structure

A megachurch is normally not only measured by its size, but by the frequency of at least 2000 participants in a typical week (SIDEBOTHAM, 2015). In 2011, the American missiologist of the "Leadership Network", Warren Bird, conceived of a study of churches with megachurch capacity around the world. The megachurches listed by missiologist refers only to Evangelical churches, divided by continent, and with the online help of Christian leaders around the world. It was intended mainly to portray the situation of Evangelicals in each region where these megachurches were established. It is interesting to note that the criteria used by Warren Bird not only include data on temple capacity, but also incorporate reports of average frequency of cults, considering the people who attend, including children. Over 1600 churches with megachurch capacity were included in the list for the United States, and a further 1000 or more in other parts of the world, as shown in Table 1.

**Table 1 – The ten largest Evangelical megachurches in the world.**

Members	Name	Priest	Localization
230,000	Yoido Full Gospel	Uninformed	Seoul – South Korea
75,000	Deeper Christian Life Ministry	William Kumuyi	Lagos – Nigeria
60,000	Faith Church	Sando Nemeth	Budapest – Hungary
60,000	Mision Carismatica Internacional	Cesar Castellanos	Bogota – Colombia
60,000	Pyungkang Cheil	Abraham Park Yook-Sik	Seoul – South Korea
50,000	Living Faith	David Oyedepo	Lagos – Nigeria
50,000	Yeshu Debar	Rajendra B. Lal	Allahabad – India
50,000	New Life	S. Joseph	Bombay – India
50,000	Nambu Gospel Church	Uninformed	Anyang – South Korea
45,000	Catedral Evangelica de Santiago	Eduardo D. Castro	Santiago – Chile

Source: Gospel Mais (2012).

Particularly in Brazil, the sharpest rise in megachurches occurred in the 1980s, when Evangelical churches began to acquire large abandoned cinema halls, with capacity for up 2,000 people.

However, it was only in the 1990s that religious buildings began to spring up, such as the World Faith Cathedral, seat of the Universal Church of the Kingdom of God in Rio de Janeiro and, most recently, Solomon’s Temple, revealing the grandeur and pomp par excellence of this venture.

### **Some details of Solomon’s Temple**

Solomon’s Temple opened on July 31<sup>st</sup>, 2014, in the city of São Paulo, attended by politicians, journalists, pastors, the faithful and other stakeholders. The dimensions, artifacts, functionality and ease reveal aspects of grandeur and pomp of this powerful religious organization.

**Dimensions:** the work lasted 4 years and cost R\$680,000,000 (during the 2010-2014 period, the Brazilian Real varied from approximately US\$0.42-0.55). Around forty buildings were purchased in the Bras district of São Paulo by UCKG. The temple was built on a plot of 35,000 m<sup>2</sup>, the equivalent of five soccer fields. The temple has a capacity of 2,000 people, and is considered the country's largest religious space in a built-up area, which is 4 times greater than the National Shrine of Aparecida (NSA) in São Paulo. The NSA has 23,300 m<sup>2</sup> of constructed area, while Solomon's Temple has 100,000 m<sup>2</sup>.

**Artifacts:** the altar was built in the shape of the Ark of the Covenant, where the Ten Commandments would have been stored, according to the Bible. A hundred square meters of stained glass windows were installed above the golden altar. On the walls are great chandeliers worth thousands of dollars. The seats to accommodate the thousands of worshipers were imported from Spain. Ten thousand LED lamps were installed on the roof of the main hall. Forty thousand square meters of stones were imported Hebron, Israel, to be used in the building and decoration of the temple. Furthermore, twelve olive trees were imported from Uruguay to represent Mount Olive.

**Features:** the parking lot of the temple has 2,000 parking spaces for cars, 241 for motorcycles and 200 for buses. In the built area, there is still space for 60 apartments for pastors who work in the temple, including one for the head of the Church, Bishop Edir Macedo. There is a conveyor belt at the altar designed to move the tithes paid by faithful straight to a vault.

**Aggregates:** moreover, there is a museum called The Memorial, with 12 columns explaining the origin of the 12 tribes of Israel.

## Theoretical references

Bourdieu and Miceli (1987) conceive of the cultural field as a symbolic exchange market, once again working along the lines of the law of supply and demand, according to the specificities of the agents involved.

On the one hand, from the point of view of the receiver of the message, the sign and not the object is consumed through the brands that are presented. On the other hand, in the producer market, the competition factor becomes a zero-sum game, in other words, the gain of one agent tends to represent losses for the other, as shown in Table 2.

**Table 2 – Factors in symbolic goods market.**

1. All organizations of symbolic goods are in a constant struggle for the conquest of the consumer's mind;
2. What an organization gains in membership represents losses to competitors;
3. As the behavior of the consumer of these goods tends to be irrational, it is quite common to use subliminal techniques;
4. By virtue of the very cannibalism of the market, the option to extinguish the competition is often the only way to survival.

Source: Bazanini (2005, p. 179).

These four competitive factors are present in network relationship markets of symbolic goods (religious, cultural, sporting, etc.). Therefore, stakeholder theory is suitable for analyzing the dynamics of this market's characteristics.

## Stakeholder theory

The term stakeholder first appeared in 1963 in an internal memo of the Stanford Research Institute and referred to "groups without whose support the Organization would cease to exist" (FREEMAN; REED, 1983, p. 89).

The conception on which the reality of this organizational vision is based can be summarized in the idea that, in addition to the shareholders (and/or owners), the organization is also responsible to other groups that have an interest in its actions.

From this vision, two basic definitions of stakeholders are proposed: a spacious one and a stricter one. The former claims that a stakeholder is any group or individual who influences or is influenced by the achievement of the objectives of the organization; the latter is that a stakeholder is an individual or group on whom the organization depends for its survival.

The most spacious definition, the idea that a stakeholder influences or is influenced by the action of other agents is adopted by many authors as classic, and serves as a starting point for their analyses or critique (DONALDSON; PRESTON, 1995; MITCHELL; AGLE; WOOD, 1997; FREEMAN et al., 2004; PHILLIPS, 1997; PHILLIPS; FREEMAN; WICKS, 2003).

For the purposes of the present article, we apply the Salience Model of Stakeholder analysis (MITCHELL; AGLE; WOOD, 1997), accompanied by the concepts of the normative and derivative stakeholder, rather than the one proposed by Phillips (1997).

### **The Salience Model's perspective**

Mitchell, Agle and Wood (1997) proposed the Salience Model, claiming that it is necessary to classify stakeholders in terms of power, legitimacy and urgency. This criterion of differentiation of stakeholder groups enables priorities to be set and the definition of which interests will be served.

Briefly, power is defined by the skill of the transmitter to make someone do something that he would not do without being asked. Legitimacy is the generalized perception of which the actions of an entity are desirable or appropriate, in accordance with the socially built context. Urgency has to do with the need for immediate action and the time for an organization to respond to the requests of its stakeholders.

Phillips (1997) criticizes the Salience Model, pointing out the problems regarding fairness as a possible source of moral obligation to groups that may significantly influence the organization, even without legitimacy. Thus, it is not possible to categorically differentiate the attributes of legitimacy and power while conceiving that there is only legitimacy, when power is only a path to acquiring it.

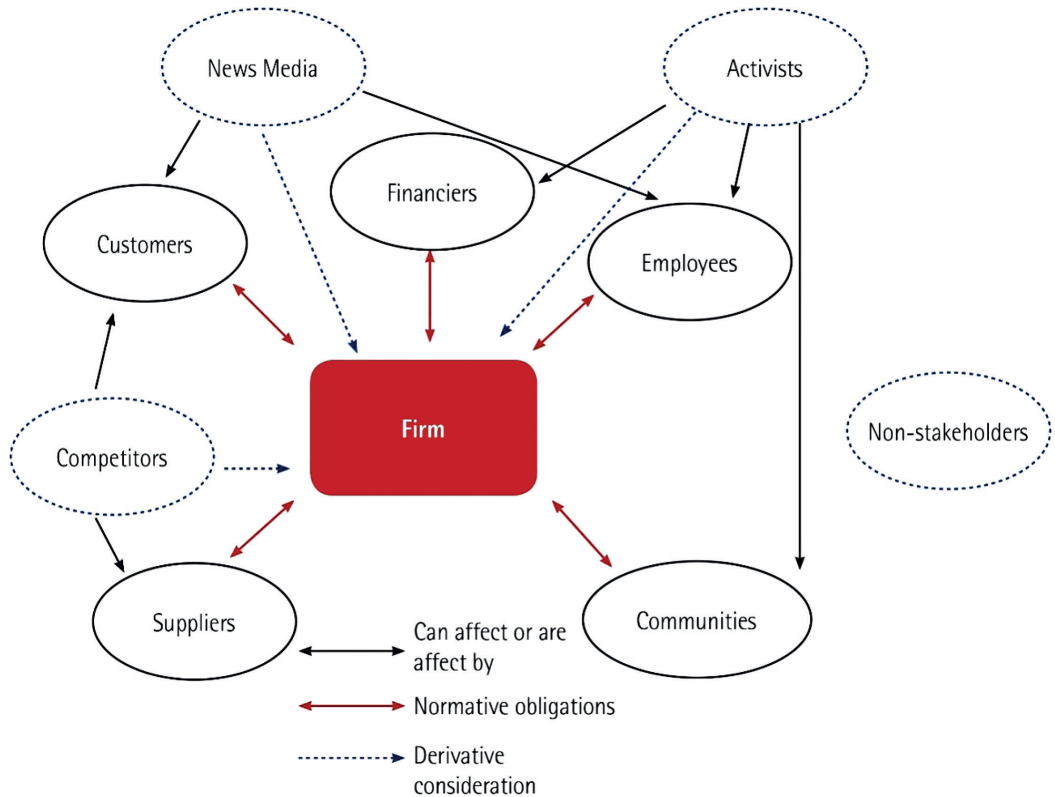
To bridge this gap, the author suggests a distinction between the legitimacy of the normative stakeholder and that of the derivative stakeholder to show a position in the discussion "spacious perspective versus strict perspective", which recognizes simultaneously the moral obligations of the organization regarding some groups of stakeholders and the pragmatic legitimacy based on power, predominant in organizational theory.

Therefore, the regulatory stakeholders are defined as "those to whom the organization has a moral obligation, an obligation to equity among stakeholders, higher than what is due to other social actors".

Derivative stakeholders are defined as "those groups whose actions and claims should be taken into account by managers because of their potential effect on the organization and its regulatory stakeholders" (PHILLIPS, 1997, p. 174).

According to this perspective, the legitimacy of these groups is their ability to influence the organization and its regulatory stakeholders. Their legitimacy derives not from themselves, but from their potential influence. Therefore, there is no moral obligation on the part of the organization to worry about their well-being, and they may be processed only in instrumental form (D'ORAZIO, 2006).

Non-stakeholders are defined as groups or individuals to which the organization has no moral obligation, and the likelihood of them having an impact on the organization or its legitimate stakeholders is very small. Inspired by these ideas, Phillips (1997) proposed a map of stakeholders as shown in Figure 1.



**Figure 1 – Stakeholder map: normative, derivative and non-stakeholder.**

Source: Phillips (1997).

### The stakeholders of religious organizations

Like private enterprises, religious organizations also began to act in a market situation, as Berger and Luckmann (2004) explained when describing the key characteristic of all complex situations, promoting the impossibility of religious ex-monopolies being able to count on their public. In other words, the submission became voluntary and, thus, there is no longer the confidence of the loyalty of members as used to be the case in past religious traditions.

The religious market, which used to be dominated by the authorities, either government or ecclesiastic, began to be influenced by the need to sell consumer goods on the market to customers who are no longer exclusive and have to be convinced to buy a certain brand of goods or services.

In Brazil, an important landmark in the market of religious symbolic goods came in December, 2003, with the promulgation of Brazilian Law 10.825, stating that religious organizations and political parties are private legal entities, with freedom to organize independently of the public authorities.

Consequently, religious organizations have been considered as having a different structure, becoming legal entities in their own rights, with autonomy and total freedom in internal, documentary and structural organization, just like private enterprise.

Thus, the stakeholder approach becomes relevant to analyzing the market for the religion's symbolic goods. The laws on business competition and capitalist logic are

increasingly subject to the production of goods and services, with the megachurches representing the vigor and might of the undertaking.

## Methodology

Drawing on a qualitative research and based on the salience model of stakeholders, the aim of this study is to analyze the importance of megachurches to the Universal Church of the Kingdom of God (UCKG) as an enterprise competing in the market of religious goods and services to achieve a competitive advantage.

Therefore, the present study is a multiple case study with three networks for analysis. This type of study has proved the most suitable because it can be used to establish an inter-case analysis and understand the differences between them and, from that, seek to understand which elements seem to justify the competitiveness gap (from the perspective of stakeholders), as advocated by Yin (2015).

The sample was composed of three marketing professionals who also work with serviceable media training (M1, M2 and M3) for evangelical religious organizations, and three members of the faithful (F1, F2, F3) from each of the churches, three pastors (P1, P2, P3) and two members of the evangelical block (B1, B2).

### Data collection

Whereas the aim of the methodological research was to capture categories from field data, we used the categorization by open grill, since it is a subject in which the theory of churches as business can be limiting to encompass a complete categorization. Therefore, the categorization was done manually from the repetition of key elements that could justify the relationship between the characteristics of megachurches and their competitiveness in the symbolic goods market; i.e., to seek the theoretical contribution to which this study aspires, we decided to go beyond pattern matching with the theory (EISENHARDT, 1989) and seek new elements that could emerge from the field data.

From this, some initial questions were prepared. The projection was only to ensure key points of the structure of a megachurch and its network in competitiveness from the perspective of stakeholders. Therefore, the researchers acted only as inducers of relevant issues from the discourse of the respondents.

Thus, from the perspectives of Pressman (1995) and Zanlorenzi (1999) the questions are closed or open. In the former, the interviewer asks a predetermined set of questions, while in the latter the needs and knowledge of the application domain are discussed openly, without a pre-defined set of questions. It is suggested that the analyst should start by asking context-free questions, as in Table 3.

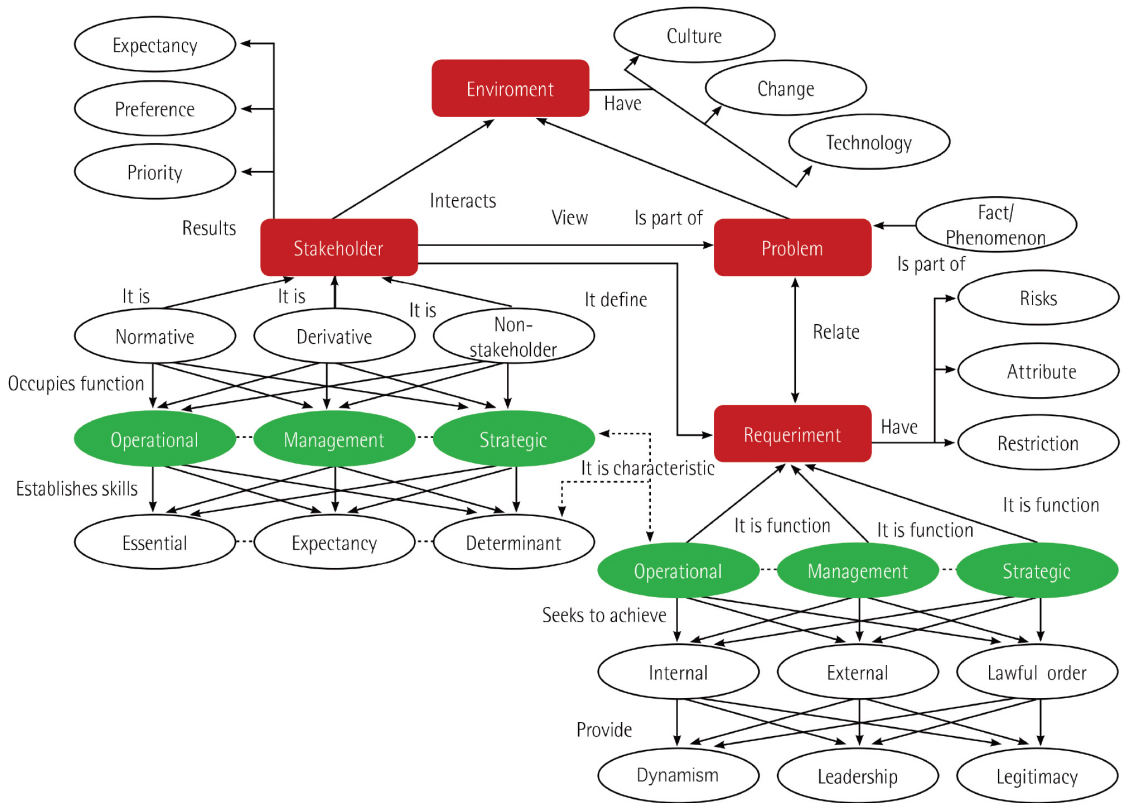
**Table 3 – Questions of the inquiry.**

1. Who are the main agents involved in the present activities of Solomon's Temple?
2. How can the attributes of power, legitimacy and urgency be assigned?
3. From this group, which stakeholders must be more closely monitored by the leaders responsible for the megachurches?
4. Within the network of relationships that permeates Solomon's Temple, what are the strengths and weaknesses of the members of the UCKG hierarchy?
5. How can the construction of Solomon's Temple generate a market advantage for the sale of religious goods?

Source: The authors.

The questions were adapted to the qualification model originally proposed by Zanlorenzi (1999) as shown in Figure 2.





**Figure 2 – Network relationship model.**

Source: Adapted from Zanlorenzi (1999, p. 3).

This network relationship model has basically two blocks of information: the stakeholder and the requirement. The environment or application domain is the part of the context in which the facts and phenomena occur. The scope of the environmental boundary is determined by the setting of goals and the problem in question.

The stakeholder is the constituent body from which information is obtained. It interacts with the environment and expresses its views on issues and defines the requirements and criteria for the requirements.

The problem is an element that is part of the environment. The nature of the problem is human in origin. In this approach, only the human senses perceive the facts and environmental phenomena that are not in tune with the will and wishes of the person in the context in question.

## Results

The findings of the study, through the perception of the respondents, show that the construction of megachurches results in a competitive advantage if the stakeholders are identified and continuously monitored as a result of the attributes of power, legitimacy and urgency, as shown in Table 4.

**Table 4 – Stakeholders’ attributes and classification.**

Stakeholders	Power	Legitimacy	Urgency	Classification
Federal Government	X	X	X	Definitive stakeholder
Evangelical Block	X	X	X	Definitive stakeholder
Hierarchy Members	X	X	X	Definitive stakeholder
Allied media		X		Arbitrary stakeholder
Opposing media	X		X	Dangerous stakeholder
Concurrent/detractors	X		X	Dangerous stakeholder
Former allies/ competitors	X		X	Dangerous stakeholder
Faithful		X		Dependent stakeholder

Source: Based on Mitchell, Agle e Wood (1997).

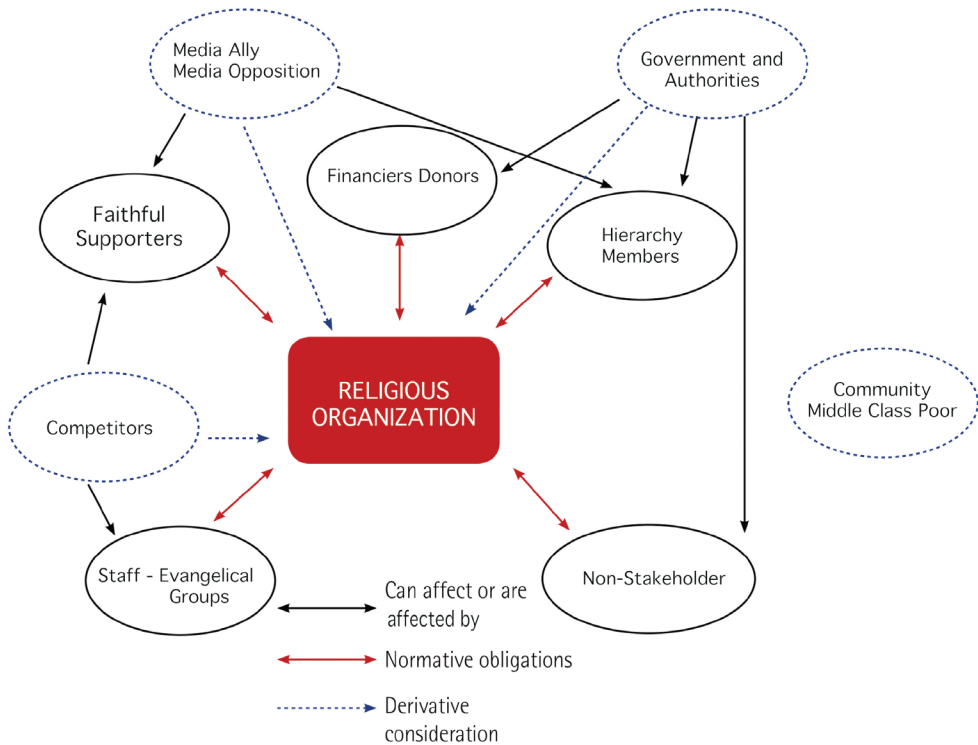
The findings show that in network relationships in the market of symbolic religious goods of religion, the main stakeholders are the Federal Government and the authorities, for the coercive power that can be exercised, the leaders of the temple, and the Evangelical Bloc for supporting church ideology. From the Saliency Model perspective, they are holders of power, legitimacy and urgency. The media and competitors should only be monitored by virtue of having two of the three attributes. However, when these competitors openly assume the position of a detractor, in other words, radical critics of the market of religious practices when considering the creation and marketing activities present in megachurches, a decay in the reflection of Christian values in a world corrupted by worldly customs, this can be summarized in seven points, as shown in Table 5.

**Table 5 – Detractors of the Temple.**

1 – The people worship physical spaces rather than the house of God.
2 – There will be pilgrimages as if it was a sacred place.
3 – One more incitement of the Brazilian religious market will be created.
4 – To return to worshipping the old testament is a regression of the Christian faith.
5 – In spite of the statement “Done for God’s glory”, Solomon’s Temple will not serve a poor person, a widow, a person in need, outcasts and orphans, but rather the people who will serve the temple and pay its expenses.
6 – God is not in temples built by human hands, but lives in people through his Spirit. Christians are the true temple of the Spirit of God.
7 – The work will hold the tombs of the family of the organization leader, Edir Macedo.

Source: The authors, based on interview responses.

According to Philips (1997), regarding the aspects of normative stakeholders, derivatives stakeholders and non-stakeholders, on the subject of the market for the symbolic goods of religion, the aspects of power, legitimacy and urgency can be characterized as in Figure 3.



**Figure 3 – Stakeholders of religious organizations.**

Source: Based on Phillips (1997).

Therefore, reference to the relationships of the religious organization with the resulting stakeholders of the attributes of power, legitimacy and urgency (MITCHELL; AGLE; WOOD, 1997) and differentiation between normative stakeholders and derivative stakeholders (PHILLIPS, 1997), can develop the matrix of these relationships, as shown in Table 6.

**Table 6 – Stakeholder matrix.**

<p><b>High interest / importance, high influence.</b> Financiers and donors, members of the hierarchy, the Evangelical Block, Detractor Groups are effective stakeholders for the success of Solomon's Temple.</p>	<p><b>Low interest / importance, high influence.</b> The federal government, together with the media and the opposition media can have an affect on Solomon Temple's activities, but these are not their priorities. These stakeholders may constitute hazards and obstacles.</p>
<p><b>High interest/ importance, low influence.</b> The faithful need special initiatives for their interests to be protected.</p>	<p><b>Low interest/ no importance, low influence.</b> The curious and apathetic towards religious activities.</p>

Source: The authors.

## Discussions of the results

This paper examined whether religious organizations behave as recommended by some authors of stakeholder theory (FREEMAN, 1984; JONES, 1995; WALSH, 2005) in responding to their stakeholders, at least to the most relevant, such as consumers; or whether they are closer to the analyses made by other authors (MITCHELL; AGLE;

WOOD, 1997; FROOMAN, 1999), who understand that companies prioritize certain stakeholders, and may even negate the impact or demands of some of them. Mitchell, Agle and Wood's (1997) model shows that a company's strategy must be to prioritize stakeholders with more attributes.

In the network relationships, symbolic goods of religion and the role of stakeholders manifest cooperation and conflict, which are reasons why the network includes uncertainty, variability and asymmetry, alongside cooperation (TICHY; TUSHMAN; FOMBRUN, 1979; NOHRIA; ECCLES, 1992; GULATI, 1999; GRANOVETTER, 2006). The inclusion of power, legitimacy and urgency allows greater understanding of the phenomenon, covering conflicts of interest and games for strategic positions.

The relationships can become mutable and ephemeral due mainly to the actions of stakeholders with high interest and great influence (members of the hierarchy, evangelical blocks and detractors), who work both at the operational and managerial levels as effective strategy tools.

For the interviewed defenders of the religion market and at the same time defenders of the need to build megachurches, religions do not have a timeless essence. Therefore, they can only be understood from the contexts of cultural values, and individuals negotiate a definition and existence of sacred.

The Christianity that was practiced in 6th century Europe was not the same as that of the 1st or 2nd century. Nor was the 10th or 15th like that of previous periods. It is sufficient to compare several phases of Christianity from the apostle Paul who affirmed, "I became Greek to convert the Greeks and became a Jew to convert the Jews"; passing to Constantine, the Roman emperor who gave freedom of worship to the Christians; to the alliances made between State and Church during the centuries.

Therefore, it is not possible to separate the notion of God from historical events, since the religious message changes in accordance with the needs of individuals and the community, following a tendency of the secular sphere without giving up the consecrated one as the guiding principle and mediator.

In this line of reasoning, Solomon's Temple represents the image of greatness that the leaders of the UCKG wish to project on the church, which for around a decade has been relatively obscured by other religious denominations, such as the "Worldwide Church of God's Power" and the "International Church of God's Grace".

With this image of greatness and vigor, the activities in the megachurch serve both to attract new members and to bring back the faithful that moved away in an attempt to reinforce the image of an organization chosen by God that is successful and the holder of symbolic power that can impart success and power to its followers.

Contemporaneously, in network relationships, megachurches are connected to the power with which religious agencies emphasize prosperity as a legitimate human right that can be claimed with urgency. Through this, the megachurches seek to attract people through the belief of determined religious leaders for the reason that they are chosen by God. In this sense, the great temples gain publicity, an image, a larger congregation and, consequently, competitive advantage regarding the intense competition in the market of symbolic religious goods.

The contribution of the study includes dynamic interactivity in general aspects of the theory of stakeholder networks, theoretical and methodological aspects of inter-case analysis and managerial aspects of relationships in megachurches in social networks. There is evidence for three aspects:

1. Building megachurches provides media visibility that turns into business opportunity together with other stakeholders (government, media, political groups and the faithful)

On the night of July 31, at the inauguration of Solomon's Temple, politicians were in a prominent place. The prophetic figure of the main leader of the Church, Macedo, accompanied by the President of the Republic, the vice president, the governor and mayor of São Paulo, looked more like a diplomatic event than the opening of a church (M2).

Human beings are political by nature, and no organization can be considered strong without partisan political power (P3).

The attendance of politicians from different parties and pastors from other denominations at Solomon's Temple to attend the daily services was recorded in the diary.

2. The sumptuous nature of Solomon's Temple as a political strategy in social networks aids the achievement of political power and institutional legitimacy as a competitive advantage for the UCKG over the competition.

Inside the temple, you feel you are in paradise. Everything is bright and beautiful. God is powerful and Solomon's temple is great (F3).

Poverty is a religious delay, the more abundance, the more God is pleased (P2).

The liturgy in the Temple of Solomon highlights the elements of luxury, wealth and abundance (M2).

The field diary records show the enchantment caused by the images and luxurious details in the minds of the participants, which was quite similar to the services shown in the media.

3. Imitation is a crucial element for achieving a competitive advantage, as the greater the framework proposed by the UCKG, the less power the competition has.

Macedo created a unique style of speech imitated by other churches, with a challenging style, bold and determined in persuading the faithful to become imitators of these styles (P1).

The notes made by researchers in the field diary in relation to changes of style in the words of the faithful as a kind of acculturation corroborates this view. The Brazilian Northeast has begun to adopt the accent of the people of Rio de Janeiro in a show of conversion to the identity principle.

It is interesting to note that both the defenders of the religious market and its detractors can be legitimized by biblical passages. In the first case, 1 Corinthians, Chapter 9, Verse 20: "To the Jews, I became like the Jews for the Jews; for those who are under the law, like one under the law; to gain those who are under the law" (THE HOLY BIBLE, 1984, p. 235). In the second, Acts, Chapter 17, Verse 24: "The God who made the world and everything in it is the Lord of heaven and earth and does not live in temples built by human hands" (THE HOLY BIBLE, 1984, p. 187).

In short, according Zaheer, Gözübüyük and Milanov (2010) the exclusion of power, legitimacy and urgency in research on networks creates a gap, as it is virtually impossible to understand the movements of relationships that compare cooperative actions with those of individual interests. Even when the subject appears, power, legitimacy and urgency are disposed of as variables alongside one another and not as an ordering principle. Consequently, it can be said that in the market practices of religion, all its detractors can be justified in biblical precepts. For this reason, in the market of symbolic goods of religion, the speeches of hierarchy members, Evangelical blocks and detractors must be continuously monitored.

## Final considerations

This study showed that it is possible to consider building megachurches strategic, because they make sense in capitalist logic, with supporters and detractors, partnerships and breaks with stakeholders involved in the process.

Pragmatically, the spheres of the life are submitted to an economic organization, in which religious life starts to become a tool for modern subjects to achieve their affectionate, professional and existential objectives.

From this perspective, the loyal ones look for institutions that meet their spiritual needs and provide directions in the face of social precariousness, very often in an immediate and consumerist form, with faith used as a way of achieving things.

Besides the promise of social ascent for the loyal ones, religious speeches proclaim the adaptation to the capitalist logic, in other words, the form of adaptation of the individual to the post-modern society. In a doctrinaire and reductionist form, through the church, the subject becomes "loyal", donating his/her identity to the vehicle and becoming a member of a group (BERGER; LUKMANN, 2004).

In network relationships, the symbolic elements constitute the essential extract of the new religious "undertakings" of the main neo-Pentecostal churches present in the electronic media. The marketing strategy in the creation of the megachurches, as a symbolic sphere of society, accompanies the transformations of modernity, in which life gains a new meaning if it becomes dynamic and immediatist, in a change so impactful that it does not leave space for reflection, in which ideology turned to consumption (theology of prosperity) becomes an integral part of the social life of individuals, and the feeling of religiosity, faith and belief take on a marketing character.

There are some limitations to this study that could be addressed, such as examining a specific megachurch. Furthermore, the media training sample involved only those that happened invited to participate. Ideally, future research should overcome these limitations and evaluate the practice of other professionals and stakeholders.

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**Submission date: 11/06/2016**

**Approval date: 06/03/2017**



## WORK-HOME BOUNDARY LIMITS: A STUDY OF EVANGELICAL PASTORS' DAILY LIVES

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### Abstract

The aim of this research is to analyse the mutual influence in the process of negotiating work-home boundaries and personal and social identity or, in other words, to study the method of adapting and managing domestic and professional conflicts which interfere with the harmony of evangelical pastors' work and personal lives. We conducted a qualitative study in order to achieve the proposed aims, involving an interpretative approach with the pastors of a specific ecclesiastical institution: The Assemblies of God in Brazil. A total of 20 interviews were held, and, following coding procedures, boundary-work tactics, whose taxonomy falls within physical, behavioural, temporal and communicative dimensions, were found. The results revealed that the sharp distinction seen was that the subjects were more likely to mingle interactions in work-home boundaries. The boundary-negotiation tactics were shown to be multi-functional, as they have dual function techniques, used both to segment and integrate the work-home boundary.

**Keywords:** Organizational management. Negotiation tactics. Religious environment. Social behaviour. Physical and emotional strain.

## LIMITES DAS FRONTEIRAS TRABALHO-LAR: UM ESTUDO SOBRE O COTIDIANO DOS MINISTROS EVANGÉLICOS

### Resumo

Objetivou-se com esta pesquisa analisar a influência mútua presente no processo de negociação das fronteiras trabalho-lar e de identidade pessoal e social, ou seja, procurou-se estudar o método de adaptação e gerenciamento dos conflitos domésticos e profissionais que interferem na harmonia do trabalho e do lar dos ministros evangélicos. Para alcançar os fins propostos conduziu-se um estudo qualitativo envolvendo uma abordagem interpretativa junto aos ministros de uma específica instituição eclesíastica: Assembleias de Deus no Brasil. No total realizaram-se 20 entrevistas, que após os procedimentos de codificação foram encontradas táticas de manejo de fronteiras, cuja taxionomia se enquadra nas dimensões física, comportamental, temporal e comunicativa. Os resultados revelaram que a distinção marcante percebida foi a de que os sujeitos tendem mais para integração em suas interações nas fronteiras trabalho-lar. As táticas de negociação das fronteiras se revelaram multifuncionais, pois são técnicas de dupla função utilizadas tanto para segmentar quanto para integrar o trabalho-lar.

**Palavras-chave:** Gestão organizacional. Táticas de negociação. Ambiente religioso. Comportamento social. Gestão de conflitos.

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Today's societies have emerged as a cluster of different intricate and globalized arrangements, which have proliferated under varying administrative structures, namely: state, private, educational and religious institutions, associations and non-governmental organizations, among others. As an alternative, a number of tensions, such as internal (self-employed workers, human resources and work teams) and external pressure (the market, politics and economics) stemming from these typical characteristics demand a better understanding of how individuals interact or adapt to conflicts which arise on account of these interactions (DIEHL; TATIM, 2004; KREINER; HOLLENSBE; SHEEP, 2006a; 2009).

Kreiner, Hollensbe and Sheep (2009) call one of the generalized analyses of these "work-home disharmony" tensions involving challenges related to activities linked to work and home.

Against this background, bringing forward the expression of limits or boundary work, Nippert-Eng (1996) mentions two distinct categorizations: home and work. Individuals attribute different meanings to these two constructs, resulting, at one moment, from distinct groups coming together and, at another, the segregation of these groups through a mental process (ZERUBAVEL, 1996). Thus, to Nippert-Eng (1996), behaviour is subject to alternatives as one prefers to segment it or integrate it with domestic life. Understanding these limits and their individual and organizational identities favour future adaptations to the corporate and institutional environment (NIPPERT-ENG, 1996; KREINER; HOLLENSBE; SHEEP, 2009).

In order to support this topic, recent investigations into these actions, called boundary work, concentrated their inquiries on organizational procedures (KREINER; HOLLENSBE; SHEEP, 2006b; DIKKERS et al., 2007), the need to preserve additional resources, aiming towards a balance of the work-family interface (HALL; HALL, 1978; ROTH; DAVID, 2009); cultural influences and use of work-home communication (CLARK, 2000; DIKKERS et al., 2007; QUINN, 2011; ADKINS; PREMEAUX, 2014). However, other studies evaluated the importance of informal organizational support, describing the importance of investigating conflicts generated in the work-home interface (BEHSON, 2005; KREINER; HOLLENSBE; SHEEP, 2006c; ROGERSON, 2009; SANZ-VERGEL, 2011; KNAPP et al., 2013).

Bearing in mind boundary work dynamics and two distinct categorizations that individuals attribute to their work and homes, and the conflicts which arise from these interactions, being motivated by economic, personal or vocational needs, the following research problem emerges: how does the impact of social identity contribute to evangelical pastors managing the inconsistencies designed within work-home boundary limits?

In order to investigate this issue, this research was based on the theory of work-home boundaries and on the context of a religious universe connecting it with the theory of identity. Due to the intense commitment required in exercising the function, these evangelical pastors represent a specific social group with unprecedented demands on the work-home boundary, making this research challenging. Thus, the goal of this study was to analyse, identify, classify and discuss the tactics for negotiating boundary limits that these evangelical pastors adopted, as well as identifying the identity demands and tension prevailing in this correlation.

This study is justified by the need to expand knowledge on boundary theory in its fields of work and home as, according to Kreiner, Hollensbe and Sheep (2009), it aims to understand how theoretical precepts can regulate and enrich domestic, vocational and professional relationships. The advancement that is proposed is furthering this investigation into a religious environment culturally distinct from the object of Kreiner, Hollensbe and Sheep's studies (2006a; 2009). Therefore, and according to Hofstede (2001), culturally speaking it is a much more male environment in which there is no female presence in the ecclesiastical ministry on account of specific criteria. Nevertheless, its ecclesiastical management presents particularities when compared to the way that episcopal bishops govern related to the considerations made by these

authors. Thus, models and practices have been adopted ceremonially on a daily basis, in response to the internal pressures from this social group but with few substantial adulterations. This cultural phenomenon is identified via discrete, separate episodes while simultaneously conserving coexistence and co-dependency.

Consequently, the display of entrepreneurial culture seen in the ecclesiastical context is made present through the belief in free enterprise as a primordial factor for ecclesiastical and sacerdotal expansion: of administrative management as the minister's form of personal affirmation of his parishioners by socializing collective well-being; and employing the rudiments of the pastoral viewpoint in a business environment, by using the exclusive benefits of business management or, that is, using metaphorical keywords in the dialectics with his community, such as success, innovation and excellence, thereby forging a parallelism between the elements of faith and those of business management. In these terms, this population has distinct characteristics, thereby making the interest in this investigation unique and pronounced.

On the assumption that work, culture, gender and work-home demographics are specific to each individual, the study of the Evangelical pastors' universe may fill this investigatory shortcoming, since recent research has not focused on distinct environments in the corporate world. The context of the research is materialized by accessing harmonized conduct and values in a metaphorical parallelism between capitalist management versus the protestant vocation, in an abstract environment and, consequently, developed by the acuity of reflective aptitude in a moral dialectic. Kreiner, Hollensbe and Sheep's research (2009) and that of this study is characterized as an exception to most research on the work-home boundary, which focuses on private corporations.

However, the perception of the integrations and demands of social identity are manifested as predominant for social assimilation which de-personalize the concept and allow categories such as race, sex, occupational roles, organizational associations and so on (BREWER, 1991; ROCCAS; BREWER, 2002; KREINER; HOLLENSBE; SHEEP, 2006c) to be added. These specificities of inclusion and the uniqueness of social identity, if attained, will provide the ideal balance to achieve a level of reduction in stress and other inconsistencies, as well as increased well-being and satisfaction (BREWER, 1991; ROCCAS; BREWER, 2002). These authors argue that individual identities conjecture double compassionate obligations which are constantly straining against each other and which also distinguish individuals from each other. One is reflected with a characteristic of inclusion, which reflects the following question: "How am I similar to others?" (KREINER; HOLLENSBE; SHEEP, 2006c, p. 1.033) and the other is judged with a property of the uniqueness, reflecting the following question: "How am I different from others?" (KREINER; HOLLENSBE; SHEEP, 2006c, p. 1.033).

The contribution of Kreiner, Hollensbe and Sheep's (2009) research is in the perception that the work-home boundary reveals spaces of continuous negotiation which are integrated or segmented in different degrees. Therefore, it was possible to go deeper into the dominant tactic analyses when it comes to conflict management and the comprehension of the consequences generated by these tensions within the limits of the aforementioned boundary. Another interesting contribution of this research is the improvement and advancement in understanding how individuals manage their boundary limits with the various tactics adopted. Hence, this knowledge can contribute to developing the theory in work-home relations (KNAPP et al., 2013) and in understanding the reach of social identities as a regulatory and categorical element of work-home interrelations.

In Kreiner, Hollensbe and Sheep's (2006a; 2009) analysis, it is understood that some of the data observed varied between very simple tactics and profound influences. Following this line of investigation, and according to Eby et al. (2005), it aimed to reflect on its orientation in order to focus more on 'how' and less on 'how many', related to research on work-home interactions. Seen in these terms, to Whetten (2003, p. 3) "it is preferable that qualitative changes in the theory's boundaries are investigated" (WHETTEN, 1980; MARUYAMA, 1984), and there is a "need for feedback cycles" (WHETTEN, 2003, p. 3). Likewise, Yin's (2014), intent is further study in this

direction by replicating the phenomenon researched. Also, according to Behson (2005), the systematic replication of a study using different samples and measurements is fruitful to generalize the results, diminishing its limitations and, according to Behson and Brown (2011), the possibility of generalizing from a single, although exceptional, qualitative investigation is limited.

Seeking to achieve the aims desired for this research, the methodological investigation strategy to be followed was an inductive, interpretative and qualitative study, with the application of semi-structured questionnaires, in order to explore and understand the meaning that the evangelical pastors attribute to a social or human difficulty in their daily exchanges (GODOY, 1995; MERRIAM, 2002; POUPART, 2008). As to the aims, the study is classified as descriptive and cross-sectional (HAIR JUNIOR et al., 2005; GIL, 2008; CRESWEL, 2010; YIN, 2014).

## The boundary theory

The boundary theory is well-known as a social classification theory (ZERUBAVEL, 1996), which defines the ease and constancy to allow the transition between distinct fields (ASHFORTH; KREINER; FUGATE, 2000), focusing on the meanings attributed by the subjects to the fields of work and home (NIPPERT-ENG, 1996).

### Work-home boundary limits

Boundary limits are more easily maintained when they are preserved separately and clearly, in such a way that its understanding is not clouded. On the other hand, more integrated limits allow role transition with less difficulty. Thus, they can be defined as an experience with distinct roles for, in some cases, it allows for easier integration rather than segmentation, such as taking work to be completed or carried out at home and not discussing family matters at the workplace (DESROCHERS; SARGENT, 2004). In this case, the distinction between the integration versus segmentation set of demands remains as a continuum in boundary theory (NIPPERT-ENG, 1996).

Under a social constructivist lens, the work-home interface is socially constructed (NIPPERT-ENG, 1996; CLARK, 2000) or, rather, the individual is conceived as an active agent in constructing work-home boundaries through interactions with other social agents. Furthermore, these boundaries are continually negotiated and transformed and the practical actions survive throughout time within these interactions (KREINER; HOLLENSBE; SHEEP, 2009). Due to daily choices, every individual's work and home fields can be consciously or subconsciously directed to some level of integration or segmentation. Nevertheless, in these terms, the environment may remain harmonious or disharmonious.

These choices are partly these social actors' idiosyncratic demands, as a mental process of sculpting out the work-home fields as physical and real, segmented or integrated domains (ZERUBAVEL, 1996; NIPPERT-ENG, 1996). Thus, it is a social construction, notwithstanding its individual aspect (NIPPERT-ENG, 1996). Furthermore, the outline for the work-home definition is similar to the physical or mental procedure of 'sculpting' a fact, which may imply endless differences (ZERUBAVEL, 1996).

The work-home boundary theory unravels the complex interaction between these fields. This theory seeks to understand the differences between them, in which one field has the potential to exercise influence over the other. The primary correlation between work and home aims to assume when conflicts will occur on account of these interactions and, therefore, supply a structure to attain the balance desired between the parties. Although many aspects of work and home are hard to alter, individuals may share various levels of the work and home field and the connections present between them to reach the desired balance (CLARK, 2000). Consequently, this theory tends to simplify and order its environment, classifying personal behaviour and daily activities (NIPPERT-ENG, 1996; KREINER; HOLLENSBE; SHEEP, 2006a; 2009). It also seeks

to give a meaning to multiple fields of experience, such as home, work and church, based on presuppositions underlying a specific field limit, and, at times, attempting to predict a classification of these exchanges (KNAPP et al., 2013).

### *An optical balance between work and home*

For Ashforth, Kreiner and Fugate (2000), the daily role transitions which involve home, work, church and other places are considered transition limits in these fields. Thus, for Knapp et al. (2013), these roles are constructed based on values, beliefs, standards, interaction styles and also on time horizons usually associated with a specific function. Consequently, a specific field constructs a set of prerequisites, responsibilities and even relevant ways to join them. Thus, these roles are intrinsically linked to the ministers being emerged in the management inherent to their identities, which are achieved to negotiate and refine the borders of social and personal identity, reflecting this connection to the consistencies and inconsistencies of work-home relations (BREWER, 1991, 1993; KREINER; HOLLENSBE; SHEEP, 2006c). Consequently, according to Ashforth and Mael (1989), the interested parties "tend to select the activities coherent with the most salient aspects of their identities and they support the institutions which have these identifications" (p. 25).

According to Kreiner, Hollensbe and Sheep (2006a), the balance between life at work and life at home is a closely sought state but it is rarely achieved. Clark (2000) defines balance as contentment and healthy performance within the realms of work and home, with a minimum of role conflicts. Thus, individuals and organizations are encouraged to be aware of the importance of achieving the balance required in these two fields. Therefore, these authors present boundary negotiation tactics, described as the actions required to improve this balance, and reduce work-home conflicts, although at less than ideal levels (KREINER; HOLLENSBE; SHEEP, 2006a; 2009).

The balance between work and home means something different to different individuals. The combination of an individual's professional and family activities, and the relative time and energy spent in each field, may not be the combination that another individual would consider balanced. Balance is achieved when an individual feels comfortable with the way they allocate time and energy to responsibilities related to work and home, in an integrated or segmented way (CLARK, 2000).

A permeable boundary involves a scope in which a limit allows the psychological or behavioural aspects of a field to enter the other (ASHFORTH; KREINER; FUGATE, 2000; DESROCHERS; SARGENT, 2004). Communication at home about work and communication at work about family alters according to the permeability of the work and home boundary. Individuals who are engaged in this type of integration show greater satisfaction in their work and at home (CLARK, 2000). According to Shockley and Allen (2007), some forms of flexibility provide advantages in terms of reducing work-family conflicts in such a way that they postulated that some individuals tend to benefit more from flexible work arrangements than others, on account of these individuals' idiosyncratic characteristics.

In order to better orient boundary conditions, the authors suggest that these characteristics are prevalent in individuals who have greater responsibilities at home, such as women who go out to work and also deal with domestic chores. Similarly, when the psychological boundary is flexible, an individual can reflect on work while they are at home and can also reflect on their home while they are at the workplace. Thus, ideas, insights and emotions flow more easily between these fields when the psychological boundary is flexible (CLARK, 2000). Therefore, when the individuals are submerged in managing identity, they do it to adjust and refine the borders of personal and social identity (ASHFORTH; MAEL, 1989; KREINER; HOLLENSBE; SHEEP, 2006c).

Following this path, and in accordance with these authors, flexibility and permeability can harmonize a possible conflict by allowing an individual to make a field transition when required. For example, an employee may be able to leave work early to deal with a problem at their church or vice-versa. On the other hand, nonchalance

may also exacerbate conflicts by creating confusion between the individual and their defined role. According to Ashforth, Kreiner and Fugate (2000) and Clark (2000), flexible work arrangements are formally defined as alternative work choices which allow work to be carried out outside traditional time or spatial limits in a working day.

Therefore, to this end, Clark (2000) presents that, when the fields are similar, a thin/weak boundary will facilitate the work-home balance and, similarly, when they are different, a thick/strong boundary will facilitate it. However, boundaries which present very impermeable and inflexible characteristics and do not allow blending are considered 'strong'. On the other hand, the boundaries which allow permeations and facilitate blending are flexible and considered 'weak'. Generally speaking, the boundaries are stronger when directed towards the thinner field, although this may seem functional, as the immanent interests in a specific field may not be the same as the individual's interests.

Those who control common boundaries are supervisors at work and spouses at home. Other members of the field can be influential in defining the field and boundaries but do not have the power to cross that boundary, as they do not have the flexibility required to deal with these conflicting idiosyncratic demands. However, frequent communication between those who control and cross these boundaries can assist in the sense of achieving a satisfactory level of engagement (CLARK, 2000). Thus, the action of creating and maintaining an institutionalized limit makes the activity of integrating a field with another confusing, that is, getting to another boundary by using a bridge. According to the nature of work-home boundaries, roles tend to be more relevant in certain locations (NIPPERT-ENG, 1996; CLARK, 2000). These agents could create and maintain these boundaries as a way of simplifying and ordering the environment.

### A mental boundary

In this sense, for Zerubavel (1996), mental fences are erected around geographical areas, historical events, people, ideas and so on, and are guided functionally or, alternatively, in another pertinent way. This process comprises creating fields which have specific meanings for those involved, creating and/or maintaining their boundaries. Following institutionalization, the boundaries gain an authentic status, even if only mentally, in the sense that individuals see them as they are and act as if they were real. Work, home and church are examples of social fields erected by boundaries, although a specific field could be socially constructed, a place where these social actors can share their various meanings (NIPPERT-ENG, 1996; CLARK, 2000).

Mental boundaries preserve the idiosyncratic characteristics of each field of action. These boundaries present distinct ways of how to mentally project the limit between work and home, with them now favouring segmentation and integration. This cognitive boundary is influenced by the structural characteristics of work and home, such as the physical, social and cultural environment of each of these fields (NIPPERT-ENG, 1996; 2010). Consequently, the boundary theory explains how the mechanisms are constructed, modified and maintained, either individually or collectively, in these boundaries. Therefore, these limits may refer to physical, temporal and cognitive limits (SUNDARAMURTHY; KREINER, 2008).

However, with what could be freely defined as the boundary theory, the active agents explore the concept of this theory and share how a limit could be described in terms of the interface with the environment (role of the boundary) and nature or content (role of identity). The concept has been used in various subjects to refer to a physical, time, emotional, cognitive and relational limit, and conceptualize them as separate entities (NIPPERT-ENG, 1996; ZERUBAVEL, 1996; ASHFORTH; KREINER; FUGATE, 2000). These agents may create and maintain these boundaries as a way of simplifying and ordering the environment. Thus, for Zerubavel (1996), mental fences are erected around geographical areas, historical events, people, ideas and so on, guided functionally or in another pertinent way.

Summarizing, when an individual places his/her work at an organization as a priority, the majority of his/her ways and reflections revolve around this occupation and, thus, if there is excessive identification, authors (such as ASHFORTH; MAEL, 1989; BREWER, 1991; ROCCAS; BREWER, 2002; ASHFORTH; HARRISON; CORLEY, 2008; MARRA, FONSECA; MARQUES, 2014) also confirm that in these circumstances individual identity is completely affected and subjugated to the identity connected to the organization. In this expectation, the individuals transfer their specific characteristics into the organization and absorb aspects of it, as if they were inbuilt in themselves. Consequently, it is attributed that, in this case, an affinity, bond and affection with this organization remain in the individual.

## Methodology

With the aim of achieving the intended objectives, this research is presented qualitatively, with an interpretive approach, favouring a Grounded Theory focus on data analysis. The ontological orientation observed was subject-object interaction, not considering the existence of a totally objective reality; it is an intersubjective reality (GIL, 2008). The social constructivist epistemological position is an extremely useful research lens to study how reality is constructed through interactions between people and the world in which they live: 'boundary theory' (KREINER; HOLLENSBE; SHEEP, 2009).

Thus, according to Flores (1994) and Saccol (2009), the *modus operandi et argumentandi* of the philosophical instance, which presented the basic presuppositions of a world vision, was the interpretivist paradigm, as it seeks to understand a social phenomenon from the participants' perspective. With regards to the aims, the study is classified as descriptive and cross-sectional, in order to contribute to further studies (GIL, 2008).

## Sample

The research subjects were pastors affiliated to the General Convention of the Assemblies of God in Brazil (CGADB), were married and, according to society, they led a traditional family life. Therefore, they experience challenges in both boundary limits. As leaders of a religious institution, these evangelical pastors also simultaneously exercise various functions, such as budget management, hiring and dismissing assistants, accounts management and running meetings, among other tasks.

Furthermore, we established the criterion of keeping a link only with the pastors who were considered the holders of adequate administrative and spiritual ecclesiastical experience, and which could enable knowledge construction from personal experience in the face of these churches. For such, we selected Evangelical ministers aged between 38 and 70 years old as long as none of them had less than 10 years of ecclesiastical experience as a presiding pastor in a church affiliated to the CGADB. Due to this peculiarity, the pastoral ministry does not allow females; we only considered male pastors when composing this selection.

## Data collection

The selection of interviewees was by convenience and organized by the use of a technique called 'snowballing', as the participants were reached through personal contacts, friends and acquaintances (GLASER; STRAUSS, 1967; BIERNACKI; WALDORF, 1981; PÉDERNEIRAS et al., 2011). Construction of the research corpus demonstrates that the size of the sample is relevant until there is evidence of data saturation (GLASER; STRAUSS, 1967; PAIVA JÚNIOR; LEÃO; MELLO, 2011). Data collection was carried out by holding interviews, according to a semi-structured script established by adapting the interview protocol used in Kreiner, Hollensbe and Sheep's (2009) research. This script allowed for greater freedom to pose related questions which had not previously been anticipated, giving the research greater flexibility.

In order to eliminate the inaccuracies of field notes and expand the detailing of access to the information attained, the contents of the interviews were recorded and transcribed (GODOI; BANDEIRA DE MELLO; DA SILVA, 2010). Three interviews were held at a location established *a priori* by each pastor, at a previously arranged time and date. The recordings only took place after the interviewees' permission was given, under the condition that their anonymity was protected. The respondents were advised that their replies would not be considered right or wrong, nor would an evaluation of their abilities be the object of this study (GODOY, 2006).

### Data analysis procedures

Furthermore, we highlight that the audio for each interview was transcribed by professionals qualified in the subject and duly hired for the total execution of the task. The reproductions resulted in 630 pages of text with double spacing and came to a total of twenty hours and thirty-three minutes of uninterrupted work. A reference code, comprising letters and numbers, relating the respondent to the numerical order of the interview, was given to analyse and detail the 20 interviews. NVivo 11 software was also used. Hashtags were applied merely as links to identify the PP (President Pastor) interviewee and ordered number of the conversation (from 01 to 20), varying from PP#01 to PP#20. However only 11 of the 20 interviews were considered for the present study, identified as follows: PP#04, PP#06, PP#07, PP#09, PP#10, PP#12, PP#13, PP#14, PP#17, PP#19 and PP#20.

### Presentation of the results, analysis and interpretation

We sought to describe the intense demands and conflicts of identity imposed on this challenging occupation: evangelical pastors. The literature explains the expression "social identification" in two ways, one as a 'state' which refers to that part of personal identity which derives from its association with a social group (e.g., a club, religious denomination and educational institution, among others). The second form refers to the 'process' of aligning personal and social identity (BREWER, 1991; 1993). Thus, understanding the construction of identity becomes imperative, as it addresses a cyclical process which does not end when the individual initially identifies with an institution (KRAMER; LEONARDELLI; LIVINGSTON, 2011).

As a result, the identity is adjusted, evolves and is subject to various influences, including organizational, professional and vocational demands. However, the individual impetus for personal social change (ASHFORTH; MAEL, 1989; KRAMER; LEONARDELLI; LIVINGSTON, 2011; MARRA; FONSECA; MARQUES, 2014), is described in the following interview given by minister PP#16.

In fact it is not your own choice, taken from the moment that a person takes the decision to serve God and then, God, 'I believe', he specifically calls each one for that work which is useful, so, I understand the ministry as a gift from God; it is not a personal choice... In fact, 'as I understand it', a pastor is not a pastor for a period of time; from the moment that he is called by God to the pastorate, I believe that he is a pastor 24 hours a day; there is no separation.

### Identity demands and identity tensions

It was possible to document some of the expectations of functional and ontological identity through these questions. Vocational calling to religious practice brings a range of demands regarding the minister of the Gospel's individual or even social identity, which directly reflect on work-home interactions. These pastors have a multiplicity of responsibilities, as well as being supervised by CGADB, in terms of faith, morality and ethics, as set out in the association's statute. However, its parishioners



also indirectly require a code of ethical and moral conduct, specifically for their environment, as shown on Table 1.

**Table 1 – Identity demands and identity tensions.**

Name	Description
<b>Identity demands:</b> social identity as calling	Vocation is perceived as a divine calling and not as a secular labour occupation.
Identity expectations, functional or ontological	High expectations placed on the individual about what should be done or said (functional), or about what their image should transmit (ontological).
<b>Identity tensions:</b> overidentifications	Excessive identification with one's ecclesiastical responsibility, which causes personal identity that sometimes is not noticed by the individual.

Source: The authors.

In addition to this pattern of behaviour, which at times is also required from his family, is a type of personal reflection with the Church. Thus, a positive correlation between the demands and conflicts of identity as a determining factor in deliberations regarding a unique taxonomy versus integration (KRAMER; LEONARDELLI; LIVINGSTON, 2011) was found. Therefore, these ministers' perception regarding their calling as a sacerdotal vocation is understood.

*Identity demands: social identity as calling*

According to Kreiner, Hollensbe and Sheep (2006c), a priest's social identity is typically associated with the priesthood as a divine calling and not a job. When a pastor was questioned about his reason for becoming a priest, he replied: "A call from God" (PP#11) and another replied: "First of all it is a call from God because, in fact, we do not appoint ourselves as pastors, we are called for this purpose by God" (PP#13).

*Identity expectations: functional or ontological*

The research subjects order their vocations at a real level, in contrast to the expectations from those directly or indirectly involved. These characteristics are dichotomous; that is, when perceived by the individual about what should be done or said while exercising his priestly function, they reveal his functional property. Meanwhile, when perceived by the same individual as an image that this identity should have towards him or his parishioners, they reveal his ontological property. At times these expectations can take on the form of specific behaviour and occasionally that of ontological expectations.

With this in mind, when questioned on his perception of these characteristics an interviewee replied:

[...] I understand that every pastor..., he is not an employee like someone who works at a company but... a job which is much more than working at a company, as a pastor's responsibility is really great and very complicated because the pastor has to do the work of a father, a lawyer, and he has to be (to a certain extent) a judge; he has to be an adviser.. (PP#12).

*Identity tensions: overidentification*

In the case of these research subjects, the strong identification with their jobs as priests led to a loss of their own or a unique identity, which sometimes they did not perceive. The majority of the research subjects displayed excess identification of their

identity with the social group to which it is linked, as they “are psychologically linked to it and its practices, sharing their positive and negative experiences, successes and failures, through a sense of belonging” (MARRA; FONSECA; MARQUES, 2014, p. 53).

Furthermore, evidence that excess identification was a common form for the interviewees interacting with the sacerdotal vocation was observed in the course of the research or, rather, as being healthy and intentional behaviour by them. One of the respondents expressed the following: “I think that separating the function of being a pastor would never happen because after you are ordained, you will always be a pastor (PP#13). [...] Because the spiritual will always overlap the material when exercising citizenship (PP#06)”.

For instance, one of the pastors replied as follows during the interview: “My work colleagues... They say that everything that I do, the way that I deal with people is due to me being a pastor” (PP#09). This infiltration of personal identity with social identity was also perceived in another way, as recounted in a confrontational situation between a person and the municipal town hall: “And after I had shown her the way to resolve the problem... I asked her if she would let me pray for her and I prayed ... I prayed for that woman and at the end she said: Well, conciliator, if my problem is not resolved at the city hall, my personal and emotional problem has now been resolved here (PP#09).

### Work-home boundary work tactics

Effectively, in order to allow for greater clarity and parsimony, a more in-depth analysis of certain aspects of the implications reached was also deliberated, including the adaptations required to manage the conflicts which emerge at the work-home boundary limits, notwithstanding their consequences. In addition, the taxonomy of the work-home boundary negotiation tactics added by these pastors in response to the inconsistencies perceived is presented, as shown on Table 2.

**Table 2 – Work-home boundary work tactics.**

Name	Description
<b>PHYSICAL TACTICS</b>	
Adapting physical boundaries	Construct or deconstruct physical borders or limits between the work-home domains.
Manipulating physical space	Create or reduce the physical distance between the work-home domains.
Managing physical artefacts	Using tangible items, like the Bible, calendars, keys, photos and e-mail to separate or integrate the work-home domain aspects.
<b>BEHAVIOURAL TACTICS</b>	
Using other people	Using other people’s abilities and availability, which can be helpful for the work-home boundary (e.g., phone call screening).
Levering technology	Using technology to promote boundary management (voice mail, caller ID, e-mail).
Invoking triage	Prioritizing demands which are apparently urgent and important from the work-home boundary (e.g., pastoral emergency).
Allowing differential permeability	Choose which specific aspects from the work-home boundary will allow permeability.

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Name	Description
<b>TEMPORAL TACTICS</b>	
Controlling work time	Manipulate regular or sporadic plans (e.g., at the work-home boundary to be used subsequently, decide when to perform other work tasks).
Finding respite	Remove work-home demands from the protocol for a considerable amount of time (e.g., vacation, retreats, and getaways).
<b>COMMUNICATIVE TACTICS</b>	
Setting expectations	Managing expectations before a work-home boundary violation (e.g., stating preferences for the parish or for the family before it occurs).
Confronting violators	Confront the work-home boundary violator(s) during or after the boundary violation (e.g., suggest a parish man stop calling the pastor's home for trivial reasons and out of the regular servicing hours).

Source: The authors.

### Physical tactics

The physical boundaries of this work-home environment may undergo alterations, such as a wall at home separating the home office. However, despite the tangible or real perception of physical limits, data from research carried out by Kreiner, Hollensbe and Sheep (2009) and Nippert-Eng (1996) suggest that they may be literally and metaphorically manipulated, which is consistent with the social constructivist epistemological lens.

#### Adapting physical boundaries

Physical boundaries which involve a connection in the work-home interface were established to conserve or dismantle a separation between these fields.

Clergymen in particular showed greater integration in their lives in the work-home relationship. Many dismantled or weakened physical boundaries, even those considered subjective for this purpose. A pastor expressed the following: "I do not have a set time to see anyone... They come and find me at any time and I am available... and there is also a telephone at home" (PP#12). A possible comparison can be made with the meticulous *Who's Who*, regarding the ecclesiastical establishment, at times demonstrated in the link with the understanding of his perceived vocational calling.

#### Manipulating physical space

Through this process, the subject has ways to manipulate the physical limit of work-home boundaries. It should be noted that this is a tactic which allows its use in distinct criteria, that is, as part of long or short-term planning, in response to an immediate difficulty (KREINER; HOLLENSBE; SHEEP, 2009).

Thus, the research data presents examples which favour this interpretation. This is the case for a pastor who, during the interview, concluded that many years of full-time dedication to ecclesiastical work brought him excessive physical and emotional strain, and an opportunity for him to confess: "If I went back in time, I would not do it like that; I would separate them" (PP#07).

## Managing physical artefacts

Physical artefacts are physical and cultural representations, omnipresent in personal and social life and visually prominent and tangible, as evidence of a field or identity, which induce the subject to transcend spatial barriers. These artefacts can be found in and symbolize both fields. Also, according to Nippert-Eng (1996), individuals use them frequently, even if it is subconsciously, as a way of negotiating work-home boundaries. An interviewee described the following: "...put on the jacket; it is not because you put on the jacket that you go to church but you took a jacket, put the Bible under your arm or the briefcase that goes to church ... The pastor is going to church" (PP#18).

The presence of photos of children and the pastors on festive occasions at the church where they were responsible for ecclesiastical administration was noted in the homes where many of the interviews were held through non-participatory observation. Furthermore, the existence of photos of the pastor with members of the church, the temple and their family members on the coffee table was also noted at the pastors' offices, where some of the interviews were held. Consequently, extensive crossed communication between work and home was seen.

## Behavioural tactics

The evidence showed the use of a behavioural tactic to consciously segment or integrate the work-home fields or, in other words, support a mental movement (ZERUBAVEL, 1996). To the author, the transition of conduct in work-home boundaries is a direct result of a state of mind – it is syllogistic and has a psychological premise.

Similarly, and as presented by Kreiner, Hollensbe and Sheep (2009), the use of these tactics with the aim of decreasing the inconsistency of the work-home boundary, boundary violations and work-home conflicts were perceived. These tactics emphasize the present condition of negotiating and constructing the work-home boundary and include communicating expectations.

## Using other people

The use of the boundary theory concept as a descriptive framework allows the demonstration of role transitions of the individuals researched in this study as an activity socially normalized through the boundary (ASHFORTH; KREINER; FUGATE, 2000). These agents can create and maintain these boundaries as a way of simplifying and ordering the environment (ZERUBAVEL, 1996). Thus, it was used with the intention of segmenting or integrating the work-home field. The interviewees provided the following information:

I am usually more relaxed but when this happens; perhaps I am there resting and then a person calls. Then, usually my wife answers it, if it is something simple; something normal that she can sort out; she does that. If not, she is completely free to call me... (PP#10).

Clark (2000) specifically highlighted the boundary controller's role, emphasizing the importance of the aspect that the 'other people' who are being used are often the same people who are part of the environmental influences of this boundary. Thus, in most cases, they are shown to be those who are part of the family environment. An interviewee expressed the following about the question concerning telephone calls received:

[...] my wife answers 90%, ... She will pass on whoever is calling; whoever wants to speak to me...so we establish a time. For example, if I am in a meeting, logically she asks them to wait until I finish the work that I am doing... (PP#13).

## Leveraging technology

The use of technology is shown to be strategic, in so far that it is used to integrate and segment work and home. Some interviewees stated that they chose to segment work and home but, along the same lines, affirmed choosing to integrate, allowing churchgoers to contact them at any time by telephone, WhatsApp and e-mail, etc., without establishing specific times.

When questioned, another pastor revealed that at the time when he was at home with his family, even showing a distinct characteristic from the previous interviewee, he displayed the choice of integrating. And, on the question regarding the time when brothers from the church come to find him, he replied: "Always, on my mobile phone and the phone at home" (PP#06). When questioned which components of the ecclesiastical body have this freedom of calling him at any time, he replied that the church has "complete freedom; all of them" (PP#06), referring to all of the above-mentioned members.

## Invoking triage

The demands of activities on the work-home boundary are usually urgent and important, such as taking care of children, other family members, and problems with the car or even activities related to another source of income.

Having said that, the subjects need to decide which fields will receive adequate attention if both are noteworthy. Thus, quick pastoral decisions set off from the principle of having the construction of the meaning of a set of pre-established priorities in advance, before any deviances can occur. An interviewee replied on how he proceeded with pastoral emergencies as follows:

A member called me..., ten o'clock at night... the wife was there, practically ending the marriage and wanted to leave right then. So, I quickly went to their home and we talked and prayed. I stayed there for almost two and a half hours but, in the end, we were very successful and the couple reconciled and stayed together. They are still together today. (PP#20).

## Allowing differential permeability

Time limits are distinct for each person, especially on account of their idiosyncrasies, which leads this limit to having a differentiated permeability. For example, some home field domains, whether it is the husband, the wife or the children, can vary in permeability. Thus, they can invoke permeable boundaries with differentiated field levels (KREINER; HOLLENSBE; SHEEP, 2009). In this case, the data presented greater adherence to work-home permeability than home-work but they revealed an important step in this direction.

An area in which it became clear was how the priesthood tends to select in which aspect of the ministry they involve their spouses and family. Some of the interviewees said that they use real situations when preaching the gospel, and although their families are deeply involved in the work of the church, to a certain extent it may violate the will or privacy of a family.

My daughter had low grades at school...So, I am preaching at church about us going to heaven; our responsibility with God... So, it is also like this at school. Including my daughter; when this happened with her... The teacher; he is a teacher and he explained the whole subject. So, he is going to say at the end of the year: here are the students who have passed; those who did not pass and those who are having make-up classes. So, I have already quoted this example at church. (PP#17).

## Temporal tactics

Today's society brings considerable temporal challenges for the contemporary worker, including regarding ecclesiastical activities. So, technological and competitive tendencies, as well as the possible transformations in exercising a ministerial vocation, reinforced by additional loads of work, which result in expectations about the time that should be spent in order to achieve work-home balance, may happen in an environment that is in a lower level compared to the one considered ideal and wished for. In this sense, these evangelical ministers make strategic choices about the temporary demands around work, that is, how, when and how much time should be dedicated to ecclesiastical activity (KREINER; HOLLENSBE; SHEEP, 2006a; 2009; NIPPERT-ENG, 1996).

### Controlling work time

As in areas of activity in professional life which are not merely sacerdotal, there are numerous demands which require time to address. Administering this time in the search for personal satisfaction in daily activities is required.

One method involved advanced design planning in order to maximize time spent with the family. An interviewee explained about his pastoral visits: "I always try to teach my members... that it is good to be in our brother's house. When he needs it, you drop by and make a quick visit and each of us are in our own homes" (PP#20). And, when asked if he thought that he had enough time for himself, he replied: "I make a life schedule; especially because sometimes, what happens sometimes is that we, as pastors, as leaders, I usually take my car and drive to a nearby beach, sit down... organize my ideas slowly" (PP#20).

On the same subject, another interviewee said that one day of rest was set every week and that he "acted naturally" on this day. "It is a day of rest" (PP#19). But he advised that, if necessary, this day of rest would be immediately interrupted and gave an example of this: "It is a day of rest but I am on call! It is like a soldier; he was not conscripted but is waiting to be called at any time" (PP#19).

### Finding respite

Improvising routine stoppages, together with other activities, such as holidays and spiritual retreats, can provide a significant improvement to work-home interactions and the general well-being of the community, as well as preventing or even extending opportunities for boundary violations (KREINER; HOLLENSBE; SHEEP, 2009).

Aiming to successfully use the time tactic, the respondents recognized that it was necessary to leave the city where they live, such as having one day off per week, or even annual holidays, which only bring the results desired when certain criteria are observed, such as physical distance. When asked if, at the time when he takes a holiday, he distances himself from his church or home, one pastor replied: "I go... away with my family; we get in the car and go out of the state. I leave the vice-president there and I leave... to spend some time with my family; to really get some rest". (PP#06). Similarly, another pastor explained: "You can't do it on one date but you can do it on another. So I have the right to holidays; I have a day off every week... sometimes I don't do it on the day that I want but we can do it" (PP#04).

## Communicative tactics

The last of the four classifications for tactics to negotiate the work-home boundary consists of communicative strategies. In this case, it is about the cognition as an element that is vital to each of the previous classifications.

### Setting expectations

Determining perspectives means linear or dimensional preferences of the work-home boundary for members, such as spouses, relatives, children and parishioners, among other interested parties (KREINER; HOLLENSBE; SHEEP, 2009). The following case shows the type of communication at the moment when a pastor receives a call at an unconventional time: "I usually guide this person and say, 'Look, why don't you try to act like this'" (PP#14). Another interviewee, when questioned on this theme, expressed: "We teach this at church, at the service; the brethren are aware of this" (PP#09).

### Confronting violators

Parallel to the previous "setting expectations" tactic, the "confronting violators" technique takes place after a problem occurs with work-home boundaries. These situations often acquire the form of previously described boundary violations but the distinction is within the timing of the occasion. According to Kreiner, Hollensbe and Sheep (2009), this tactic is used to correct behaviour seen as inappropriate for the work-home boundary.

A brother comes looking for you, and in the conversation he has that personal demand, so you already see that there is no need to make a storm in a tea cup. That, in our conversation, he is advised to be patient, to wait... it is not something for now, it is... long term (PP#17).

It is perceived that the efficacy of the above-mentioned tactics is shown by their intervention and an *a posteriori* explanation. Therefore, the data display the result of a sensitive experience and not mere speculation (FLORES, 1994). In the example given, it is noted that these pastors interpreted their parishioners' requirements and, through dialogue, made them see that some aspects of their demands were not as urgent as they had imagined. Obviously, not all of the situations fall into the categories shown as being a boundary violation but the objectivity of the examples presents the inter-subjectivity of the boundary theory nature.

## Discussion and conclusions

Analysing the process of adapting and managing domestic and professional conflicts, which interfere in the harmony of evangelical pastors' work and homes, was central to this research. Thus, the purpose which tends to be propaedeutic, that is, to reach, even if only partially, *aedificium scientia* as a demonstrative and apodictic system, does not remain merely as an ideal but, instead, as an apophantic connection between theory and practice.

At this juncture, the search for greater integration reflects the tendency for weakening work-home boundaries, and, upon analysing the structure of ecclesiastical government, we noticed through research data, non-participant analysis and secondary data, that the lesser the power of the ecclesiastical establishment, the higher the tendency for the pastor to individually seek to assert himself with the members of this church. Thus, the presence of characteristics of a transformational leadership is manifested through individualist values linked to success and excellence, parallel to the sacerdotal vocation. Adopting the principles of adaptability, innovation and competitiveness are shown to be subjectively in tune with vocational objectives.

In light of this, a number of reflections emerge from this study. While the same taxonomy used by Kreiner, Hollensbe and Sheep (2009) was found, the sharp distinction noted was that the subjects leaned more towards integration in their work-home boundary interactions. Thus, this phenomenon was seen as a consequence of the ecclesiastical government structure. Through this management system, it is shown to be interspersed, as if dealing with a pact between the way of congregating and episcopal government, which can also be explained by the expression *Ecclesiola in Ecclesia*, and that is, to some extent, observing small churches within a larger one. It is highlighted that these small churches, although integrated into a larger context, in this case the CGADB, maintain their own freedom, autonomy and sovereignty. In these terms, according to Aristotle (2010), the *spoudaios* or, that is, a mature man, is one who has made his soul submit to reason, by making reality his traditional state of mind.

The prominent distinction in relation to Kreiner, Hollensbe and Sheep's (2009) research was regarding the strategies of using other people and applying technology as a way of bringing individuals together, even if they are at a distance. In this way, at times in which assistance is not possible, other people make up for the pastor's absence using technology. These people are always attentive to their religious community's needs. Consequently, the point in common is in the perception that these tactics are synergistic, in the sense that they extend the benefits or uses of the strategies employed by the subjects, with the aim of easing a conflict and even reducing urgent violations.

Proceeding with this line of thinking, a more intensive presence of violation by intrusion than violation at a distance was demonstrated, interspersed in the pastors' daily lives. Consequently, when these pastors try to segment work-home boundaries, integration is enforced by using various strategies (e.g., strategies of using other people or even technology). This phenomenon became evident on observing that social identity, invigorated by excessive identification regarding its functional or ontological expectation, expresses the immanent desire to belong or the presupposition prevalent in this observed behaviour of the relevance of the place of belonging. Consequently, the focus of the generation which is fixed to organizations is perceived.

Thus, the research data reinforced the presence of awareness as a delimiting parameter for the sense of responsibility as to how the consequences that each one of their acts and thoughts will continue eternally with this minister, boasting a self-identity. In this sense, the immanent feeling of responsibility for something in life was seen in the subjects, as a way of training them to transcend a difficult situation. Therefore, loyalty to the meaning of obedient existence to a vocation was the determining element to the meaning of individual life and the cognoscitive strength of the mind and, in these terms, this perception is in line with Frankl's (2009) study. Therefore, a distinct, deep and permanent trait in the individual of seeing things in his daily rhetoric was revealed.

A clear example of the comparative distinction of the research results was seen through the strength of culture displayed in this country, where all of these pastors are incorporated into Brazilian culture. A culture which is, according to Hofstede (2001), a more collectivist culture than American culture, defined by the author as more individualist (in the calculation of a comparative analysis of these countries).



Thus, the results defended by Brewer (1991) and Kreiner, Hollensbe and Sheep (2006c), that the desire for more inclusion leads to a preference for integration tactics, was confirmed.

From this perspective, investigating the imaginary and psychology of the ecclesiastical classes was required to try to explain the causes of their individual and social behaviour and firm attachment to their doctrinal and dogmatic concepts. In this case, we concluded that someone that does something vocational is wholeheartedly dedicated to something, without economic need or pleasure. Or better still, it drives them to continue to be dedicated to this task, as if it was the most important thing in the world, even when it makes them tired and causes physical and mental strain. Consequently, we recommend future studies focus on the possibility of redesigning the organizational locus, with the view to discovering the point to which the research subject withstands the loss of a sense of belonging and its correlated consequences. Notwithstanding, future studies could focus on these ministers' familiar social locus with the objective of confronting the perception of reality experienced by their spouses and children, that is, how the presiding pastors' wives see the work-home boundary nature of negotiation within the ecclesiastical practice scope.

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**Submission date: 26/11/2016**

**Approval date: 12/07/2017**

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*Versão Online*

Organizações & Sociedade (O&S)

ISSN (*Online*) 1984-9230

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