

Global Finance and Business Sustainability in Brazil

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Abstract: The recent Brazilian policy agenda has not been able to improve the business environment in order to increase the resiliency of micro and small enterprises over time. Business sustainability is particularly relevant in a global scenario where, among the major challenges, the crisis has restated the menace of a deep depression while livelihood conditions turned out to be subordinated to the bailout of the domestic financial systems. As a matter of fact, the current global financial architecture has seriously affected the pace of long-run investment and threatened the survival of micro and small enterprises. Taking into account this background, our main concern is to reflect on how entrepreneurship sustainability is influenced by finance in contemporary Brazil - mainly after the 2008 global crisis.

Keywords: Business sustainability, micro and small entrepreneurs, finance, global crisis, structural competitive challenges.

INTRODUCTION¹

In the last decades of the 20th century, financial institutions and policies have not been able to support a sustainable business environment for promoting entrepreneurship and economic growth in Brazil. Nowadays, great concerns arise from the financial and long-run investment dynamics since their outcomes could pass down social and environmental safeguards. As a matter of fact, beyond sustainable business there exist cultural, social, economic and political institutions. In this scenario, the apprehension of cultural, social and economic features of entrepreneurship is decisive to reduce micro and small firms' economic vulnerability.

Business sustainability is particularly relevant in a global scenario where, among the major challenges, the crisis has restated the menace of a deep depression while livelihood conditions turned out to be subordinated to the bailout of the domestic financial systems (Foster, 2009). Considering the immediate impacts of the financial global crisis on the Brazilian economy, the deterioration of private expectations provoked a fall in the levels of investment, besides liquidity constraints on credit and capital markets and unemployment. In the aftermath of the crisis, these tensions shifted to the political sphere and led to economic policy responses in order to support economic growth and income distribution. Nevertheless, the recent policy agenda has not been

able to improve the business environment in order to increase the resiliency of micro and small enterprises over time.

The recent evolution of global financial dynamics has seriously affected the pace of long-run investment and economic growth and, therefore, threatened the survival of micro and small enterprises. As a matter of fact, financial and macroeconomic instability has overwhelmed the dynamics of investment decisions that happened to be increasingly subordinated to short-term financial commitments (Minsky, 1986). In this historical setting, financial innovations- aimed at achieving fast market growth with lower capital requirements and high leverage - have been adopted to favor short-term profits (Fligstein, 2001). In truth, this business short-term perspective has nurtured the challenges to long-run sustainable economic growth in developing countries.

Business strategies around long-run investment and profits have varied over time. In the context of the post Second World War it was widely spread that for a company's long term sustainability and profitability it was necessary to invest in long term expansion and to improve workers' relative wages. Lazonick and O'Sullivan (2000) describe this trend as a strategy of 'retain and reinvest' where profits were retained by the company and reinvested into productive capacity.²

However, this scenario began to change after the 1970s. The new phase of financial dominance was concomitant with the reconfiguration of the international monetary system under the dollar supremacy that

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²Hobsbawm (1995) referred to this period as a "golden age" arguing that in many countries the patterns of living improved. This was also a "golden age" for workers' rights and organization practices.

fostered the processes of globalization and financial deregulation. Historical changes in business have been related to qualitative transformations in capital accumulation and competition. New rules on corporate finance fostered the growth of institutional investors' assets, such as pension funds and private equity firms, in business management as relevant shareholders. As a result, there was a change from reinvestment towards a strategy of maximizing short-term value for shareholders. The drive to increase share-holders' value and the incorporation of the managerial strata through share options tended to postpone long-term investments, favor mergers and acquisitions and foster financial speculation. As a matter of fact, the financial conception of investment increased in the context where financial innovations aimed to achieve fast growth with lower capital requirements could be used by managers to favor short-term financial performance (Fligstein, 2001).

Besides, there has been noticed a tendency to slow down the accumulation process of *real* production (Stockhammer, 2004). In this scenario, the economic and social outcomes have involved a trend to 'downsize and distribute', that is to say, a trend to restructure, reduce costs and focus on short-term gains. In practice, the new production trends have meant the displacement of business plants and closures, changing employment and labor conditions, outsourcing, besides high pressure on supply chain producers in the global markets. In fact the centralization of capital, through waves of mergers and acquisitions, created new challenges to sustainable entrepreneurship. In this historical context, the generation of competitive advantages in Brazil has been increasingly related to government strategies and actions that could favor the attraction of global investments and favorable access to credit and capital markets.

Taking into account this background, our main concern is to reflect on the interactions between global finance, economic policy and business sustainability in contemporary Brazil mainly after the 2008 global crisis. Our contribution could foster further understanding of strategies and decisions in a business environment characterized by global economic integration and structural competitive challenges. Its relevance could be justified since in the current business scenario, micro and small entrepreneurs have been threatened by major structural challenges to ensure their permanence in the Brazilian economy.

Section 1 presents a Keynesian approach to finance and business sustainability. Section 2 presents an overview of the immediate impacts of the 2008 financial global crisis on the Brazilian economy and emphasizes the guidelines of the policy agenda. Section 3 analyses the challenges for micro and small enterprises in Brazil.

FINANCE AND BUSINESS SUSTAINABILITY

After the 2008 global crisis, there has been broad recognition that the current architecture of the global financial markets has not generated sustainable economic growth in Brazil. The outcomes of the current global crisis have deepened the menace of depressions while livelihood conditions turned out to be subordinated to the bailout of the domestic financial systems (Foster, 2009). Looking backward, in the context of the 1930 Great Depression, John Maynard Keynes pointed out that the evolution of capital markets happened to increase the risk of financial speculation and business instability since these markets are mostly based upon conventions whose precariousness affects the pace of investment.

Keynes (1936) focused the analysis on the expectations associated with investment decisions in a business environment where uncertainty about the future pervades the decision-making process. The very nature of wealth management under uncertainty in a monetary economy is the cause of business instability. Money is a store of value with immediate liquidity and, thus, the ultimate purpose of an entrepreneurial economy overwhelmed by finance and speculative decisions. In this sense, on behalf of the uncertainty about the future, entrepreneurs could postpone spending decisions and search for alternatives of wealth management. One of the main thesis of his contributions to policy making, as opposed to the classical economists that defend the free-market system, is that government policies and actions could play a fundamental role in shaping a business environment that could reduce uncertainty and favor investment decisions. In fact, the interactions between the financial setting and business sustainability are emphasized since money and uncertainty affect the levels of production and investment.

In a specific historical setting, the average opinion of entrepreneurs on future scenarios shapes a convention based on a precarious set of expectations about the behavior of aggregate demand (consumption, investment, net exports, for example). The degree of confidence on this convention could

affect the expected return on investment- the so called marginal efficiency of capital. Keynes explained that the incentive for long-run expanding productive capacity, that is to say, for investment, is highly dependant on trust about the business environment.

Entrepreneurship sustainability is particularly influenced by finance, as Keynes warned. When the speculative demand for money or for other financial assets increase, due to high uncertainty about future returns on future investments, entrepreneurs would reduce the demand for capital goods. Thus, under high uncertain expectations, the expansion of productive capacity could be postponed as entrepreneurs would prefer to maintain their wealth in more liquid assets. In this approach, the current interest rate is the reward for the renunciation of liquidity for a certain period of time- this reward depends on liquidity conditions in the money market and on expectations regarding the future interest rate. As a result, the increase in liquidity preference could lead to a continuous collapse of the expected returns on capital goods and disturb the evolution of the levels of investment.

Keynes' analysis of business instability highlights that the dynamics of contemporary finance is mostly based upon conventions whose precariousness could dampen the rhythm of investment. In his view, the expansion of capital markets reinforces the potential conflicts of interest between business strategies that favor short-run and long-run decisions putting pressure on sustainable entrepreneurship. The value of his analysis relies on considering uncertainty dimensions of business and entrepreneurship vulnerability, as relevant issues related to cultural and social factors. Finance, trust and conventions are intertwined. Under this perspective, trustworthiness in business conventions is embedded in the cultural and social structure, which could represent a challenge for sustainable entrepreneurship.

As a matter of fact, Keynes (1936) pointed out the capitalist system creates endogenous mechanisms capable of destabilizing the levels of investment, income and employment. Aware of the need to overcome the concept of rationality that overwhelms the *Homo economicus*, his contribution enhances a more extended understanding of the entrepreneurs' behavior, as well as of their strategies and decisions. His approach enhanced a more fruitful apprehension of the real-world where the outcomes of the entrepreneurs' decisions are not submitted to stochastic behavior, that is to say, they are not

predictable.³ In truth, the process of business decision making is based on conventions. As uncertainty overwhelms human decisions, Keynes relied on the concepts of credibility and degree of confidence on a conventional judgment that is historically built within the markets. He suggested a reconsideration of the understanding of the relations between enterprises and governments within the market where institutions and conventions could shape entrepreneurs' behavior.

In this attempt, the need of a "*wide measure of agreement*" (Keynes, 1987), that is to say, the need to create a new business environment conventions based on trust on institutions and conventions is decisive to promote entrepreneurial development. Accordingly Keynes, trust is related to confidence on the business environment, that is to say, on the legal, regulatory, macroeconomic and political setting that shape the evolution of the markets. Changes in conventions toward business sustainability, as Keynes recalled, rely on norms, expectations and actions that could favor long-run investments and economic growth.

THE OUTCOMES OF THE GLOBAL CRISIS AND THE POLICY AGENDA

In the last decade, deep changes affected the Brazilian business environment (Sebrae, 2008a). Looking backward, the main transformations were driven by economic reforms and policies that promoted financial and trade integration into the global economy (Gonçalves and Madi, 2011). Although policies related to financial inclusion, minimum wage and poverty reduction fostered the expansion of the domestic market, the Brazilian economy still lacks high levels of long-run investments as a percentage of gross domestic product to promote economic and social sustainability (Table 1).

The global economic integration has transformed the relations of wealth and power in Brazil since the macroeconomic discipline imposed by the Washington Consensus agenda strongly influenced the guidelines of the economic policy before the 2008 financial crisis (Gabel, 2002). The domestic monetary policy mainly preserved high real interest rates in order to make financial accumulation more attractive, expanding it, and thus increasing the wealth and power of the owners of capital whose assets are embodied in

³The role of expectations and private strategies is crucial in Keynes' analysis. The principle of uncertainty is based on the idea that the past is irrevocable and the future is unknown.

Table 1: Investment – Gross Fixed Capital Formation (as % of GDP), 2003-2011

Year	Investment as % of GDP
2003	15.3
2004	16.1
2005	15.9
2006	16.4
2007	17.4
2008	19.1
2009	16.9
2010	18.4
2011	19.5

Source: Ministry of Finance (2011).

securities, bonds, shares, etc. Meanwhile, financial firms increasingly dominate firm groups (Froud *et al*, 2006). Within this framework, the corporations' strategies turn out to focus on short-term gains and the distribution of dividends to shareholders, that is to say, to investors (Lazonick and O'Sullivan, 2000).

The Brazilian business reality has shown an heterogeneous structure and dynamics where the advancement of capital concentration and centralization, that favored the reordering of financial and productive structures, turned out to squeeze the small firms out of the market (Cni and Sebrae, 2006). Considering this scenario, the immediate impacts of the 2008 global crisis in Brazil increase the challenges to the MSE sector. The deterioration of private expectations provoked a fall in the levels of production and employment; an increase in the levels of stocks, a fall in the investment levels and liquidity constraints in the domestic credit and capital markets. The first effects on formal employment were felt in the manufacturing industry and also in civil construction. From the perspective of gender, this fact deserves attention since those sectors traditionally hire more male workers in Brazil. Despite this fact, soon after the crisis, female workers lost more jobs proportionately in this industry. That is, the crisis caused a deepening of the male profile of the Brazilian manufacturing industry.

These tensions shifted to the political sphere and led to economic policy responses in order to support economic growth. As a result, the levels of investment, production, consumption and employment were stimulated by a reorientation of government policies and actions. The immediate responses of the government to the 2008 global crisis included measures

aimed to increase liquidity and support fundraising in the domestic financial system to maintain and/or increase the supply of credit (to foreign trade operations, agriculture, civil construction). Other sets of measures focused on the reduction of the exchange rate volatility and the redefinition of credit policies.

In this scenario, the Brazilian government stimulated the levels of domestic demand and supported the continuity of the process of income redistribution (Gonçalves and Madi, 2011). The increase in nominal and real minimum wages affected not only the Brazilian workers but has also impacted people receiving Social Security benefits (about 27 million people). Considering the unemployment scenario, the government extended the period of granting unemployment benefit and increased its value. Among the poverty reduction strategies soon after the crisis, the strengthening of income transfer programs was outstanding. The coverage of the Bolsa Família (cash transfer program) was expanded and the number of families involved increased by almost 2 million - in 2008, it reached 10.5 million households, and in 2009 reached 12.4 million (Sicsú, 2011). As a result of the government responses aimed to stimulate the levels of domestic consumption, a positive rate of job creation (formal contracts) was observed in the tertiary sector (trade and services) at the beginning of 2009.

The government also continued to attract foreign capital flows in order to foster the levels of investment. Brazil is also one of the few countries that do not tax dividends and profit remittance. Among other measures, the Brazilian government has managed capital flows through financial transaction tax on certain types of capital inflows and on short dollar positions held in futures markets in order to enhance long-term investors' interest (BACEN, 2013).

However, capital inflows to Brazil have been strongly affected by the global financial scenario where private-equity funds are relevant financial actors that concentrate investments in small business expansion (GVcepe 2008).⁴ Private-equity funds are worldwide spreading, in truth, a business model which target is to sell small firms years later in a process called

⁴In a private-equity firms' portfolio structure, a company acquisition is equivalent to an addition to a stock of financial assets (Cullen and James, 2007). The selection of the portfolio companies has been influenced by the potential market growth and profits, besides legal and incentive structures, among other factors. Exit conditions become crucial in the investment decision-making process because capital mobility shortens the maturation of investments

disinvestment (Wheatley, 2010). Actually, decisions taken by private-equity fund managers are strongly influenced by short-term returns and their management practices enhance the expansion of financial capital (Foster, 2009).

MICRO AND SMALL ENTERPRISES: CHALLENGES FOR SUSTAINABLE BUSINESS

In the current Brazilian business setting, the investment flows under the management of private-equity funds have turned out to increase the challenges for the survival conditions of micro and small business. In spite of the government agenda, the outcomes of the global crisis revealed that micro and small business are still facing major structural challenges to ensure their permanence in the Brazilian economy. Accordingly Sebrae (2008a), micro-enterprises employ up to nine people, in case of trade and services, or up to 19 people, in the case of manufacturing and construction. Otherwise, small enterprises employ 10 to 49 people, in case of trade and services, and 20 to 99 people, in the case of manufacturing and construction. In 2008, there were 5.9 million of formal micro and small enterprises (MSEs), equivalent to 97.5 percent of the total enterprises established in the country. The great number belongs to the trade and services sector. Besides, the MSE sector accounted for 51 % of the urban labor force employed in the private sector as of 2008, equivalent to 13.2 million formal jobs, 38 % of wages and 20 % in the average gross domestic product (Sebrae, 2008b).

Under a structural approach, the micro and small enterprises have special features that restrict the level and continuity of their activities. Even though there has recently been observed a reduction in the rate of mortality of the Brazilian MSEs (Table 2), data from Sebrae show that there are still challenges to their survival.

Leading barriers to business sustainability rely on the lack of capital for investment and the difficulties to obtain financing that prevent them from obtaining economies of scale (Steindl, 1945, 1983). Among other factors, the degree of vulnerability is also influenced by

knowledge and information to improve management and innovations; the behavior and skills of entrepreneurs; public policies; the legal framework and the regulatory agenda. In other words, cultural and institutional vulnerability turned out to overwhelm the entrepreneurship environment and could explain growth discontinuity and financial fragility of small business.

Financing and management challenges are central to the analysis of mortality among the Brazilian micro and small business in a context dominated by an accumulation pattern that privilege market concentration and the growth of financial assets. The access to credit is restricted and financial institutions in Brazil have not been able to face the MSEs' financial needs (Madi and Gonçalves, 2005). Supporting this idea, Gem research data (2009) reveal that the main reason for the discontinuance of this type of business is related to the lack of capital. Further research conducted by Sebrae (2009a) identifies that the main sources of financing used by micro and small enterprises have been: suppliers, short-term bank loans, credit card, predate checks. Under the entrepreneurs' perspective, changes in credit contractual conditions (interest rates, taxes and guarantees), would facilitate taking loans to buy inputs and equipment.

Aware of these demands, the Brazilian government has recently initiated attempts to favor the simplification of credit access' proceedings toward micro and small entrepreneurs. Other recent government measures include: enlargement of guarantees; agility in opening enterprises; financial cost reduction and expansion of access to online regulatory information (Mdic, 2009). Despite this attempt, the financial scenario for the micro and small enterprises continue to reveal strong asymmetries in credit access conditions. In fact, after the 2008 crisis, the credit flows of the Brazilian state banks turned out to benefit bigger corporations in spite of the micro and small enterprises accounted for 51 % of the urban private formal workers (equivalent to 13.2 million formal jobs) and 38 % of total wages.

Table 2: MSEs: Rates of Survival and Mortality After Two Years

MSEs	Rate of mortality after two years	Rate of survival after two years
Start up in 2005	28.1	71.9
Start up in 2006	26.9	73.1

Source: Sebrae (2011).

Other relevant barrier to micro and small enterprises' increasing productivity and growth is the lack of planning, professional practice management and knowledge about the market (Exame-Deloitte, 2009). Despite the micro and small ventures' growth in the recent period, the role of management rationalization programs and the deployment of an innovative environment had not been decisive to explain their performance. As a matter of fact, the global recession, after 2008, has deepened the difficulties for planning on behalf of the high uncertainty, the volatility in consumer demand and supply, besides further restrictions in credit and capital markets.

Actually, Brazil has a very low product innovative capacity in products, processes and markets. Considering data from the period between 2004 and 2009, the vast majority of the MSEs' products or services were already known by most of the consumers at the time they had been launched (Gem, 2009). Even after the aftermath of the global crisis, innovations in industrial equipment continued to be the most relevant among innovative practices. Accordingly, these innovative investments have been associated with efficiency gains in production. However, research data from Sebrae revealed the growing importance of innovations in products and services, particularly, in sectors such as food; textiles; machinery and equipment; building materials; computer services, wood/furniture and metallic products (Sebrae, 2009b). Strategies related to foreign markets have received little attention.

Besides, the recent macroeconomic framework has also affected the micro and small firm's performance. The strength of the domestic currency (real) enlarged the difficulties for successful entrepreneurs in manufacturing in a context where small firms reveal poor innovative capacity, low competitiveness and weak participation in global exports (Sebrae, 2009b). As a result of the competition with Chinese's products in the domestic market, small firms recorded a fall both in the domestic market share and in exports, particularly in industries such as textiles, footwear and metal products (Cni, 2011). In this setting, cost strategies have been strongly affected by systemic competitiveness - understood as the set of conditions provided by external competitiveness of companies. Under the perspective of entrepreneurs, the quality and cost of energy, transport, telecommunications and technology services undermines productivity and

efficiency targets. As a result, one of the main problems concerning the infrastructure of the country lies in logistics – especially in highways (Cni and Sebrae, 2006).

FINAL COMMENTS

Historical business contexts change and new market features may arise that affect entrepreneurial decisions under conditions of uncertainty. In the current setting, new risks have reinforced the lack of commitment to long-run social sustainability (Beck, 1999). The entrepreneurs' perception of risks that are strongly linked to information and knowledge, global integration, cultural features, and, also, patterns of behavior that could affect disposition to take risks. In fact, business dimensions of risk also depend on social, cultural and political values, such as equity and trust.

The current Brazilian economic and social reality has been overwhelmed by new risks within a context where financial dominance and business instability put pressure on micro and small firms. In truth, the global financial architecture has been seriously affecting the valuation of assets, the evolution of credit, the pace of investment and the rate of employment.

Considering this background, great concern arises from the risks influencing entrepreneurship vulnerability, which include: lack of access to finance and technology; limited access to power and political representation; lack of trust in conventions, legal and regulatory framework. In this setting, risk factors and outcomes may be cumulative. For example, lack of trust in the business environment could be coupled with high financial speculation, lower entrepreneurship performance and lower levels of investment and technological innovation.

These risks should be addressed and trust must be strengthened by building new conventions that could favor strong bridges between entrepreneurs, government, financial actors institutions toward sustainable economic growth. And in that sense, further research is needed on how the policy environment oriented to MSEs may contribute to investment growth and job creation (Unctad, 2004). For example, alternative industrial and regulatory policies could be adopted to promote the sustainability of micro and small enterprises in a context where the redefinition of conventions could favor long-run investment.

Considering trust as a pillar of sustainable entrepreneurship, it is possible to think about building new conventions that could be understood as common patterns of thought, anchored in shared beliefs and assumptions among micro and small entrepreneurs. The evolution of assets, capital and investment is influenced by finance and affects entrepreneurship sustainability. As a matter of fact, access to capital, information and knowledge is important to provide a basis for sustainable business decision making and action. The attempt to shape institutions toward sustainable and inclusive growth for future generations is decisively worthy.

Future ideas of studies could include comparative international and quantitative research looking at the Brazilian development trajectory in the next years. In this attempt, it is hoped that interdisciplinary studies could also contribute to the institutional designing of conventions and norms that influence entrepreneurs' expectations. In creating this frame, further research could benefit the society as a whole.

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