



Available online at
<http://www.anpad.org.br/bar>

BAR, v. 2, n. 2, art. 1, p. 1-16, july/dec. 2005



A Visit to the Baron

Carlos Osmar Bertero*

E-mail address: cbertero@fgvsp.br

Escola de Administração de Empresas de São Paulo – Fundação Getúlio Vargas
São Paulo, SP, Brazil

Tatiana Iwai

E-mail address: tatiana.iwai@esag.edu.br

Escola de Administração de Empresas de São Paulo – Fundação Getúlio Vargas
São Paulo, SP, Brazil

ABSTRACT

The towering figure of the Baron of Mauá holds an indisputable place in the economic development of Brazil. His trajectory is widely analyzed not only because of his important achievements, but also because he became the symbol of an entrepreneur, whose failure in business is often blamed on an institutional context that could not understand his **vision** of development for the country and was hostile towards his industrialization projects and modernization of Brazil. Nevertheless, if we review his trajectory, we will see that not only can his actions in business be considered mistaken, if analyzed in the light of current concepts developed in the field of strategy, but they were also close to the governmental policies of the time. Therefore, to a certain extent, Mauá was a prisoner of the Brazilian institutional context of his day. The aim of this article is to review the position that Mauá, as a classic-style entrepreneur, was opposed to the institutional order of his day and, for that reason, would have been punished. We will actually see that on the one hand, he was opposed to it, and on the other he also trusted it and came to depend on it.

Key words: entrepreneurship; strategy; institutionalism.

Received 20 July 2005; received in revised form 21 August 2005.

Copyright © 2005 Brazilian Administration Review. All rights reserved, including rights for translation. Parts of this work may be quoted without prior knowledge on the condition that the source is identified.

* Corresponding author: Carlos Osmar Bertero
Av. Nove Julho, 2029, São Paulo, SP, 01313-902, Brazil.

INTRODUCTION

There is very little doubt about the important role played by Irineu Evangelista de Sousa, better known as the Baron of Mauá, in the economic development of Brazil. Banker, industrialist, trader, farmer and politician, his name is associated with the building of the first railway in the country. He was also a pioneer in establishing the first foundry, in providing lighting in Rio de Janeiro, in coasting trade in the Amazon and making possible the first underwater cable that connected Brazil to Europe, thereby making telegraphic communication viable.

Nevertheless, just as impressive as these achievements and the vast empire that he built was the twilight and the end of his business career. In order to appreciate the extent of his achievements, at his height, circa 1867, the total value of his assets was 115,000 *contos de reis* (the Brazilian currency of the day) at a time when the entire budget of the Empire, under Dom Pedro II, was 97,000 *contos de reis*.

In 1877, almost thirty years of business ventures having elapsed, Mauá's business license was revoked as a result of his declaring bankruptcy because he could not persuade the government to renegotiate his debts, which he had been struggling to pay off since a moratorium of Mauá & Co. had been declared three years previously.

At the time of his bankruptcy, the Baron wrote his text **An Account of the Viscount of Mauá to the Creditors of Mauá & Co. and the Public** (Mauá, 1996), telling the story of his main business undertakings and analyzing the causes leading up to his bankruptcy. He said that he hoped that others would not suffer the annoyances that he had suffered at the hands of the people running the country. It was implicit that the causes of his failure were not necessarily due to some mistake of his or weak managerial handling in the way he conducted his business affairs, but were the result of the government's indifference and even hostility towards his initiatives.

Mauá emphasized the institutional role of the State in conducting public policies and the negative impact that government interference in certain spheres can cause in business initiatives that are intended to develop the country economically. In this way, the story of Mauá became a symbol to be remembered when it came to incongruent government policies and a posture that was not in favor of the development of business when the aims of that business are promoting general well-being.

Indeed, the institutional environment at the time in the Baron's business dealings, which stretched from the 1840s to the mid-eighties, when his license to operate was revoked, cannot exactly be considered an invitation to industrial entrepreneurship. There was an economic policy that restricted credit, a political tendency to stick to the old mercantile structures and an inefficient legal system which was stuck in the old colonial system.

The book written by Jorge Caldeira (1995), which to a certain extent inspired this article by being a reference and starting point, illustrates this context very well. In the book, Caldeira introduces us to Mauá against the backdrop of the Brazilian Empire, as the dates of the baron coincide almost exactly with those of the imperial period of our history. He came to Rio de Janeiro as an errand boy shortly before the declaration of independence, and died just three weeks before the Republic was proclaimed. Caldeira even has him acting alongside Dom Pedro II as if he represented the Empire with its institutional characteristics that we shall explore later while Mauá himself is someone outside the imperial mainstream. He is cast as a rival of the emperor, as he was his neighbor, with his own palace next to the imperial palace in São Cristóvão. Furthermore, Mauá appears to have a gift for being an entrepreneur that would be quite unlike what one would expect from our old empire. Finally, the Brazilian elite appears to be stuck in the rut of rural economy and slave labor, aspiring to positions in the public administration of the empire. Swimming against the tide and distancing himself from the pathways that the imperial elite would tread, Mauá builds his empire, which is much different from that of Pedro II. While the emperor weaves and builds a political and institutional order that apparently aims to maintain the status quo, Mauá tries to create a Brazil that is closer to the tendencies of

nineteenth century Europe and North America. This would be done through industrialization, the private sector and wage-earning workers, characteristics of a modern capitalist order.

Our aim is to review these positions in part, showing that the exceptional nature of the baron is undeniable, albeit not so extensive. In some aspects, he is in conflict with the institutional order of our empire, but also, as is inevitable, is marked by this same order, which helps to explain his success and also his failures, which were by no means few. The explanation for the **Businessman of the Empire** can be enriched if we analyze him as an entrepreneur by using the current concepts developed in the field of business strategy, analyzing how far he was capable of putting together a consistent **business group** that could be considered strategically coherent.

The first order of this article is to show the importance of inserting into the discussion of strategy some institutional aspects surrounding organizational action and underlining the contribution that an institutional perspective can make to strategic studies. Then we will introduce the institutional context of the time which was defined by an agricultural economy, a society that basically depended on slave labor, a conservative monarchy with centralized power in the figure of the emperor, no structured financial market and a mentality in which private interests never converged with the common good.

The strategies adopted by the Baron in his business is the next item to be dealt with. We see that that logic of his business, just like his decisions, show not only mistaken business actions, considering what we know today about strategy, but also that he was not radically opposed to the government policy of the time.

THE STRATEGIC PERSPECTIVE

The development of the field of strategy was, up to that time, defined by a predominantly economic approach, which ended up meaning putting the strategy within the sphere of rationality. The perspectives of this position, of the dependence on resources and the costs of transactions make use of a formal rationality, dispensing with the variables of time and place. It does not matter where, when and what is decided. The decisions will always be the same, as long as there are adequate principles of rationality established and sanctioned in the economic analysis. The strategy is explained through the variables and criteria of economic analysis and provided with universality.

The perception of the importance of the institutional approach in strategy has been revealed more slowly and recently. Some perspectives may contain indications of institutional elements, such as the cultural approach and the approach of strategy as power and negotiation, as shown by Mintzberg (1998). But a point to be considered is that many strategies adopted only find an explanation within an institutional context, in other words, when history, institutions, culture and the legal contexts of the societies in which the strategies are formulated are taken into consideration. It is not possible to deny the important role that mimetism plays in the formulation and adoption of strategies, especially in oligopolies, where we see that there is a single strategy adopted by many players who make up the same strategic group.

The importance of institutionalism has been emphasized in the domains of the economy itself. Dealing with economic matters only in terms of economic analysis have come up against restrictions as emphasis is given to other factors such as culture, history and the institutional context of where the economic activity takes place. The statement that the economic development or growth is related to the culture of a people for a long time has been accepted and explains the fact of capitalism having occurred in western society and not in other cultures. The universalization of a market economy in our time is still pocked with interrogation marks. And these are predominantly of a nature that we would call an institutional context. How far can the institutional not only resist a market economy but even be against it, blocking its adoption?

These considerations justify extending the same questions to the strategy and question what the role of the institution context is in the formulation and adoption of strategies. Recent published works (Fligstein, 2001) show how certain strategic movements have found no explanation if we do not include an institutional context. The case of the adoption of generalized diversification strategies in the United States in the decades immediately in the wake of World War II can also be explained by the existence and application of anti-trust legislation, which hindered the creation of upstream and downstream diversification, leaving the alternative of adopting a form of diversification that fitted the conception of the company as a business portfolio, resulting in a diversification strategy that involved several fields that were not necessarily related arriving at the creation of conglomerates, as was indeed the outcome in some cases.

In our country, we can think of several situations where the application of an institutional perspective would be necessary to explain strategic movements. How far could the changes that took place in banking, when the banking business is substantially altered, be explained without changes in legislation and a new regulating context with the Banking Reforms Law of 1964 and the creation of the Central Bank? Until that point, the banking business among us was in the hands of small and middle-sized banks. Even the so-called **big banks**, by today's standards, would be considered small establishments that did not operate nationwide. They were merely regional banks, and the main banks at the time were from the states of São Paulo, Rio de Janeiro and Minas Gerais.

Continuing on the theme of Brazil, when we look back at the sudden growth that was characteristic of the Brazilian economy from the end of World War I right up to the late nineteen seventies, we see that this phenomenon could not be explained without resorting to the changes in the institutional context like changes in legislation, the creation of fomentation agencies, changes in the tax system, changes in commercial and industrial policy, etc. The matter of creating an industrial policy remained a concern on the agenda of many people. Clearly, this means different things to different people. But all remember that the country had an industrial policy up to the late seventies. This policy was gradually phased out, as can be seen through many indicators. Nothing has been put in its place until today. There have always been those who complain about this. When the creation of commercial zones and agreements is discussed, such as Mercosur and the FTAA, the creation of a legal context where strategies of companies will be included is also under discussion. They will be forced to take it into consideration when formulation strategies and revisions.

These questions concerning the institutional context and strategy are identifiable when we see the differences in business strategies in different countries. The aforementioned work of Neil Fligstein (2001) shows how corporate governance and the conception of the public limited company differ among some rich capitalist nations, the United States, Germany, France, Japan and the United Kingdom. The author holds that the Mergers and Acquisitions movement, which has become very important in the United States since the late seventies, has not done so in the other countries, with the possible exception of the UK, it being the most similar to the United States. This would be because the conception of the public limited company, which would be a big company, in the United States, for historical and institutional reasons, does not exist in the other countries that have been studied, especially Japan, France and Germany. In these countries, history, culture and traditions that are reflected in the culture of business organizations would not create the conditions necessary for a big mergers and acquisitions movement such as that of the United States.

Brazil can only be explained as part of a colonial Portuguese empire. Attempting to see Brazil as a colony in the wide context of the Portuguese empire, with close links to Portugal's African colonies during the colonial period (Alencastro, 2000; Boxer, 2002) tends to produce more satisfactory explanations about our past, and help us to understand our present. The independent country emerges from a colonial context that retains economic traits and social institutions, such as slavery, that were fundamental to the country. This seems to justify to us an examination of the institutional context of the Empire in order to contextualize the entrepreneurship of Irineu Evangelista de Sousa.

THE INSTITUTIONAL CONTEXT OF THE EMPIRE

The institutional context of the Empire in Brazil cannot be understood as conducive to a form of entrepreneurship that was contemporary to what was happening in countries that were industrializing in Europe and the United States. The theme of Brazilian anachronism is a leitmotif that has been widely divulged in our history and social sciences. Euclides da Cunha, in his classic work *Os Sertões* (2002), sees in it the basic element to explain the phenomenon of messianism of Arraial de Bom Jesus. An important discussion that has taken place since the mid-nineteenth century is the debate concerning industrialization (Luz, 1961). The United States was already emerging in the second half of the nineteenth century as salient among the American nations that had recently won independence and had left behind their ties with the British, Portuguese and Spanish empires. Another important trait in the economic profile of the new country was its advancement in industrialization. The question asked at the time was whether industrialization would also be a vocation in Brazil, or should it continue on its **natural path** of agriculture. The debate finally ended in 1876 with the approval of the **Similares** Law of 1876 by Princess Isabel, who was on the throne because her father was traveling overseas, which guaranteed the answer that industrialization was not something to be avoided, which was the desire of those in favor of the **agricultural vocation**. To their mind, the **Similares** Law would bring on **artificial industrialization**. But the law was passed and was an important document, more useful to the Republic than it was during the days of the Empire.

In the institutional framework of the Empire, we will highlight the importance of the monarchist regime and the centrality of the emperor, the characteristics of the economic model, the profile of the imperial elite, the absence of a more structured and developed financial market, the restrictions on free initiative and the comparisons with the institutional framework of the United States.

A) Brazil, on becoming independent, adopts an unusual regime in the hemisphere, the monarchy. An inheritance of the very process of how independence took place, the colony having cut ties from the metropolis through the rebellion of the regent prince and never ruling out reunification with Lisbon, at least with him sitting on both thrones. We adopted, in line with the political liberalism of the early nineteenth century, the model of constitutional monarchy, where the emperor should govern along with an elected representative legislature. The constitution of 1824, which ruled us until a new one was approved following the proclamation of the republic in 1891, established four levels of power: legislative, judiciary, executive and a fourth power, the moderator. The executive and the moderator were in the hands of the emperor. Additional acts, which emended, with Pedro II, created a president of the cabinet who was in fact a minister, but always as an institutor of the emperor. He constitutionally held full executive power. The moderator conferred to the emperor absolute centrality in the system and allowed him the fundamental role in formatting the political institutions of the new country.

The idea, which is predominant until today, that the Empire was more institutionally stable than the tumultuous republic, lies in the centrality of the emperor, who competently manipulated the political elite and ordered cabinet reshuffling between liberals and conservatives to the point of monotony that is frequently to be found in our imperial history books. Jorge Caldeira's text greatly highlights the central role of the emperor as creator, maintainer and operator of a system of a political game where things tended to remain the same more than they did change. The recent work of Lilia Schwarcz (1998) clearly states the importance of the emperor as the representative of the Brazilian Empire and how seriously he took this role. His trips overseas, especially to the **Exposition Universelle** in Paris in 1867, promoted and divulged this unusual Empire of the tropics, where the Emperor, impeccably attired in European clothes, wore a green and yellow imperial mantle. From the photos that we have, he did not much resemble his father, having the Austrian traits of his mother. Our exoticism has its roots.

Dom Pedro II was an erudite, sophisticated, Europeanized man, and possibly of a confused identity. In short, he was Brazilian. He saw himself as European, appreciated Wagner, adored science and

technology, was a liberal and, at heart, was skeptic about the future of the monarchy as an institution in Europe, where republics were beginning to be established. But from this we cannot infer that he did not live well with Brazilian singularities, which had little in common with all these European characteristics. It cannot be said that he was, in his ambivalence, a proponent or someone who encouraged of a liberal and capitalist economic model of the late nineteenth century. He lived alongside slavery, with an agricultural exporting system, with a centralized and clientelist state, whose patrimonialism he helped to build through a plot between participating in politics and filling posts in the imperial bureaucracy. All of this shows that Brazil did not begin today. It has been this way for some time.

B) Imperial period economic model was greatly characterized and described by the classics of our economic history (Furtado, 2003; Prado Jr., 1976; Simonsen, 1978). Few changes occurred in the colonial model that served for our insertion into the European and western economic world. We went on as an agricultural-export economy and society. What the English would call a plantation economy. Exports centered around a single export item, which allowed our historians to speak of economic cycles. The country becomes independent without being at an economic high point, but also not in a slump. Only slowly does coffee become the main export product, which would substitute sugar cane after a long time, which could not keep up with the competition from the new producers in the Caribbean.

Industrialization was not on the horizon, partly due to sticking to the agricultural export model and because no attention was given to the potential of an internal market and, partly because of the legacy of the colonial period, which prevented our industrialization by way of the Methuen Treaty made between Portugal and England in the early eighteenth century.

To this may be added the important role of slavery as a decisive institution in our social order. Although slavery had occurred in several countries in the Americas, in Brazil it had become especially important. When we gained independence, out of a population of approximately 4.2 million, it is estimated that 3 million were Negro slaves. Slavery among us was not restricted to the coffee and sugar plantations, but also into city life. The city of Rio de Janeiro in 1870 had more slaves than Rome under Caesar Augustus. And this only came to an end with the Áurea Law of 1888, when the Second Industrial Revolution began in the North Atlantic and salaried labor in Europe and North America had led to the creation of Trade Unions.

Besides creating a type of society that was incompatible with modern western cultural values, slavery caused many difficulties and negative effects in the countries that had used it. As well as problems of integrating former slaves as citizens in a free society, there were also the purely economic consequences. Those that were most important were the inability to create an internal market because there was no mass of wage earners, the shortage of trained and skilled labor that was required in an industrial economy and the substantial financial and economic involvement with Negro slave trading. Among the reasons why slavery lasted so long in Brazil, in spite of international pressures, especially from England, was that the elite were involved in slavery not only as labor, but also as a form of trade. A slave was a good investment and his profitability, despite his precarious living conditions (health, nutrition and hygiene) that resulted in a life expectancy of around thirty years, was still considered above what could be made on the London financial market.

C) The Brazilian elite role in the political and economic process of the empire can be understood as the result of their colonial schooling. When we speak of the elite here, we are not referring to the provincial elite, but to the elite concentrated at court, i.e. in the city of Rio de Janeiro. The political and economic elite had two supporting bases that could be and were frequently mixed: landed property and the state, through posts in the public administration or clientelism, through which the power and the resources of the state were used for private interests.

It has already been mentioned that, in comparison with the United States, our elite had no “work ethic” (Moog, 1957). Could these be Max Weber echoes? Whatever that may be, the corollary of this work ethic for entrepreneurship is more connected to the bourgeoisie and Puritanism. The Brazilian

elite proneness was to exercise political power and filling spaces in the administrative running of the state. The origins of this elite were predominantly rural, connected to landed property, where the entire economy of the country was almost exclusively to be found, but also to the origins of our administrative frameworks of public service. The imperial public administration is the heir of the Portuguese colonial administration, where public offices were rewards for or the fruits of providing political support and submission.

The Portuguese monarch centralized his power, making feudal nobility into the nobility at court, supported in the concession of emoluments and political office as a reward in the bureaucracy of the state. And this habit continued in Brazil after it became independent and we are tempted to say that it continues until today. The fascination of our elite for the state is fantastic. This can be witnessed in how our business and intellectual elite, along with Trade Union leaders have abandoned, and continue to abandon their positions to move to the public sector.

The attraction for the state, for a career in politics, for a place in the bureaucracy has made entrepreneurship, as a result, more attractive to an excluded group, the immigrants. The rise of Brazilian entrepreneurship in the late nineteenth century has more to do with immigrants than with the rare participation of the traditional elite. Also, at least during the times of the empire and the First Republic, the fascination for the ecclesiastical bureaucracy, made the children of the elite, especially the landed property, give their lives to an ecclesiastical career in the episcopacy of the Roman Catholic Church (Miceli, 1988).

D) The absence of a better structured financial market must be taken into account. In truth, when we refer to the sources of capital for sustaining business activity, we can imagine that, without a financial market where equity and debt can be placed, what remains are merely individual or family resources. The modern public limited company only makes sense when there is an institutionalized financial market capable of absorbing risk, take advantage of opportunities and enable, in the last instance, the fragmentation of capital with the democratic process of business ownership and the rise of a professionally managed business, in other words, where ownership and management are separated. Without such a market, the state steps in as the provider of capital to stimulate business activity. The developmental state in some Third World countries in the twentieth century is explained by the lack of a financial market that is created and run with private resources.

The Brazilian empire had a very small financial market and always with heavy state involvement. The position of the state in this market was ambivalent; on the one hand, it could act as a fomenter, but on the other it could also see it as a way of finding resources to cover its expenditures, which were not entirely covered with tax resources. Public debt in Brazil has a long tradition, both of internal debt and foreign debt. Having no structured financial market made entrepreneurship totally dependent on the capacity of the owners of a business to raise funds, which severely limited their capacity for expansion. The only way to expand was by reinvesting profits.

E) The institutional framework of the Empire was restrictive of business activity done privately. This can be deduced from what was shown up to that time both for cultural reasons such as the political scene, the behavior of the elite and the economic model at the time, the plantation export type. Returning to the main points, we should remember that there was no appreciable internal market at the time because of the slave-based economy, leading to a small paid workforce. We should also remember the low availability of capital, be it in the form of debt or risk capital. The Brazilian state under the empire was yet to awaken to the developmental role that it could play on the growth and diversification of the economy. Finally, the cultural aspect played a role in that no prestige or status was given to private initiative on the market for profit and accumulation of wealth. A political career or a career in the state and ecclesiastical bureaucracy were considered more gratifying, according to the values of the elite.

F) Comparisons with the United States have helped to understand how the institutional context can establish parameters for business strategy. Politically, the United States is a manifestation in the lands of the New World of French revolutionary traditions. The republican form of government is the only

one that is seen as possible in the new nation. A War of Independence that led to a complete breaking of all ties with England and which took a long time to heal. The **special relationship** between the two countries only began to develop in the early twentieth century. The republic arose from a federation of thirteen colonies, which developed through the vigor of a civilian society and not through the actions of the British crown.

Slavery was severely circumscribed in the United States, even before the Civil War. In the end, it was restricted to the southern states, where the monoculture of cotton was predominant and did not reach the rest of the country. The United States is a country that was built throughout the nineteenth century by territorial expansion. Slavery, although not entirely unknown on the westward march, never had the profound impact that it had on the southern states, and nothing even remotely similar to what happened in our society.

There is also the cultural factor of a typically middle-class society, where the aristocratic ethos of the Spanish and Portuguese American colonies was never present. There was never an aristocracy in the society that developed there and it was never missed. This opened the way for the development of the first society of the masses in our history, which did not go unnoticed by several European observers during the nineteenth century (Tocqueville, 2003). The middle-class brings with it the **work ethic**, valuing work over leisure, refinement and taste that are typical of an aristocratic society, which meant that entrepreneurship was an important trait in social behavior. The United States has one of the strongest entrepreneur cultures in the world, at least in modern times.

A precocious solution to the problem of landed property kept the North-American continental lands from being transformed into huge unproductive landed estates. This led to the development of the farmer as a social and economic actor, and this, together with urban expansion and the circumscription of slavery, contributed towards the formation of a huge internal market.

In the United States, success in business has always been more attractive and socially recognized and esteemed, bringing prestige and status than careers in the state bureaucracy. Jacksonism in public administration was an antidote to the tendency that originated in the European continent, to create an administrative class that was socially apart and privileged.

The action of the state was decisive for the United States to create protectionism, one of the most effective and persistent ways of fomenting an economy, that persists even today despite the rhetoric of globalization and liberalism. As American as apple pie and the hamburger was the way they found soon after independence to protect the emerging and modest economy of the thirteen small colonies from the possibly crushing impact of the European economic powers, especially England.

Barriers were created for imported goods leading to a large-scale autarchic model. The size of the country, with its apparently endless supplies of natural resources, a policy for encouraging immigration, the economic state of the world and the state of technology led to the thirteen colonies becoming a country of continental proportions throughout the century, which by the arrival of the twentieth century had become one of the greatest economic powers on earth, alongside the European powers such as Germany, France and, naturally, England.

The North American institutional framework allows us to understand better how they developed a capitalist market economy with a type of company that is the modern PLC and how these companies were able to grow by pursuing strategies of growth through focus, scale and diversifications (Chandler, 1990).

In conclusion, the institutional frameworks of the United States and Brazil differed a great deal. If, in the institutionalist interpretation, the institutional context in North America helps explain capitalism and the conception of the public limited company that developed there, there is still the question of how a Manchesterian entrepreneur and antithesis of the Empire, of which Mauá would be an expression, was able to develop here. If this took place, we would be facing the exceptionalism of Mauá, which would also require a fitting explanation.

ANALYSIS OF THE STRATEGIES OF THE BARON

Industrialization projects, when agriculture was the manifest vocation of the country; diversification of business, when the big holders of capital believed in a single commercial business; hiring wage earners, when the elite in Brazil opposed the restrictions of Negro slave trading imposed by the English. These, and other initiatives, indisputably helped to form the picture of the Baron as an industrial entrepreneur and visionary, whose behavior was so different from that of his contemporaries.

Therefore, it is no surprise that the consolidation of the idea of Mauá as a businessman ahead of his time and endowed with a singular personality and unique talents. From poor boy, born in the distant village of Arroio Grande in the southernmost state of Rio Grande do Sul, he came to Rio de Janeiro in 1823 to work as an errand boy in a company. In just over twenty years, he had become the owner of the first industry in Brazil, the Ponte da Areia shipyard.

Once in the business, he followed a successful path which culminated in the transfer of directorship of the business from his employer to him. Nevertheless, although he was successful in getting around these obstacles, at the time he was active in the business, he could not resist the others who rose during his own rise as an entrepreneur. In this way did the political, economic, legal and social Brazilian model, along with imperial envy, intrigues and plots, create an institutional context adverse to his business interests and which is normally seen as the main cause of his decline and bankruptcy. As Caldeira (1995) emphasizes: “Mauá could not get his businesses to take root in the soft basis of a slave-driven country, where the market was tiny and dependent on the government and where the men of wealth only desired progress that did not put their privileges at risk”.

Indeed, contrary to the society of his day, the movement of Mauá leaving the trading business and becoming an industrialist may even be a sign that he had some sort of **project** in mind for Brazil, a vision of what should be our future. These concepts would be clearly based in the English industrialization model that he knew and was an open admirer of. But the way that he carried his **vision** forward shows that he was a prisoner of the Brazilian institutional context of dependence on the state and the limited consumer market and an economy with no wage earners, as slave labor remained right up to the last decade of the nineteenth century. Another limitation was the scarcity of skilled labor that was not slave labor. Immigrants never came to Brazil in the same numbers that they came to Argentina and especially the United States. There was also no financial market from which he could obtain resources. This explains the creation of a bank and its transformation into a central company of the Mauá **conglomerate**. It is also worth noting that there was no mentality in investors that could see beyond a trading rationale, in other words, who could see profitability beyond a mark up, i.e. the difference between the cost price and the sale price. Industrial activity had other logic and a cycle surpassed the reasoning of our investors used to a purely mercantile mentality.

In truth, we see that Mauá plunged voraciously into dealings that depended on elevated capitalization, today we would say, with elevated entrance barriers on the form and needs for capital and technology, two resources that he clearly neither possessed nor controlled. This was because Mauá's businesses were in public utility services, such as railways, navigation and public lighting. And when it came to livestock, as was the case of his enterprises in Uruguay, they were dependent on a government concession, which assured some type of monopoly. All these points indicate that Mauá would be far from the model of a Manchesterian businessman. To a certain extent, he trusted the institutional framework of the empire that should provide him with conditions for the success of his enterprises, which appears to be a contradiction.

If we review his main businesses, from his own text in the **Account to the Creditors of Mauá & Co. and the Public** we find good reasons for the lack of success, explicable from what we know today about business strategy.

The Establishment of Ponta da Areia: this was a shipyard whose only client was the state. It was formed partially from resources of Mauá himself, with the rest coming from the public coffers. There was also the benefit of protectionist legislation (Alves Branco tariffs) of 1844, creating barriers for imported products. These barriers were later altered and the national product lost competitiveness.

The Rio de Janeiro Gaslight Company may be seen as a rare good deal in that it was successful, profitable and was eventually sold to the English at a profit. Again, we have a company that is dependent on a government concession. In obtaining this concession, Mauá proved himself to be a competent lobbyist, as he had access to what we would call today **privileged information** and ended up offering a tariff that was lower than that of the other bidder, which led to his obtaining the concession.

Involvement in Bacia do Prata: Mauá's dealings in Uruguay involved banks and supplying meat to the Uruguayan army. In truth, Mauá declares that he performed services to Brazil when he gets involved in Uruguay to stop the advancement of Argentine dictator Rosas, and thus protect Brazilian interests. In truth, we are far from a business that seems like an entrepreneurial activity without other connotations outside of business. The interests of Mauá and the Crown are mixed and this did not even turn out to be good business, as was shown by the passage of time.

The Petrópolis Railway was an initiative of Mauá himself, and he had the talent to make it better known. It is also favorably remembered among his business projects. In truth, it was his most visible venture at the time and contributed towards the consolidation of his image as a great businessman. But as a business, it was another failure. If viewed in terms of viability, we would have to remember that there were not enough passengers, nor cargoes to keep it operating. For that to occur, it would be necessary to build a railway that gave access to it, which would only come later. Afterwards, the railroad had to compete with another company, which made it unviable. Mauá appealed to the government, requesting that public funds be used to guarantee payment of interest for a period of ten years on the capital invested in the railway. This practice, which was not uncommon at the time, shows an institutional framework where the government had to interfere to eliminate the risk of investment. It is a procedure that is not really compatible with the concept of a Manchesterian entrepreneur.

The Amazon River Steam Company was a company created with government incentives but which also found Mauá willing to become a partner. It was perhaps a precocious case of what would be called today a partnership between the government and the private sector. It was a good business venture for Mauá.

The Recife to São Francisco Railroad and the Floating Dykes Company never came into existence.

Another business was the Tanning Company, where Mauá was a minor partner, with a sixth of the capital. He was not a managing partner. The company was badly managed and ran up a huge amount of debt with Mauá e Companhia, controlled by the Baron and which was never paid off. This was another bad deal that would contribute to the eventual bankruptcy of the baron. To this list of failures should be added the Stearic Lighting Company, similar to the Tanning Company. These debts piled up and were never paid off.

Another interesting case is the Montes Áureos Brazilian Gold Mining Company, which turned out to be nothing more than a hoax as the ore deposits had been totally minded out. In his **Accounts to the Creditors**, it is not clear how Mauá became involved so deeply in this, nor how much he lost. Apparently, he lent his name and his prestige to raise capital in London, but when a team of experts examined the mines from which the company that was being created was to extract the ore, they found that the mines were empty.

Finally, we have the case of the company that has the lengthiest exposure in the Account, the story of which dragged on till the end of his life. His widow died in the early twentieth century trying to receive what, according to Mauá, the English owed him. This is the São Paulo Railway, the railroad that connected the port of Santos to the plateau of São Paulo, on the way to the city of Jundiaí. The railroad was first operated in 1867 and was a significant technological achievement for its day as it was necessary to traverse the thick mountain wall near the coast, which was done using a system of ratchets that remained in operation during the following century. The connection was necessary owing to the spread of coffee plantations to the interior of São Paulo state. The Paraíba Valley, the region where coffee had first entered the state, had declined, and the state saw in coffee its main source of wealth, which served as a basis for the later economic expansion of São Paulo as the country leader economic state.

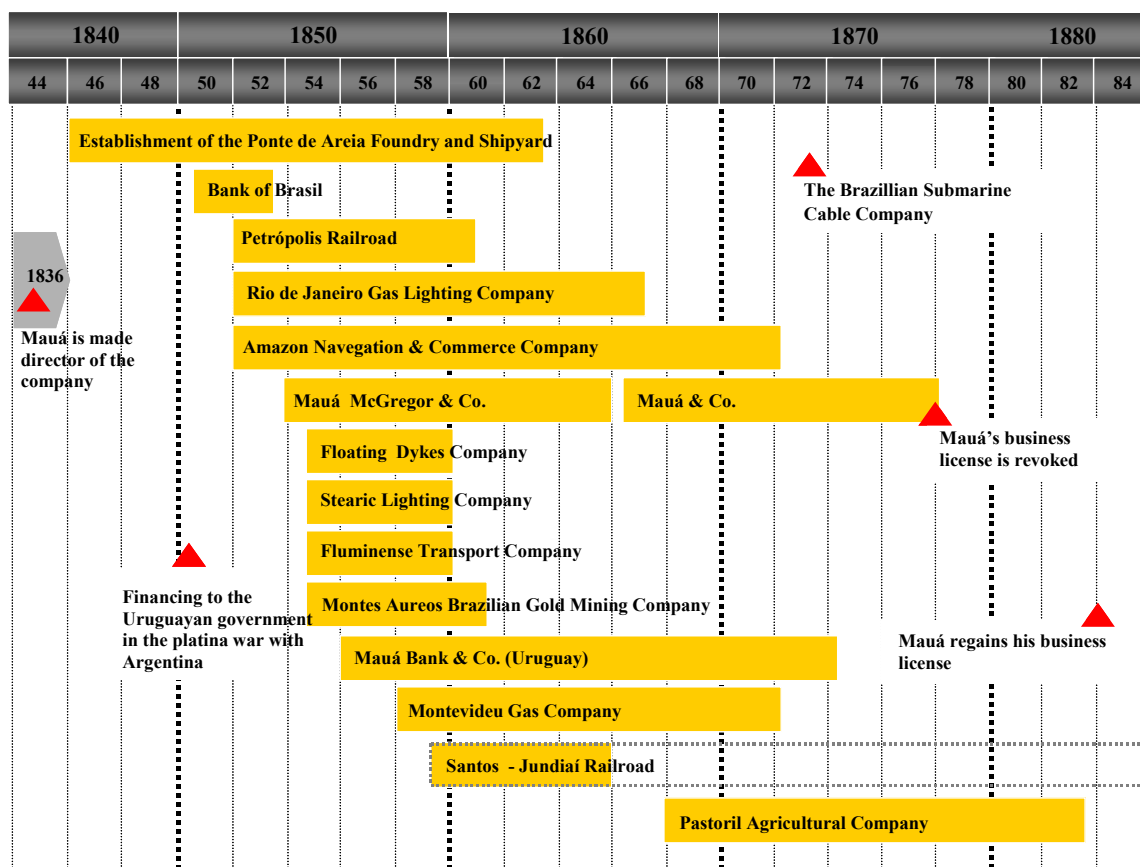
Mauá entered the business when he received a concession to build the railway. As the enterprise required a great deal of capital, he went to London, where he obtained it, but at a high cost because the English establishment of Rothschild & Sons decided to charge considerably to include its name in the company. The idea was to associate the project with someone of international renown as a way of assuring other potential investors. The project was finally begun and on several occasions went over budget, meaning that Mauá had to dig into his own pocket to keep the project going. With the costs of the project rising much higher than had been originally expected, the baron ended up in a huge **fix**, which put his bankruptcy on the horizon. There were also complaints registered against the state of São Paulo, which decided to build a similar railroad, an act which was viewed as **disloyal** competition.

In the end, it can be said that the Santos to Jundiaí case, the name by which the railroad became known during the 20th century, may have shown imprudence on the part of Mauá and dishonesty and opportunism on the part of the English. But for the baron, the whole episode was another bad business deal.

From a strategic viewpoint, Mauá's lack of success does not come as a surprise. It would be explicable and predictable if we see it through the eyes of accumulated knowledge of business strategy. Our evaluation takes into consideration the Brazilian institutional context, which serves to judge the baron's business strategies more severely.

Therefore, reviewing his enterprises, we can see a strategy of excessive diversification, which is lacking in economy of scale and scope: a number of businesses that showed high financial leverage, which seems very complicated, given the precarious nature of the financial market at the time. Add to that the investments, which were heavily political and which, at the end of the day would contribute to the lack of success of the baron. Another set of businesses, which died at birth, the idea of beginning them a mistake. Finally, we also have a group of businesses that were highly dependent on government concessions, given their nature as a public utility.

The following table graphically shows and illustrates, over time, the enterprises outlined here.



(*) Some companies are not shown in the table. They are: the Tijuca, Bahia-São Francisco & Recife – São Francisco railways, the Botanical Gardens Rail Road City and the Tanning Company.

The beginning, or later survival, of a reasonable set of investments of the Baron depended to a greater or lesser degree on the Empire, from concessions to financing and subsidies. Therefore, we can include: the Establishment of the Ponte de Areia Foundry, whose biggest, if not only, client, was the government; the Rio de Janeiro Gaslight Company, a government concession of Mauá's; the same applies to the Fluminense Transport Company, which obtained permission from the Empire to operate in the transport by carriage; the Petrópolis Railroad Company, another concession from the government to develop the area of Porto de Estrela to Petrópolis; the Amazon Steam Navigation Company, which was made possible by the thirty-year navigation monopoly given to Mauá, as well as a yearly subsidy of 120 *contos de reis* to get the line of transport working, where there was cargo to take; and finally, the aforementioned Santos-Junidaí Railroad, another permission from the government to build a railway.

Therefore, what we can see is that Mauá's pretentious image of independence does not seem to make much sense, when we see all these enterprises, whose existence depended in one way or another on the government. At the very least, we can say that the Empire was hard on the Baron on a number of occasions, but that he also used the Empire on other occasions and made many of his businesses come to life through the ties that he never severed with the Empire.

Another factor that calls attention to the businesses of the Baron was his ability to use assets and funds for them. We can even say that the centrality of Mauá's banks in his dealings owed a great deal to the fact that it was through them that he sought to finance all his other businesses. Since the creation of the Bank of Brazil in 1851, through the creation of other banks – Mauá McGregor & Co. (1854-1866) and Banco Mauá & Co. in Uruguay (1856-1874) – the logic that Mauá followed was to gather

capital from third parties to finance the creation of other companies, including his own. Indeed, it was the ability to raise funds at the Bank of Brazil that was largely responsible for the investments that were required for the Rio de Janeiro lighting company and the navigation company in the Amazon. Even later, when the country had already adopted a conservative policy restricting credit, controlling the issue of bonds and raising interest rates on loans. Mauá opened the businesses of the floating dyke, transport, stearic lights, and mining through the Mauá McGregor Bank. As Caldeira (1995) explains:

The statute of the Bank of Brazil, for instance, allowed him to take out loans with company shares as a guarantee, including shares in the bank itself. In this way, as soon as the owner integrated his share of the capital, he could pawn the stock right there and receive back almost all that he had spent in the form of a loan, thereby doubling the capital at his disposal. This money would be invested in a new company, and as soon as the shares were received, they would be used as security, leaving the owner with free capital once again. And as the new company would also have an account at the bank, if it were necessary, further loans could be taken out to finance its implantation. This ever-repeated cycle set off a chain of multiplication of capital, entirely based on the use of the money of third parties. At the end of the day, Mauá and his companies owed the bank a considerable sum of capital and all their investments (p. 253).

Nevertheless, at the same time that the banks played a fundamental role in the expansion of his empire, they became the weak point in his business. This was because if, at a certain time, there was a fall in the amounts deposited in the banks, they would become exposed, as there would be no money to pay investors, as the capital would be tied up in other ventures.

In those days, banks had to live with the reality that a great part of their deposits were payable on demand, and loans in installments. As a result, the capacity of a bank to hand out money after a rush to withdraw was very limited. And as there was no Central Bank at the time, to help with automatic rediscount lines of portfolio assets at a time of crisis, rushes to withdraw resulted in the closure of banks, even though they were economically stable. Indeed, some of his banks closed their doors exactly because they could not bear the rushes to withdraw which were so common at the time. Nevertheless, as the banks had a privileged position in Mauá's empire, the closure of a bank greatly depleted the rest of his investments, as the reasons for the collapse were to be found right at the heart of the business system he had built.

Another important point that is worth commenting on is the highly political nature of some of his actions and that, in the end, contributed to the collapse of his business empire. A good example to illustrate this is the Baron's decision to get involved with the Bacia do Prata wars that had as foes Argentina, Brazil and Uruguay providing services for the political interests of the imperial government of Pedro II in the region.

The reasons why the Brazilian government intervened in this matter, supporting Uruguay against Argentina was due to factors involving the demarcation of borderlines and territorial dispute. The dispute was over the rivers of the Platina Basin (Paraná, Paraguay and Uruguay) which drained almost all the production of Argentina, Uruguay, Paraguay and some Brazilian provinces. Nevertheless, if the causes of Dom Pedro II were easy to understand, the reasons for the intervention of the Baron are a little less clear.

Mauá financed the Uruguayan war, a decision that is not entirely in keeping with the behavior one would expect from an entrepreneur. He became involved in that war, expecting to get closer to Dom Pedro II and, therefore, reap the benefits and privileges enjoyed by those under the protective wings of the Emperor. Once again, what we have here is a form of behavior that does not match the so often proclaimed independence and aloofness of the man when dealing with the Brazilian empire. Thus, it cannot be said that Mauá did not show the same reverence to the government as Portuguese traders, or Brazilian farmers and tradesmen, nor can we ratify totally the idea that Mauá was an orthodox free market businessman who was above the political and legal privileges that are seen as a hindrance to development and dampening the efficiency of the market.

Thus, it would be fitting to say that, in carrying out his business dealings, Mauá did not behave like a classic style entrepreneur, involved in his business and seeking to obtain the highest possible profitability. His interests were mixed with political interests and there is no doubt that he used his businesses to make his mark on the political aspect of the Empire, which he undeniably managed to do. We cannot forget that the modest errand boy became a baron, joined the national assembly, moved in the same circles as the political elite and died a viscount. This made him mix his business with politics so that we often have the impression that politics got in the way of his business dealings. Curiously, he depended on the institutional framework of the Empire to make his businesses operational, an institutional context that would not be favorable to a Manchesterian entrepreneur, which is how Mauá is presented.

There are other businesses that we may characterize more as entrepreneurial projects, as many of them never reached the operational stage, and when they did, they only proved that he was prone to failure. The Floating Dykes Company, the Stearic Lighting Company, the Montes Áureos Brazilian Gold Mining Company and the Fluminense Transport Company are all clear examples of this. Huge investments that never came to fulfillment and in the end only served to weaken the Baron's empire financially.

It is also worth emphasizing another aspect of Mauá's businesses. Observing the ventures that made up his empire, we can see a clear strategy of unrelated diversification. This type of strategy is characterized by businesses that have few or often no attributes in common (Barney, 2002). Thus, given the heterogeneity of Mauá's empire, the advantages that are traditionally associated with related diversification such as economies of scale and scope (Chandler, 1990) and synergy (Ansoff, 1986) cannot be associated to the benefits that the many businesses of the Baron united. This can be explained by the limitations of the market. The restriction that slave labor imposed on demand always made for reduced growth potential. Therefore, savings from lower costs of production and contracts, along with synergies resulting from shared resources (Dawley, Hoffman & Brockman, 2003) do not apply to the wide range of the Mauá's initiatives.

In truth, unrelated diversification strategies lead to the reduction of costs and increased profits in the long term. Nevertheless, looking back on Mauá's businesses, it seems to us that he did not follow a risk reduction path when building his business portfolio, opting to invest in any supposedly good idea that seemed viable to him. This diversification of activities seemed more in keeping with the logic of a trader than the logic of an industrialist. Actually, the rationality of trading means selling all things that there are supposedly buyers for. In the case of a transposition of this reasoning for the industrial sector, all that could be sold would be manufactured. This opens up a wide range that is hard to sustain. We can also imagine how unfavorably would result the application of the concept of "value chain" (Porter, 2003) to the Baron's businesses. In truth, it would be problematic to know in which activities, or at which point of each of the activities, value would be generated and how the shareholder would benefit from the value generated.

Finally, another important point in the operations of the companies would be administrative control. Control has always been a neuralgic managerial function that takes a great deal of time and requires the talents of administrators. This goes for the basics of administration to the modern BSC-Balanced Score Card and the Integrated Management Systems. Size and the distance over which a company is spread have historically been factors that have made control difficult. Mauá's businesses had to cope with both of these problems. Some of them were huge ventures for their time and were spread over continental distances, with precarious transport and at a time when the telegraph was still in its earliest stages, having not even arrived in Brazil. The telephone only came into use at the turn of the century and the first telegraphic transoceanic cable connecting Brazil to Europe had not been made operational. Mail services were not very efficient and covered only part of the country's territory.

Thus, Mauá's activities and dealings show that he must have been a great man of **vision** in the sense that this word has come to mean in business strategy, but with difficulties in making his **vision** fit the inevitable limitations that reality imposes. Mauá seemed to be excessively exposed to risk, which was his ruin as a businessman.

In **An Account to the Creditors**, he frequently complains about others: his partners, English partners, the imperial government and state ministers, in an accusatory and moralist tone. Naturally, it comes as no surprise that the text contains a critical evaluation of his business strategy, but this never seems to have worried the Baron. Apparently, he died disappointed that the business empire he had tried to build ended in failure, but with a clear conscience for being considered an ethical man and having regained his title of trader having paid all his creditors. All of these things are clearly praiseworthy from any point of view, but they do not mean that he was a Manchesterian entrepreneur and sound business strategist.

CONCLUSIONS

This article shows the importance of considering the institutional context to explain a business strategy. There are institutional contexts that are favorable or unfavorable to certain types of strategies. Business and economic success are also explained by a favorable institutional setting that helps to explain how and why some societies are more or less developed economically and socially. Equally, the institutional context of the Brazilian Empire shows that it was little in favor of entrepreneurship of the classic type as found in the United States and other leading nations of the Industrial Revolution. The impression spread among us was that of Mauá being opposed to the institutional context. He would have been an outlaw, and punished as such for his opposition and challenge to the institutional order of the day. This is only partially true. On the one hand, he did indeed oppose it, but also trusted it and came to depend on it as his businesses required the support of public policy and the institutional context. This institutional framework did not favor the classic business project, which required a certain amount of vision, risk and freedom to operate independently of the intervention of the state. The **tolerated** state in the classic liberal concept is that which maintains the institutional conditions that are necessary for the entrepreneur to operate and nothing more.

The Baron's trajectory was utilized by many, mainly by those who defended the industrialization of Brazil after 1920, not only as an example to legitimize the cause of entrepreneurs but especially to illustrate the grave effects that a hostile and restrictive attitude on the part of the government towards entrepreneurs can cause (Barman, 1981). On the other hand, it is worth noting that the relationships that Mauá had with the institutional order and society of his time were notoriously ambivalent. His life and business and political trajectory show that he was ambitious and had an upward mobile personality. But he also sought the help of the government and wished to have, and on some occasions ended up having, the state as a partner granting him concessions, reducing his business risks and financing his undertakings.

We cannot afford to ignore how wrong Mauá was when it came to business strategy. Even leaving aside any consideration of the institutional context of his time and applying to his business activity, the concepts of business strategy that we have today, it is no surprise that he went bankrupt. His strategic itinerary is far from that of the successful businessmen of his time in the contexts and countries that were studied. Comparisons are easier with the United States, where business history is a more developed subject. The lack of focus, characterized by the disparity and amplitude of his businesses meant that it was impossible to realize his goals are well presented by Chandler, with the concepts of scale and scope.

We believe that the image of Mauá that is still held today, as a precocious model of a great business leader and, specifically, an industrial leader, is understandable, especially when the country had a national project supported by a nationwide entrepreneurial middle class, and which took up a considerable part of the twentieth century. But this picture is only partially true. We are not out to discredit the Baron, whose exceptional nature cannot be denied. He left an indelible mark and remains an example to Brazilian entrepreneurs. Some may, unpatriotically, mourn the fact that Mauá was not born in England. Maybe there he would not have failed, and his success would have lived on in his heirs, companies and successors until today.

REFERENCES

- Alencastro, L. F. (2000). *Trato dos viventes*. São Paulo: Companhia das Letras.
- Ansoff, I. (1986). *Corporate strategy*. New York: Pan Macmillan.
- Barman, R. J. (1981). Business and government in imperial Brazil: The experience of Viscount Mauá. *Journal of Latin American Studies*, 13(2).
- Barney, J. B. (2002). *Gaining and sustaining competitive advantage*. (2nd ed.). Upper Saddle River, NJ: Prentice Hall.
- Boxer, C. R. (2002). *O império marítimo português*. São Paulo: Companhia das Letras.
- Caldeira, J. (1995). *Mauá: o empresário do império*. (22nd Reimpressão) São Paulo: Companhia das Letras.
- Chandler, A. D. (1990). *Scale and scope: the dynamics of industrial enterprise*. Boston: Belknap Press.
- Cunha, E. da. (2002). *Os sertões: a campanha de canudos*. (Edição Comemorativa do Centenário) São Paulo: Atelier. Edição comemorativa do centenário. (o trabalho original foi publicado em 1902).
- Dawley, D. D., Hoffman, J. J., & Brockman, E. N. (2003). Do size and diversification type matter? An examination of post-bankruptcy outcomes. *Journal of Managerial Issues*, 15(4), 413-429.
- Fligstein, N. (2001). *The architecture of markets - an economic sociology of 21st century capitalist societies*, Princeton, NJ: Princeton University Press.
- Furtado, C. (2003). *Formação econômica do Brasil*. São Paulo: Nacional.
- Luz, N. V. (1961). *A luta pela industrialização no Brasil-1808-1930*. São Paulo: Difusão Européia do Livro.
- Mauá, V. de. (1996). *Exposição aos credores e ao público*. São Paulo: Expressão e Cultura.
- Miceli, S. (1988). *A elite eclesiástica brasileira*. São Paulo: Bertand Brasil.
- Mintzberg, H. (1998). *Strategy safari-a guided tour through the wilds of strategic management*. New York, The Free Press,
- Moog, C. V. (1957). *Bandeirantes e pioneiros: paralelo entre duas culturas*, Rio de Janeiro: Graphia
- Porter, M. (2003). *Competitive advantage*. New York: Simon & Schuster.
- Prado Jr., C. (1976). *História econômica do Brasil*. São Paulo, SP: Brasiliense.
- Schwarcz, L. M. (1998). *As barbas do imperador: Dom Pedro II, um monarca nos trópicos*. São Paulo: Companhia das Letras.
- Simonsen, R. (1978). *História econômica do Brasil*. São Paulo: Nacional.
- Tocqueville, A. (2003). *Democracy in América*. London: Penguin Classics.