ANALYSIS OF CLUSTER RELATIONS FOCUSSING ON THE INTERNATIONALIZATION OF GARMENT CLUSTER IN THE NORTH-CENTRAL REGION OF PARANÁ-BRAZIL

Francesco Trapanese\textsuperscript{1}; Ricardo Daher Oliveira\textsuperscript{2}; Angelo Manaresi\textsuperscript{3}; Jose Antônio Arantes Salles\textsuperscript{4}; MSc. Evandro Paulo Bolsoni\textsuperscript{5}

\textsuperscript{1}University of Bologna-Italy, f.trapanese@gmail.com
\textsuperscript{2}University of Maranhão - UNICEUMA/, São Luis - MA, Brazil, ricardo.daher@hotmail.com
\textsuperscript{3}University of Bologna-Italy, a.manaresi@gmail.com
\textsuperscript{4}Faculdade Alves Faria/Goiânia – GO - Brazil, jasalles@terra.com.br
\textsuperscript{5}UNICESUMAR/ Maringá – PR – Brazil - evandrobolsoni@gmail.com

\textbf{Abstract} – The topic of the present study sets itself within the global framework of apparel market, focussing on the analysis of the garment cluster in the North-Central region of Paraná, Brazil. The scope of the research has been double: to explain the importance of cluster’s relations in view of its internationalization and, from this perspective, analyse the cluster of Maringá-Sarandí. Starting point of the research has been the low level of Brazilian share in the global apparel market, though the country’s records of high volumes of annual production and its leadership in specific segments like lingerie, beachwear and jeans-wear. Turning to Porter’s concept of cluster, the research has involved a series of interviews with firms’ manager and entrepreneurs on the base of a structured questionnaire focussed on the four factors of the Diamond Model. The analysis has outlined a very low level of internationalization of the cluster of Maringá-Sarandí and a low perception on the firms’ side of the cluster environment, although the existence of a small group of leading firms. By pointing to the market-oriented strategies adopted by the firms in the cluster, the work stresses the
importance of differentiation as linchpin for firms competitiveness at home and as a pre-requirement to their penetration into new markets.


1. Introduction

International textile and apparel market has been shaken in the last decade by two important events which mainly affected the productive chain organization at global level, leading to the current configuration: the end of Multi-fibre Arrangement in 2005 and the recent-gained bargaining power of distribution channels. The former implied the gradual abolition of any quantitative restriction between developing and developed countries after thirty years of textile trade diversion, heading, with the raise of Chinese and East Asian countries exports, to a new equilibrium between garment producer and garment consumer countries (ADHIKARI, YAMAMOTO, 2007). The latter, following the increasing informatization of retailers channels and their capacity to better meet consumer’s preferences by virtue of their proximity to them, brought to an inversion in the relations between producers and distributors (CIAPPEI, SIANI, 2006), and to the transition from a product-oriented to a market-oriented trend (MANARESI, 2003). At the outcomes, the global scenario in apparel market has radically changed, posing new and arduous challenges.

The threat of new entrants, especially in a segment with low entry barriers, and the raise of new international players, able to offer a good-quality product at competitive prices, impose on garment industry the constant reformulation of its competitive advantage and global strategy. Paraphrasing Porter, competitive advantage relies on high rates productivity and differentiation, namely on the firm (or industry) capacity to offer the same product at lower prices or a different product with higher value added. Differentiation involves every stage of the value chain and comprises resources, processes, technologies, products, promotion, and even, distribution. What is more, following Porter’s conceptualization, differentiation involves, as well, the business environment and this, in turn, can be seen as the context external either to the single firm (the industrial area) or to the firm agglomeration (the cluster, the region, the nation). Porter’s cluster concept, as
exemplified by his model of Diamond, reveals all its importance in shaping and encouraging the competitiveness of a firm. On the other hand, given the peculiarity of the apparel supply chain and its need to be “short and agile” (in accordance with a short “lead time” and the proximity to the consumer), the importance of the cluster concept, as a geographic concentration of interrelated firms (often, all along the supplier-producer-distributor channel), proves highly beneficial.

Nowadays, at microeconomic level, a global openness is not only required for a given company to stay in the market and face local competition. Global strategy becomes a function of firm’s reputation and makes its fortune at international as well as at local level. As matter of fact, it does not make sense to fully distinguish between global and local, since what is visible today, thanks to the communication technologies, is an articulation of local to global (glocalization). Globalization has not elapsed but improved the differences among the regions of a same country, globalization has not erased the social and institutional context of localization. From this standing point, and given the specific economic history of Brazilian industry, cluster concept acquires a paramount importance to understand the leveraging potentiality of a firm and shape its international strategy, indeed starting from an emphasis on the local. However, a global strategy implies a global positioning, which means for a firm the need for an internationally recognised brand. International marketing involves a reconfiguration of the whole value chain (product/service development, distribution, promotion and pricing) and requires a coherent planning which starts from the brand-identity and ends with a distribution strategy and post-sales customer-care (MANARESI 2003).

Internationalization is ascertained beneficial at macroeconomic level as well. The new international economy has emphasized the importance of free trade openness between countries as linchpin of better consumption standards: internationalization leads to a more efficient use of resources and to a major efficacy of national industries, which have to tackle international competition. Krugman (1991), among the firsts economists to understand the new patterns of international trade, pointed to the increasing returns to scale as main reason for intra-industry trading, what led him to overcome the centre-periphery model by Prebish-Singer and the Ricardo’s comparative advantage. Thus, in the 80s e 90s, while the protectionism
of the ISI (Import Substitution Industrialization) promoted by the CEPAL since the 50s was proving bankruptcy for Latin American countries, new economic models based on technological innovation and product differentiation began to be taken in account by economists.

The topic of the present study sets itself within the global framework of apparel market, focussing on the analysis of cluster’s dynamic and relations in garment cluster of Maringá-Sarandí, in the North-Central region of Paraná. Starting point of the research is the low level of Brazilian share in the global apparel market (about 1%), although the country records of high volumes of annual production, which led it to rank the fourth place among the biggest garment producers in the world, and although the country’s leadership in specific segments like lingerie, beachwear and jeans-wear. Though common belief usually adduces evidence of either the dimensions of the domestic market and the raising peace of internal consumption, alongside with adverse macroeconomic conditions (exchange rate, labour costs), the present research has the microeconomic level as its theoretical horizon. Business relations among firms and between firms and supporting or related institutions – namely the way the firms relate with their environment and how the environment shapes their competitive strategy, both locally and globally – is the context within which the analysis has been developed.

The article consists of several parts: section 2 outlines the methodology adopted, section 3 comprises a literature review with the scope to set the theoretical framework for the subsequent discussion, section 4 contextualizes the Brazilian apparel market and presents the cluster object of examination, section 5 shows and analyses the research outcomes, section 6 draws the conclusions.

2. Methodology

In order to accomplish with the object of the research – to analyse cluster dynamics – and its scope – to comprehend how and why the environment of a firm agglomeration is able to set the conditions for the companies to compete internationally – the work presents a case study based on garment cluster in the region of Maringá-Sarandí.
According to Yin (2005), case studies are the preferred strategy when the research has to answer questions like “how” and “why”, when the researcher has a little or no possibility to control the event and when the research topic is a contemporary phenomenon in a real life context. In addition, case study method fits with exploratory as well as with descriptive and explanatory research. The present work involves all of these three question-types in so much as the research aims at investigating the existence of relations (cooperation vs. competition) among firms geographically concentrated in a specific region, at detecting the entrepreneur’s perception of the cluster-system’s benefits and advantages and at explaining how these dynamics may (or may not) affect the firm’s propensity to adopt any strategy of internationalization.

In his explanation of case studies method, Yin (2005) adds that this strategy comprises as well direct observation of the events being studied and interviews with people involved. That is exactly what this work have dealt with in its preliminary phases: visits to the apparel firms of Maringá and live interviews with entrepreneurs, managers or, in some cases, with supervisors. The interviews were based on firm’s level of internationalization, where this fitted, and on a closed-ended questionnaire aiming at analysing the four factors individuated by Porter in his Diamond Model: factor conditions, demand conditions, related and supporting industries, firm strategy, structure and rivalry. Only in a very few cases the entrepreneur answered the questionnaire via e-mail. Furthermore, previous steps included the study of documents and analysis already available on the cluster, interviews and conversations with representatives of supporting institutions (PEIEX, SINDVEST, SEBRAE)\(^1\) and distribution channels.

Finally, following Yin (2005), case studies method tends to generalize a theory. This implies the importance of a theoretical underpinning to the research analysis. On theoretical account, the present work turns to Porter concept of cluster and his Diamond Model. In addition, System Theory, Theory of Firms and transaction cost, and market structure, presented in the subsequent section, contribute to

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\(^1\) PEIEX is the acronym for Projeto Extensão Industrial Exportador, a program intended to raise the exportation culture among micro, small and medium enterprises, created in 2009 by APEX, the Brazilian Trade and Investment Promotion Agency. SINDVEST is the coordinating body of the cluster of Maringá-Sarandi. SEBRAE is a private Brazilian agency whose mission is to promote competitiveness and sustainable development of micro and small enterprises.
delineate the theoretical framework within which the interpretation and the explanation of the collected data will be set.

3. Literature Review

With the purpose of facilitating the discussion, from this topic, this study is a literature review about Systems Theory, Theory of firms and transaction costs, Market’s Structure, Clusters and the Diamond Model of Porter, as pre-requirement to support the proposed research.

3.1 System theory and business organizations

Since the 50s of last century, the theory of organization and the theory of administration have been knowing radical changes, whose reach could be likened to a scientific revolution. Systemic approach has allowed to unify within a broader framework different bodies of knowledge (information theory, science of administration, behaviourism) and provided the administration theory with a structure able to reduce to a totality that can be observed the growing complexity of the firm.

Viewing the firm from the perspective of a general theory of system means conceiving of it as a socio-technical system which combines human organization and technology, knowledge and techniques to accomplish its scope (KAST; ROSENZWEIG 1992). System theory involves a holistic understanding: the great novel of the systemic approach has been its opposition to the analytic method of classical science in favour of a wider comprehension of an integrated whole. Considered as a system, the firm is a nexus of parts, of components, of subsystems, that cannot be considered individually but necessarily in their interactions. However, systemic approach has to do with inputs and outputs and not only with sub-activities internal to the system.

Systemic approach has proved very beneficial to the theory of administration which had been mainly preoccupied with the efficiency of resources and transformation process while totally disregarding the context external to the firm. In
his seminal work, German biologist Ludwig Bertalanffy (BERTALANFFY; 1970) had distinguished between closed systems and open systems according to their relation with the environment. Physical and mechanical systems can be considered closed systems because they have no relation with the environment. Biological and social systems, instead, are open systems insofar as they are constantly linked to their external environment with which they are maintained in a state of dynamic equilibrium through an endless flow of information, material and energy. Main characteristic of open system is that it is influenced by, and influences its environment in a self-enforcing circle.

More generally, Kats and Kahn (1966) define open systems as characterized by negative entropy, homeostasis, feedback, differentiation and equifinality. Closed systems suffer from the influence of positive entropy which is the natural tendency to disorder, leading the system to implode. In open systems (biological or social ones), instead, entropy is inverted by virtue of processes able to transform imported resources coming from the outside (KAST; ROSENZWEIG; 1992) and redistribute them in the environment. Negative entropy is the result of enhanced capacity of systems to organize and transform inputs: more broadly, according to the law of negative entropy, systems survive and retain their internal order only to the extent that they are able to import from the environment a quantity of energy greater than that used for the transformation process. Feedback refers to inputs of information from the environment, alias, to the re-introduction of outputs in form of information. Through feedbacks, the system is able to understand its external conditions and adapt to the environment, maintaining a state of dynamic equilibrium and homeostasis. Linked to negative entropy is the differentiation of open system which tends to even higher degrees of organization. Finally, open system is characterized by the equifinality, according to which a scope or end state can be achieved via many different paths of development (KATS, KAHN, 1978).

If conceived within the theory of system, business organizations are best understood as a men-made system which has a dynamic interplay with its external environment – customers, competitors, labour organizations, suppliers, government, etc. – and is capable of learning, adaptation and self-regulation. What is more, business organization is a combination of interrelated parts working in conjunction in
order to accomplish determined goals, either of the firm and of individual participants (JOHNSON, KAST, ROSENZWEIG, 1964). More specifically, firms are organizations that receive inputs from the external environment in the form of human, material, financial and information services, that transforms these inputs through processes and generate products, services and remuneration for its members. Money and market give the company a mechanism of recycling of resources between organization and environment. (KAST, ROSENZWEIG 1992).

First to apply the general system theory to management, two American social psychologists, Daniel Katz and Robert Kahn (1966), brought forth the study conducted by Bertalannfy. The novel of their model was the social perspective they adopt in the description of the organization, which allows them to introduce in the theory of organization psychological and behavioural factors. According to the authors, psychological and behavioural elements are peculiar traits of what they call "event structure", namely the construct of perceptions, beliefs, motivations and expectations, but also of norms and values, that tie into a group the participants of a social organization. Their model added a great contribution to the theory. However it missed the relation between social variables and technological factors.

Kast and Rosenzweig (1992) define the organization as an open, socio-technical and structured system. On the one hand, it is open because is able to interact with the environment. On the other, it is socio-technical because is constituted by two subsystems: a technological one, consisting of tasks, machines, devices, tools and techniques of operations; and a psycho-social one, characterized by the interactions among people and by the nexus of expectations, aspirations and opinions which form their imaginary. Sub-technical and psychosocial subsystems are closely interrelated since any alteration from the one causes effect on the other. In the model by Kast and Rosenzweig, the structure, as well, constitutes a subsystem, and refers either to the way in which the various functions are divided into operational units and to the coordination of such units (organization, division of tasks, rules, and regulations).

Based on a different conception of firms as producers of sense (value) rather than only of products/services, Porter (1993) introduces the concept of value chain and regard the industry as a value system. Value chain concept involves conceiving
of an enterprise as the sum of interrelated activities that are able to add value for the buyer and can be distinguished in activities related to: production, marketing, delivery, customer care (primary activities) and in activities providing inputs, technology, human resources, depending on firm infrastructure like administration and finance. Company’s value chain comprises a wider set of activities (value system) that may exceed the firm’s borders to involve the value chain of the supplier, of the enterprise, of the distribution channels and of the buyers.

Systemic approach, applied to the theory of administration, has proved useful to management studies, by mainly focussing on the coordination and decision making role.

 [...] management via system concepts fosters a way of thinking which [...] helps manager recognize the nature of complex problems and thereby operate within the perceived environment. It is important to recognize the integrated nature of specific systems, including the fact that each system has both inputs and outputs and can be viewed as a self-contained unit. But it is also important to recognize that business systems are a part of larger systems—possibly industry-wide, or including several, maybe many, companies and/or industries, or even society as a whole (JOHNSON, KAST, ROSENZWEIG, 1964: 367).

System theory structures business organizations in a hierarchical form. Managers are required to convert the dispersed resources constituted by men, machines, raw material and money in a useful and efficient enterprise. Their main task is to get these resources, not interrelated ex-ante, integrated in a unique system in order to reduce uncertainty ad arrive to a final scope. This aspect is best emphasized by the Theory of Firms.

3.2 Theory of Firms and Transaction Costs

As of the seminal article by Coase, The Nature of Firms, firms have long been identified with the hierarchical coordination of labour force as opposite to the market coordination of production factors. Firm is a range of exchange that superseded the market system while resource allocation is determined by authority and direction (JENSEN, MECKLING, 1972). Firms and market, in Coase’s view, are, thus, conceived of as two alternative ways of coordinating the factors of production:

Outside the firms, price movement directs production, which is coordinated through a series of exchange transactions on the market. Within a firm,
these market transactions are eliminated and in place of complicated market structure with exchange transactions, is substituted the entrepreneur-coordinator, who directs production” (COASE, 1937: 388).

Coase’s scope was to explain why a firm does emerge in a specialized exchange economy and why some economic activities take place within the firm while other are exerted by the market by virtue of contracts. Firm’s distinctive mark, Coase affirms, is its superseding and replacing the price mechanism of the market. The raison d’etre of a firm lays in the fact that there is a cost in using the price mechanism (discovering relevant prices, concluding separate contracts) and a firm can greatly reduce this cost. In a firm, in fact, resources are allocated by the authority. It is the authority (the entrepreneur) who decides if a workman moves from department X to department Y. Although not explicitly defining the firm by the activities of a manager, Coase implicitly involves the entrepreneur by defining him as the person who takes place of price mechanism in the directing of resources (EISENBERG, 1991).

However, firm allocation of resources is preferable to the market only when its costs are lower than the costs of a market coordination of factors (negotiation costs). In Coase’s view, in fact, when a firm gets larger there may be a decreasing return for the entrepreneur and he can fail to make the best use of the production factor. As result, the firm is made less efficient.

Alchian and Demsetz (1971) reject Coase’s conception of authority and emphasize the role of team production in a firm and the need of monitoring. Furthermore, they state the importance of contracts between employer and employee as a form of voluntary exchange. While Coase had identified the difference between market and firms in the power of the latter to use authority to allocate resources, Alchian and Demsetz argue that a similar power exists in the market as well, in the relations between the seller and the purchaser. Authority is the power to punish and, both in the market and in the firm, there exists the possibility to fire, namely to interrupt the economic relation. Thus, there is no difference between employer-employee relationship and customer-grocer relationship. The employer can fire the employee in the same way that the customer can fire his grocer by stopping buying in his shop. What links the two poles of this relationship is the contract. However, in Alchian’ and Demsetz’ conception, contract is not a distinct mark of firm. In fact, the
difference between market and firms lies in the fact that only firms use a team production.

Since in team-production the output is generated by a team and is not the simple sum of separable outputs of each of its members in an economic organization (ALCHIAN; DEMSETZ 1971), it is difficult to determine each individual contribution (marginal product) to the output of cooperating inputs, by this way, settling a problem of rewards (it is not possible to use the simple rule input rewards = marginal product value).

Problems to metering productivity and assigning rewards alongside with the possibility of opportunistic behaviour among team members (moral hazard), leads Alchian and Demsetz to postulate the importance of a monitor in a firm: only by observing individual behaviour it is possible to avoid shirking and increase firm productivity in order to compensate monitoring costs. Monitoring activities and tasks can be negotiable across the markets as well, but they are costly and not so cheaply performed for the team production. In a later article, Demsetz discusses this argument from a property rights perspective. More specifically, Demsetz argues that “property rights develop to internalize externalities when the gains of internalization become larger than the cost of internalization”, namely when becomes economic for those affected by externalities to internalize benefits and costs. (DEMSETZ 1967: 350). What is more, in order for the monitor not to engage in opportunistic behaviour, Alchian and Demsetz postulate the necessity to give him the title to the net earnings and to receive any residual product above prescribed amount (residual claimant).

Thus, in Alchian and Demsetz conception, two conditions allow distinguishing a firm and its emergence: in a firm it is possible to increase productivity through team-oriented production, and it is more economical than recurring to market exchange to estimate marginal productivity through observing input behaviour. The occurrence of both these precondition leads to the contractual organization of input known as “classical capitalistic firms”².

Jensen and Meckling, building on Coase’s and Alchian and Demsetz foundations, point to the contractual nature of the firm. The firm is a “nexus of

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² Classical capitalistic firm is characterized by: ‘a) joint input production, b) several input owners, c) one party who is common to all the contracts of the joint inputs, d) who has the right to renegotiate any input’s contracts with other input owners, e) who holds the residual claim, and f) who has the right to sell his central contractual residual status” (Alchian and Demsetz 1971: 783).
contract”. These contractual relations are the essence of a firm and involve not only the employees but also suppliers, customers, creditors, etc.

It is important to recognize that most organizations are simply legal fictions which serve as a nexus for a set of contracting relationships among individuals [...]. The private corporation or firm is simply one form of legal fiction which serves as a nexus for contracting relationships [...] (JENSEN AND MECKLING, 1976: 8-9).

In Jensen’s and Meckling’s view, conceiving of the firm as a nexus of contracts does make little sense to distinguish between an “inside” and an “outside” of the firm, insomuch as there is only “a multitude of complex relationships (i.e. contracts) between legal fiction (the firm) and the owners of labour, material and capital inputs and consumer of outputs” (ibidem). Thus, any rigid distinction between market and firm comes to an end. However, a nexus of contract conception is unsatisfactory, since firms have a dual nature: they are a nexus of “reciprocal arrangements” and a “bureaucratic hierarchy” (EISEMBERG 1991).

Relying on Coase’s seminal conception as well as on the theory of contracts, Oliver Williamson focuses on transaction costs and defines the firm as a “structure of governance” alternative to the market, whose scope is to economize on the costs required to operate in the market. On the one hand, like Coase, Williamson considers market and hierarchies (firms) as “two of the main alternatives”, in turn eligible on the efficiency account (WILLIAMSON, 1979): transaction costs matter and they are either market failures (due to delays or misunderstandings in transaction) and granting-costs that the firm is required to afford to reduce opportunistic behaviour.

On the other hand, turning to the science of contract, in his article Transaction-Costs Economics: The Governance of Contractual Relations, Williamson argues that market transactions are plagued by incomplete contracts and by the development of lock-in among trading partners (Whinstone, 2001). Both, incompleteness of contract and lock-in between agents, yields uncertainty, which gives contracting parties the possibility to engage in opportunistic behaviour. However, relying on internal procurement may as well involve inefficiencies like cost of bureaucracy and low-powered incentives. Thus, firm’s decision to opt for “make-or-buy” products depends on evaluating the efficiency of the two modes of transaction (hierarchies versus market).

If Alchian and Demsetz had identified in the contract a solution to the problem
of moral hazard between input owners (ALCHIAN, DEMSETZ 1971), Williamson recognizes in the contract a possible problem and views an alternative in removing these transactions from the market and in organizing them internally. More specifically in The Vertical Integration of Production: Market Failure Considerations, Williamson states the importance of the internalization of activities between two agents when some environmental events occur: high probability of opportunistic behaviour, uncertainty, transaction-specific investments. Uncertainty makes gaps in the contracts even wider and encourages moral hazard behaviour, thus getting transaction costs positive; opportunism is favoured by uncertainty in the environment and is particularly important for activities involving transaction-specific investments in human and physical capital, insofar as “idiosyncratic” transactions can spur bargaining asymmetries among agents. In particular:

[...] as the specialized human and physical assets become more specialized to a single use, and hence less transferable to other uses, economies of scale can be fully realized by the buyer as by an outside supplier. The choice of organizing mode then turns on which mode has adaptive superior properties. [...] vertical integration will invariably appear in these circumstances” (WILLIAMSON, 1979: 252-253).

The object of the integration is to economize on production (production economies) and transaction costs. Furthermore, Williamson emphasizes the “differential incentive” and the control properties of a firm in relation to the market. Firms have, in fact, the possibility a) to use a wider variety and greater sensitivity of control instruments available for enforcing intra-firm in comparison with inter-firm activities (including rewards and penalty instruments: selective use of employment, promotion, remuneration, internal resources allocation), b) to solve intra-organizational conflicts by means of fiat, which can hardly be done on inter-organizational level: c) to recur to internalization on account of economies of information exchange, in order to avoid information asymmetries mostly due to structural differences between firms and market.

More broadly, vertical integration permits a) reducing the uncertainty of incomplete contracts between firms (supply-buyer relationships); b) solving metering problems posed by the ambiguities in transaction; c) overcoming price

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3 “Highly idiosyncratic transactions are ones where the human and physical assets required for production are extensively specialized, so there are no obvious scale economies to be realized through inter-firm trading that buyer (or seller) is unable to realize himself (through vertical integration)” (Williamson 1979).
discriminations and entry barriers (anticompetitive consequences) d) making adaptation possible in a sequential way, without revising inter-firm agreements; e) getting price adjustments and quantity adjustments more adaptable.

### 3.3 Market Structure

If firms can be thought of as socio-technical organizations, consisting of “nexus of contracts” superseding market transactions in exchange for major control in the allocation of resources, firms themselves do not act in a vacuum. Market constitutes the spatio-temporal horizon within which inter-firm relations take place. The nature and the intensity of these relations shape the market’s structure and its organization in monopoly, oligopoly, monopolistic competition and clusters.

#### 3.3.1 Monopoly, oligopoly and monopolistic competition

According to economic science, market is the junction of conflicting agents – customers and entrepreneurs – and constitutes the framework within which prices are established. Although difficult to be univocally conceptualized, market can be defined as the place (and the event) where sellers offer their goods or services in exchange for money from buyers, by settling contractual conditions (MOCHÓN 2007). In simpler words, market is the meeting of supply and demand.

Market structure, where firms act and businesses take place, including price mechanism, mainly rely on two elements: the number of agents and the nature of product/service to be exchanged. On the one hand, based on the quantity of agents, markets can be defined as ‘atomized’ or ‘not atomized’ ones: atomized markets are characterized by a great number of agents, whose individual decisions do not affect the behaviour/business of the others. Within atomized markets, individual agents ‘take’ rather than decide prices and act in a context of perfect competition. Within ‘not-atomized markets’, instead, a few agents are able to influence prices and the behaviour of other agents in a not-competitive or little-competitive way.

On the other hand, according to the nature of product/service, we can distinguish between: ‘pure markets’ when the products/services exchanged are
similar or standardized – in this case products/services are perfect substitutes for each other; and ‘imperfect markets’ when the products/services are specific (in origin, transaction conditions, quality), not homogeneous and not alternative. To be more precise, products/factors/services can be said specific (differentiated) on three accounts: technical/physical attributes, design and image, agent.

Neoclassical economics focussed on the concept of perfect competition emphasizing the inability of agents to affect price balance because of the standardized product they offer and because of the size of firm/consumer, too small relative to the whole market. Supply and demand balance is established by the market mechanism while firms are only able to decide on the quantity of goods they can afford producing. Quantity will not affect the price. What is more, perfect competition markets are characterized by a great number of sellers and purchasers, low entry barriers, homogenous product, taker-price firms, information symmetry.

Perfect competitive market played an important role in the economics history. However, by early 20th century, many economists found out that the conditions over which markets really function are, more often, best referred to as imperfect competition. Imperfect competition markets are markets where firms/producers are few and enough big to affect the price mechanism. Production costs and high entry barriers are the main factors that can prevent a massive number of firms from entering the market. More specifically, scale economies and decreasing costs let big firms produce at lower cost than those of small or medium enterprises. Entry barriers include legal restrictions (licence, administrative barriers), technological barriers, product differentiation and, more generally, high entry costs.

As regards the number and the size of the agents, the level of concentration among competitive firms and the level of differentiation of their products, the economists conventionally classify imperfect competitive markets in: monopoly, oligopoly and monopolistic competition. Monopoly constitutes the extreme case of an imperfect competition where just one seller dominate the entire sector, just one firm offers an highly differentiated product which has no substitutes. Monopolistic firms play an important role in establishing the price level of its market, in so much as its demand curve is the demand curve of the market. In other words, monopolistic firms directly affect price and quantity of product mechanism, since its market power let it
decide whether increase or decrease its product prices (which are usually higher than in a perfect competition market). Monopoly is the opposite of a perfect competition. However both, monopoly and perfect competition markets, are rather virtual concepts, since in the real world markets are more often oligopolistic or characterized by monopolistic competition.

Oligopoly refers to a market structure within which much of the transactions are realized by few firms, each one able to affect competitor’s decisions through its actions but in turns able to be affected by competitor’s decisions. Producers in oligopolistic conditions can produce either an homogeneous and brand-differentiated goods. What is more, oligopolistic conditions can be spotted both on the demand side and on the supply side, depending on the level of concentration of the group of suppliers or, in turn, of the group of buyers. Bilateral oligopoly, on the other hand, refers to a market where there are a few agents on both sides, so that either suppliers and buyers are able to affect the market. Oligopolistic markets are best defined as characterized by interdependence and strategic behaviour among firms. Since any decision by a firm affects the situation of the others, yielding a reaction from these letters, oligopolistic firms have to take account of this possible reaction. By this way, oligopolistic markets are highly uncertain.

Differentiation of products is the main factor of a monopolistic competition. In monopolistic markets sellers are able to differentiate their own product and encourage customer loyalty, so to act as little monopolists of their own brand. Particularly, each producer can make its own product stand out by focussing on quality or through branding strategies. On the other hand, loyalty programs allow firms a certain power to increase or decrease price level of their product by relying on the value added of its own brand. Since they are numerous (atomized markets), producers/suppliers in a monopolistic competition are not able to dominate the market, as in the oligopoly through cartels or other discrete agreements, and cannot hinder new entrants. For these reasons, monopolistic competition markets have no or low entry barriers. Market share, which each firm in a monopolistic competition is able to afford, highly depends on the number of competitors while its evolution is strictly related to their behaviour. Possible extraordinary profits are not long-term advantages for a firm since new entrants will absolve the existent demand.
3.4 Clusters

Market structure in advanced economies is more often characterized by regional concentrations of firms in industrial areas better known as clusters. Clusters have become object of academic research and economic analysis with Porter’s studies on the competitive advantage of nations. However, cluster conception has evolved from seminal research on firm agglomerations. In fact, the literature on the argument usually mentions Alfred Marshall’s chapter 4 of *Principles of Economics* as starting point for a consideration and an understanding of the cluster. As matter of fact, Marshall spoke of “industrial concentrations” or “industrial districts” rather than clusters, which, according to a later conception, is limited to a specific industry and involve innovation (PORTER, 1999, KRUGMAN, 1991). The model of industrial district defined by Marshall rises out of natural and material factor conditions, so that localization affects positively the emergence of industrial agglomeration insofar as it provides specific resources (linked to the clime or to the soil). Industrial concentration is able to encourage the development of skilled workers and to create a local market. What is more, in Marshall’s conception, localization spurs professional and informational knowledge, stimulates the birth of a series of small enterprises and subsidiary activities which provide big firms with instruments and raw materials, encourages the specialization in a specific branch of productive process and the development of specialized workforce, settling down the conditions for the firms to persist over time and have longer life than isolated enterprises.

Later studies by Porter and Krugman emphasize the role of the geographical concentration of enterprises of the same industry while focussing on interdependence (Porter 1999) and innovation (KRUGMAN, 1991; PORTER, 1998, 1999, 2000). Clusters are “a geographically proximate group of interconnected companies, specialized suppliers, service providers, firms in related industries, and associated institutions in a particular field” linked by complementarities and commonalities (PORTER, 2000), based on “knowledge creation, increasing returns and innovation in a broad sense” (KRUGMAN 1991). The importance of locations of

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economic activities relies on many factors that go beyond the simple availability of natural resources in a particular region, although, more often, the pool of production factors is paramount on an historical account (PORTER 1999). Krugman (1991) states that as of 1970 a new wave of theories in industrial organizations had provided economy with a series of models of imperfect competition, making Ricardo´s comparative advantages and related models, that assumed constant returns, no more viable in the new international economy. Krugman emphasis` is, in fact, on the role of increasing returns in a cluster, the relevance of transportation costs and the emergence of a local market. A simple model of cluster, in Krugman`s terms, functions in a self-enforcing way:

Given sufficiently strong economies of scale, each manufacturer wants to serve the national market from a single location. To minimize transportation costs, she chooses a location with large local demand. But local demand will be large precisely where the majority of manufacturers choose to locate. Thus there is a circularity that tends to keep a manufacturing belt in existence once it is established (KRUGMAN 1991, 15).

Furthermore, besides economies of scale either in production and in transportation, clusters can be defined as regional concentration of interconnected companies linked either vertically (supplier-manufacturer-dealer-customer chain) and horizontally (between firms acting at the same level of the value chain) which engage in competitive as well as in cooperative dynamics among each other by virtue of social and trust relations (PORTER, 1998). The proximity of firms in the same industry creates new dynamics and a social environment which promote a series of economic and technological externalities, among which: encourages specialization, creates the condition for the emergence of a pool of skilled workforce, stimulates technological spillovers, favours exchange of knowledge and information through direct contact and free movement of labour.

Building on Porter`s concept of cluster as a system of interrelated firms competing and cooperating, Zaccarelli (2000) stresses two aspects of cluster competitive advantage: wide set of products and low prices. Both are possible only in what the author defines “complete cluster” where a series of structural-cultural conditions are met in a interrelated, self-enforcing way: high concentration of firms, related industries and supporting institutions (more often in the same town), aggregation of enterprises acting all along the productive chain, presence of high
specialized enterprises and of similar firms, existence of enterprises specialized in recycling the garbage produced by the cluster, cooperation among firms sharing of a same level of technology, an entrepreneurial culture shared by the society. Clusters unable to meet these requirements are said “incomplete clusters” or “developing clusters”, insofar as they are tending towards completion. In Zaccarelli’s view a cluster may also face a declustering process when competition with other firms or clusters leads to the dismantling of the cluster dynamics.

Based on spatial industrial relations among firm-members, Ann Markusen (1996) has described four types of clusters: Marhallian clusters, hub-and-spoke clusters, satellite platform clusters and state-anchored clusters. Marshallian (or Italian variant) clusters are composed of small firms involved in cooperative-competitive relations with each other and in a supplier-producer relations. No firm in this model is big enough to dominate the cluster and only cluster dynamic and common market affect its form and development. Hub-and-spoke clusters comprise few dominant firms which act internationally and are surrounded by a swarm of small enterprises, mostly representing suppliers of raw material or service providers, more often specialized only in one phase of productive process. Small firms are linked to the big ones and depend on their strategy. Satellite platform cluster is a congregation of branch facilities of externally based multi-plant firms (MARKUSEN; 1996) located in a particular area to benefit from government facilities or lower labour costs. Distinctive mark of satellite platform cluster is the absence of any relation between cluster’s firms which only interact with their parent firms located elsewhere. Last type of clusters are state anchored clusters which emerge around a public or non-profit entity – a military base, a university or a concentration of government office – functioning as the “anchor tenant” of the district. Local business structure is dominated by these facilities whose role is likeable to the private enterprises in hub-and-spoke model, although political rather than economic reasons determine their location and cluster economic relations.

However, none of these models fits the spatial organization form described by Porter, which, although simplifying, can be likened to a mix of Marshallian cluster and hub-and-spoke cluster models. Porter, indeed, intends the cluster as a new kind of firm concentration constituted by “in between arms´s-lenght market on the one hand
and hierarchies, or vertical integration, on the other‖ (PORTER, 1998: 79). Furthermore, clusters in Porter’s view are conceived of as a way to intend and organize the value chain alternative to market transactions, where proximity among firms and institutions shape the cluster dynamics, fostering coordination and trust.

3.5 Porter's Model of Cluster

Porter’s cluster concept mainly focuses on two polarities: localization vs. globalization and competitive advantage vs. comparative advantages. Although companies are able to internationally source capital, goods, information and technology, thanks to increasing global markets and faster transportation and communication, localization still matters nowadays as regards competition. Comparative advantage models are no more tenable, as local endowments can be easily replaced by outsourcing, and competition mainly rests on high rates of productivity and innovation, whose reach, in Porter’s view, mostly relies on specific forces and cluster relations, functioning as a system. “What happens inside companies is important, but clusters reveal that the immediate business environment outside companies plays a vital role as well‖ (PORTER, 1998:78).

More broadly, in Porter’s terms, being part of a cluster allows firms to better access to employees, suppliers and specialized information. Clusters make it possible complementarities among interrelated activities and businesses (for example, tourism clusters would benefit not only from the natural attractiveness but as well from restaurants, hotels, shopping and so on), clusters enhance companies ‘ability to innovate, allow enterprises to promote and develop new businesses, spark technological upgrading, creating the conditions for the emergence of a pool of specialized skills and workers.

According to Porter, local business environment plays a paramount role in structuring the competitive advantage either at national level and across national borders. In The competitive advantage of Nations (PORTER, 1990), Porter had stressed the importance of location as source of competitiveness in the global economy. Nation can shape firm’s ability to innovate in terms of technology and processes; it is the location that, in ultimate instance, yields the competitive
advantage. However, taking distance from Marshal conception and classical theory of economics, he argued that a nation prosperity does not depend any more on the local availability of natural resources but on the capacity of firms to perform high rates of productivity, technological innovation, differentiated products and scale economies. What has changed in the globalized era is not the importance of location but the source of competitiveness itself which now stems from microeconomic conditions of the business environment. Competitive advantage arises from a combination of national circumstances and firm’s strategy. Indeed, avoiding macroeconomic understanding of national competitiveness and government interventions (exchange rates, financial aids to national or state enterprises, etc.), Porter links competition to the pressures exerted on the entrepreneur by forces such as high local business rivalry, aggressive suppliers, exigent customers. Along with cooperative linkages between firms and related industries in the cluster, these forces, by acting as parts of a unique cluster system, are able to shape the competitive advantage of a nation.

However, although focussing on cluster relations, i.e. on geographically concentrated companies (nation-state or region), the global dimension is never disregarded in Porter’s conception. In Location, Competition, and Economic Development: Local Clusters in a Global Economy, Porter states that “clusters cannot be understood independent of a broad theory of competition and competitive strategy in a global economy” (PORTER, 2000: 16). Indeed, if competition is based on productivity, international markets may allow nations to specialize in those sectors whose respective industries perform better, alias are more productive. What is more, international markets can make companies yield innovation by capturing particular needs that lead them to anticipate trends or perceive new market opportunities. To the comparative advantage based on national availability of determined productive factors, Porter substitutes the competitive advantage theory based on the “diamond” system.

3.5.1 Cluster Diamond And Global Strategy

In Competing across Locations. Enhancing a Competitive Advantage Though a
Global Strategy, Porter had emphasized the need for a global strategy in particular businesses. Strategy is here defined as the ability of a firm to create buyer-values all along the value chain activities (at firm’s as well as at industry’s level), through either performing the required activities at lower cost than the rivals or performing some activities in a unique way (product differentiation). More broadly, a new strategy may apply for levels of product, processes, new marketing approaches, new ways of training and organizing the business. It may involve serving a new (niche) market or attending the same target but in a different way (i.e. after-sale support).

In Porter’s conceptualization, a global strategy requires firm’s positioning either at national and international level and comprise either decisions on comparative advantages (i.e. choosing the location with the most cost-effective pool of raw material and workers) and on competitive advantage (i.e. choosing the country with the most attractive environment for productivity and innovation) as a way to capture local advantages, compensate specific disadvantages and to penetrate new markets. International presence implies creating an international brand, settling international trading channels and, more importantly, coordinating and integrating the worldwide dispersed activities in order to obtain scale or knowledge economies, benefit from a coherent brand-reputation and serve international clients.

However, a global strategy should combine the role of both location and a global network of activities. Indeed, while for global companies a spreading out of their value chain activities across countries is required either on cost-beneficial and logistic account (for example, the need for distribution and seller activities to be close to customer’s location, as well for the company to better understand customer’s requirements), every global strategy, Porter states, starts with some local competitive advantages based on company’s competitive position in its own countries.

Turning to examples of global companies like the Danish Novo-Nordisk Group, Japanese Honda and U.S Hawlette-Packard, Porter shows how, although globalized and globally recognized, these firms tend to locate the most strategic activities of value chain in their own home-country in order to gain a global competitive advantage from their home base strategic positioning. The reason is that the quality

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5 Porter distinguishes between “multidomestic industries”, that are present in many countries and compete on a country-by-country base with few or no linkage among them, and “global industries” which compete globally. Thus, a unique global strategy is necessary only for the latter.
of local environment may (or may not) favour such conditions for the arising of competitiveness and competitive advantage.

If in *The Five Competitive Forces That Shape Strategy*, Porter identifies the determinants of competition at inter-firm level (industrial structure), stressing the importance of firm positioning within the industry, and pointing to the five forces that affect the way companies set their strategy and compete (the bargaining power of buyers, the bargaining power of supplier, the threat of new entrants, the threat of substitution and the rivalry among existent competitors), in *The Competitive Advantage of Nations* he goes further to determine the competition on a broader context, namely at cluster level, by highlighting four aspects of regional environment which may affect innovation and productivity: factor conditions, demand conditions, the context for strategy and rivalry, relating and supporting industries. In Porter’s theory, these four areas, shaping the diamond system, constitutes the fundamental drivers of a cluster on a microeconomic level.

*Factor conditions* refer not only to the initial availability of specific natural resources but also to factors of production, such as skilled workers or infrastructure. However, while outsourcing nowadays has diminished the importance of local inputs, local environment can matter as regards to stimulating inter-firm competition and new businesses. If plenty sources and natural characteristics may be important in the formation of a cluster, poor factor conditions, as well, may become a strong incentive for companies to improve and innovate. *Demand conditions* are related to domestic market composition. Domestic market is able to make industry competitive at international level insofar as “the home demand gives their companies a clearer or earlier picture of emerging buyer needs and [...] demand buyers pressure companies to innovate faster and achieve more sophisticated competitive advantages than their foreign rivals” (PORTER, 1990, 82). The more exigent the domestic customers, the bigger the competitive advantage of the industry in relation to particular needs or requirements.

*Related and supporting industry* involves the presence in the cluster of interconnected industries competing internationally. More specifically, Porter refers to internationally competitive home-based suppliers able to yield advantages in downstream industries in terms of cost-effective inputs, of innovation support and
working relation proximity (short line of communication, rapid and constant flow of information, exchange of ideas). What is more, exigent companies may require higher production standards from their own suppliers in order to compete internationally, thus sparking improvements and innovation among related enterprises. In addition, universities, research centres and supporting institutes may prove beneficial, as well, insofar as they provide new technologies and process innovations. Firm strategy, structure and rivalry regards the inter-firm context of a specific geographic concentration, its composition and the size of their enterprises. Porter sustains that the specific structure of an industry mostly relies on national circumstances (ex. Italian small-medium size companies operating like extended families) while competition and rivalry depend on individual motivation and ambition. “Nations tend to be competitive in activities that people admire or depend on – the activities from which the nation’s heroes emerge” (PORTER; 1990, 84). What is more, a competitive environment is self-enforcing and encourage evolution and innovation, since companies are required to meet even higher standards in order to tackle competition.

Each of these four factors acts individually and as a system in a self-enforcing way, yielding a cooperative/competitive dynamics among firms, both vertically and horizontally all along the production process. Cluster, as well, spurs concentration in a feed-backing manner: on the one hand, firms proximity stimulates innovation and upgrading, making the industrial agglomerate more competitive and attractive for new companies and new businesses; on the other, the emergence of new companies and businesses, in turn, increase even more the industrial concentration in a specific region. The existence of a leader in a cluster may positively affect the diamond dynamics. Leaders have a long-lasting view of their business, are able to face new challenges and pioneer innovations. They exert pressure to stimulate competition and, more often, compete in the international arena. What is more, they have the power to improve the environmental conditions and encourage governmental policies.

Government, too, plays an important role in fostering national competitive advantages, though in Porter’s view it should abandon its direct involvement in the economy. Overcoming the classical opposition between interventionist government
and free market, Porter maintains that the role of government should be that of catalyst and challenger. Through its policy-making activity, government must favour the playing of the free market among firms, letting the market and the companies act in its own way without directly interfere in them. Government can prove beneficial for the cluster and the national competitiveness only by promoting and stimulating domestic rivalry, innovation and demand through providing industries with infrastructures, education institutes and better working conditions.

In Porter’s theory, globalization and localization are not poles apart or mutual exclusive elements but constitute two terms of a same strategy: on the one hand, presence in global market depends on local conditions ability to shape the competitive advantage while, on the other, local environment can benefit largely from a global strategy, since local companies, competing internationally, act as bearer of novels in customers’ needs as well as in products and processes. The cluster diamond, therefore, can be a very useful lens to meter and, eventually, clarify the level of internationalization of a specific industry.

It is within this theoretical framework that is possible to re-read the Theory of Regional Development (Teoria do Desenvolvimento Regional) that has led Brazilian government to identify, into each state of the Federation, the “region” as unit of analysis – provided with political, economic and socio-cultural significance – for local industrial development, and as locus for industrial organization and innovation, better known as APL, Arranjo Produtivo Local (IPARDES 2003). The importance of the APL, clearly designed on the cluster concept and reflecting the geographically concentration of firms and industries that characterized the Brazilian industrial development, resides in the attempt to foster the Local Systems of Innovation (IPARDES 2003) which may make regional development sustainable through cooperation among research institution, technological innovation and companies. The idea of regional development emphasizes the importance of localization, largely stressed by Porter as starting point for an analysis of nation competitiveness, and proposes an articulation of the local to the global, which accentuates rather than homogenize the differences between countries and, even more, between the areas (regions) of a same nation.
3.6 Economic development and market structure in Brazil

Brazil has become one of the biggest economies in the world in the latest years, recording a 1.6 billion euro GDP in 2011. According to Banco Central do Brasil, only in 2011 Brazil received 53,36 million euro Foreign Direct Investments, which made the nation the fourth place in the world ranking for FDI destination (PONZÊ, CRUZ, 2012). Today Brazil has a strong economic base, with a solvent public sector, a limited public debt, a solid financial system and a robust domestic market. Industry accounts for 26,82% of GDP, with agriculture representing 5,7% and services 67,41% (IBGE 2011). However, regional economic development has been different all along the country, depending on historical account and factor conditions. European colonization, indigenous people and African descendents paved the way for a mix of cultures in Brazil which today reflect regional peculiarities as regards culinary art, dance, religion, fashion and patterns of consume.

As of colonial period, Nord-East region of Brazil flourished in agriculture and agribusiness, the means of production being mostly concentrated on the coast where the agro-exporter sector prospered while interior territories remained mainly poor. After the sugar crisis in the 17th century and the beginning of the mining activity in the early 18th century, the political and economic axis changed and Southern regions acquired more importance. In the 19th century, the growth in coffee production and exportation largely benefited the region around Paraíba state. However, in the first decades of the 20th century, after the decline and the collapse of coffee economy, the region between São Paulo and Rio de Janeiro became the main industrial area of the country, recording high growth rate of productivity and receiving immigrants either from Europe and from the North-East region of Brazil, which, in turn, continued to be mainly linked to agriculture and farming (FURTADO 2000).

Industry structure initially evolved in Brazil doublimg, among national states, the center-periphery relations that the country had with the developed world, with the São Paulo’s economy imposing a national division of labour similar to the classical international one, and patterns of import-export which reproduced the Singer-Prebisch thesis on the deterioration of trading terms. Today, although several governmental plans have tried to reduce industrial disparities and spur integration and a harmonic
regional development, the trend being localization and concentration of productive activities in order to gain competitiveness (IPARDES 2004), the majority of industries and large plant enterprises are located in Southern states, including Sao Paulo, Rio de Janeiro, Belo Horizonte and Minas Gerais, while North and North-East regions mainly base their economy on soil sources and transformation of agricultural products (FURTADO 2000).

Paraná is the fifth richer state of Brazil after São Paulo, Rio de Janeiro, Mato Grosso e Minas Gerais (IBGE 2010). Although its economy historically relies on agriculture (main productions are today sugar cane, wheat, corn, soy and coffee) – the state gained a national importance after the introduction of coffee plantations in the early 20th century and remained the biggest producer in Brazil till 1970s – and on farming (IPARDES 2013), the industrial sector, initially bound and limited to the transformation of agriculture products, has strongly developed in the latest decades after the massive investments made in metal industry by multinationals like Volvo (bus and tracks), Volkswagen/Audi, Chrysler e Renault, Bosch, which have significantly changed the industrial structure of the state, after the 60’s and 70’s attempts to evolve from an agriculture-based industry through diversification and infrastructures, and 80’s bids to pass from the production of non-durable goods and intermediate inputs to the production of capital and durable goods (GUALDA et al., 2004) and high value-added products (IPARDES, 2003).

Today, the industrial structure of Paraná, besides multinationals and cooperatives, mainly relies on specialized firms agglomerations (small and medium enterprises) geographically distributed in regions and micro-regions (IPARDES 2003; TRINTIN 2006): Northwest region of Maringá-Cianorte (garment); Metropolitan Region southern Curitiba (electronic and metal industry); Ponta Grossa-Castro and Guarapuava-Pitanga-Palmas (pulp and paper); Londrina-Combé (plastic); Paranavaí-Londrina-Maringá (food and drinks); Paranavaí-Cianorte-Toledo-Foz de Iguaçu (mineral no-metal products); Maringá-Apucarana-Londrina-Curitiba (furniture). In addition, Paraná’s exports composition reveals the importance of the farming sector

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6 In terms of PIB. Source: IBGE. http://www.ibge.gov.br/home/presidencia/noticias/imprensa/ppts/00000010951411192012143722664331.pdf
in the economy: Paraná mainly exports are agro-related products (especially soy, bagasse, chicken meat, beef, wheat, sugar cane, coffee), wood components, agriculture by-products (including agriculture machinery) while importations relies on motor vehicles, car components and oil (although an important part regards as well farm-related products). Its export volumes have been increasing over last decade. However, its trade balance has registered negative figures in the last two years *(Development, Industry and Foreign Trade Minister/ Ministerio do Desenvolvimento, Indústria e Comércio Exterior)*.

4. **Case Study: The Garment Cluster Of Maringá-Sarandí**

Brazilian clothing market mainly evolved from micro, small and medium enterprises geographically concentrated in regions and micro-regions. The cluster of Maringá-Sarandí is a good example of it. In the present research, the fashion district is assumed as case study. Its analysis is contextualized by a brief overview of the Brazilian textile and apparel market and its figures.

4.1 **Textile and apparel market in Brazil**

Textile and garment market in Brazil largely developed in the 70s and 80s of the last century and faced a general restructuring in the 90s following the process of globalization which imposed big investments and technological upgrading, leading the sector to the current configuration *(PONZÊ, CRUZ, 2012)*. Today apparel market in Brazil accounts for 3.5% of national PIB and represents one of the most dynamic and competitive markets with over 50.000 firms, mainly comprising *(Sindvestuario-SP, 2011)* small (77%) and medium (20%) enterprises while big firms are very residual (only 3%). Clothing industry involves the greatest number of enterprises and employs about 79% of total employees in the sector *(PONZÊ, CRUZ, 2012)*.
Brazil is today the 5th major producer of textiles in the world, the 2nd major producer of denim and occupies the 4th place in the world ranking for clothing production. What is more, it is leader in beachwear, jeans-wear, home-wear and lingerie. However, its exportation rates are very low (about 1% of the national production). Brazil’s principal country of imports is China, which accounts for 58% of total imports, followed by India (7,8%), Indonesia (6,2) and US (3,7), while its main partner for exports is Argentina (34%) followed by US (10,4 %), Venezuela (7,5%) and Paraguay (7,3%). In terms of macro-regions Brazil mostly trades with Latin American countries (72%), US (9,9%) and Europe (7,7%).

National garment market is characterized by the existence of regional agglomerations of small and medium enterprises, mainly located in the South and South-Eastern states. The town of São Paulo constitutes the financial and strategic capital where are located the principal immaterial activities (fashion, design, marketing). The town is host for major national and international brands and controls the majority of productive activities in the country. However, a recent trend, by the major firms, has been delocalizing part of production in North-Eastern regions where lower labor cost and tax relief led to the emergence of new productive poles, like the textile district of Ceará (PONZÈ, CRUZ, 2012). Among the garment clusters, stand out the Tec Tex textile cluster in São Paulo, the knitwear cluster of Monte Siãao in Minas Gerais, the lingerie cluster in Nova Friburgo-RJ, the apparel cluster of Goiás in Goiana, the clothing district of Maringá-Sarandí and Umuarama-Cianorte in Paraná.

4.2 Garment cluster of Maringá-Sarandí

Garment cluster of Maringá-Sarandí is located in the Northeastern region of Paraná, southern Brazil, included in the axis Londrina-Apucarana-Maringá-Cianorte, also known as “Fashion Corridor” (Corredor da Moda) (IPARDES 2004). The cluster comprises about 2190 among micro, small and medium enterprises specialized in garment confection (including weaving, knitting and sewing), hat production, textiles, apparel accessories, and mainly concentrated in the metropolitan region of Maringá-Sarandí, which totally counts 29 city councils. Of the 2190 enterprises of the region,

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about 600 are apparel firms associated to SINDVEST-Maringá, the coordinating body of the district which regularly gathers local entrepreneurs. The supply chain of the cluster includes laundry and storage firms, embroideries, equipment providers, consulting, commercialization, production and service providers. According to SINDVEST-Maringá, firms in the cluster account for 78% of the total in garment confection and 22% in service providers. Apparel production mainly involves jeans-wear, shirts, fashion for men and women, child fashion, clothing for pregnant. However, the cluster stands out in the segments of fast fashion, lingerie, fitness and beachwear. Clothing industry account for 7,021 employees which represent the 23% of the total employment in the region (IPARDES 2013b). According to a research conducted by IPARDES (IPARDES 2004), apparel industry is one of the principal generators of employment in the state of Paraná but ranks one of the last places for value-added production (only 7.7% in 2002).

The emergence of Maringá cluster is strictly linked to the recent history of urbanization in the region, whose facts date back only to the 40s of the last century, when several families, from the interior of São Paulo, moved to the northern Paraná, lured by the chance of better conditions in agriculture. The economy of the region evolved from coffee cultures, which following the economic history of Paraná, flourished up to later 1970s, when a great frost caused an abrupt collapse in the related economy spreading a large unemployment throughout the sector. As consequence, most of entrepreneurs and fieldworkers began to invest in the confection industry, buying sewing machinery, settling factories, employing no-skilled workers who rapidly acquired expertise (IPARDES, 2003). Over the decades, council support and the emergence of sector-related and educational institutions encouraged the settling down of new firms, backing the consolidation of enterprises relations and cooperation, in so doing, spurred concentration.

The garment cluster of Maringá-Sarandí grew out of the specialization in the fast-fashion and ready-to-wear production, which implies for the firms an orientation to rapidly identify the seasonal fashion trends in order to reproduce them promptly. Over the years, however, several firms evolved and gained the capacity to adapt the trends coming from Europe with its own brand identity. In some cases – especially in the segments of lingerie and beachwear – they acquired a national reward. Today
the cluster counts with numerous fast-fashion enterprises and a small group of firms which work out their seasonal collections in advance and with a restricted lead time.

In the 1990 the SINDVEST (*Sindicato da indústria e vestuário de Maringá*) was founded with the scope to represent the sector and leverage the productive potentiality of the firms, in order to put them through new market possibilities. Since its constitution, the SINDVEST-Maringá has been responsible for the birth of several graduate and post-graduate fashion courses in universities and private institutions of the region and for the creation, among other things, of several events that have been bringing the cluster all over the country\(^{10}\): competitions (Talentos da Moda Paranaense – Paraná Criando Moda), fashion shows, and even, recently, a volley team (Moda Maringá). Today, it is the most important and dynamic institution of the sector and acts as referent of private and public bodies at local, regional and national level.

According to SINDVEST-Maringá, the cluster produces over seven million pieces per month, with over 100 million dollars sales annually. Most of this production is commercialized through the 5 wholesale shopping malls located in Maringá: Mercosul, Vestsul, Portal da Moda, Avenida Fashion, Pérola Park.

5. **Research outcomes**

In this section, research outcomes are presented graphically. The analysis was mainly based on live interviews with firm’s owners and managers. Between August and September were interviewed 20 among micro (5), small (7) and medium-size (8) apparel firms\(^{11}\) in the city councils of Maringá and Sarandí, which represents the 3,3\% of the about 600 firms established in the region (IPARDES 2013b). However, by assuming the IBGE (2005) data on the composition of Brazilian Industry consisting, to a very large extent, of micro firms (97\%) and, minimally, of small (2,6\%), medium (0,5\%) enterprises, the sample adopted in the research is very

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\(^{10}\) From the website of the SINDVEST: http://www.sindvestmaringa.com.br/site/home.

\(^{11}\) In order to distinguish between micro, small and medium enterprises, the study turned to the method adopted by the SEBRAE (*Serviço de Apoio a Pequena e Média Empresa*) based on the number of firm’s employees: micro from 1 to 20; small from 21 to 100; medium from 101 to 500; big behind 500.
representative of the small and medium apparel firm’s universe, while the study does not contemplate the home-workers which as well are relevant in terms of third-party enterprises.

In the following sections, each diagram refers to one of the four factors constituting the Diamond Model of Porter, whose items delineate a systemic understanding of the cluster environment. Each point in the diagrams identifies the firm’s position as regard its perception in the cluster environment.

5.1 – Perception of Related and Supporting Industry

First diagram shows the firms’ awareness about the existence in the cluster of vertical and horizontal relationships among enterprises and between companies and related industries. Through the questionnaire, firms have been required to make their judgment about four topics: grouped or isolated firms in the cluster, governance, presence of local suppliers and related industries, export-supporting activities.

Generally, the firm’s perception over being localized in a cluster environment is felt as an advantage as regards spillovers in terms of technological skills, marketing innovation, information flows and cooperation between companies. However, cooperation happens more at vertical than at horizontal level where prevail individualistic behaviours. The presence of a group of bigger and older firms (like Recco, Scalon, Mondress) has led over time to stable and flexible relations between branded firms and a series of subcontracted companies located in the cluster, although, more often, bigger firms diversify their relationships according to the needs and the competencies required.

Cluster environment has fostered the emergence of local suppliers (third party confection enterprises, embroideries, finishing and dyeing firms, laundries). Nonetheless, supply chain go behind the cluster perimeter, due to the very residual presence of textile industry in the region. Thus, the majority of garment firms outsources fabric procurements by turning to a representative office located in the cluster or buying them in the near regions (especially in Santa Caterina, Sao Paulo, Rio Grande do Sul). In some isolated cases, firms import fabrics and semi-finished items from China and other Asian countries, making the cluster have longer
enterprise networks.

Firm's position in the diagram shows a certain commonality of views among them about the importance of related industries and supporting institutions. Entrepreneurs perceive the existence of cluster relations and recognise that the environment counts and actually affect the way they act. However, this perception is more linked to the recognition of cluster's structure and institutions which shape its governance, than to the real experiencing of strong labour inter-firm relations between the various actors of the district (in few cases, this perception is near to zero or even negative).

Diagram 1: Firms’ position over their perception about the existence of related and supporting industries in the cluster of Maringá.

Source: Research by the authors/2013.

The presence of a series of supporting and training institutions (like SENAI, SEBRAE, SESI)\textsuperscript{12} and universities is perceived as highly beneficial to the cluster and in some cases the entrepreneurs expressed the need to improve their role.

\textsuperscript{12} SESI is the acronym for Industry Social Service, a Brazilian institution aiming at raise the life quality of workers through actions in education and work environment; SENAI is the National Service for Industrial Education.
Conversely, tourism industry is regarded of scarce importance for apparel business, since sales are not affected by the affluence of tourists to the region. The absence of any interrelation between hospitality and garment industry in the region can be explained with reference to the specific organization of the distribution channel, mostly based on wholesale shopping malls and independent sales representatives.

The relative proximity of firms in the diagram reveals as well a shared attitude towards internationalization, whose degree is very low or inexistent. Although national programs and institution like ABIT, APEX and PEIEX arrange various initiatives for the promotion of firms abroad, the majority of them has declared not to participate to international fairs or related event in other countries, preferring to focus on the domestic market. Only some enterprises (mostly belonging to lingerie and beachwear segments) already export to other Latin American countries (Paraguay, Argentina, Bolivia) and Caribbean, a few of them have trading relations with United States and a very few with Europe (Italy, Switzerland, Portugal, Greece).

While the share of exports outside Brazil is residual (in the best case it accounts for the 5% of the firm's production), none of the firms interviewed limits its sales to the region or to the state of Paraná. Their products are more often present in other Brazilian states, thanks to a network of agents and sales representatives dispersed over the national territory. In the few cases in which the firm acts in the international markets, the interactions with foreign buyers happen through commercial partnerships based on the seasonal demands and flexible relations rather than on binding contracts. On the other hand, firm’s presence in other national markets rarely relies on franchising or a network of owned stores. However, more dynamic firms expressed their intention to improve their presence and visibility on international markets through logistic reorganizations and marketing activities.

To sum up, the diagram shows that there exists a camp of interrelations and mutual affecting forces, even thanks to the well-structured governance shaping the cluster and constituting a strength and an advantage. However, the nexus of relations is too weak and this often makes a firm not fully distinguish between market and rival enterprises in terms of competition and make-or-buy decisions. An optimal position would show firms concentration in the top-right area of the diagram.
5.2 – Perception of Firm Strategy, Structure and Rivalry

In this section, firms expressed their opinion about: firm logistic, brand strategy, cluster structure and composition (branded firm vs. unbranded enterprises), product developing strategies, interdependence of productive process, market-oriented vs. product-oriented behaviour. As said before, the cluster of Maringá-Sarandí does not comprise the textile supply chain and the firms have to outsource. However, the value chain of the clothing industry is mostly localized in the cluster where are concentrated the productive stages with higher value added. Firms tend to maintain centralized the activities related to production, design, marketing and distribution. In some cases, part of production is subcontracted to other enterprises located in the region and, to a small extent, to firms external to the cluster.

Diagram 2: Firms’ position over their perception about Firm Strategy, Structure and Rivalry in the cluster of Maringá

Source: Research by the authors/2013.

Although numerous enterprises have developed their own product lines, the majority of the firm located in the cluster work on third party for bigger companies of the region which commercialize the collections with its own brand. Outworkers and
subcontracted firms mainly serve local clients and, by this, they tend to slightly diversify their portfolio. While at cluster level, marketing strategies for the promotion of the district throughout Brazil are constantly developed by the SINDVEST-Maringá, the majority of branded firms, though regularly investing in marketing activities, have not already developed effective strategies of differentiation both at national and international level. They are mainly fast fashion firms, capable of identifying and following the trends but unable to generate them. Only a restricted number of older firms has been able over the years to develop and consolidate its own brand identity, by combining product innovation (design and fabric) and consistent marketing strategies, in some cases even through differentiating product lines in accordance with different targets (like Contradição Group, which holds three brands: “Contradição”, for sophisticated and exigent women, “Carolina Keller”, for women’s fashion expressing the typical Brazilian spirit, and “Glory”, for kids). However, the cluster does not count with a brand internationally recognised.

The diagram above shows that the firms actually perceive to act in a competitive environment (firms’ perception level is in all cases above the zero line). However, the structure of this rivalry is weak and this affects competition. The weakness of the competing forces is mainly due to the fact that the majority of firms struggle to put in action effective marketing strategies: only a few competing firms have developed a coherent strategy of differentiation all along the value chain (product, design, branding, distribution) and today they can be regarded the leaders of the cluster. However this competition, since limited to firms acting locally and not globally, do not constitutes a real pressure and incentive for the firms to evolve. Stimulus to invest and raise volumes of production (in order to gain better economies of scales and to export part of the production) exclusively relies on the entrepreneur’s ambition, as the domestic market is considered enough big to absorb its own production. Inter-firm relations count but very rarely they are perceived as a real threat to its own business: in this sense the rivalry perceived among the firms of the cluster is not higher than the rivalry the firms, generally, perceive in the market.

As in the previous diagram, this one, as well, demonstrates the weakness the forces shaping the cluster environment. The structure of rivalry internal to the cluster is weak and prevail individualistic behaviours which tend to attenuate competition. In
some cases, the presence of other industries operating in the same sector is merely indifferent. An optimal position would show firms concentration in the top-right area of the diagram.

5.3 – Perception of firms about Factor Conditions

The diagram shows the firm’s perception about the following topics: availability/training of skilled labour, collaboration between enterprises and research institutions/universities, access to credit, degree of outsourcing. Outsourcing in the cluster of Maringá-Sarandi mainly regards textiles and fabrics, while labour force mostly comes from the region. Based on its specialization in garment confection, the district is labour intensive, being the production (drafting, cutting and sewing) mostly concentrated in the region with only sporadic episodes of decentralization in other areas. The shortage of local skilled labour has been emphasized by all of the enterprises interviewed, that mainly stressed the low attractiveness of the industry at lowest levels, especially for the new generations and in terms of salary, which tends to drive workers towards higher-rewarded sectors (metal sector, etc.).

Enterprises usually prefer to train workers internally through constant formation programs with the scope to raise the loyalty of their employees – both specialized competencies and skilled workers – rather than attract from outside competencies as informal way to access to innovation. The attitude of employing external competencies is more evident for managerial roles. Indeed, an element worth emphasizing is the issue of generational passage and familiar governance: though the modest dimensions of the enterprises and the presence, often, of relatives occupying managerial places, several entrepreneurs, as long as their enterprise grew and its organization became more structured, made the choice not to limit the activity to the familiar perimeter, hiring external personnel also for high-responsibility positions.
This openness has been possible thanks to the emergence in the region of several educational institutions and university courses which form managers and professional competencies. Cooperation between firms and training institutions is long-lasting and well-succeeded, with internship programs aptly shaped for undergraduate student of fashion courses, conferences and training courses for fashion industry professionals, journeys to the European capitals of fashion for manager and entrepreneurs. An important role is played by SEBRAE and SENAI for training courses and by SINDVEST, either as promoter of specific projects and intermediary between university, research institutions and industry.

The shortage of skilled workers and, generally, the difficulty to find among the new generations the labour force needed for the garment confection industry is a serious problem, which can prove harmful in the next generational passage when mature workers will be retired and it will lack the proper turnover. However, the low level of perception shown in the diagram reveals the scarce consideration of factor conditions in the creation of a competitive advantage. An optimal position would show firms concentration in the top-right area of the diagram.
5.4 – Firms’ perception over Demand Conditions

Demand conditions refer to the nature of home market clients, whose needs, whether particularly exigent, may constitute a strong incentive for the firms to innovate and compete both locally and internationally. Interviewed enterprises expressed their opinion about the following topics: *client/customer profile*, *brand loyalty*, *product innovation*.

The diagram shows a very low level of perception and for most of the firms their attitude in dealing with each of the issues expressed by the topic is vague and imprecise (0 point on the graph). In some cases the level of perception is positive (more than 1) but does not go behind 7 (in a scale ranging from -24 to 24), and in a few cases the figures are even negative. For negative figures, firms fail to recognise their target or have a very approximate idea of who their target is (probably, because the target range is too wide).

**Diagram 4: Firms’ position about their perception of Demand Conditions**

*Source:* Research by the authors/2013.

Interviewed firms recognise that their clients are price sensitive and, as well, very careful to follow the ultimate trends. Targeted clients look for a combination of
quality, design and price. According to the interviewed firms, the brand is an important factor that drives customers to buy, however they seem more lured by design and quality of the clothing. What is more, they like innovation and experimenting new fabrics.

The low level of perception over demand conditions is due to the specific structure of cluster’s distribution which heavily prevent firms from having a direct contact with the final consumer. Commercialization in the cluster is made in three different ways: wholesalers, agents and retail stores. The most part of the garments produced in the cluster is sold through the five wholesale shopping moles of the town (so called shopping atacadistas) where almost each firm has its own store/s. Only after the intermediation of wholesalers, the product arrives to the retail boutique – generally a multi-brand or own branded store, localized in one of the several shopping malls present in the region or throughout the town – which can better know its clients. Out of the region, commercialization happens through independent agents and sales representatives which act as intermediaries between the firm and the multi-brand stores dispersed over the national territory. Only in some cases bigger firms are developing a network of owned retail stores with the scope to reduce their reliability on retailers.

This particular way of organizing the distribution, while on the one hand allows firms to benefit from some complementarities (visiting buyers from outside can see many vendors in a single trip), on the other, it causes firms to have a slight awareness of their ultimate clients. As matter of fact, firms’ customers are the myriad of small retail shops dispersed in the region and behind the state boundaries. This fact makes firms (producers), even if branded, and their relationship with shop owners not different from the relation that, in the global market, characterizes third-party unbranded confection enterprises with big retailers distribution channels (like H&M or GAP). They miss the very relation with the customer, they cannot dialogue directly with him, and this hampers them from developing effective marketing strategies which could raise loyalty and make clients get familiar with their own brand.
5.5 – Cluster's position from the perspective of Porter’s Model of Diamond

As stressed in the previous paragraphs, the model of Diamond has to be understood as a system, in which each of the four factors analyzed above functions individually and as an interrelated and integrated whole. These determinants create the cluster environment where firms act and structure local competitiveness. The following diagram shows the firm’s position over their perception of the cluster environment within a scale ranging from -152 (no clustering or declustering) to 152 (high competitive clustering). Since firms’ perception of the environment affects the way they act and there is no very distinction between firms and the environment they contribute to generate, the concentration of firms in the diagram defines an environment where the forces structuring the cluster system are weak.

Firms are aware to be and act in a cluster (the proximity among them in the diagram reveals, although with some differences, a common attitude towards the cluster determinants). However, their low scoring means a prevailing of individualistic behaviours rather than relationships based on cooperative/competitive dynamics. Local competition is weak and this affects as well local competitiveness. Although the cluster undoubtedly presents a series of strengths, like the existence of a well-articulated governance consisting of several bodies, each one with a specific mission and scope, or the presence of research and educational institutions that each year educate and train professionals of the sector, the bonds and connections across firms and industry – that in Porter’s terms are fundamental to competition, productivity and innovation – are frail. Local rivalry, as well, is negatively affected and, where it occurs, involves imitation and scarce levels of differentiation and investments. In most cases, price is the only (or the most important) variable on which competition takes place.
An optimal position would show firms concentration in the top-right area of the diagram. To understand what could allow enterprises to re-position themselves in the graphs and enhance their competitive advantage, it is worth turning again to Porter’s concepts of localization and globalization, and stressing two important elements: differentiation and internationalization.

On these two determinants, I will base my argumentation in this work. In Porter’s model of Diamond, competitiveness is mostly based on acts of innovation and, in turn, innovation relies on close linkages between buyers, suppliers and institutions located in a same area, what is the proper concept of cluster. Nonetheless, the perspective of Porter is not limited to the local and always implies a further horizon as the external environment which may affect competition and make it dynamic. From the standing point of a dynamic economy, what counts for a cluster’s prosperity is no more the availability of resources and local procurements but the capacity of firms to build a network of relations going behind the cluster perimeter, as
a way to access to external knowledge and innovation. However, this outward openness cannot but go along with the removal of internal obstacles and the deepening of inner structures at firm and inter-firm level (company's logistics and make-or-by decisions). Theories of firms and transaction costs have emphasized the benefits stemming from integration as a way to reduce negotiation costs and opportunistic behaviours. Proximity and trust among suppliers and buyers make these relations stronger and long-lasting, allowing firms to reduce time and transportation costs. In addition, more binding relations between firms and suppliers may raise the productive standards: the so called “comakerships” are the most developed forms of supplier-buyer relationships aiming at achieving a competitive advantage through synchronized supplying, operational integration (suppliers take part in the product development as well as in research investments) and assured quality standards (CIAPPEI, SIANI 2006).

The importance of localization in shaping local competition relies on firms’ differentiation, which, following Porter, is strictly linked to demand conditions: “demand conditions at home have much to do with whether firms can and will move from imitation low-quality products and service to competing and differentiation” (Porter 2000: 22). In the previous analysis, firms’ perceptions over demand conditions have shown how the distance from the ultimate consumers does not allow firms to implement effective marketing strategies. More precisely, the failure in recognising its own target (and the target potentialities) may have negative effects on the firm’s capability to build a strong and differentiated identity. Local demand, if sophisticated and well recognised, can, indeed, disclose new segments of market that may lead firms to new business formation and differentiation. Conversely, laying down on the inertia of a distribution channel, which has become crystallized over the years, is a disincentive for the firms to experiment and find new marketing strategies. In turn, the distance from its final clients fosters laziness and imitation which reverberates back all along the value chain up to the brand identity. Differentiation matters, and it does primarily at local level.

However, differentiation matters as well at international level. If on-price competition is not possible, differentiation (which goes along with a consistent positioning in the local industry) is an important pre-requisite to overcome barriers
and penetrate unfamiliar markets. Firms should globalize in those product lines where they have a unique advantage and can build their competitive success. What is more, firms should globalize in those countries where they can selectively tap competitive advantage of other locations, in terms of sophisticated demand, factor conditions, sources of innovation and technological upgrading. In other words, companies should aim at penetrating those markets which could allow them to improve capabilities and important skills. Globalized firms, or more simply, firms competing internationally, may import innovation, so leading to a cluster upgrading. In addition, once internationalized, they inevitably will be leaders in its own cluster, acting as drivers for raising productivity and enhancing local rivalry and competition. Internationalization matters at local level as well.

International openness counts on labour factor’s account, as well. The shortage of labour force which currently constitutes a weakness of the cluster of Maringá-Sarandi may become a resource if firms are able to attract new competencies from outside. For firms acting in a cluster, indeed, it is easier to create the conditions for talented people to come from other locations, since “a cluster signals opportunity and reduce the risk of relocation for employees” (Porter 1998: 81). Furthermore, employing competencies from other regions is an alternative way to open the cluster to the entry of novelties (new experiences, new knowledge, and so on).

Thus, differentiation and Internationalization are actually the two parts of a same strategy that may prove highly beneficial not only for the single firm but as well for the cluster as a whole, in terms of innovation, information and knowledge spillovers (often, simply through firm’s imitating the best practices of the leaders).

6. Conclusions

The need for a wider participation of the Brazilian apparel market into the international arena is paramount today as a strategy of long run for the raising of country’s competitive advantage in the garment sector. Segments like beachwear, lingerie and jeans-wear constitute the very strengths of the Brazilian apparel industry,
worldwide recognised, and these product lines may drive the internationalization of the sector. However, internationalization is not an overnight change and requires time, investments and long run strategic planning, which hardly fits with the medium, small and micro enterprises constituting the very fabric of clothing industry in Brazil.

Cluster’s dynamics and flexible (vertical) relations it involves may prove beneficial in helping firms get global. Literature on the argument stresses the importance to think as cluster (as system) rather than as single company in order to find a way to overcome the (financial, dimensional, policy) restrictions and achieve other markets and other countries. Cluster entails more flexible relations along the value chain between suppliers and buyers and this constitutes an advantage in a dynamic economy. Furthermore, Porter’s model of Diamond has demonstrated how the cluster system matters, as well, as regards the cluster power to influence local policies and take benefit from it. A look at the biggest retailer chains like Zara and Benetton, which have built *ex novo* real districts of clothing near their reference markets in order to benefit from economies of scale, both in transportation and production costs, gives the idea of the potentialities of the cluster to build an home competitive advantage.

The scope of the present work has been double: to explain the importance of cluster’s relations in view of its internationalization and, from this perspective, analyse the clothing cluster of Maringá-Sarandi in the state of Paraná, Brazil. A strong limitation to a more comprehensive analysis stemmed from the difficulty to persuade micro and small firms’ entrepreneurs to be interviewed and to answer to the questionnaire. Reticence was mainly due to their diffidence towards the perceived benefits from a research of this kind for their business, or to mere indifference. However, this has not impeded to have a clear understanding of the cluster’s dynamics and environment as regards the segment of industry surveyed.

The analysis, limited to the universe of firms examined, has shown a scarce perception of the cluster environment where individualistic behaviours tend to prevail. In addition, the lack of a direct contact with the final client, due to the peculiarity of the distribution channels’ organization in the cluster, according to which firms interact with the retailer or the sales representative rather than with the consumer, hampers producers to model and define its own branding strategy in accordance with its own
target. However, this have not encumbered the emergence in the cluster of a small group of leading firms, very dynamic ones and able to translate, into their own brand identity, corporate values and the ability to intercept current trends and customers' needs. It is not by chance that are these leading firms that have already a network of owned (or franchising) stores in the region and are beginning a process of commercial internationalization.

In the attempt to explain and overcome the research outcomes, differentiation and internationalization have been stressed as the terms of a possible strategy for the cluster to upgrade and be competitive in the next years. As pointed out in the previous paragraphs, these two terms are not poles apart but strictly related and have to be understood within the Diamond system. It is worth stressing that the process of differentiation involves each phase of the value chain, from the product to the distribution passing through the brand identity. Differentiation, furthermore, is consistent with the monopolistic competition that mainly structures the market nowadays.

Recent changes in the global apparel market has shown the importance for clothing and fashion firms to adopt a market-oriented behaviour: market is the main driver of differentiation. Strategies only focussed on the product are not viable any more. A good product is not sufficient to assure high volumes of sales. On the other hand, a market-oriented behaviour implies for a firm not only knowing its own reference market (its composition, its aspirations) but, as well, choosing the best way (strategy) to achieve it. In this sense, distribution channels do matter: clothing firms cannot ignore the strategy adopted by big retailer chains at global level: global networks of franchising or owned stores distributed throughout the capitals or the major towns, strong focus on retail in-stores and on visual display merchandising, as principal medium to dialogue with the client, at home as well as abroad.

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