

# Public-private partnerships for internationalization of services: the case of Chilean architecture industry

Alianzas público-privadas para la internacio-  
nalización de servicios: el caso de la industria  
de arquitectura chilena



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## Abstract

In the last decade, Chile has prioritized export promotion policies for the service sector as a result of global dynamism of trade in services and the need for diversification of the Chilean economy towards higher value-added industries. This study evaluates the results and identifies the factors that explain the

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performance of the public-private partnership implemented in Chile to promote architectural services. The analysis suggests a poor performance, mainly as a result of the inertia on the preservation of strategies developed for goods to intangibles as services, affecting the design and implementation of the programs; also, the private sector presents, among others, collective action and associativity issues that limit the capability to develop market research and business models.

KEYWORDS: Public-private partnerships – internationalization – services – export promotion.

## Resumen

En la última década, Chile ha priorizado las políticas de promoción de exportaciones de servicios como un resultado del dinamismo global del comercio de servicios y la necesidad de diversificar la economía chilena hacia industrias de mayor valor agregado. Este estudio evalúa los resultados e identifica los factores que explican la *performance* de las alianzas público-privadas implementadas en Chile para la promoción de los servicios de arquitectura. El análisis sugiere una *performance* débil, principalmente como resultado de la inercia y preservación de estrategias desarrolladas para mercancías traspasadas a intangibles, como son los servicios, afectando el diseño e implementación de los programas. También, el sector privado presenta, entre otros, problemas de asociación y acción colectiva, que limita la capacidad de desarrollar estudios de mercado y modelos de negocios.

PALABRAS CLAVE: Alianzas público-privadas – internacionalización – servicios – promoción de exportaciones.

## INTRODUCTION

One of the main debates in social sciences regards State intervention in the economy, in which there has been a high degree of consensus that intervention in export promotion initiatives can have positive impacts on development, as they lead to greater economic growth and modifications of exports composition towards products with higher value added. Therefore, export diversification should not only aim to expand them horizontally but also vertically due to the positive spillovers they produced; then, it becomes important to increase export volumes and also diversify them into more knowledge-intensive sectors, characteristic of services. These effects produce an accelerated economic growth, improve competitiveness, productivity and innovation (Hausmann, Hwang et al. 2007).

For many countries, services have been a key mechanism in the process of diversification which has been reflected in the adaptation and strengthening of instruments to build strategic alliances; to join international networks and distribution channels; and to create enabling environments for relocation of companies; among others (Prieto, 2003). In recent years, State involvement to promote services exports has increased in Latin America as a result of the

vulnerability shown in economic growth due to high dependence on its primary products exports, in the context of the fall of commodity prices post the global financial crisis 2008-09; and the positive industrial improvement achieved in East Asia developing economies through government interventions (Devlin and Mogueillansky, 2009; Foxley, 2012).

Literature also argues that State involvement in the promotion of exports is based on the creation of comparative advantages, and correcting information asymmetries and different types of market failures (Copeland, 2007; Lederman, Olarreaga & Payton, 2010). Under this purpose, governments have created Export Promotion Organizations (EPOs) which aim to directly or indirectly influence the matrix and/or volume of exports through promotion policies, meaning that not only the amounts that countries are exporting, but also what kind of exports (Belloc & Di Maio, 2011).

Comparatively, these agencies have frequently used the establishment of public-private partnerships –PPPs– for export promotion. The proliferation of these PPPs has brought the need to study them for the utility they have for decision makers in determining when they are replicable or when policy innovation is needed (Engel, Fischer & Galetovic, 2014). However, most studies have focused on the goods sector considering the volumes they

represent in developing countries' economies (Agosin, 2001; Alvarez & Crespi, 2000; Martincus & Carballo, 2010).

In the case of Chile, PPPs have functioned as a good mechanism for promoting the export of certain goods industries (Agosin and Bravo-Ortega, 2007; Rosas, 2012; FAO, 2013). However, little is known of the impacts on services industries. Hence, this research examines the factors that explain the performance of the Sectoral Brands (PPP) program for the internationalization of the Chilean architecture; with the main objective to identify and assess to what extent the success key factors described in the literature explain the performance of the strategy for promoting services in the diversification of the Chilean economy, specifically the PPP established by ProChile and the Architectural Offices Association of Chile between 2004 and 2014.

The impacts of PPP on export volumes of Chilean architecture have been limited during the period analyzed. This is mainly explained by problems in terms of design and implementation, as both –the public and private sector– did not assume and internalize crucial factors associated with economic, institutional and cultural considerations. The historical institutional behavior prevailed, making them resistant to innovate and to readdress the policy, which resulted overall in a static

program that could not absorb the characteristics of the sector and its logics of internationalization.

The paper proceeds as follows. The first section presents general principles of the development of PPPs in export promotion and the success factors identified in the literature. Then the development of the sectoral brand “Architecture of Chile” is briefly reviewed. In the third section, the variables identified in the literature are contrasted with the case study comprising the analysis of secondary available data and the perception of key actors; leading to the conclusions and new perspectives of studies.

## PPP AS A STRATEGY FOR EXPORT PROMOTION

EPA's targeted policies for export promotion have tended to public-private partnerships since for most countries the productive apparatus is in the private sector; consequently, they have at their disposal market information, for incomplete that it could be, which could be useful to identify opportunities and obstacles towards economic transformation (Devlin and Mogueillansky, 2009). In addition, there are developing countries where PPPs are presented as an alternative for their limited capacity of action in terms of public policies,

their scarce resources and the size of its productive sectors.

However, among those who oppose them, their primary objections focus: first, on the expression “governments cannot pick winners” given the impossibility of accurately identifying firms, sectors or markets, subject to market failures; and second, stating that industrial policy is an open call for corruption. This, because once governments support certain firms, it is easy for businesses to extract benefits from distorting competition and transferring those incomes to politically connected entities, and therefore focus on the exchange of favors rather than focusing on expanding markets and cost reduction (Rodrik, 2000).

In recent years, the discourse on PPPs in Latin America has evolved into what is called an instrument of “modern” industrial policy. In other words, a policy that bases its strategies on a social process of closed partnership between the public and private sectors, where the scope varies depending on the participation of government entities and civil society. Whereas the effective achievement in the selection of sectors and export promotion decisions, the interaction process must be made on the basis of close and systematic cooperation; hence, exporters associations should be strengthened to facilitate this dia-

logue and joint construction (Bonet, 2010; Cutler, 2008).

The need for effective interaction of public-private sectors for innovation and productivity has generated a variety of definitions regarding the role occupied by the State in the PPPs. For purposes of this research, it is used the concept developed by the Organization for Economic Cooperation and Development –OECD– as it is broader in terms of services provision, understanding them as an “agreement between the government and one or more private partners (which may include operators and financiers) under which the private provides a service so that the objectives of government services provision are aligned with the objectives of obtaining income for the private sector and where the effectiveness depends on adequate risk transfer to the private sector” (Alborta, Stevenson et al. 2011).

In the case of PPPs for export promotion of SMEs, the aim is to reduce the cost of the internationalization process, specifically in terms of data. “So, actions performed by export promotion agencies aim at helping firms obtain information, thereby reducing the investment that firms have to make in this area, and ameliorating the frictions to trade across borders. In particular, since the investment when collecting needed data may be suboptimally low because of information

spillovers, these actions may help encounter the disincentives to search generated by potential free-riding” (Martincus and Carballo 2010).

Therefore, PPPs with an associative model emerge as a mechanism of cooperation that seeks to create value through solving common problems caused mainly by lack of scale. By partnering, companies can reduce the individual costs of: penetrating into new markets where incorporating more complex technologies is needed; accessing to information; costs of international certifications; expanding export volumes; favoring competitive prices; improving the negotiating capacity; among others (Liendo & Martinez, 2001; Lozano, 2010). For these reasons, partnering in the service industry for internationalization is fundamental in Chile due to the small size of the domestic market and the possibilities to increase the chances of SMEs integrated into international markets given the high entry barriers that could not be paid for individually. Businesses, in this context, develop a collective effort for the realization of common objectives, which can be very different, from jointly fund research or improving their position in value chains for trading negotiations (MINREL & IDB, 2009; Poliak 2001).

According to López and Muñoz (2011b), when taking into account

the dynamics of interaction between the State and SMEs, various questions arise; first, about which systems of public-private action have been made and what were their results; second, how actors perceive private partnerships with State actor and vice versa; and, how the State planner perceives could be the field of its intervention in this relationship.

### SUCCESS FACTORS IN PPPs FOR PROMOTING SERVICE EXPORTS

About the ability of PPPs and export promotion policies to be successful, there are authors who criticize this mechanism to be a recipe from developed countries applied to the context of third world countries, and for its theoretical ambiguity and practice (Mitchell-Weaver and Manning, 1991). Others disagree with the feasibility of objectively identifying success factors that explain the results of PPPs (Lund-Thomsen, 2009). Most of these criticisms arise because success factors identified in the literature are based on: a) exports in developed countries; b) export of goods; c) a static view of the internationalization of firms; d) different types of analysis techniques and methodologies; and e) lack of economic data in the services industry.

Hence, to obtain these factors it was necessary to make reference to different areas of study that address these issues: international business and trade, global marketing and services, industrial organization and “public policies”; all under the analytical framework proposed by López and Muñoz (2011b, 2014) who synthesized key success factors for services export promotion policies. The authors established and grouped variables to be objects of study: structural; institutional; public-private partnerships; economic; political; social and cultural. Considering the present study is based on PPP examination, structural categories of institutions and public-private are reordered in a single unit of analysis.

**Economic considerations:** This dimension must be understood by the prevailing economic conditions when formulating a policy and also by the allocation and management of financial resources for its implementation (López and Muñoz, 2011). Both the economic cycle and the country’s economic development level will impact the type of PPP to be performed. The allocated budget should be consistent with the efforts needed to achieve the objectives, and these funds must give flexibility to deal with unforeseen situations.

**Political considerations:** This aspect has to do with the capacity to avoid volatility in the implementation due to political cycles. Effective public policies consider this feature in its design and must be framed in a process of participation (Lahera, 2004; Devlin and Moguillansky, 2010). Thus, the success of the programs will depend on the existence of political leadership at the highest level and an institutional structure that conducts the design, implementation and monitoring of industrial policies (Rodrik, 2004).

**Institutional considerations:** Institutional aspects are related to the structure in which the policies are formulated and implemented (López and Muñoz, 2011). As explained by Evans, Rueschemeyer et al. (1985), an effective intervention is based on the existence of a bureaucratic apparatus developed where historical characteristics must be taken into account when explaining their ability or lack thereof to intervene. The implementation period will be critical in the success of these policies. The purpose must be comprehensive and not only specific, that is part of a broader objective (Lahera, 2004). According to Devlin and Moguillansky (2010) strategies of industrial policy must be conceived for a medium and long term future, with “flexible and dynamic considerations over time able to respond

to changing internal and external conditions”, allowing decision makers to replace or apply feedback strategies.

***Social and cultural considerations:***

The idea of incorporating social and cultural factors is to integrate the criticism that literature does on studying services from a functionalist standpoint, and to get close to a constructivist view where internationalization is strongly defined by the learning process into new markets, therefore it integrates not only the subjectivity of the learning process but also recognizes this process is socially situated under a certain atmosphere of socio-cultural interaction (Reihlen and Apel, 2007). Building relationships and trust for the success of services exports requires a considerable investment of time, and human and financial capital, which increases risks for those who choose to enter new markets.

The success factors described illustrate the complex task of implementing this type of selective policies, since their performance depends not only on the institutional design of the PPP, but also on the framed factors such as trade policy environment, previous experiences of the private and public sectors, political considerations, among others. The next section seeks to describe the development of PPPs for architectural services exports

in Chile, and then the factors that explain its behavior and results will be identified and analyzed.

## PPP FOR EXPORTING ARCHITECTURAL SERVICES

The new role of the State in promoting services in Latin America is given by a context of great competitiveness of participation in global value chains, where the process of relocation and fragmentation of production of goods has moved to services and global offshoring in recent years, demonstrating a significant growth (Muñoz, López et al. 2014; Direcon, 2015). From a theoretical point of view, this is also explained by the consistency of studies correlating countries' income level with the preponderance of the service sector in the economy (CEPAL, 2012).

In Chile services exports have had a significant momentum considering the development model and the international integration strategy based on trade openness. Chile has opened its services sector unilaterally; multilaterally in the WTO, through the General Agreement on Trade in Services (GATS); and through its inclusion in Preferential Trade Agreements: 16 agreements or protocols that include Services Chapters, adding 25 Double Taxation Agreements, all in full force (SII, 2015).

At the government level, during the nineties, it was decided to move towards active trade policies, i.e. policies that intensify trade promotion activities subsidized by the Treasury, encouraging groups of companies, especially SMEs to promote products and develop a series of activities to enter international markets. However, these policies were concentrated on promoting goods: highlighting forestry, salmon farming, wine and mining industry (Assael, Casaburi et al. 2001).

In this context, State agencies such as ProChile and CORFO (Chilean Production Development Corporation) created PPPs along with the business sector, as strategies for export promotion. During 2004, ProChile began working specifically on the field of non-traditional services as a selective policy. These efforts were deepened two years later, through the implementation of a Budget Line for Services and New Businesses aiming to consolidate the existing export supply and to improve competitiveness of the new domestic exportable supply.

In 2011, ProChile received the Sectoral Brands program from CORFO (originated in 2009) with the “aim of supporting Chilean productive sectors through co-financing and specialized consultancy in brand management, which contributes simultaneously to positioning the sector and Chile’s

image abroad” (ProChile, 2014). The idea was to give a new impetus to the management, taking better advantage of the numerous trade offices abroad and giving a more holistic approach to the initiatives that ProChile already had through financial support for the execution of technological missions, fairs, seminars, among other.

## ASSOCIATIVE INTERNATIONALIZATION OF CHILEAN ARCHITECTURE

Chilean exports of architectural services have experienced significant growth in recent years, ranging between 30 and 40 million dollars to Latin America, North America, Europe and Asia (Direcon, 2015). Architectural services correspond to an industry that incorporates elements of research, technological development and highly skilled human capital; hence it has been selected as a priority services industry for the initiatives of export promotion and generation of exportable supply, besides having high representation of the industry through their trade association, the Association of Architects Offices –AOA–. This resulted in the development of public-private partnership between the government export promotion agencies and AOA.

Associative projects of internationalization of Chilean architecture

were originated in 2008, following the participation of the AOA in the First Contest of Entrepreneurs developed by the municipalities of Santiago (Chile) and Beijing & Hefei (China), inviting different industries to establish businesses in China. The award was for the implementation of an equipped representative office for six months in Beijing to attract projects, “deepening market knowledge, legal mechanisms, processes for allocating private and public projects, knowledge of public and private entities constituents, mechanism for project development and/or participation in competitions calls” (AOA, 2009).

Once the office was established, the AOA Board reported to their associates the challenges the institution would face in order to generate a successful project. It concluded that there were indeed possibilities of entering the market, especially in Hefei and Tianjin, but it was required: “i) public and mass media coverage; ii) the formation of a consortium/S.A. for the development and maintenance of the office and the respective participation in competitions and projects in China and other destinations; iii) greater proximity to the functioning of the market for invitations to projects competition or partnership with other local offices, and iv) the analysis and openness to other markets through a worktable with ProChile

with a proclivity for Latin America” (AOA, 2009).

This scenario pushed the AOA Board of Directors to decide on whether to invest in the creation of a Consortium with its respective finance structure and business model, fund market studies and potential public support. Based on this –and running out of financial support from the municipalities award– the AOA “in light of the progress achieved to date and given the efforts in resources of time, money versus the benefits involved for total partners, decided to give up the project office in China” (Besançon, 2014). However, after the conclusion of this stage a group of nine offices belonging to the AOA decided –with the accumulated knowledge– to maintain the project and create a Consortium with a funding program of CORFO called –PROFO–, historically used for goods sector and for the first time, it is requested and delivered to the services sector.

Separately, AOA resolved to maintain their internationalization efforts, expanding the activities of the Association for which they hired –for the first time– an executive manager in charge of the institution with the main aim to capture public funds for international marketing purposes. The first strategy for exporting was to participate in ProChile's “Sectoral Brands” program. Due to the evolution of internation-

alization efforts, at that point there were two strategies concurrently from which it is possible to draw conclusions. The focus of this work will be the second initiative.

### SECTORAL BRAND: “ARCHITECTURE OF CHILE”

After the first approach in China, the AOA applied in 2009 to ProChile’s “Sectoral Brands” program. The goal of this policy is the establishment of an associative public-private partnership for export, through plans financed 40% by the private sector and 60% by the government. The brand strategy is designed to penetrate one or more international markets, developing economies of scale for diffusion and positioning of the sector, and working its image under the attributes promoted by the Image of Chile Foundation.

This type of PPP has the peculiarity of being associative, which is endorsed by the government in order to achieve economies of scale in branding, sharing costs in market research, defining attributes, marketing and dissemination, tactics and common positioning strategies, bargaining capacity, and other benefits. The requirements of this program are that the “sector must contribute to the positioning of Chile's image and to have developed a long term international strategy. Also, the project must

have a high sectoral representativeness; justify the target market; and work with an experienced team and validated leader from the sector” (ProChile, 2014).

During the official visit of President Bachelet to China, in 2010, it was released the “Positioning Plan of Chilean Architecture in China” giving also a political and institutional support through the signing of a Supplementary Agreement on Trade in Services with China, which delivered a regulatory framework for the exchange of professional services and it facilitated the implementation of joint projects. After the first year, the Brand was dedicated almost exclusively to the participation of the AOA at the “Expo 2010 Shanghai China” generating promotional material, organizing and managing activities, seminars, lectures, and Offices' visits with their counterparts.

Further activities on agenda for that year were postponed as a result of the earthquake that early that year hit the south of the country, prioritizing resources in reconstruction efforts in different locations. Although the Brand was paralyzed, the performance of the general infrastructure of the country during the earthquake caused that the technical attributes of Chilean architecture took greater value in the marketing strategy (Besançon, 2014). According to the past-president of AOA, Patrick

Turner, through two surveys carried out in late 2010, “there was a greater awareness of the brand ‘Architecture of Chile’ (...) in fact, in less than a year the level of knowledge of Chilean architecture in China increased by 13% (...), where the attribute that most caught the attention in the Chinese audience was the anti-seismic technology of Chilean architecture”.

In 2011, the program worked on the generation of differentiating attributes alongside the international consulting firm Ogilvy. The result was a study and audiovisual communication tools based on four pillars: seismic safety; climatic diversity, i.e. the architects' ability to project in any geography and climate; energy efficiency; housing and urban development.

Considering the barriers identified by AOA for the Chinese market, in 2012, the private sector proposed a broader work plan without a specific market for the renewal of the program. The main project financed, would be the design and implementation of a virtual platform named “Antenna Architecture” “dedicated exclusively to the diffusion of calls for tender, projects and awards, published in Chile and abroad and opening opportunities in fairs, biennials, consultancies or studies” (CNCA, 2013). This project was in line with the objectives of the sectoral brand, promoting impacts that went beyond AOA

members and which generated great acceptance by the architects and the government, acquiring not only the support of ProChile but also of the National Council of Arts and Culture for its implementation. However, the following year the platform remained outdated until its disappearance since the implementation costs were not properly weighed.

Once completed two cycles of the program, ProChile, with the intention of raising the level of associativity of the PPP, proposed to add a second guild and demand the construction of more robust indicators to show the progress of the Brand. By not having a unanimous decision of the Board to maintain the Brand, the AOA decided not to renew the program.

## PPP “ARCHITECTURE OF CHILE”

In the previous section, it was described the Sectoral Brand “Architecture of Chile” in which was not seen any empirical evidence of a market or trading volume expansion for AOA Offices. To understand why the expected results were not achieved, this section contrasts the success variables identified by the literature against the case study. The key factors were collected through field research based on semi-structured interviews,

coupled with secondary sources of information. Figure 1, represents the frequency of the arguments throughout the investigation, some of them are consistent with the analytical framework described above.

Figure 1: Keywords among interviewees



Source: Elaborated by the authors

## ECONOMIC CONSIDERATIONS

### a. Financing

Literature on public-private partnerships explains that when evaluating a promotion program is necessary to consider the economic environment in which it is framed (Devlin & Moguillansky, 2009). This element represents one of the main barriers faced by this program as persistent financial difficulties to meet the objectives were common. The budget allocation was flat during the different stages, without considering the sunk costs for SMEs, for the firms and the sector of entering a new market. When analyzing the annual government budget for export promotion initiatives, stands out the difference

in resource allocated for goods and services. To have an idea, the overall public budget for Sectorial Brands, in 2015, was a 0.3% of the agriculture and forestry fund for export promotion transferred directly from the Ministry of Agriculture. In short, the framework for action and financial flexibility of the services programs is very low compared to goods.

According to the former head of the Services Department of ProChile, both the program and the Department itself have a budget “infinitely lower than the goods sector, without being able to compare the impact with the implementation of brands like wine or food” (Marinao, 2014). Therefore, it is not only important to consider the initial costs but also

the program objectives must reflect the actual scope of the tools.

### *b. Business model*

It was observed a discrepancy between the architect's perception of going global and the actual business plan developed. The preferred markets for AOA members were: Peru, Colombia and Uruguay, mainly due to previous experiences, the geographical proximity and confidence in their legal institutions.

Instead, the rationale for selecting the Chinese market was based on the general projections of the country. The decision on entering to China, was strongly influenced by the opportunity offered by the municipality contest, but also because the Chinese economic expansion was of such magnitude, that even without robust market studies and a definitive business model, it was assumed there would be a space for development of Chilean services in that country (Ramirez, 2014). The Board stated China's urban population will go from 45% to 70% over the next ten years and that some architectural similarities were identified mainly on the need for sustainability systems and seismic safety (La Nación, 2010). Ultimately, the decision to enter responded to general guidelines regarding the market size and potential demand, but lacked in targeted market analysis for specific cities.

This situation remained constant throughout the period analyzed, where the inability to invest in market studies affected the ability to address alternative markets. The coordinator of the program from ProChile explains that "the cost of generating market research and analysis was not covered either by AOA or the public sector. Undoubtedly, by creating the brand, studies on the attributes and strengths of the sector are made, but to create a business model, decisions should be based on data that, until today, we do not have" (Olavarría, 2014). This lack of coordination is called by Devlin and Mogueillansky (2009) "coverage gaps" which usually occur in activities that are critically interlinked, which is detrimental to the necessary synergies for full achievement of strategic objectives.

The inability to elaborate these studies responded to different incentives from the program. First, the Brand was designed –replicating the goods program– to exhibit annual economic outputs, assigning incentives to the public sector to demand immediate results with greater media and political impact, for example, prioritizing –before investing in market analysis– the attendance to multiple "technological missions" abroad or participation in international exhibitions. The diffuse internationalization strategy traced by AOA is evident when viewing the destinies chosen for the missions (Table 1), assuming

*Table 1: AOA Technological Missions 2006-2015*

Year	PPP Actors	Logistic Support	Financial Support	Destination
2006	Innova-Chile CORFO	X	X	China Japan United States
2007	Innova-Chile CORFO Chilean Chamber of Construction	X	X	England Netherlands
2007	Innova-Chile CORFO	X	X	United Arab Emirates India
2008		X	X	Thailand Vietnam Singapore
2009		X	X	Israel Jordan Egypt
2011		X	X	Sweden Finland Norway Denmark
2012	AOA ProChile	X	X	Germany France Spain
2013		X		New Zealand Australia
		X	X	France
2014		X		Qatar United Arab Emirates Oman
2015		X		Italy

*Source: Elaborated by the authors, based on AOA data Ríos (2014)*

they serve multiple functions, such as creating advanced knowledge of projects with advanced technologies adoption, training of professionals, identifying opportunities and challenges, and networking. Even when the program moved from CORFO to ProChile, the main

objectives of the missions remain constant towards strengthening professionals' technical capabilities, coupled with the increase in associativity of the guild and, in a secondary position, the role they could exercise in identifying different market barriers. According to the AOA executive manager, the stage II of the Brand was presented without much clarity about the country they wanted to enter. "We can draw lessons after the impacts of these numerous fairs and missions, and it is that if we really want to focus on internationalization efforts, we need to define a targeted strategy. Otherwise, the benefits of these projects will reach a limited group of offices with the capital, time and human resources to do it" (Ríos, 2014).

Second, it is recognized from AOA that there is not yet a mature partnership that can generate action plans with a long-term view. As the executive manager explained, "we have not done a full research on which offices are more suitable for certain projects. The planning has been made year after year, but what is the ultimate goal? We have never thought about the Sectoral Brand 2015- 2030" (Ríos, 2014).

Third, it was not previously determined which professional service product will be offered considering the vast specializations of the guild and how it will be delivered to the market. Ogilvy's main objective

was to set the attributes of the sector, but later the brand did not invest in identifying which of them will be more appropriate for prospect clients, having no control of the business culture or adequacies of those attributes for particular networks. These circumstances have slowed down the learning process to readjust the export strategies.

### *c. Measurement difficulties*

There was a persistent incapacity to measure the progress of the public policy, especially because these programs depend on the achievement of measurable goals with the same requirements as the goods sector, affecting the feedback process. According to AOA past president, the expectations of ProChile were not reached in the first stage of the project, as they demanded immediate results that were not able to deliver because services sector projections consider very long terms. In the first stages, they should not be measured by the amount of projects developed, but rather by how much is invested from each office in the PPP (Besançon, 2014). The public sector recognizes this problem in a similar manner, citing the inability of the firms to exchange information within the association to quantify trade volumes and to establish mechanisms for evaluating goals.

An inadequate evaluation process stimulates the isolation of private and public sector in terms of priorities definition and PPP expectations (Trammer, 2014).

## INSTITUTIONAL CONSIDERATIONS

### *a. Path Dependency*

Literature on mechanisms to promote services exports stresses the need to consider in the instruments design the intangible nature of services. For AOA this was one of the main dissents:

“We had to make clear many times that we are not like the wine industry; this was a reflection that the public sector looked at us as goods. Elaborating collective strategies for internationalization was new for us, and we learned two things: first, that our product cannot be touched, therefore, selling it has other logics; and second, it requires more time, and financial and human resources that many of the AOA partners are willing to assume” (Besançon, 2014).

The learning process on services internationalization for both sectors was late. For the public sector, the PPP for architectural industry was one of the first experiences of an instrument originally created for goods in the service sector. While the

government recognized that some issues were identified during its implementation, there was a great difficulty in transferring the specific needs of the sector to political authorities to modify the program. This phenomenon also affected the private sector when trying to break the logic of competitiveness within the AOA and create more effective channels of associativity, hampering collective action for the modeling of joint ventures for internationalization. One of the main efforts to overcome these patterns was the hiring of an executive manager to lead the export process. Still, AOA admitted that given the multiplicity of professionals in the organization (architects, designers, appraisers, experts in public works, etc.), it was difficult to determine precisely what to offer, which led to a dilution of the internationalization project.

This resistance to address institutional changes once the challenges are already identified inside an institution is known as path dependency. This term stresses the importance of institutional culture in future actions, where learning “is an incremental process filtered by the culture of society which determines the perceived payments, and nothing guarantees that the accumulated experience enables society to solve the future problems to be tackled” (North, 1993).

### *b. Human Capital*

The behavior of international trade operations depends heavily on financial, managerial and human resources dedicated (Navarro, Llisterri et al. 2010), because they allow to improve the depth of planning procedures (i.e. in terms of market research), and to implement marketing strategies that are adaptable to the needs of different markets (Aaby and Slater, 1989; Cavusgil and Zou, 1994).

In this field, the analysis suggests that the PPP had a human capital with adequate technical training but not in enough quantity or the sufficient financial capacity to carry it out effectively. In practice, who leads the internationalization management is the AOA manager making unfeasible an exclusive dedication by the mandates assigned by the Association.

Regarding the perception of the public sector capacity, it is observed that there is a positive assessment on public servants. However, it is criticized the importance assigned to other support tools such as commercial attaches that “are based on the idea of having well-trained professionals internationally, but without giving them the proper guidance in our industry” (Ramírez, 2014). And secondly, they reject the incentives given to public agents as they are invoked to reach goals with equivalent methods of the goods

sector (Pérez, 2014). Nevertheless, self-criticism also comes from the private sector, on the poor role played in transferring this knowledge to the public sector.

### *c. Firm Size - Associativity*

The firm size is essential in the decision to engage in internationalization strategies. Larger firms are more prone to risk the initial investments needed to explore potential opportunities (Frazer and Patterson, 1998; Morgan, Kaleka et al. 2004). In this case, it is confirmed that smaller companies have greater difficulty creating long-term strategic plans, making more difficult the coordination (associativity) and commitment to internationalization. Firms that showed progress had incomes and human resources higher than the average of the Association. Besides, smaller offices who have had experience in other markets, it has been through Chilean constituents who develop projects abroad or through Chileans living abroad; in other words, it is not that Offices are unable to open markets but it is the commitment to do it that cannot be funded by all the AOA members.

One of the main “market failures” in international trade is the difficulty of collective action. Companies may develop myopia when they make decisions and impose measures that may enable them to

achieve better performance, mainly due to the inertia caused by uncertainty (Culpepper, 2001; Lederman, Olarreaga et al. 2010). Also, the difficulty of generating optimal coordination within the business world, the distribution of benefits of innovation and technological development, among others (Devlin and Moguillansky, 2010). These problems particularly apply to SMEs as they have limited resources, skills and experience to approach international markets (Martínez, 2007).

For exporting SMEs in services sectors, associativity is essential to: a) create value through solving common problems caused mainly by the lack of scale; b) generate an entity interlocutor for inclusion in international negotiations and public policy strategies; c) develop business models that are inserted into global value chains; d) achieve higher levels of international competitiveness based on the legal independence of the participants and managerial autonomy of each of the companies.

**Three arguments were consistently repeated in the interviews:**

*a) There is a need to improve the associativity in AOA:* an unstable commitment to the program from the partners was evident. Not all the members are actively involved, because they do not have the same motivation or interest in the PPP.

This initiative proved to be more dependent on certain leaders, rather than institutional guidelines, which apply to the public and private sector.

Also, it was detected that AOA Directors were not able to transmit the idea of the Brand to its members, not only in their meetings, but in the outreach material. Therefore, there is a vague perception of the project, “because we are not doing an office abroad, nor we are making exclusively country image. This has affected our capacity to engage more architects, losing effectiveness and creating commitment over time” (Besançon, 2014). Achieving a strategic view of the Brand has been a complex task, which is seen on members' perception about the Brand linking it with an internal management funding mechanism rather than an investment for export.

*b) Increased representation within the profession:* Nonetheless the architecture field has a higher level of representation than other Sectoral Brands, ProChile required for the third stage associating the AOA with the College of Architects of Chile, in order to allocate more visibility and support to the PPP, strengthening the political arguments for decision makers to fund services export promotion (Marinao, 2014). A reasonable demand that -in fact- could not be achieved because of the different

aims and representation logics of the institutions.

*c) Strengthening partnerships with complementary industries:*

This type of coordination takes special importance in Chile considering the size of the internal market and the sector, because all partners are SMEs requiring significant individual investment. The firms agreed on the need to internationalize in conjunction with other complementary productive sectors, such as engineering services. Only in 2015, this approach was reflected during the “Expo Milan” where the AOA worked closely –and for the first time abroad– with the Chilean Chamber of Construction –CChC– coordinating their participation in the Chilean Pavilion.

*d. Flexibility - Marketing*

A key aspect for internationalization of services is the capacity to adapt their marketing tactics to obtain greater competitive advantages than their rivals in international markets (Albaum and Tse, 2001). Considering the internationalization cooperative efforts made in Chile, the hypothesis of Navarro et al. (2010) is confirmed, which means that more committed internationalization efforts made firms more willing to adjust elements in their marketing programs.

AOA strategies have not been sustainable and adaptable over

time. The adaptability of the strategies was hampered by the absence of clearly defined goals. Also, the absence of constant mechanisms for public and private sector assessment troubled the possibility to deliver appropriate feedback to the public policy. For example, one of the most important projects of the Brand –Antenna Platform– which proved to have great effects on the entire sector, was not able to achieve a self-finance model and before a year was outdated, even though it was one of the best evaluated projects by the Association.

## POLITICAL CONSIDERATIONS

### *a. Leadership*

For internationalization strategies it is essential to generate credible leadership not only towards the public sector but mostly within the industry (Morgan, Kaleka et al. 2004). Personality and experience of leading companies and the internationalization project are also considered as determining factors (Matlay, Hutchinson et al. 2006).

In the case of AOA, there were strong barriers around leadership related to the institutional structure and political concerns. First, the organic structure of AOA does not allow the manager to dedicate exclusively to the implementation of the Brand, as it affects its role as unique interlocutor; and also,

the program requires someone not only to coordinate activities and fairs abroad, it needs an influential leader, so those who have the ability to export individually can see the “Architecture of Chile” brand as an element also valid for them (Ríos, 2014).

### *b. Political cycle*

Both public and private sectors were influenced by the political cycle, altering priorities and objectives. The change of administration in 2014 exerted some pressure for the reevaluation of markets and to direct them to the region, since the new emphasis in Chilean foreign policy established Latin America and the Caribbean as a priority. Although this variation could be beneficial to the Brand in economic terms, it was recognized that the decision was based on political considerations. Hence, one of the first initiatives in 2015 consisted in a technological mission to Central America.

Inside the AOA, the cycle of presidents and board members also influenced the commitment to the Brand. The variation in the support to the program reflected the reluctance that collective entrepreneurship produces, and also reveals that leaders still have a debt in terms of convincing its members of their export potential not only in terms of technical capabilities, but rather on real economic opportunities that would be gener-

ated through the internationalization of Chilean architecture.

## CULTURAL CONSIDERATIONS

### *a. Business Culture*

The idea of including cultural factors to the analysis is to integrate the criticism made to services research agenda. This criticism tends to emphasize a functionalist view giving importance to considerations related to export practices as socially acquired and under a certain atmosphere of socio-cultural interaction (Reihlen and Apel, 2007).

According to a Board member, “it took almost two years to redefine our strategies on how to do business in China. We still think and trace our guidelines by western codes. There are vast differences between Western individualism and Chinese collectivism, between equal treatment and assessment of hierarchy, the importance of public relations, between negotiating and haggling, between running a sprint and a marathon, between being aggressive or interrogative, between seeking a good deal and the long term” (CPAU, 2010). As explained above, one of the main reasons for the delay in the process of creating an effective business model was the ignorance on the business culture, better known in China as “Guanxi”. A model inherited from

Confucianism in which prevails the idea of investing in social relations with expected returns in the market and therefore latent reciprocity (Labarca, 2009). Thus, the priority given to certain values and the idea we have about them, varies in such a way that the language and actions end up being a learning process that strategies must consider. In the case of the PPP, the policy design did not adapt itself to the particular challenge of being the first Chilean service industry trying to enter into the Chinese market.

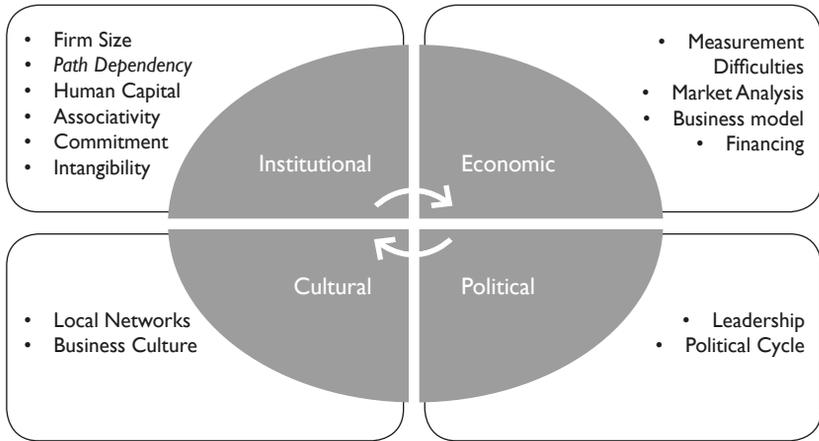
### *b. Local Networks*

Successful exporters need strategic allies, partnerships and gathering information on local market conditions for competing in each market (De Clercq, Sapienza et al. 2005; Kingshott and Pickering, 2005; Devlin and Mogueillansky, 2009). This aspect was perceived by respondents as one of the biggest barriers when exporting. As it was argued above, the architectural offices who have managed to export individually have been mostly by networks of Chileans constituents abroad or Chilean companies that settle in a foreign country and hire architects to develop their projects. This aspect shows that success factors are deeply interrelated and that cultural factors cannot be considered once the target market is

already decided, but rather from the origin of the elaboration of the PPP.

To finalize, Table 2 presents a summary of the factors that explain the limited performance of the PPP. In line with the perceptions, in Figure 1 is highlighted the weakness in terms of partnership and commitment of the private sector; the inability to incorporate in the design of the PPP the inherent characteristic of intangibility of the services sector with different needs and strategies to reach potential clients; temporal length of the program; the capacity in terms of financial and human resources of SMEs; and the difficulty of measuring both the actual export volumes and the impact of the strategies undertaken. In short, the analysis suggested that the policy failed in key elements of the design and the implementation of the export promotion instrument.

*Table 2: Key factors for the PPP performance*



*Source: Elaborated by the authors*

## CONCLUSIONS

In the last decade, Chile has given priority to the export promotion of services in its trade policy as a result of global dynamism of the sector and the need for the diversification of its economy. This study identified the factors that explain the performance of the PPP established for the export promotion of Chilean architecture.

The results suggest that the policy had deficiencies in the design level, which resulted in an internationalization process that lacked of a clear strategy. In concrete terms, since the creation of the PPP, no projects were developed abroad traceable to the Sectoral Brand program. For the evaluation of the PPP, it was reaffirmed that it does not only matter to review the strategies implemented, but also the environ-

ment in which they are formulated. In this sense, although the factors identified by the key stakeholders responded essentially to institutional and economic considerations, it is necessary to analyze where this initiative lay within the framework of the Chilean trade policy, as the public and private sector involved had to assume the sunk costs of being one of the first services industries to create a Sectoral Brand and also the first Chilean services industry trying to enter to China.

From the Institutional considerations, it was crucial the incapacity to adjust the program once different issues raised from the implementation. As targeted export promotion efforts have been historically focused on the goods sector, the program was maintained without major modifications, when migrated to ProChile,

generating barriers for the industry that they were not able to overcome. Because of elements such as the weakness in the associativity of the sector; unstable commitment to the initial objectives by the stakeholders from political cycles, among others. These outcomes proposed the need to generate new approaches when designing services policies that recognize the characteristics of the sector.

On economic considerations, while it was evident that the program does not have the same funding that others for goods industries, the main obstacles were concentrated on the inability to develop marketing research; the development of a business model which gives greater clarity on the supply of services and that also considered the business culture of the target market; and the difficulties in measuring the sector.

The policy failed in the insertion into a new market; however, it generated useful prospective learning process for the actors. From the public sector, they recognized the need to strengthen the mechanisms to disseminate the opportunities and tools for export; the need to enhance the knowledge of the cultural background of the target market; and the importance of establishing PPPs with private associations relatively consolidated. For the private sector, it had an effect of professionalizing the guild and it verified in practice the capabilities they had for poten-

tial collective internationalization initiatives. Also, it was manifested the need to develop joint initiatives with complementary productive sectors, such as engineering or construction. And, most importantly, it showed considerable breaks in the institutional inertia to the extent that has strengthened the relationship between the architectural industry and national EPOs.

Finally, the PPP helped the industry by increasing the dissemination of its capabilities as a sector with export potential, which increased the probabilities of future support from other areas and justified government involvement through technical capacity building, which was initially reluctant because of the inability to measure the export volumes of architectural exports. For future studies, it would be interesting to verify some of the hypotheses that emerge from this research. For example, to analyze if the learning costs absorbed by the PPP, as being one of the first in the service sector, were indeed overcome in the design and implementation of subsequent Sectoral Brands. On the other hand, considering the general framework of the PPP, it seems necessary to evaluate the trade promotion policy for Chilean services export in the last decade in Chile, to the extent that there is an evident public speech that places this sector as a priority within trade policy, which is questionable in the light of the findings of this research.

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