Leveraging business role for reducing environmental deterioration and poverty

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ABSTRACT

The “vicious circle” between poverty and environmental deterioration is a major challenge for developmental approaches. Environmental deterioration increases poverty. Poverty causes further environmental deterioration as the business activities worsen environmental deterioration by causing pollution and waste. Thus, it is necessary that firms and communities collaborate in order to develop innovative solutions to break this vicious circle. This study argues that collaborations should be based on genuine stakeholders’ integration and entrepreneurship – a holistic framework to guide business intervention strategies.

JEL Classification: Q50, Q56

Keywords: environment, poverty, vicious cycle

THE NATURE OF ENVIRONMENTAL AND DEVELOPMENTAL CHALLENGES

The debates during the UN 2012 Summit at Rio (Rio+20) show that civil society demands more accountability from business for the environmental and social impacts of production and consumption systems; and more hands-on business intervention to solve social and environmental challenges. Business response to society’s expectations is seen in the growing implementation of company environmental and social practices (Dyllick & Hockerts, 2002).

However, despite two decades of improvements in corporate social and environmental performance, structural poverty has not been eradicated, inequality keeps growing at fast pace and environmental risks have increased. Case in point, 2010 registered an all-history-high in energy consumption. A recent OECD report (2012) claims that advances in technology are expanding the current structure of production and consumption and will further aggravate ongoing trends of environmental deterioration and widening
inequality, posing a serious challenge to ecological integrity and social cohesion. The effects are accumulative and in many cases irreversible.

Therefore urgent action is needed to design and implement corporate policies effectively addressing issues such as climate change and poverty alleviation but neither environmental management nor CSR seem to be up to the challenge. Letting aside interventions suspected of green washing and public manipulation, a major obstacle to success has been the notion that environmental problems and developmental problems can, and indeed should, be tackled separately. This notion is deeply ingrained in a mindset -still dominant between business and policy-makers- that assumes trade-offs need to be made between environmental and social issues. However, conceptual and empirical evidence strongly supports the view that trade-offs between environmental and social issues only reinforce long-term lose-lose scenarios, since environmental deterioration, poverty and social inequalities are interlinked and poverty reduction ought to be addressed in conjunction with environmental preservation and social justice. Indeed, any effective long-term solution to the problem of poverty must also provide solutions to the problems of environmental degradation and depletion of natural resources (UNCPSD, 2005).

The intertwined nature of poverty and environmental deterioration is often described as a ‘vicious circle’. Although the poor consume little and contribute little to pollution, poverty increases the chances of exposure to environmental deterioration (Hart, 1995) because it creates incentives for weak governance. In poor areas environmental regulation tends to be weaker because the poor are less informed of the risks, partly because they are less able to apply pressure to improve environmental quality, and partly because they place more relative importance on the possibility of employment than on protecting the environment. Consequently, poverty brings about environmental decline, which in turn increases the poverty of populations in vulnerable ecosystems or in those highly contaminated by human activity,

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2 One of the most cited development theories, known as Kuznet’s curve, argues that the most effective policy to break the vicious circle between poverty and environmental deterioration is to focus solely on the promotion of continued economic growth based on market mechanisms. Although both distributive inequality and environmental deterioration grow in the initial phases of development due to a technological or economic structure change, from a certain level of development, both inequality and environmental impact start to decrease. The practical implication of this theory has been the promotion of uncontrolled economic growth. However, the validity of the theory validity in the present conditions of systemic ecological deterioration and economic globalization is strongly questioned by Sustainability Science. The theory worked while the post World War 2 economical and technological paradigm was dominant. Nowadays, changes in technology, expanding the current structure of production and consumption while increasing growth will further aggravate environmental deterioration and pose a serious challenge to integrity and social cohesion. In terms of climate change, for instance, the negative effects of growth are accumulative and in many cases, as in the existence of species, irreversible (Vazquez-Brust and Sarkis, 2012)
where the productivity of the land decreases or the costs of protecting health
increase (Gray and Moseley, 2005).

At the same time, poverty reduction obtained at the cost of
environmental damage is deceptive, and in the long term generates higher
social inequality. On the one hand, there is an important environmental
deterioration due to higher emissions and an upsurge in the use of natural
resources linked to an income rise. On the other hand, when economic
growth is achieved at the expense of flexibility in the control of compliance
with environmental regulations, the risk of pollution and industrial accidents
grows. In turn, this increases inequalities in health, lifestyle and economic
standards between the rich and the poor within the neighboring population.
The latter have much more limited resources than the former to protect
them from being harmed by environmental diseases (as much as 24% of all diseases and 33 percent of illnesses in children under the age of five are due to
environmental deterioration, (WHO, 2008) accidents and resource scarcities.
As such, these affect their lifestyles, deprive them from job opportunities and
from helping towards family subsistence; and ultimately deepened their
effective poorness.

Moreover, social and economic vulnerability operates also as a barrier
to the development of sustainable environmental strategies (Jongh, 2004).
Companies working in areas populated by socially vulnerable communities
tend to be subject to stringent cost – based competence, have fewer
resources to invest in the environment owing to the urgency of reaching a
minimal level of economic performance and have fewer incentives due to the
absence of regulatory or social pressure (Dasgupta, Lucas and Wheeler, 2000).
In many of such cases, environmentally proactive solutions are controversial
because of their social effects. Cleaner processes tend to use fewer workers,
which increases unemployment. Recycling and waste reduction, in turn can
affect, for example, marginal economies that live on informal recycling.

In this context, it becomes necessary for business to integrate their
Environmental Management and Corporate Social Responsibility activities to
take an active role to break the vicious circle of the cause – effect connection
between negative environmental impact and poverty social vulnerability.

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3 Poverty increases environmental deterioration both in rural and urban areas. In poor rural areas, intensive agriculture, overuse of fertilizers and tree cutting, produce deforestation, topsoil erosion and water contamination, exacerbated further by communities’ incapacity to invest in the environment and by demographic pressure (birth rate rises as the income falls) (Hart, 1997). Moreover, in poor urban areas environmental regulation is weaker (Pargal and Wheeler, 1996) partly because the poor tend to be less informed of the risks, partly because their capacity to press for a better environment is limited, and partly because they assign the environment a lower relative value compared to the possibility of a job. (Dasgupta, Lucas and Wheeler, 2000). This leads to a higher density of “dirty” and inefficient industries and to higher pollution levels (Hettige et al, 1998).
EXTENT OF INTEGRATED DEVELOPMENTAL STRATEGIES

It is urgent to find a balance between protecting the environment and decreasing social vulnerability while meeting the interests of companies. Efforts should be made to try and identify, and transmit to every stakeholder involved, tools and / or tactics to reduce poverty and decrease environmental impact in a compatible way. However, the integration of poverty alleviation policies with corporate environmental strategies is an issue where even the more proactive companies are still wanting (Robbins, 2001, Myers, 2008).

Corporate environmental strategies such as ‘industrial ecology’, ‘natural capitalism’ (Hawken, Lovins and Lovins, 1999), Cradle to Cradle (Mc Donough and Braungart 2002), or Biosphere Rules (Unruh, 2008)\(^5\) are transformative and aimed to change the current economic system for a new model of production and consumption balancing environmental and social concerns. However, they do not include the management of social aspects in their strategic toolkit. Insights into social strategies rarely go beyond a general normative framework, indicating intervention areas (Hart, 1997, Dyllis & Hockerts, 2002, Sharma & Ruud, 2003), nor do they go into detail about the development of specific strategies and practices to practically enhance social sustainability by applying economic and natural capital to greater societal good (Dyllis & Hockerts, 2002). Therefore, so far as offering comprehensive solutions for the structural problem addressed by this paper they are not completely satisfactory.

Until the end of the last century, poverty alleviation was considered mainly a concern of governments and as a corporate issue had been largely absent from management theory and practice (Jain & Vachani, 2006). However, since the UN Millenium Development Goals put poverty at centre stage of global agendas, there has been a growing pressure for a higher profile role of business in the matter, this triggering a variety of human development initiatives, some of them based on approaches – such as philanthropy and CSR-existing in companies long before poverty became a corporate challenge (Tulder & Kolk, 2008). However, various studies agree on saying that the practical contribution of business initiatives to reduce widespread poverty has

\(^5\) Industrial ecology” proposes “industrial metabolism” (where one industry’s waste is the next one’s raw material) and “dematerialization” (reduction in the use of materials, goods that are more durable and have a longer life cycle along with a wider provision of services offered by the companies throughout the life cycle of the goods). Natural Capitalism (Lovins and Lovins, 2004) adds to the principles of eco-efficiency and dematerialization, the necessity for investing in the preservation of natural capital and in ecologically responsible companies. ‘Cradle-to-cradle’ (Mc Donough and Braungart 2002) rejects eco-efficiency and waste minimization, and underlines eco-effectiveness and sufficiency as principles: close cycles of producer goods and energy, where the important thing is not to reduce waste, but to ensure the production of enough waste to be used as producer goods in the next industrial context, thus granting a continous use and reuse of matter and energy. The biosphere rules” (Unruh, 2008) explains that manufacturers must design their products at molecular levels, minimizing the number of chemical compounds and raw materials so that they can later be up-cycled for new uses without losing quality (carpets where the base is recycled and the fibers are reinserted again and again).
been limited and only worked in particular circumstances (Prahalad, 2004; Jenkins, 2005; Kircheog & Winn, 2006, Idemudia, 2008). At the most, they were seen to contribute to the development of what Dyllick & Hockert (2002) call welfare islands surrounding a company. Moreover, the CSR agenda often has a very narrow focus that detracts form the bigger picture, in particular the structural causes of poverty and environmental deterioration such as inadequate macro-economic policies, power structures reinforcing inequity, and injustices – both economic and ecological- in North-South relations. Another reasons for CSR failure are its inability to tap in firms core competences develop solutions to poverty basing itself on the resources and know-how of the companies (Porter & Kramer, 2002); and its often add-on nature: CSR agenda is rarely integrated to core businesses strategies and CSR managers have limited internal bargaining power.

To address such criticisms, businesses have sought to increase the efficiency of their human development policies in combating poverty. New developmental strategies see the relation with the poor as a market opportunity and build on firms’ resources to make business opportunities out of market failures underpinning structural poverty. For instance, “social marketing” aims to solve social problems using marketing principles. In turn, Bottom of the Pyramid (BoP) seeks to “eradicate poverty through profit” by developing products and services targeted to the needs of the poor – (the untapped base of the pyramid of consumption)⁶. At the same time, community involvement has been increased building alliances engaging critical NGOs and local firms and entrepreneurs in the development of CSR agenda and strategies (Kircheog & Winn, 2006, Brugmann & Prahalad, 2007).

Yet, the biggest problem is that most developmental approaches still ignore or minimize the importance of environmental issues, and suggest solutions, which, because they are dissociated of the potential environmental impact generated by a rise in production and consumption, ultimately reinforce the vicious circle poverty-vulnerability (Kandachar & Halme, 2008)⁷.

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⁶ BoP sees de-investment in certain social sectors and areas of the Planet as the main cause of poverty. Prahalad (2004) argues that the cost of living in informal economies that supply the poor is much higher in percentage terms than the markets that supply the rich. The poor are seen as a risk sector and there is no entrepreneurial effort to satisfy their needs. The poor have less valuable goods (value for money relation) and they pay more for having – for instance (bottled) drinking water, for access to luxuries such as television sets or mobile phones, for access to credit (even micro credit social companies apply a 50% yearly interest rate). BoP further claims that there is an extraordinary business opportunity in the market made up by the 4 billion people (the bottom of the global economic pyramid) living on less than 2US$ a day (Prahalad, 2004, p.4) and encourages private companies to change their business model from wide profit margins per unit to high returns in total investment Prahalad (2004)

⁷ BoP seems to have overestimated opportunities for profit gain and underestimated costs and skills required, in particular at the real bottom of the pyramid (Karnani, 2007). When multinational companies have aimed at exploiting BoP markets, few have shown to have the knowledge, contacts and specific capacities to succeed. (Brugmann & Prahalad, 2007) Even if they succeeded, multinational could create more unemployment by crowding out local firms or informal entrepreneurs serving markets at the bottom of the pyramid (Tulder and Kolk, 2008). Other criticisms are ideological. Some people consider it “immoral” to obtain profit from people
point, ‘the enabling environment view of CSR’ proposed by Idemudia (2008) stresses the need for greater integration of community participation, corporate willingness and governmental regulation but environmental issues do not yet play a central role in ‘enabling environment CSR’.

Following the criteria that initiatives which try to solve part of the problem without considering the effects on the other part, are not true solutions, the conclusion is that none of the approaches used in sustainability management or poverty alleviation, are currently ready to offer practical solutions for overcoming the vicious circle poverty-environmental deterioration. Corporate sustainability approaches, although valuable in terms of ecological sustainability, are limited by their superficial development of social aspects (Dyllick & Hockert, 2002), and the approaches to confront poverty have serious flaws in terms of ecological sustainability (Kircheog & Winn, 2006). The fragmented nature of social and environmental corporate practices were also central to Rio+20 debates, which emphasized the need to respect and integrate the three environmental, social and economic "pillars" and ensure that sustainability becomes a core business strategy, rather than an add-on (Utting, 2012).

LIMITATIONS OF MULTI-STAKEHOLDER APPROACHES INTEGRATING DEVELOPMENTAL AND ENVIRONMENTAL SOLUTIONS

A number of multi-stakeholders initiatives aimed to address both poverty and environmental challenges have been launched in the last decade, most notably Sustainable Livelihoods, Human Development through the market and –more recently- Ecosystem Services for Poverty Alleviation (ESPA). Owing to their common focus on entrepreneurship and their framing of social and environmental challenges as business opportunities, multi-stakeholder initiatives can be broadly considered as "market models" to address social and environmental challenges.

who have hardly enough to live on (Brugmann & Prahalad, 2007). Crabtree (2007) believes that it is dangerous to encourage the intervention of the private sector when the State falls to guarantee the population’s welfare, and warns that market models tend to generate ad-hoc solutions and to perpetuate structural flaws. For example, when Pralahad (2004) suggests selling quality bottled drinking water to tackle the lack of drinking water in Indian suburbs, one of the consequences could be that local governments may consider the problem solved and not invest in purification infrastructure.

8 Other topics highlighted as critically in need of structural improvement were measurement, valuation of externalities, sustainability reporting, performance rating, integration of farmers in global value chains, partnerships and multi-stakeholder collaborations (Utting, 2012)

9 The Sustainable livelihoods model sees the poor as consumers and entrepreneurs affected by economic and social injustice and thus deprived of self-esteem, access to credits and insurance and of the necessary infrastructure and technology to develop their abilities. Sustainable livelihoods put the accent on company investment in services and microfinance. The model includes the notion of vulnerability, but only as economic vulnerability towards shocks, stress or seasonal variations. Human development through the market has also a focus on entrepreneurship and emphasise partnerships with local entrepreneurs to exploit opportunities arising from ecological challenges.
Multi-stakeholders propose universal templates for good corporate practice in least developed and developing countries. They emphasize collaboration between states, supranational organizations, firms and Civil Society organizations. The World Bank, United Nations, and the World Business Council for Sustainable Development who sees in them the most effective ways to alleviate poverty, given the weaknesses of governments in low-income countries, promote them. However, success with integrated strategies has been elusive (Kates et al, 2007). The scaling-up of these approaches in terms of the number of companies effectively engaged, confronts serious limits, as does the quality and scope of many initiatives (Utting, 2012).

As Brakman et al (2004) observed, saying that your firm implement a new practice is one thing, but actually implementing it is quite another matter. Firms may engage in green-washing or impression management without bearing the cost of really investing in the practice. In other cases, subsidiaries may implement orders from headquarters’ without internalizing them or re-interpreting the meaning of new practices to make them compatible with ingrained behavior. A string of unfortunate cases of “responsible firms” behaving badly (BP's Deep Horizon spillover the most recent) has contributed to civil society suspicion of the motives underpinning the engagement of corporations with UN initiatives. For many civil society organizations, companies adhere to initiatives such as ESPA, with the purpose to enhance corporate bargaining power and gain leverage within the UN system.

In the build up to Rio+20 more than 400 non governmental organizations signed a petition to restrict the influence of large corporations in the UN and demanded more transparency and monitoring of corporate engagement with UN initiatives. The petition was pronouncedly critical to business involvement in UN initiatives, pointing out mixed results and strong constrains to scale-up firms’ voluntary environmental and developmental actions and CSR. Limitations and “blind spots” were identified in the dominant model based aimed to achieve eco-friendly productions systems through eco-efficiency, certification schemes and voluntary agreements promoting environmental social and governance standards within supply chains and certification (Utting, 2012). It was suggested that substantial dematerializing would be unfeasible within the currents patterns of production and consumption.

Although some criticism are fundamentally oriented to the prevailing model of production and consumption, in other cases they reflect civil society disappointment with the perceived failure of CSR to engage with communities’ real concerns tackle issues related to the ongoing financial, ecological and social crisis. Overall, Rio+20 outcomes suggest a growing divide between business perspectives and civil society’s views of corporations’ responsibility.

More specific criticisms to the outcomes of corporate involvement in UN initiatives, point out to problems of scale, where initiatives at the kevel of
firm or community, do not take into account institutional or global context. As a Sustainable Livelihoods Entrepreneur puts it “they (the MNE supporting the initiative) taught us to make soap but we couldn’t take the soap to the city because there was no proper transport, they helped us to get the soap to the city, but once there we had to compete with Unilever. How could we compete with Unilever?

Although supranational institutions still believe in business true commitment to these initiatives, many participating firms have been found wanting in their ability to align their organizations with sustainability goals and to engage with vulnerable stakeholders to address real local challenges and “southern” agendas. UN research suggests that many firms, which fail in the implementation of responsible practices, believe they are behaving according to universal best practice. However, they are neither aware of what actually goes deep in their organizations (Brakman et al, 2004) nor they understand or have flexibility to work with their stakeholders’ agendas. Difficulties to apprehend the systemic nature of some issues, further widens the divide between conceptualization and operationalization of context-specific practices, leading to corporate implementation failure of integrated developmental and ecological programs.

We argue that such failure is partly related to lack of corporate skills to engage local stakeholders and assess local needs, capabilities and motivators,. In the words of a civil society activist in Ghana “they (the mining companies implementing a sustainable livelihood project) trained us to have grass-cutter farms, but even grass-cutters needs grass to eat, and there is no grass without water, what we need is water but they gave us marketing courses”. Consequently, the analysis of the problems of poverty and environmental deterioration requires a holistic approach that analyses different scales of intervention and consider the firm receptiveness to environmental and social issues, and its stakeholders management capabilities to involve a wide range of stakeholders, such as firms, government, communities, NGOs, etc.

OPERATIONALISING MULTI-STAKEHOLDER INITIATIVES: A FRAMEWORK BASED ON SUSTAINABILITY SCIENCE, STAKEHOLDERS THEORY AND ENTREPRENEURSHIP

We suggest that operationalization of multi-stakeholders initiatives should draw more heavily on the principles of Sustainability Science to embed ecological and developmental concerns into practice. Sustainability Science is as yet a developing field (Kates & Dasgupta, 2007). It can be described as a discipline that produces knowledge on the complex interaction between natural and social systems and their roles in affecting the planet’s sustainability (Kua & Ashford, 2004). As such, Sustainability Science aims to develop practical solutions to real sustainability challenges through a new research paradigm that breaks down artificial divides between the natural and social sciences, and between knowledge generation and its practical application in decision-making.
Drawing on system dynamics, sustainability science warns against policy or research downplaying interactions between economic, natural and social systems (Kates et al, 2001; Palmer et al, 2005) The transition to sustainability lies precisely in the acknowledgment of the intertwined nature of environmental issues and human activities (Clark & Dickson, 2003).

Human agency, capabilities and freedom are central to sustainability science, as well as the networks, coalitions and collective action processes leveraging individual values and capabilities towards common objectives. Indeed, Sen (2000a) defined a capability-centered approach to Sustainability stressing that it stands for the type of “development that promotes the capabilities of the present people without compromising capabilities of future generations” (Sen, 2000a, p. 5). Sen (2000a) disagreed with the Brundtland Report focus on “needs” arguing that human beings are not only ‘people with needs’ but also agents of change who can think, assess, evaluate, resolve, inspire, agitate, ally, coordinate and through theses means are able to reshape their environments.

Solutions to complex systemic challenges can only result from widespread behavior change promoted through collective action and institutional reform. A person’s ability to contribute to such challenges depends on whether the individual has the willingness and capability to make the behavioral and ideological changes needed to make the contribution successful (Kua & Ashford, 2004). Willingness to change is usually preceded by reflections on the impacts our actions have on nature and society as a whole. In turn, the preamble for such reflection is awareness of the connections between taken for granted behavior and the threat that such behavior represents to particular places and social groups.

Ignoring or downplaying the role that human agency plays in corporate behavior and policy leads to oversimplification and denial of individual’s responsibility. In turn, ignoring or downplaying the role of coalitions and collective norms leads to underestimation of institutional incentives and disincentives. Therefore, sustainability science sees organizations as dynamic coalitions of actors interacting (influencing and being influenced by) with stakeholders’ networks, collectively accepted rules-in-use, practices and behavior taken for granted.

To start working towards “promoting the capabilities of the present people without compromising capabilities of future generations”, it is necessary that firms and stakeholders endeavor to develop collaborative practices of dialogue and mutual adaptation. Muthuri et al (2009) highlight the importance of community interaction and participation to further its involvement in firms, Vazquez-Brust et al (2009) point out that successful involvement of communities in multi-stakeholders initiatives requires adaptive capabilities, Sustainable Stakeholder Management focus and stakeholder engagement skills (Plaza-Ubeda et al., 2010). All the stakeholders and, in particular, the most vulnerable ones, along with NGOs, must have adaptation capability to join into dialogue with the company (Wustenhagen et
In this context, stakeholders’ adaptation capability is redefined as the ‘ability of the social actor to complement, and utilize the expertise of, the company in pursuit of the partnership goals’ (Global Compact and Dalberg Global Development Advisors, 2008:13).

Stakeholder Engagement/Stakeholders Integration refers to the ability of companies to establish positive collaborative relationships with a wide variety of stakeholders (Rueda-Manzanares et al., 2008; Sharma and Vredenburg, 1998). It is based on three pillars: knowledge (of stakeholders and their demands), interaction (between stakeholders and company) and adaptation (to stakeholders demands). The emphasis is on strategies addressing the wants and needs of those core stakeholders controlling critical resources, information or access to social legitimacy by virtue of their position in a network (employees, customers, local community leaders, suppliers, authorities and investors.

In turn Sustainable Stakeholder Management is a moral approach that emphasizes that companies are part of wider ecological and social systems, thus companies’ survival depends on the development of harmonious relations with nature and communities. It is based on a change in management philosophy that involves new strategies addressing the needs of core and ‘non-core stakeholders (the poor, vulnerable, isolated, divergent, non-human). Sustainable Stakeholder Management seeks tools to understand the roles that stakeholders and companies must play in order to combine traditional management goals with sustainable strategies. Accordingly, sustainable stakeholders’ management redefines traditional management tools and embeds ethical values in tried and tested ‘morally neutral’ business practices (Burgos-Jimenez et al, 2011). When the interests of various stakeholder groups differ, the key to settling those discrepancies lies in identifying which social and environmental approaches allow a better use of a company’s resources and have a better set of impacts on the interests of the different stakeholder groups – in our case on the interests of groups imprisoned in environment-poverty traps (Vazquez-Brust et al, 2009). The focus has moved from stakeholders’ claims to stakeholders’ interests; and from stakeholders’ management to new models of interaction between firms and stakeholders.

How to elucidate what social and environmental approaches will maximize the social and environmental impacts of a company’s resources? Drawing on the capability-centered approach to sustainability, our framework proposes that ‘normative’ criteria to maximize social an environmental impacts will demand two conditions in all firm-stakeholders’ relations: ‘Doing no-harm’ implies that none of the stakeholders see their capabilities and freedom harmed by the firm’s actions. ‘Doing good’ requires preventing the deterioration of stakeholders’ capabilities and freedom by impacts outside of the companies.

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So far, our framework has identified the central criteria that should guide stakeholders’ management to assure its moral goals. The problem is that good intentions and aims are not always translated into successful strategies and outcomes. Thus, we need a third pillar in our theoretical framework to help us conceptualize what conditions are required if firms and communities to succeed in the development of dimensions of adaptive capability. We argue that a most important condition is entrepreneurship.

Entrepreneurship is the key to mobilize the strategies and alliances required to unleash adaptive capabilities in firms and their stakeholders. Entrepreneurship level should be high on both sides so that the new sustainability challenges arising from the competitive global environment and global sustainable development are rapidly faced. The important role of entrepreneurship is well reflected in the literature as achieving balance between economic viability and environment and social goals (Menon & Menon, 1997). Thus, a strong link is identified between entrepreneurialism and environmentalism (Dixon & Clifford, 2007) and also between entrepreneurship and social development (Zapalska et al., 2003). Corporate sponsorhip of local entrepreneurs may help communities to participate in developing successful initiatives (Leach, Mearns & Scoones, 1999), as has happened in several initiatives in the sector of eco-tourism (Brunnschweiler, 2010) or in the well-known example of the Grameen Bank micro-credits (Yunus, 2006).

SCENARIOS AND STRATEGIES FOR CORPORATE INTERVENTION

In order to better understand a firm’s strategy on poverty and the natural environment, we define a matrix to look at different actuation scenarios in connection with two axes. One Axis reflects the ‘Stakeholders’ dimension of our holistic framework (The company’s Stakeholders Integration Focus). The second reflects the ‘Adaptation and Capabilities’ dimension of our framework (Engagement Capability of Communities where the firms operates). These axis condition the type of strategy adopted by the company and their effect on sustainability. The ‘Entrepreneurship dimension of our framework is intimately related to both axis. Entrepreneurship is a driving force of engagement capabilities but it is also an important influence in the development of stakeholders integration focus. Although both dimensions may be a continuum we adopt simplified scheme that classifies each of them in two categories: high and low. The strategies associated to each possible scenario would be Monitoring Strategies, Defensive Strategies, Mentorship strategies and Integration strategies (refer to Figure 1).

**Monitoring Strategies.** They emerge when the company does not have the capacity or interest for implementing sustainable stakeholders management, and the stakeholders do not set up alliances or lack entrepreneurship and capacity to adapt for improving environmental and social conditions.
In this context, the effectiveness in the result of voluntary actions to solve complex social problems is limited. There is no communication, the company does not understand or does not want to understand the justification or legitimacy of stakeholders’ claims, and they lack the ability to make their necessities heard. This is the case of the so-called “marginalized stakeholders” (Banerjee, 2000) describing the Australians aborigines’ attempts to prevent their land from being used for mining. Rowley and Moldoveanu (2003) argues that inability to act arise due to a lack of mobilization structures, that is, their lack of adaptive and entrepreneurship capabilities.

Even though the company is interested in doing good, it will discredit the stakeholders’ capacity to contribute and will only use its own criteria. The type of actions that will be implemented will depend on the internal relationships of power and entrepreneurship among the groups developing social and environmental strategies (for example, a combination of philanthropic intervention, more directed towards social issues than to environmental ones, and application of global standards distant from the local context).

**Figure 1.** Strategies and scenarios (Adapted from Burgos-Jimenez et al, 2011)

Monitoring strategies are also favored by many state-owned enterprises, a typical case being the US government nuclear facility owned by the Department of Energy (DoE) in Oak Ridge Reservation. In 1989 the area was officially recognized as one of the most contaminated sites in the Country after years of toxic waste releases from the facilities, However, despite public
meetings sponsored by the Environmental Protection Agency, the indigenous communities concerns have not been taken into account into cleanup plans. The case shows how low stakeholder management capability and low adaptive capabilities from vulnerable communities reinforce negative circles poverty-environmental deterioration. The nuclear facility had a culture of secrecy and isolation of communities from decision-making. The indigenous community, on the other hand, was divided in their perceptions of potential environmental risks and concerns, heavily dependent on the employment generated by the facility and unable to develop pressure networks to voice their concerns (Mix & Shriver, 2007)

**Defensive Strategies.** When the company does not have a focus on the integration of community stakeholders, but communities have high levels of adaptive capabilities and entrepreneurship, the company’s strategy will respond to the intensity of pressure exerted by communities, and the result will be a scenario where the main efforts will go towards issues related to those community stakeholders with stronger power over the company. Since there are multiple stakeholders with multiple interests, what interests will prevail will depend on the relationships of power and influence strategies, (Porter & Kramer, 2006). The fact of not taking into account stakeholder demands and considerations at an early stage may mean of problems of lack of information: on the one hand, the firm may not discover possible opportunities, and on the other side, certain drawbacks (e.g. possible environmental problems) may not become apparent until the negative consequences have appeared and the cost of solving them is very high.

The well-documented case of Orica Chemicals in Botany Bay, Australia (Benn & Brown, 2009) is an example of how tardy change from monitoring to defensive strategies has adverse results for the firm. Orica produced toxic waste for four decades without reaching an agreement on how to dispose of it. When the firm settled in Botany Bay, the local community was in a vulnerable position, unable to perceive the risk due to lack of information. However, in the 80s the local residents were empowered by new legislation, which required the consent of communities in projects, which involve environmental risk. Additionally, the community’s perception of had been growing while its human and social capital strengthened by public participation and social networks. Orica, on the other hand, had made no policy changes; they did not improve their systems of stakeholder integration, rather they continued taking decisions based solely on their own criteria and that of technical consultants. In 1990, Orica presented a project for a new waste treatment plant requiring community approval. The firm’s incapability to detect and act on the community’s environmental concerns gave rise to civil unrest, which culminated in the government’s rejection of the proposal, obliging the firm to opt for the much more costly (and environmentally controversial) measure of exporting its toxic waste to a European site.

The case of the mining company Meridian Gold in the locality of Esquel (Argentina) had far more adverse consequences for the firm. Meridian Gold had neither strategies nor willingness to integrate their stakeholders or to
adapt their practices to address community’s concerns about the use of cyanide in the mines. However, they confronted a community which was well organized and educated, with high social and human capital built around a local economy based on activities other than mining (agriculture, tourism, services). As a result, not only did the firm have to leave the country, but also the use of cyanide in mining was legally prohibited in the region.

The limited effort in stakeholder integration may also result in missing tacit entrepreneurship opportunities (Smith et al. 2009). Although the stakeholder integration initiative is usually based in the enterprise level, some firms may be surprised for stakeholder collaboration and cooperation that result in the creation of new firms to exploit these opportunities (the microcredits and the development of the Grameen Bank). In early stages the new firms are not operating in the same market that existing enterprises, but these new firms may evolve and become serious competitors.

**Mentorship Strategies.** If the firm is strong in sustainable stakeholder integration focus, but the stakeholders are weak in adaptation capacity and entrepreneurship, the company will be capable to guarantee the stakeholders’ integration in the dialogue, but the stakeholders will lack what is necessary to fully benefit from such integration. The company has to use its capacity to empower stakeholders through tangible and intangible capital, training, foundations, maybe product stewardship with local suppliers and also through active search for stakeholders qualified to contribute to this task (NGOs, Universities, commercial associates). In these cases, the firm has the initiative to engage local communities. The latter may benefit from an improvement in their social outcomes (public health, emergency relief) while the former will benefit by improving risk management, increasing social legitimacy and enhancing employee attractiveness (Bowen et al. 2010). However, there is a danger of communities’ growing dependent of firm’s resources and the agenda for improvement being mainly firm oriented. The selection of practices will be based on necessity / legitimacy interpretation internal criteria, and it is possible that, initially, the efforts aimed at improving the environmental impact will be more developed, due to the positive effect over performance (for example in production), because the company can see more clearly the effect over performance on environmental initiatives than on initiatives linked to social vulnerability.

A successful example of mentorship strategy is the alliance established by British Petroleum (BP) with three micro-credit companies in India for the distribution of a portable oven which uses both liquid fuel and biomass. The innovative device responded to a need of poor communities to switch to biomass in economic scarcity, while avoiding toxic fumes release. It was BP responsible to introduce environmental and hygiene and security standards as non-negotiable requirements, while at the same time providing the necessary training to their local partners through a partnership with community’s NGOs. The micro-credit companies on the other hand, once empowered by training, maximized their ability to bring in the partnership their knowledge of local needs and resources, in turn enabling BP to design suitable solutions and
make the product available to isolated rural communities (Brugman & Prahalad, 2007).

Integration Strategies. If the capacities of both company and stakeholders are strong, the conditions exist for a society with full integration of stakeholders within the firm, and with the firm acting as just another stakeholder for solving complex social problems, using its experience and knowledge to develop entrepreneurial projects with local stakeholders and to invest in sustainable entrepreneurs or the acquisition of natural capital.

When the more powerful stakeholders form coalitions, there is a risk of marginalizing those stakeholders who are more vulnerable or who remain excluded from the coalition. In this case, the company must carefully organize the mechanisms for the adequate search of consensus in order to minimize the effects of relationships of power and influence strategies and, at the same time, try to strengthen the weaker stakeholders. Under these circumstances, there is a possibility of attaining a balanced intervention strategy that proposes integral solutions for social vulnerability or environmental impact combining the capacities of all the involved stakeholders.

These type of strategies may result in stable joint benefits to firm and community, the main one is usually a shared accountability of the problem and shared vision of solutions, but sometimes it is possible to transformation of problem domain itself or the generation of new knowledge that results in new products development or efficiency improvements (Bowen et al 2010, Harrison et al 2010).

Brunnschweiler (2010) showed the success of an ecotourism initiative to protect the environment and preserve the livelihood of local communities: The Shark Reef Marine Reserve in Fiji. It involves the local communities and all relevant stakeholders in an area where marine rights are finely subdivided into small units. The local villages have exchanged their traditional fishing rights in the marine reserve for a new source of income through diver user fees.

Finally, the strategies outlined in the previous paragraphs are not static; on the contrary, they could be seen as phases of a process in which the integration strategy represents the result of sustainable development. The continuity of this process requires education and training of companies and stakeholders for them to understand the importance of promoting entrepreneurship, reinforce adaptation capacities and work towards the integration of stakeholders, aimed at searching consensus.

RECOMMENDATIONS

The previous sections suggest that the most positive results to leverage business intervention to alleviate poverty and decrease environmental degradation can be achieved in the “Integration Strategies” scenario. This inspires the following recommendations:

More vulnerable sectors, although underprivileged, are not unimportant for firms; quite the opposite: They sometimes become key allies
for the success of numerous initiatives (De Jongh, 2004). Indeed, Choi and Wang (2009) found positive long effect of non-financial stakeholder (employees, supplies, customers, communities) integration in the firm performance and survival. In this sense we introduce some general consideration in order to increase the integration of this non-financial stakeholder:

- Promoting engagement and mutual knowledge between firms and stakeholders (especially community stakeholders, those more underprivileged and NGOs\(^{11}\))
- Promoting the use of dialogue and communication tools between the main environmental pollution agents and those groups who are especially vulnerable.
- Improving the capacity of implementation of activities and / or projects in those areas that are more vulnerable to environmental impacts and to adverse socio economic conditions.
- Setting up adaptation mechanisms for both firms and stakeholders, so as to try and reconcile their interests and objectives in the short and in the long term.
- Including the promotion of sustainable entrepreneurship within the organization and in the social and institutional context as part of the strategic vision of the firm’s sustainability. Sustainable entrepreneurs are seen here as leverage for the development of proactive company strategies.

Secondly, the company must identify intervention issues at the same time that the company manage the multiple and, occasionally, ‘quasi’ incompatible demands of the different stakeholders (Donaldson & Preston, 1995). As mentioned above, there are certain strategies, which intend to manage the negative impacts of the firm (doing no harm) and other strategies destined to solve generic problems, which are not created by the firm (doing good).

Our suggestion is that ‘no harm’ approaches must change so as to follow the precautionary principle and not carry out activities unless it is guaranteed that they will not cause harm to human capabilities, instead of reactively discontinue activities only when it becomes scientifically proven that some harm has been caused. On the other hand, ‘Doing Good’ strategies

\(^{11}\) Some vulnerable stakeholders have not got a voice of their own (for example, the environment), or lack the organizational capacities or the knowledge required to get effectively implicated and profit from the abovementioned collaboration processes. Hence, vulnerable stakeholders frequently require the support or the representation of their cause by other stakeholders, such as NGOs (Fassi, 2008) and they run the risk of their interests not always being correctly interpreted or negotiated (Moody, 2007). Our model draws attention to the fundamental role played by NGOs in the defence of vulnerable stakeholders, but it emphasises that the ideal scenario would be that of the stakeholders themselves being implicated, and the selection of representatives qualified to maximize participation profits being through democratic and market processes.
ought to be selected on three successive criteria to increase their effectiveness:

- Contribution to the reinforcement of capabilities, freedom and social cohesion
- Better ‘fit’ with the organizational culture.
- Selection of those strategies that make a more efficient use of the companies’ resources (Patter & van Lierop, 2006)

The criteria of ‘fitting in with the organization’s culture’ and of a more efficient use of the company’s resources, lead us to suggest that a higher effectiveness of voluntary actions would be reached by focusing the company’s voluntary intervention on market models (such as sustainable livelihoods, social marketing or Bottom of the pyramid) and, in particular, in the formation of alliances with stakeholders and the creation of new markets through supporting entrepreneurs, both within the company and in the social systems where social and environmental vulnerability prevail (UNCPSD, 2005).

However, in order to maximize the results of sustainable stakeholders management, the company must create a deliberative environment where there is transparency in the discourse, monitoring mechanisms and enforcement of compliance with compromises, comparability in the information, and standards and implementation of mechanisms for the access of the least powerful stakeholders to deliberation. This requires the firm to have clear vision and politics, development of standards and systems of environmental and social performance monitoring and specific leadership, organization and dialogue capacities.

Incorporating elements of entrepreneurship may allow these issues to be adopted by corporate decision makers. Collaboration with local communities and stakeholders may help to acquire tacit knowledge. This knowledge is the basis of entrepreneurial opportunities that are context specific and are difficult to imitate (Smith et al., 2009). The model of micro-credits, which has been successfully implanted (initially in poorer countries and later all over the world), is a good example of the possibilities that entrepreneurship and stakeholder management offer to solve the problem of poverty. However, it is not enough to develop corporative citizen behavior which implies progressing from ‘doing no harm’ to ‘doing good’ (Matten & Crane, 2005). There is a need for the explicit inclusion of protection of the natural environment in which corporate activity is developed to enable the long-term sustainability of socio-economic systems. This may mean a restriction in the areas of activity in which collaboration is possible, but it also opens up business possibilities. This occurs, for example in the systems of industrial symbiosis, which have been implanted in developed economies (Suh, 2009).

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12 We do not exclude that the company can at the same time profit through these interventions, but the point is that the main goal must not be economic or Public Relations profit.
CONCLUSION

The “vicious circle” between poverty and environmental deterioration is a major challenge for those developmental approaches, which look to improve the welfare of vulnerable communities. Environmental deterioration increases poverty while, at the same time, poverty causes further environmental deterioration as the business activities which communities depend upon for survival aggravate environmental deterioration by causing pollution and waste. It is therefore necessary that firms and communities collaborate in order to develop innovative solutions to break this vicious circle. This paper argues that such collaboration should be based on genuine stakeholders’ integration and entrepreneurship, proposes a holistic framework to guide business intervention strategies, and further explores collaboration scenarios between firms and communities.

Integration Strategies represent the only scenario where synergies between community and company can be unleashed and applied to destroy vicious circles poverty-environmental deterioration. This inspires some of our recommendations (and commentaries): a smart mix of “doing no harm” and “doing good” criteria to be applied as guidance to reinforce the adaptive capabilities of firms and stakeholders; investment in company initiatives promoting entrepreneurship in a variety of forms (in the company, in society, in research) and investments to develop stakeholders engagement skills within the company but also in the community.

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