



COMPARING SHARED VALUE CREATION AND CORPORATE SOCIAL  
RESPONSIBILITY BY SMALL FIRMS: HOW DO THEY CONTRIBUTE TO  
LOCAL ECONOMIC DEVELOPMENT?

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***Disclaimer:***

This document represents part of the author's study programme while at the Institute of Social Studies. The views stated therein are those of the author and not necessarily those of the Institute.

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# Contents

<i>List of Figures</i>	vi
<i>List of Acronyms</i>	vii
<b>Chapter 1: Introduction</b>	<b>1</b>
1.1 Research Problem	2
1.2 Research Objectives and Questions	3
1.3 Methodology	4
1.4 Back ground: Firms involvement with social issues in Colombia and Bogota Region	6
<b>Chapter 2: Theoretical Framework</b>	<b>8</b>
2.1 Local Economic Development: Definition and Mid Level Indicators	8
2.1.1 Definition	8
2.1.2 Mid Level Indicators to Measure LED	9
2.2 Partnerships	10
2.2.1 Definition	
2.3 Private Sector Engagement in Development Issues: Shared Value Creation and Corporate Social Responsibility	12
2.3.1 SVC	12
2.3.2. CSR	13
2.3.2.2 CSR in Small Firms	14
3. Gaps Identified in the Literature	15
<b>Chapter 3: Of How Shared Value Model is being applied by Small Enterprises: A Case Study</b>	<b>16</b>
3.1 HYBRYTEC: A Case Study of SVC	16
3.2 According to the case study, does the way in which a small enterprise creates Shared Value in the Bogota-Region fits in the strategies mentioned by Porter and Kramer and Moon et al?	16
<b>Chapter 4: Confirming and Introducing Critical Features that Configure the CSR Strategy of a small firm: A Case Study</b>	<b>19</b>
4.1 INTERLABCO S.A.S: A Case Study of CSR	19
4.2 Does the way in which small enterprises develop the CSR strategy in the Bogota-Region fits in Jenkins (2006) and Blackburn	

(2013) proposal?	19
<b>Chapter 5: Reflecting how the application of SVC and CSR contribute to the Local Economic Development through Partnership Building?</b>	<b>22</b>
5.1 Why when applying SVC and CSR Small Firms seek for Partnerships?	22
5.1.1 Why when applying SVC Small Firms seek for Partnerships?	22
5.1.2 Why when applying CSR Small Firms seek for Partnerships?	25
5.2 How in Bogotá-Region small enterprises applying either SVC or CSR contribute to Local Economic Development through Partnership Building?	28
5.2.1 Partnerships as Local Impacts of LED	28
5.2.2 Partnerships as Process of Learning and Source of Innovation	29
5.2.3 Partnerships as Governance Enhancement Scenario	30
5.2.4 Partnerships Promote LED driven by Endogenous Sources	31
<b>Chapter 6: Reflecting on Theory and Practice</b>	<b>33</b>
6.1 Making the SVC Model Fit Small Enterprises Needs	33
6.1.1 Organizational Support	33
6.1.2 Innovation and Absorptive Capacity	34
6.1.3 Defining the Core Competence	34
6.1.4 Price and Population Focus	35
<b>6.2 SVC and CSR: The difference remains in the extent to what the social action is embedded in the core of the business</b>	<b>35</b>
6.3 CSR and SVC: Blurring Boundaries in Practice	37
6.4 Theoretical Difference Among Concepts	38
6.4.1 Theoretical Relationship between LED, Partnerships and SHV: The Size of the Firm Does Not Matter	39
6.4.2 Theoretical Relationship between LED, Partnerships and CSR: When CSR is Applied by SME's the Size Do Matters	39

## List of Figures

Figure 1. Four Types of CSR Strategies

Figure 2. Theoretical Comparison Between CSR and SVC

## List of Acronyms

ACAP	Absorptive Capacity
ANDI	National Association of Industry (Spanish)
BoP	Base of the Pyramid
CCB	Chamber of Commerce of Bogota
CSR	Corporate Social Responsibility
CSSP	Cross-Sector Social Oriented Partnerships
LED	Local Economic Development
MICT	Ministry of Industry, Commerce and Tourism
MSME's	Micro, Small and Medium Enterprises
SVC	Shared Value Creation

## **Abstract**

As seen in the case study, small firms engage in development processes in the Bogota-Region applying either shared value models or corporate social responsibility strategies, contributing to local economic development through partnership building. While developing either one, private sector seeks for partnerships because they offer a collaborative advantage. Specifically, when implementing shared value, partnerships are sought because partner organizations are depending on resources, alliances are used as steering mechanisms to solve policy problems and actors are motivated around core issues or meta-problems. Particularly, while executing corporate social responsibility, partnerships are built because organizations depend on resources for responsibility purposes. Nevertheless, the essence of this research is how the contribution is done, embracing that the alliances promoted (1) can be understood as “local impact” of local economic development (2) incentivize processes of learning and entail a source of innovation (3) enhance the local governance scenario and (4) promote a local economic development driven by endogenous forces.

Reflecting on theory and practice of how small enterprises apply shared value and corporate social responsibility, four elements are analyzed: first, it has been identified that the shared value model requires considering organizational support, innovation and absorptive capacity, defining the core competence and price and population focus, as important elements to fit small firms needs. Second, the main theoretical difference between shared value and corporate social responsibility is the extent to which the social issues are embedded in the core of the business. Third, there is an overlap in practice between shared value and responsibility activities, however. Fourth, the theoretical relation among local economic development, partnerships and shared value on one side and local economic development, partnerships and CSR on the other side has sensible variations.

## **Relevance to Development Studies**

This research is relevant for development studies for four reasons. First, “in both developed and developing countries the vast majority of firms are SME’s” (Nichter and Goldmark 2009) that “generates substantial employment and economic output in many countries” (Ibid) hence, understanding how do they get involved with social issues and what is the contribution of such involvement on the local economic development, is relevant for development studies.

Second, business sector has been accused of achieving profit while harming society (Porter 2011). However, a new business model focused on creating value for society as a means to increase revenue for firms is being posed as an alternative to provide solutions for development problems. Checking its practical application by a small enterprise in a developing country helps to complement and criticize new theoretical frameworks and can help to transform it to fit small business needs.



Third, recently the state, civil society and private sector have established collaborative mechanisms with different motivations and purposes. Understanding why actors from different spheres are motivated to engage on such kind of initiatives, and how partnership building is done in developing countries when business sector is involved in social issues -either corporate social responsibility or shared value creation models-, is relevant for development.

Fourth, private sector engage in development process through SVC and CSR. Understanding why when small firms applying either of one promote the creation of partnerships contributing to local economic development, is important to improve the impact of private sector involvement in development initiatives, and of course relevant for development studies.

## **Keywords**

Small Firms, Shared Value Creation, Corporate Social Responsibility, Partnerships, Local Economic Development.



# Chapter 1: Introduction

Within the development studies research and practice, issues related to the engagement of the private sector in the process of development are at the top of the debate. Academics from different approaches, either heterodox or more market-oriented focus, have examined proposals and challenges of this new trend.

On one side, recent initiatives from heterodox academics have recognized changes within the business orientation towards civil society engagement and have posed moving “beyond an enemy perception of the private sector” (Helmsing and Knorringa 2008), carefully and critically unfolding their discourse but recognizing the need to accept the progressive tendency of firms involvement in development processes (ibid). As they explained, traditional business models executed at expense of local economies and resources “do exist” (ibid); however, as they recognized it, does not represent the bulk of companies acting in developing countries. They argued that private sector is not a “monolithic entity” (Knorringa 2010: 3) (ibid) and hence, it cannot be labeled as always harming society. Indeed, the majority of the sector is integrated by micro, small and medium enterprises (MSME’s) (Knorringa 2010, Nichter and Goldmark 2009), actors that can be seen as partners for making transformation processes on field when development practitioners, the state and civil society, are seeking to overcome societal challenges. Furthermore, as some representatives of this current argued, international agencies and practitioners recognize small entrepreneurs as “change agents” (Helmsing and Knorringa 2008: 3), when working on entrepreneurship and job creation strategies (ibid). Finally, among scholars’ research interest in this stream, the developmental relevance of CSR is a priority.

Orthodox perspectives, on the other hand, posed a market- oriented answer to negative externalities existent in society, parting from the point of analysis that, given their lack of resources, the state and civil society failed in offering solutions to collective problems. ((Porter and Kramer 2011, Moon et al 2011) (Porter 2011). Taking advantage of living in an era of amazing awareness of meta-problems, understanding that private sector is the only one capable of creating wealth in comparable proportions and has the technical capacity already in hand, then what is needed is to “give the power to business in a right way, with a right philosophy” (Shared Value Leadership Summit 2011); namely, having them as a focal point when dealing with social issues (ibid). For Porter in particular, business is the sector that has a real opportunity to provide changes in society (ibid).

However, this perspective acknowledges the existence of a “gap” (ibid) or disconnection among business and societal prosperity (ibid). They admit that business is not accomplishing the fundamental role of creating wealth, as it should be. On the contrary, many communities are being affected in the process. Therefore, the main challenge of how new business models tackle social issues are the priority of researchers from this standpoint.

In this academic debate three important meeting points between both streams had been identified. First, both at different magnitude recognize the existence of a negative tendency of how business has been practiced. Second,

they both distinguish private sector as a “change agent” for tackling social issues at different extent. Third, both are interested “on where and when what types of private sector activities are more likely to contribute to development” (Knorringa 2010: 5). These new contact points open opportunities for further research about the engagement of private sector in development processes.

Consequently, the idea of this research is to frame the discussion around the three meeting points previously mentioned, but focusing on the engagement of the private sector in the local economic development (LED) having as principal agent the small enterprises.

Keeping that in mind, this research paper sets out relevant elements for each common point. First, in terms of the negative tendency it describes how in Colombia, specifically in the Bogota-Region, small enterprises are engaging in the application of new business models that theoretically pose a deviation in the negative trend, but it does not progress on affirming if it is really happening. Second, in terms of conceiving business as “change agents”, it places within the heterodox strand, focusing on small enterprises as transforming actors, making theoretical recommendations to Porter and Kramer’s proposal in order to fit small firms needs. Third, activities applied by firms with developmental purposes are described and used to make recommendations to theory, and on the other side, focuses on analyzing partnership-building in terms of its contribution to LED.

This paper is divided in six chapters, including this chapter of introduction, research problem, questions, objectives and methodology. The second chapter elaborates the theoretical framework. The third chapter introduces the SVC case, the description of how small enterprises create SVC according to Porter and Kramer (2011) and Moon et al (2011) and the analysis of to what extent the exercise in practice fits the strategies mentioned by theory. The fourth chapter introduces the CSR case, the description of how small business apply CSR strategies according to Jenkins (2006) and Blackburn (2013), confirming and introducing new features that configure the CSR strategy of a small firm. The fifth chapter analyzes why, according to the two case studies, small firms applying either SVC or CSR seek for partnerships and how they contribute to LED through partnership building. The sixth chapter reflects on theory and practice in which some recommendations to theory are done about how SVC can fit small firms needs. Additionally, a reexamination of the theoretical difference between both is done, stressing the main distinction, introducing a potential overlap in theory and practice among them, and offering a theoretical relation between LED, SVC, Partnerships and LED Partnerships and CSR.

## 1.1 Research Problem

In Colombia four per cent (4%) of the enterprises are large enterprises and ninety six per cent (96%) are SME’s<sup>1</sup>. In Bogota operate twenty thousand

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<sup>1</sup>El Espectador News paper in <http://www.elespectador.com/impreso/negocios/articulo-285125-un-pais-de-pymes>

(20.000) micro, small and medium enterprises (MSME's) and they generate seventy per cent (70%) of the overall employment of the city<sup>2</sup>.

In the capital, both large companies and small enterprises have been involved at different extent with social issues. The belief is that while some large companies have been implementing innovative models focused on shared value (CSV), the small enterprises continue applying either classical business models based on profit maximization or corporate social responsibility (CSR) strategies. However, a new tendency of small enterprises is appearing and the shared value model, previously linked only to big corporations, is starting to be practiced by small companies, but research on how in practice small enterprises are applying this kind of model according to Porter and Kramer's (2011) proposition has not been done; hence theoretical suggestions to fit small firms needs have not been offered yet.

Additionally, whereas the model seems to be an opportunity for both, individual firm financial success and society in general to address social and economic issues, it is still not clear how small businesses applying that kind of models can contribute to the local economic development (LED). Indeed, it is still unclear how the contribution can be measured.

Furthermore, there is an increasing tendency to build partnerships among actors from different societal spheres to achieve development purposes. Literature has recently explained this emerging phenomenon and many different perspectives of analysis have been provided as Glasbergen (2007) and Salsky and Parker (2005). However, this process is progressively noticed in practice when firms apply either SVC or CSR, but the connection between building partnerships and addressing the social strategy of firms has not been researched. Indeed, in terms of small firms there is not material to explain this linkage. As Michael Porter said, the issue today in relation to shared value creation is how to accelerate its application by companies, and what kinds of partnerships can be built. (Shared Value Leadership Summit 2011).

Additionally, whereas theoretically there are diverse perspectives around the difference between the concepts of CSR and SVC, if small firms employing CSR are analyzed, an overlap in practice between CSR and SVC is identified in relation with the actions small businesses develop while dealing with social issues. Activities executed by small enterprises within CSR, are found in SVC theory as value creation exercises. Hence, practice seems to open the discussion about the existence of blurring boundaries between them.

Finally, as in SVC models, partnership creation in the framework of CSR has not been broadly researched, particularly actors' motivations to become partners and the type of partnerships that are built.

## 1.2 Research Objectives and Questions

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<sup>2</sup> Ibid.

This research paper has one main and four specific objectives. The main purpose is to explain how when small firms applying either SVC or CSR contribute to LED through partnership building.

The four specific objectives are: first, to describe how small firms apply SVC and CSR in practice; second, explain why when small firms apply SVC or CSR they seek for partnerships; third, enlighten the theoretical difference between SVC and CSR, recognizing blurring boundaries in practice and fourth, provide theoretical recommendations to SVC theory to fit small firms needs.

## **Research Questions**

How in Bogotá-Region small enterprises applying either SVC or CSR contribute to local economic development through partnership building?

## **Research Sub-questions**

1. How is the theoretical relationship among LED, Partnerships and SVC different from the theoretical relationship among LED, Partnerships and CSR?
2. Does the way in which a small enterprise creates shared value in Bogota Region fits in the strategies mentioned by Porter and Kramer and Moon et al?
3. How the model posed by Porter, Kramer and Moon et al might be refined to fit small enterprises needs?
4. Does the way in which small enterprises developed the CSR strategy in Bogota Region fits in Jenkins (2006) and Blackburn (2013) proposal?

## **1.3 Methodology**

The following research paper would be done based on a cross case analysis. As Gerring (2007) argued the purpose is to realize “an intensive study of a single case (or a small set of cases) (...) with an aim to generalize across a larger set of cases of the same general type” (Gerring 2005: 65).

The case study selection process was complex given the difficulty to acquire the information related to small business either exercising shared value models or employing good CSR practices. Public and private institutions were inquired; however, material was not found at first. Nevertheless, magazines focus on sustainability issues provided evidence about the existence of small firms engaging in developmental activities either CSR or SVC.

Third, theoretical elements were studied and used to build semi-structured interviews, identify the case-selection criteria and make a first filter,

analyzing the information provided on the company's website. Among the material reviewed and utilized to build the semi-structured interviews were the Law 590/2000,<sup>3</sup> Porter and Kramer (2011), Moon et al (2011) and the definition of local economic development according to A.H.J (Bert) Helmsing. Five selection criteria were found: size of the enterprise – small-, economic sector – tertiary-, location of the head office - Bogota-Region -, the use of partnerships to address social matters and finally, how embedded were the social issues in the business model. Precisely the latter was identified reading Porter and Kramer (2011) and then analyzing their explanation about the difference between SVC and CSR. However, a complete explanation of why the two cases were classified in this two different boxes –CSR and SVC- will be offered in the clarification about their theoretical difference in chapter 6.

Fourth, two good practices of CSR and three of SVC were contacted. The diagnosis was done after a dialogue had with the owner managers of the four enterprises. The purpose of the interview was to acquire the information needed to contrast with the four selection criteria.

Fifth, two case studies were selected. INTERLABCO S.A.S and HYBRYTEC. According to Gerring (2007) techniques for case study selection, the method that best describes the selection is “most – similar” case. The pretention of this research is to do an exploratory study seeking for hypothesis generating (Gerring 2007: 131). Additionally, it is intended to provide different outcomes on why both CSR and SVC contribute to local economic development mid level indicators, specifically partnership building.

Furthermore, in four out of the five criteria established for the choice, both cases present similar characteristics but display variance in the fifth. First, according to the Colombian Law 590/2000 a small enterprise is the firm which has between eleven (11) and fifty (50) workers and total assets between five hundred one (501) and five thousand one (5001) monthly minimum legal salaries. On one side, INTERLABCO S.A.S has seventeen (17) workers and two (2) subcontractors and on the other side, HYBRYTEC has twenty-eight (28) employees. Both own total assets lower than the top established by law.

Second, both enterprises belong to the service sector. While INTERLABCO S.A.S offer services of quality control testing, HYBRYTEC based on solar energy, commercializes equipment and develops both, private and impact-public projects. Third, in terms of their location, both have their head office in Bogota- Region and operate there, but in HYBRYTEC's case, given that its services demand to be developed in site, some clients are located out of the capital area.

Fourth, both have used collaborative alliances to address social issues. INTERLABCO within the progress of the CSR strategy has made partnerships with local and regional public educational institutes, foundations, training centers and local government. HYBRYTEC has built partnerships with NGO's, foundations, international aid organizations, public national institutions and private sector to deliver energy solutions in the framework of the maturity of their business model. However, their principal difference is how embedded are

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<sup>3</sup> Law through which dispositions about the promotion of micro, small and medium enterprises were enacted.

the social issues in the business model reflected in the type of strategy they are applying: either CSR or SVC. Precisely, the level of embedding of social matters within the business model, signals one core difference amongst the two.

Therefore, the design is a “two-case” case study (Yin 2005: 60) or multiple case (embedded) of two different enterprises for which five units of analysis were studied, four shared by both and one case specific. The shared units of analysis are: *owner-manager characteristics* taken from Blackburn (2013); *external opportunities and competitive advantages* taken from Morrison and Breen (2003) and Porter (2001); *innovation*, taken from ((Helmsing 2013, Zahra and George 2002, Frensen 2013)); and *partnerships* taken from Glasbergen (2007) and Salsky and Parker (2005). The unit of analysis specific for CSR is the *social strategy* taken from Jenkins (2006) and the SVC exclusive unit is the *SVC model* using Porter and Kramer (2011) and Moon et al (2011).

Finally, a case study protocol was done for this specific research and presented as assignment for the course “*Techniques for Case Study Research*”, compulsory course within the Master in Development Studies in the International Institute of Social Studies. The study protocol was separated in four sections as posed by Yin (2009) as follows: a) an overview of the case study project (Yin 2009: 81) b) field procedures (Ibid) c) case study questions (ibid) and d) a guide for the case study report (ibid).

#### **1.4 Firms involvement with social issues in Colombia and the Bogota-Region**

According to DANE Bogota –City’s enterprises in 2005 were composed by 23.2% micro, 33% small, 35.4% medium and 39.1% large. For Bogota-Region, 6.7% were micro, 4.2% small, 5.8% medium and 8% large. The Chamber of Commerce of Bogota (CCB) offered updated information for 2012 at the local level according to the firm’s size and geographic location within Bogota-City not Bogota-Region. According to the source, 80.77% firms were micro, 12.41% small, 3,68% medium and 1.29% large. Besides, in relation to the economic sector the information was not disaggregated by size. Nevertheless, is important to stress that for 36.26% of the registered enterprises that year, their main economic activity was commerce and services (CCB 2012).

However, for our purpose of acquiring any evidence about the private sector engagement with social issues, the ANDI provided information for 2011 about activities related to CSR, but in a national level, without revealing firm size. According to the source, in 2010, 73% of the firms interviewed had formulated a CSR policy and 68% had a staff member attendant only for CSR. Costs were the principal barrier to develop a CSR strategy as 42% mentioned. Furthermore, in terms of CSR impacts, 71% stressed reputation, 53% attracting employees, 50% shareholders value, 25% cost efficiency, 22% access to new markets, among others (ibid). Additionally, 60% of the sample affirmed to have done a sustainability report and 33% is part of the United Nations Global Compact (ibid). In relation to the millennium development goals, 58% mentioned to have realized activities with that purpose and among them, 91% said actions were focused on environmental sustainability (ibid). Concerning the



stakeholders, 77% prioritized the workers, 58% the community, 53% the suppliers, 44% the shareholders and 41% the local government (ibid).

## Chapter 2: Theoretical Framework

The debate related to the engagement of the private sector in development processes, specifically in the LED having as principal actor small enterprises, bring many important concepts to be discussed. Here the construction of the theoretical framework will be focused on, four specific notions that build the axis of the deliberation according to the objectives of the present research. The concepts are: local economic development, shared value creation, corporate social responsibility and partnerships.

### 2.1 Local Economic Development (LED)

#### 2.1.1 Definition

Defining LED is a challenge. As mentioned by Rowe (2009) LED as a discipline still suffers from an absence of a “body of theory” and three main reasons can initially explain it. First, his big father the area of economic development (ED) is a field in which many areas of knowledge have provided insights and hence understanding it is complex and demands, “a unique blending of all relevant disciplines” (Rowe 2009: 3). Second, within ED both practitioners and theorists do not consider the counterpart effort, view and experience (ibid) hence the result is a lack of synergy for theoretical construction. Third, processes and practices of ED in a specific geographic space have been explained by regional sciences (ibid: 4). However, this represents a problem in the sense that there are micro levels in which economic issues occurred which demand particular explanations yet not given by other macro –sciences.

Regardless the obstacles, works have been done to provide a meaning for LED and three different groups of theories extensively established but sometimes superposed can be identified: market- driven development theory, local economic (re) generation theory and alternative local development (Gomez and Helmsing 2008: 2490). Only the first two will be explained given their relevance for the purpose of this paper.

The market-driven theory has the firm as the core object of analysis and public policy is focus on attracting investment (ibid). “Conceptual bases for successful growth regions” (ibid) were developed in this framework as theories of competitiveness ((Porter 1990, 2003) cited in Gomez and Helmsing (2008: 2491)); business clusters development ((Porter 1998, Perry 2009)) and technological innovation highlighted the relevance of localities in collective learning (Gomez and Helmsing 2008) ((Keeble, Lawson, Moore and Wilkinson 1999) cited in Gomez and Helmsing (2008: 2491)). Additionally, globalization brought new dynamics and challenges and relationship among firms changed. Agglomeration to reduce transaction costs and increase information flows, knowledge widespread through cooperation and competition and institutions to support industrial policy development were posed and fostered.

The second theory called local economic (re) generation emerged as a result of a critic done to the orthodox proposals (Gomez and Helmsing 2008)

of the market-driven development. Infrastructure improvement focus was counter and new policy views adding local human capital progress were professed (ibid). Entrepreneurship strategies to foster local small enterprises development, raising homegrown capabilities (ibid), involving local communities participation were at the top the debate. Growth driven by endogenous sources as “new economic institutions, quality-based competitive advantage, human capital and knowledge” (ibid) demanded as mentioned in Gomez and Helmsing (2008) referring to Blakely, four related interventions: “(1) locality development 2) business development (3) human resources development (4) community based-employment and economic development” (Ibid).

Specifically in relation to new economic institutions, according to Gomez and Helmsing (2008) indeed was Blakely who introduced a new multi-actor approach to LED in which partnerships to lever up existing local resources were done among public, private and social actors (ibid: 2492). Precisely the meaning of LED that will be used in this research fits on this new tendency. The scholars who provided the explanation were Helmsing and Egziabher who defined LED as:

“A process in which partnerships between, local governments, NGO’s, community-based groups and private sector are established to manage existing resources to create jobs, and stimulate the economy of a well defined territory”(Helmsing and Egziabher (2005:1) cited in Rogerson and Rogerson (2010: 466), Helmsing (2002: 81))

Additionally, institutions like the World Bank brought a definition within the same multi-actor approach. For the latter LED is

“A process by which public, business and non governmental sector partners work collectively to create better conditions for economic growth and employment generation” ((World Bank 2003:1) cited in Rogerson and Rogerson (2010: 466))

### **2.1.2 Mid Level Indicators to Measure LED**

On the orthodox side the market-oriented focus development has been usually measuring ED based on macro-indicators like gross domestic product, exports and imports, inflation or total employment. (OECD 2011). Nevertheless, the research interest is about indicators that could measure in a micro-level the performance in terms of LED; hence, macro indicators are not useful for our purpose.

Therefore, looking for information to satisfy the need, the author found Swinburn et al (2006) who offer a light towards identifying LED indicators. The text mentioned the evidence required in order to formulate a LED strategy. Education and skills, business development opportunities, workforce profile and informality, among others (Swinburn et al 2006: 20) were stressed as important features.

However, the purpose of this paper is to know how SVC and CSR contribute to LED. Nevertheless, using the previous indicators is not possible, given that regardless they were posed with a micro level focus, two small en-

terprises initiatives in a place with more than 20.000<sup>4</sup> firms, cannot offer solid information to define the contribution of private sector -through this activities- to the LED process.

Nevertheless, during a project evaluation in West Africa trying to measure the contribution of wild tourism industry to LED new insights were given about LED measurement tools. Ashley and Elliot (2003) provided an approach to measure contribution posing what they called “Local multiplier impacts” (Ashley and Elliot 2003: 1) which embrace:

“Both formal and informal sector employment and some other indirect impacts such as improved infrastructure and public services and more abstract benefits such as participation, empowerment and improved governance” (ibid).

For the purpose of this paper they will be called “local impacts” given that multiplier is a particular model used to analyze the increase in specific indicators as employment rates or gross domestic product. This work examines additional information concerning both indirect impacts and other abstract benefits.

Finally, the “local impacts” open a new opportunity to measure the contribution of development initiatives address by private sector to LED.

## 2.2 Partnerships

### 2.2.1 Definition

The literature associates the emergence of the “partnership paradigm” (Glasbergen 2007: 3) with the Rio Conference in 1992, specifically the Agenda 21 that demanded from societal sectors different from government the responsibility of working for a common sustainable future (Ibid). These proposals entailed the rise of new governance practices in which public actors became more open to the participation of private and social actors on policy decisions, and the latter more interested in establishing new arrangements and working in alliances (ibid).

In that sense, the foundation of this new phenomenon is related to structural changes in the way development issues should be addressed (Ibid: 4). First, government lost trustworthiness and stand-alone capacity to govern (Ibid). Civil society has increased their incidence building “up so much social and economic capital” (Ibid) becoming crucial for policy making. Private sector represented by transnational corporations has accumulated more financial resources and power than the state. In this new era partnerships “were promoted as the preferred vehicles for sustainable change” (Ibid).

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<sup>4</sup> El Espectador News paper in <http://www.elespectador.com/impreso/negocios/articulo-285125-un-pais-de-pymes>

The buildings supporting “partnership paradigm” (Ibid: 3) are related to the interest of all actors in development and in establishing horizontal discussion to define joint action, providing all type of resources and sharing responsibilities to satisfy private and common objectives through market mechanisms (Ibid: 4).

According to Glasbergen (2007) partnerships are:

“Collaborative arrangements in which actors from two or more spheres of society (state, market and civil society) are involved in a non-hierarchical process through which these actors strive for sustainability goals”. (Glasbergen 2007: 2)

For the author partnerships come in three modalities: (1) collaborative arrangements (2) governance mechanisms and (3) liberal democratic governance structure (ibid: 5). Only the first two are relevant for the purpose of this paper.

First, in the collaborative arrangements angle authors posed an actor’s perspective to analyze the partnership, revising the process of accomplishing the arrangement in itself. Two elements are critical to assess what drives actors to get involved in partnerships: collaborative advantage and trust (ibid: 7). The former entails the “synergy argument” (ibid) and refers to the objective of collaboration. Namely, the partners individually cannot achieve what they demand to be acquired in common. The latter embraces the “emotional argument” (ibid: 8) and denotes the desire to reduce vulnerability. In other words what is needed for actors decision to be part of an alliance.

Second, in the partnership as governance mechanism authors posed a governance perspective to analyze the partnership, checking if it serves as a “steering mechanism” (ibid: 10) or tool to transform the policy agenda. Two elements are important to evaluate how third actors respond to the partnership: scaling up and legitimacy (ibid: 11). The former refers to the partners desire to broaden the extent of the partnerships (ibid). The latter entails what is needed to replace or complement government stand-alone action in certain fields (ibid). Indeed, in this framework partnerships are established having as starting point, public administration failure on providing solutions to policy problems, nevertheless, acknowledging their participation as decisive for success (ibid: 13).

Furthermore, Salsky and Parker (2005) introduced the concept of “*cross-sector social oriented partnership*” (CSSP), defined platforms for their analysis and established different arenas in which they can be developed. For the authors, CSSP are “cross sector projects formed explicitly to address social issues and causes that actively engage the partners on an ongoing basis” (Selsky and Parker 2005: 850). As mentioned by the authors, interventions can be short or long term and self or common-interested focus (ibid). As stressed in the paper actions are located above the traditional relationship among sectors, namely exceeding public-private contracts for service delivery, private-social philanthropy initiatives or joint actions for satisfying specific policy needs (ibid).

The platforms proposed to examine the CSSP are: (1) resource dependent platform (2) social issues (3) societal sector platform (ibid: 851). Only the first two are relevant for the purpose of this work.

First, the resource dependent platform considers CSSP a way of satisfying organizational needs with the added value of solving a social problem (ibid:

852). The partnership arises, as a result of an emerging interest to solve social issues and develop a competitive advantage by the companies (ibid). Organizations seek for alliances to obtain benefits – as certainty- or resources as money, knowledge or capability, features that they cannot achieve by themselves (ibid: 851).

Second, in the social issue platform the social issue is the core of the subject. Organizations are stakeholders of issues rather than of other organizations ((Waddel 2005) cited in Selsky and Parker 2005). The partnership emerges because of the existence of “meta-problems” that exceed the institutional solving capacity and hence partnering arises as the only viable solution. Usually meta-problems have environmental causes and given their complexity, collaboration appears to be the most efficient way of addressing them ((Levy and Oviatt 1989) cited in Selsky and Parker 2005)(Helmsing, personnel communication 10 September 2013) however, organizational autonomy remains (Selsky and Parker: 852).

Finally, Selsky and Parker (2005) explained four “arenas” in which CSSP can be built according to the actors involved and the issues addressed. The “arena 1” (Selsky and Parker 2005: 854) are partnerships between non-profit organizations and business focus on economic development, environment and education issues among others (ibid). The “arena 2” (ibid) are partnerships between government and business center on infrastructure and public services (ibid). The “arena 3” (ibid) are partnerships between government and non-profit with emphasis on contracting for public services, employment generation and welfare (ibid). The “arena 4” (ibid) are “tri-sector partnerships” (ibid) focus on subnational level in economic and community development and health among others (ibid).

This paper will be based on the partnerships definition given by Glasbergen (2007) and will use the terms CSSP, partnerships and alliances interchangeably.

### **2.3 Private Sector Engagement in Development Processes: SVC and CSR and their application by Small Firms**

Literature about CSR has covered its application by all types of firms. Nevertheless, in relation to SVC its construction as a concept is recent and it is the result of the analysis of multinational companies practices without evidence about its application by small enterprises.

#### **2.3.1 SVC**

The orthodox economics have been recently interested in the progressive engagement of private sector in social issues as seen in Porter (2006). However, according to Porter and Kramer (2011) such involvement has been done since a narrow perspective. Business has been focus on “optimizing short term, financial performance (...) ignoring the broader influences that determines their long term success” (Porter and Kramer 2011: 1) nevertheless, increasingly current entrepreneurs are applying emerging models as SVC which poses busi-

ness the opportunity to address social issues as a way to achieve their financial and economic performance.

For Porter and Kramer (2011) SVC is:

“Policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates” (ibid).

SVC can be done in three ways according to Porter and Kramer (2011): (1) by reconceiving products and markets (2) by redefining the productivity in the value chain (3) by enabling cluster development. By reconceiving products and markets they mean creating new goods or identifying new market opportunities through innovation to satisfy societal needs previously not attended focusing mainly at the base of the pyramid (BoP) (Porter and Kramer 2011: 5). By redefining productivity in the value chain they mean internalizing the costs produced by the firms value chain applying new distribution methods, improving energy use, procurement, supplier development and employee productivity among others (ibid). By local cluster development they mean filling the gaps or helping to solve the cluster’s framework conditions (ibid: 8) (Hernandez 2013).

Additionally, Moon et al (2011) arguing that there are “other areas that companies can take advantages of SVC, beyond demand conditions” (Moon et al 2002: 59) posed to broaden reconceiving products and markets by renaming it as “reconceiving comprehensive targets” (ibid). Additionally, they presented a fourth way of SVC called “defining the core competence” (Moon et al 2011: 61) stressing that enterprise strategy has to be the input to create value, therefore, prospect for SVC is found on companies competitive advantage. Consequently, the first question in the process of SVC may be what to do rather than how to do it (ibid).

Moreover, Bocksttete and Stamp stressed the building blocks for SVC: vision, strategy, delivery and performance. Specifically on delivery they stated the need for establishing partnerships for acquiring information and implementing actions in order to achieve the purpose of creating social value.

Lastly, SVC and CSV will be used interchangeably for the purpose of this paper.

### **2.3.2 CSR**

Literature has identified 37 definitions for CSR (Dahlsrud 2008). According to Dahlsrud (2008) the most common definition found is one given by the Commission of European Communities in 2001 which states that CSR is

“A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” ((CEC (2001) cited by Dahlsrud (2008)).

Jenkins (2006) studying small firms engagement in CSR argued that it is

“An “all embracing” idea that concerns having an awareness of the impacts of the business and wanting to have a positive impact on a wide range of stakeholders through the business decisions that are made” (Jenkins 2006: 245).

Additionally, the author explained the motivational pressure for small enterprises to get involved in CSR. For the author both, “issues closer to home” (Jenkins 2006: 243) as community involvement and moral and ethical concerns of the owner- manager explicate SME commitment with CSR.

Furthermore, Jenkins (2006) studying 54 small companies in UK in terms of the activities implemented within CSR mentioned that in general enterprises considered to be socially responsible the fact of being profitable and creating local employment (ibid: 246). However, broadening the research the author found that CSR most common activities were related to key stakeholders as environment, employees, community and suppliers (ibid: 247). Additionally, the author stated that initiatives delivered by SME’s in the framework of CSR having the highest level of impact were closely related to the company economic sector.

### **2.3.2.1 Small Firms and CSR**

Literature on small firms has recently focused on its performance, the influence exercise by the owner-manager and the potential of this kind of firms for implementing CSR. In relation to the first two, Blackburn (2013) regardless that he reaffirmed that structural conditions are essential features that define business performance, he recognized that owner-manager characteristics are also important variables that influence small firms growth. Specifically, within owner-manager characteristics he stated that educational level, prior experience and manager commitment to growth were important but owner-manager definition of business style was essential, particularly likelihood to innovate, having a business plan, openness to take risk and partnering among others (Blackburn 2013: 13).

In relation to small firms implementing CSR, according to Jenkins (2006) characteristics of small firms make them champions for CSR. They are flexible units that can easily adapt to new market opportunities and changes (Jenkins 2006: 242). They are averse to bureaucracy (ibid) and relationships among individuals within the organization are more horizontal than hierarchical.

Furthermore small firms “behavior is often understood in terms of the psychological characteristics of the entrepreneur or “owner-manager” (...) and these characteristics vary widely depending on individual personalities” (ibid). Jenkins (2006) stressed that usually in small enterprises the owner and the manager are the same person (ibid), facilitating decision-making process, providing legitimacy and autonomy to decide how much financial resources can be defined for responsibility purposes and how it will be approach (ibid). Besides, autonomy yields the “owner-manager” to embed its personnel values on the organization and CSR principles (ibid) but the author stressed that the “owner-manager” effective leadership is required if an small enterprise wants to champion in CSR.

However, some critics have emerged to Jenkins (2006) referring to limiting factors for CSR application by small firms. Frynas (2008) mentioned among others the business case as an element that limits the developmental impact of CSR activities. Fox (2005) stressed that not only size and ownership structure but also “visibility, location (...) and the sector and market segments” (Fox 2005: 5) influence CSR “insights and approaches” (ibid). Indeed common elements of business case for CSR as “reputational risk management, campaign



pressures from NGO's (...) media exposure (...) are less likely to apply to SME's than to large companies" (ibid).

### **3. Gaps Identified on the Literature**

Given the previous explanation three gaps have been found on the literature:

- a. There are clear separate views among the difference between SVC and CSR. However, the debate is still open and evidence in practice shows that there is a possible overlap among them which literature have not addressed.
- b. SVC literature mentioned partnerships as a building block but there is not a clear explanation of why firms seek for their creation during the process. Also, CSR literature has not theorized why in practice there is an increasing interest of enterprises to establish partnerships during CSR strategy implementation.
- c. There is no reference about the relation between the construction of partnerships during the SVC and CSR implementation and LED. Porter and Kramer (2011) building the concept of SVC incorporated LED in their definition. However, they have not explained how SVC contributes to LED. Additionally CSR literature has neither addressed this topic.

## **Chapter 3: Of How Shared Value Creation is Being Applied by Small Enterprises: A Case Study**

### **3.1 HYBRYTEC: A Case Study of SVC**

The small firm started operations in 2007, actually it has the head office in Bogota and its owner-manager is a 32 years old engineer with post-graduated studies in USA (Jaramillo 2013, personal interview)<sup>5</sup>. Currently it has 22 employees and assets of less than one million dollars (ibid).

HYBRYTEC is a small enterprise that offers solutions of solar energy through two types of services: project development and commercialization of equipment (ibid). Within the former they implement two kinds of projects: on one side, impact interventions, done through partnerships aimed to solve social problems related to energy (ibid). On the other side, private projects offer to private agents related to energy solutions (ibid). Additionally, they commercialize equipment like lamps, fridges, batteries, solar panels, heaters and water-pumps among others (ibid).

HYBRYTEC has built partnerships for two purposes: implementing the impact interventions and selling the equipment (ibid). The formers have been established with public and social actors and the latter have been started with local distributors (ibid). The firm is a partner within the biggest partnership in Colombia, initiative lead by Fundacion Semana (ibid).

The company belongs to a private movement called B System that has identified and grouped small firms in USA and Latin America that “seek to solve environmental and social problems through market mechanisms” (Camacho 2013, personal interview)<sup>6</sup>. Enterprises that belong to this association comply with transversal dimensions as management and governance, labour practices, environment, community and business model (ibid). In general, “it works as a platform to provide technical assistance and auto-diagnosis to small firms in their social and environmental performance” (ibid). HYBRYTEC became a B enterprise in 2013.

### **3.2 According to the case study does the way in which a Small Enterprise creates Shared Value in the Bogota-Region fits in the strategies mentioned by Porter and Kramer and Moon et al?**

According to the strategies mentioned by Porter and Kramer (2011) and Moon et al (2011), and to the case study, small enterprises create shared value in the Bogota-Region by reconceiving products and markets, redefining the

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<sup>5</sup> Interview with Camilo Jaramillo in field work for Master Thesis data collection, 30 July 2013, originally in Spanish and translated to English.

<sup>6</sup> Interview with Manuel Camacho in field work for Master Thesis data collection, 26 August 2013, originally in Spanish and translated to English.

productivity in the value chain and defining its core competence. However, there was no evidence about enabling cluster development and redefining comprehensive targets.

By reconceiving products and markets according to the case study, it is clear that small enterprises seek to satisfy a societal need previously not attended. However, in terms of the price, the good is not attending directly the BoP. Additionally, in terms of innovation when the product or service offered entails high technology for its production it is usually a result of a technological innovation made by third enterprises from a foreign country, namely, it is imported. In the case of HYBRYTEC they offered solar energy solutions to countryside population facing energy deficit. Nevertheless, the cost of developing impact projects is high hence BoP have access to the goods via international cooperation or local government investment. Additionally, most of the goods commercialized by HYBRYTEC are developed and imported from foreign countries that are at the technological frontier, therefore there is not technological innovation in-home.

By redefining the productivity in the value chain, according to the case study small enterprises focus on activities as distribution, procurement and employee productivity among others as specified by Porter and Kramer (2011). Distribution and procurement are stressed as the two most important activities for creating shared value in practice by small enterprises in Bogota Region. On distribution the company focuses on giving access to credit to 400 small local distributors, promoting their entrepreneurship skills and offering periodic training on goods use and repair (Jaramillo 2013, personal interview)<sup>7</sup>. The credit is done in equipment and the capacity building activities are four times per year. Additionally, in terms of procurement, activities such as increasing access to inputs, providing financing and sharing technology are done as activities to develop suppliers by the other companies that belong to the B system (Camacho 2013, personal interview)<sup>8</sup>.

Furthermore, by enabling cluster development the last level in which shared value can be created according to Porter and Kramer (2011), the study case shows that there is neither at the national nor at the regional level a geographic concentration of interconnected companies and institutions in any of the particular sectors in which the B companies develop their business.

Moreover, Moon et al (2011) mentioned reconceiving comprehensive targets as a result of formal or informal barriers to access the market imposed by third actors as an area in which companies can take advantages beyond demand conditions. Nevertheless, in practice it was not an identified strategy in how small enterprises create shared value in Bogota Region.

Additionally, Moon et al (2011) added a fourth element to take into account during the process of creating shared value: defining the core competence. According to the case study, when small enterprises in Bogota Region start a SVC model the process of defining the core competence, namely outlin-

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<sup>7</sup> Interview with Camilo Jaramillo, on fieldwork for Master Thesis data collection, 30 July 2013, originally in Spanish and translated to English.

<sup>8</sup> Interview with Manuel Camacho, on fieldwork for Master Thesis data collection, 26 August 2013, originally in Spanish and translated to English.

ing what to do is a simultaneous process of detecting the social problem and building the organizational and productive conditions to deliver the service in the sector in which the company has competitive advantages. In the case study, HYBRYTEC recognize the deficit of energy supply in the country while identifying potential international suppliers of goods and achieving capital to start operations.

Finally, it was found that periodically HYBRYTEC assist to events organized by the B system in which good practices are shared and new business opportunities among the B enterprises emerged. As mentioned by the owner manager of one B enterprise “scenarios like this help to share ideas to enhance both the social impact and the economic performance of our firms” (Burgos 2013, personal interview)<sup>9</sup>.

Summarizing, as shown by the case study small firms in the Bogota-Region create shared value by reconceiving products and markets, redefining the productivity in the value chain and defining its core competence.

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<sup>9</sup> Interview with Jorge Burgos, in field work for Master Thesis data collection, 14 August 2013, originally in Spanish and translated to English.

## **Chapter 4: Confirming and Introducing Critical Features to Champion the CSR Strategy of a Small Firm**

### **4.1 INTERLABCO S.A.S: A Case Study of CSR**

The small firm started operations in 1996 and it offers quality control testing of carbon, water, food and minerals for national and international companies. Actually it has its head office in Ubate a municipality part of Bogota-Region and its owner-manager is a woman with more than 25 years of experience in the chemistry industry. Currently it has 17 employees and two contractors, which focus specifically on CSR duties and its assets, are less than 200.000 dollars<sup>10</sup>. (Peña 2013, personal interview)<sup>11</sup>.

INTERLABCO CSR strategy is called “*Sembrando valores*” and is focused on building citizenship (ibid). The areas in which the strategy is focused are topics that currently take part of the public policy agenda related to domestic violence and sexual abuse, drug consumption and children and youth human rights protection (ibid). Additionally the work is complemented in areas like community development and entrepreneurship capacity building. The strategy covers 5 territorial areas of Ubate with more than 500 beneficiaries mostly households, children and youth (ibid).

Finally, in the framework of the CSR strategy INTERLABCO has established partnerships with public entities and non for-profit organizations; two with the former and one with the latter (ibid). All partners are educational institutions.

### **4.2 According to the case study, does the way in which Small Enterprises develop the CSR strategy in Bogota Region fits in Jenkins (2006) and Blackburn (2013) proposal?**

According to the case study three elements are decisive for CSR strategy to be championed in small firms. First, as mentioned by Jenkins (2006) the autonomy and legitimacy of the owner manager to take decisions about how to approach CSR and the amount of resources used for its implementation. Second, strongly linked and also mentioned by Jenkins (2006) the effective leadership of the owner-manager. Third, the owner-manager characteristics, specifically the business style particularly, planning and introducing innovation as mentioned by Blackburn (2013) are essential for CSR strategy configuration.

First, according to Jenkins (2006) given the fact that the owner- manager plays the double role of owning and managing (Jenkins 2006: 242) he enjoys the autonomy and legitimate decision-making power to begin the implementation of a CSR strategy and then to allocate the amount of resources that are considered appropriate to achieve responsibility purposes. Additionally, he

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<sup>10</sup> Interview with Edelmira Peña, on field work for Master Thesis data collection, 23 July 2013, originally in Spanish and translated to English.

<sup>11</sup> Ibid.

defines the CSR approach, particularly, stakeholders focus, CSR strategy purposes, type and number of partnerships built and the speed and progressiveness of the strategy impact.

As seen in INTERLABCO by the exercise of her autonomy the owner-manager decided to start the formulation and implementation of a formal CSR strategy in 2010 with the institutional support of the CCB. Furthermore, the community of 5 urban and rural areas of Ubate, the local government, the employees, the suppliers and the consumers were chosen as the most important stakeholders. With them she decided to make a participatory construction of the strategy defining objectives and components. Additionally, in order to achieve the social purposes, she established partnerships with educational institutions, -two public and one NGO- and define an annual budget for CSR purposes.

Second, as Jenkins (2006) mentioned, and according to the case study, small enterprises can be the champions for CSR if the owner manager shows effective leadership. In the case of INTERLABCO time and commitment from the owner-manager printed speed to the strategy implementation with progressive impact in more than 500 households in two years. The owner manager decided to incorporate on the strategy relevant policy issues trying to address their solutions through INTERLABCO institutional capacity. Indeed regardless it is not recognized by the local government, the level of commitment and impact of the firm strategy can be seen looking at the influence that the actions developed by the enterprise had on the policy agenda of the local health office. Specifically, both the way in which the public administration approached the problem and the solutions provided reflect INTERLABCO's vision and actions related to teenage pregnancy, domestic violence and children and youth drug consumption. Additionally, the owner-manager decided to take part of an institutional platform offer by the CCB where good practices are shared, capacity building on sustainability issues is provided and synergies for responsibility actions are built.

Third, Blackburn (2013) studying small business performance argued that owner manager characteristics, particularly the business style regarding attitude towards innovation and planning are important for business growth. According to the case study it is possible to argue that both elements are essential also to champion CSR in small firms.

As the owner manager mentioned "both researching, testing, changing and organizational progress go hand by hand. Manager that doesn't introduce changes is changed" (Peña 2013, personal interview)<sup>12</sup>. Therefore, INTERLABCO owner-manager constantly apply new tendencies in management, processes and CSR related issues. The majority of the innovations are done in orgware - how individuals relate to each other within organizations- and socware – how relations are established among organizations (Helmsing 2013). In the firm all employees are auditors of others behavior and corrective actions are established among colleagues. Additionally, new dynamics and rules

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<sup>12</sup> Interview with Edelmira Peña, on fieldwork for Master Thesis, data collection, 12 August 2013, Originally in Spanish translated to English.

were established with stakeholder organizations, introducing a quality assessment of suppliers to regulate the relationship within the value chain.

Finally, regarding the planning processes the owner-manager mentioned, “planning is important and hence it is applied to enlighten our way as an organization” (Peña 2013, personal interview)<sup>13</sup>. Concerning responsibility activities INTERLABCO owner-manager planned with the CSR contractors all the activities per year in order to achieve the related results. The action plan is periodically reviewed and modifications can be introduced to adapt the strategy to the enterprise needs.

Summarizing, according to the case study the owner-manager autonomous decision, effective leadership and business style are essential features for CSR strategy configuration in a small firm.

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<sup>13</sup> Ibid.

# Chapter 5: An Analysis of How the Application of SVC and CSR by Small Firms Contribute to the Local Economic Development Through Partnership Building

## 5.1 Why when applying SVC and CSR Small Firms seek for Partnerships?

In order to analyze the contribution of SVC and CSR to LED through the establishment of partnerships, it is important to first tackle the question, why small firms seek for partnerships when applying either of both? Then there will be enough evidence to address the main question of this research.

### 5.1.1 Why when applying SVC Small Firms seek for Partnerships?

Partnerships are a building block (Bocksttete and Stamp) part of the base or structure of the process of SVC. Their role is to be the *mean* or *instrument* that entails a sine-qua-non condition for either reconceiving new products and markets or redefining the productivity in the value chain for small firms. In other words, they are a “blueprint for translating a shared value agenda into action” (Bocksttete and Stamp: 8).

According to the case study and based on Glasbergen (2007) and Selsky and Parker (2005) when a small enterprise is applying the model, partnerships are *means* or *instruments* for SVC given the following four reasons: (1) partnerships offer a collaborative advantage (2) partner organizations are depending on resources (3) partnerships are used as steering mechanisms to solve policy problems (4) actors are motivated around core issues or meta-problems.

#### Partnerships Offer a Collaborative Advantage

First, in SVC, partnerships offer a collaborative advantage for the organization and yield the achievement of the model purposes. As found in the case study, HYBRYTEC and its partners believed that the output gained from cooperation would not be reached in an alternative scenario without the collaborative arrangement. As a partner mentioned, “the partnership was essential to help the community. Without a partnership no single actor could have done it by its own” (Zimmermman 2013, personal interview)<sup>14</sup>.

Additionally, when small firms seek to solve economic and social issues they are obliged to pursue the support from other organizations to create the synergy and added value demanded to solve complex social phenomenon. Such synergy is a result of information and support for action (Bocksttete and Stamp: 9), two elements that form the collaborative advantages provided by partnerships when SVC. These advantages entail transaction and investment costs reductions, hence the process of delivering new services is efficiently fos-

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<sup>14</sup> Interview with Zabrina Zimmermman, on fieldwork for Master Thesis, data collection, 5 August 2013, originally in Spanish translated to English.



tered. As seen in the case study, HYBRYTEC had its own assets but it needed to be complemented by other organizations to provide energy solutions for the community. Therefore, the firm found Fundacion Semana, who had lobby capacity and experience working with civic groups and public institutions. Finally, the addition of assets addressed community lack of access to public services and HYBRYTEC reconceived a product and market profiting from that impact intervention.

### **Partner Organizations are Depending on Resources**

Second, when small firms are creating shared value this type of partnership emerges because organizations lack resources to accomplish their double purpose of making profit while solving economic and social issues. Since the defining stage of what should be done to SVC (Moon et al 2011: 61) -namely the beginning- what small enterprises require from partners are knowledge and experience either to create a new product, to act in a new market or to internalize the externalities identified in the value chain. To acquire such essential knowledge, partnerships are built within SVC. Therefore, for this model to work knowledge is required and alliances are constructed as a result of this need.

While firms intend to advance on this process they find organizations that share their interests who also depend on resources to attain their variety of purposes. Hence, partners are mobilized to SVC (Bockstete and Stamp). During the interaction with the partners the small firm will intend to absorb all the possible knowledge, given that such learning process is closely related with the core of its business, so that the more they learn the higher their future profit. According to resource dependence theory, organizations are resource dependent when the resource demanded is closely related with the core of their business: certainly, that is precisely what occurs in SVC, therefore the firm is clearly resource dependent.

From the partner companies' standpoint, the degree of knowledge absorption they intend is as deep as it is in the case of the small firm, given that these skills are usually linked to their mission. Therefore is a given that, within SVC resource dependency, all partners depend on the knowledge they demand, and that this is closely related to the core of their business. As will be explained precisely, the stage of the process in which knowledge is demanded and to what extent it is absorbed by all partners -including the small firm- entails a difference between SVC and CSR.

In the case of HYBRYTEC, the partnership represented a way of accessing resources to develop the impact projects and acquire related technical skills to increase their competitive advantages. It served as to gain experience in working with big organizations belonging to other societal spheres, learning new logics to relate with communities and managing accountability of social interventions. As mentioned by the owner manager, "partnerships are all: a platform to acquire experience, access to resources and develop our competitive advantage" (Jaramillo 2013, personal interview)<sup>15</sup>. Furthermore, actors also

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<sup>15</sup> Ibid.

working and interested in public service issues sought to learn from the partnership about alternative and sustainable ways of providing energy to countryside communities. “Collaborating with HYBRYTEC was a mutual learning process” (Castro 2013, personal interview)<sup>16</sup> Thus, all partners agreed that partnerships represent a learning process by doing.

### **Partnerships are Used as Steering Mechanisms to Solve Policy Problems**

Third, when partnerships are built within SVC they are used as governance mechanisms. Among the types of partnerships within this angle stated by Glasbergen (2007), providing technical assistance to solve a specific problem appears to be the way in which small firms participate of the partnership. As shown in the case of HYBRYTEC, at the beginning the motivation was to invite the private sector to the partnership as a technical assistance service provider, however, “the shared value model applied by the small enterprise transformed it from a supplier into a partner involved in activities that surpassed its initial mission”. (Cabal 2013, personal interview)<sup>17</sup>. In other words, HYBRYTEC was seen as an actor with the capability to provide skills for solving policy problems related to energy, which could not only address technical issues but also participate in other activities, creating value for society while being compensated for its services.

Additionally, scaling up and legitimacy, two important characteristics of partnerships as governance according to Glasbergen (2007) were also present in the initiative. Given that the lack of access to energy is a generalized problem in the countryside in Colombia and HYBRYTEC showed the technical capacity and legitimacy to provide solution to such economic and social problem, new opportunities appeared to scale up the partnership. Actually, the plan is to be replied in two new municipalities and its coverage has extended, reaching the number of more than 96 partners, being the biggest partnership in the country. Furthermore, not only energy issues are involved, but also water, economic development, and recycling capacity building, among others. All topics related to peace-building processes.

Moreover, according to the case study, it is possible to argue that from the perspective of the partners this type of alliances emerges given the state’s failure to provide solutions to policy problems. As mentioned by the owner manager of HYBRYTEC “there is a clear state failure that partners do recognize” (Jaramillo 2013, personal interview)<sup>18</sup>. “Political dynamics, inefficiency, financial resources scarcity and legal frameworks are some obstacles that limit a successful service delivery from the state”(ibid). Therefore, all elements mentioned by Glasbergen (2007) to understand SVC partnerships as governance mechanisms are present.

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<sup>16</sup> Interview with Cristina Castro, on fieldwork for Master Thesis data collection, 26 August 2013, originally in Spanish translated to English.

<sup>17</sup> Interview with Maria Cabal, on fieldwork for Master Thesis data collection, 18 August 2013, originally in Spanish translated to English.

<sup>18</sup> Interview with Camilo Jaramillo, on fieldwork for Master Thesis data collection, 27 August 2013, originally in Spanish translated to English.

### **Actors are Motivated Around Core Issues or Meta-Problems**

Fourth, SVC partners can be seen as stakeholders of issues rather than of organizations (Selsky and Parker 2005: 852). In the case of “El Salado” in which HYBRYTEC participated as partner, the reconstruction process was aiming to provide solutions to a variety of meta-problems historically present in the municipality, particularly power, which represented a core issue in the process. “The power public service was for years an unresolved problem for the community. Therefore, cooperation was seen as the most viable solution” (Jaramillo 2013, personal interview)<sup>19</sup>. Thus, was the lack of access to power public service what previously promoted the participation of organizations of different spheres, such as the Ministry of Mines and Energy, and what brought the small firm to become a partner. However, all partners retain organizational autonomy (Selsky and Parker 2005) while tackling in-group the social issues. “The issue with public services made the partners to join and collaborate. Nevertheless, all preserved self-sufficiency” (ibid). Therefore, enough elements were found to classify the SVC within the social issue platform.

Summarizing, four reasons explain why when small firms apply SVC they seek for partnerships. First, because they depend on resources; second, specific issues that can only be addressed through cooperation capture their attention; third, partnerships offer collaborative advantages and fourth, they help to provide alternatives to policy problems.

#### **5.1.2 Why when applying CSR Small Firms seek for Partnerships?**

As explained by Jenkins (2006) when small firms apply CSR the owner manager has the legitimacy and autonomy to decide how to approach it. One of the decisions taken by the owner manager is either building partnerships or not for achieving the CSR purposes. In that sense, partnerships are building blocks, *means* or *instruments* for CSR only if the owner manager’s choice is to address the responsibility strategy through collaboration mechanisms. In other words, only if the owner manager decides it, partnerships will be sought and achieved.

As seen in the case study, it was clearly identified that CSR contributes to partnership building indirectly via the autonomous decision of the owner manager. As mentioned by Jenkins (2006) and seen in INTERLABCO, the owner manager embedded her personal values in the organization and exercised effective leadership on promoting and building partnerships. Indeed, that is connected to what Blackburn (2013) stated as characteristic of owner-manager business style, specifically, openness to work with others. As detailed by Edelmira Peña “if there is an opportunity to work building alliances, why not?” (Peña 2013, personal interview).

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<sup>19</sup> Interview with Camilo Jaramillo, on fieldwork for Master Thesis data collection, 27 August 2013, originally in Spanish translated to English.

Having this in mind, if that is the entrepreneur optimal, then according to the case study and based on Glasbergen (2007) and Selsky and Parker (2005), partnerships will be pursued in the framework of CSR given the following reasons: (1) partnerships offer collaborative advantages (2) organizations depend on resources for responsibility purposes. An explanation will be provided to enlighten why regardless the case study used also partnerships as governance mechanisms, this cannot be generalized.

### **Partnerships Offer Collaborative Advantages**

First, in the framework of CSR, partnerships offer collaborative advantages for all partners, not only for the small firm. Within this framework, actors seek through partnerships the reduction of transaction costs and investment for reaching diverse organizational purposes. On one side, for the educational institutions both, enhancing student's knowledge and impacting communities through apprentice social work, is one of their objectives. As mentioned by the one of the school directors, "through the partnership students are allowed to labour in INTERLABCO CSR strategy yielding them to learn and help society" (Chacon 2013, personal interview)<sup>20</sup>. For the small firm collaborating with the educational institutes foster the accomplishment of the CSR purposes. "Partnerships permit both organizations to reach their goals and beneficiaries to get benefited" (Peña 2013, personal interview)<sup>21</sup>. Therefore, through collaboration all partners address the organizational interests and reach targets easier and faster, hence all participants face a reduction in transaction and investment costs.

### **Organizations Depend on Resources for Responsibility Purposes**

Second, organizations depend on resources for responsibility purposes. In CSR the small firm dependence on knowledge is not identified in the starting stages of the strategy, and the degree to what the knowledge is absorbed by the small enterprise is to the extent to achieve its CSR objectives. Usually at the beginning small companies deliver financial and human resources for responsibility purposes according to their institutional capacity, but at that stage they are not interested in learning about the substantial topic related to the social issues, given that precisely that is not the core of their business. However, once they notice that for achieving the CSR purposes they require knowledge, the owner manager will seek for partnerships. Nevertheless, given that it is not the core of its business the magnitude to what the small firm grips the social related knowledge will be to the minimum level to reach the social goals.

Therefore, given that resource dependence theory associates the resource needed with the core of the business of the firm, in CSR is not possible to ar-

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<sup>20</sup> Interview with Aurora Chacon, on fieldwork for Master Thesis data collection, 12 August 2013, originally in Spanish translated to English.

<sup>21</sup> Interview with Edelmira Peña, on fieldwork for Master Thesis data collection, 12 August 2013, originally in Spanish translated to English.

gue that small firms are resource dependent. However, they do depend on the knowledge provided by the partners, but within a limited scope defined by the CSR purposes. Given that the small firm is not resource dependent, consequently resource dependence is not mutual in CSR.

In this context, INTERLABCO initially deliver financial and human capital to deliver the activities of CSR. “Two teachers were contracted for specific responsibility purposes and an amount of capital was allocated for children and youth human rights capacity building” (Peña 2013, personal interview)<sup>22</sup>. Once the pilot intervention was implemented and the project grew in scope and specific knowledge related to the core issues of the strategy were demanded, the owner manager identified the need to mobilize local partners. Hence, partnerships were built. Nonetheless, given that it is not the core of its business, the degree of appropriation of the knowledge was to the extent of delivering CSR activities in good quality and quantity, no more.

### **Partnerships as Governance Mechanisms cannot be generalized**

Third, elements of partnerships as governance were clearly found in the CSR case. Within the partnerships, topics that were already in the public agenda related to child, youth and household issues were reinforced and indeed upgraded to public policy. Indeed, the activities and focus developed in the framework of the partnership have been replied by the public administration as part of the social policy of the municipality. As the owner-manager stated “the local government had addressed the social policy having as starting point the purposes of the partnership which are the same INTERLABCO’s CSR objectives” (Peña 2013, personal interview).

Issues of scaling up and legitimacy were clearly present in this case. The small firm activities were clearly broadened and upgraded once the local government incorporated the initiatives on the policy agenda. This required recognition from INTERLABCO and its partners as important actors with the capacity to provide solutions to public problems. Then, undoubtedly, partnership as a governance mechanism can be identified in the CSR case.

However, given that the strategy’s focus and objectives depend on the owner manager’s autonomous choice, the use of partnerships as steering mechanisms to solve policy problems is case-specific. That means that if another CSR case is studied probably partnerships will not be sought as a mechanism to offer answers to topics of public interest. Therefore, the use of partnerships as governance mechanisms cannot be generalized as a reason why CSR strategy seeks for collaboration.

Summarizing, when small firms apply CSR they seek for partnerships because they offer collaborative advantages and organizations depend on resources for responsibility purposes. However, addressing governance issues as a reason for partnering is case-specific.

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<sup>22</sup> Ibid.

## 5.2 How in the Bogotá-Region Small Enterprises applying either SVC or CSR contribute to Local Economic Development through Partnership Building?

Having the reasons why small firms applying SVC or CSR seek for partnerships already clear, now the focus is to explain how small enterprises applying either of both contribute to LED through partnership building. The partnerships promoted in both: (1) can be understood as “local impact” of LED (2) incentivize processes of learning and entail a source of innovation (3) enhance the local governance scenario and (4) promote LED driven by endogenous sources.

All reasons work when firms apply SVC. However, for CSR two autonomous and legitimate decisions of the owner manager must be taken. First, the choice of including LED or its related issues – the ones defined as local impacts by Ashley and Elliot (2003)-as one of the main issues within the CSR strategy. Second the decision to build partnerships as a mean to achieve responsibility purposes.

### 5.2.1 Partnerships as “Local Impact” of LED

The first reason is that partnerships can be understood as “local impacts” in the framework of LED. Building on the concept of Ashley and Elliot (2003) a “local impact” can be comprehend as third variables that once being impacted can in turn facilitate the conditions for LED. When small firms applying either SVC or CSR decide to build partnerships, then conditions for LED promotion can be facilitated given one single reason: partnerships are *mobilizers or means* for LED.

The *mobilizer or mean* reason embraces that as seen in the definition of LED this type of collaboration is considered a vehicle through which resources can be managed for creating employment and promoting the welfare in the locality ((Helmsing and Egziabher (2005:1) cited in Rogerson and Rogerson (2010: 466)). In other words, partnerships work as an instrument that yields local actors to achieve the LED purposes.

As seen in the SVC case and as mentioned by Bocksttete and Stamp, partnerships are “building blocks” for creating economic and social value for society. Namely, if a firm wants to increase its economic performance via the solution of economic and social issues a partnership has to be built, otherwise the model cannot be developed. As mentioned by the owner manager of HYBRYTEC “the company found in building partnerships a way of implementing impact interventions, namely the core of our business”. (Jaramillo 2013, personal interview). Therefore, partnerships are platforms to succeed in the simultaneous double purpose of SVC: gaining money and addressing economic and social issues. Hence, without partnerships there is no SVC process.

Additionally, as previously stressed when small firms apply CSR the autonomous and legitimate double decision of the owner manager should be accomplished in order to consider within this framework partnerships as “Local impacts” of LED. As mentioned by INTERLABCO owner manager “partnerships allow all sectors to acquire their organizational purpose and also to

promote the local development in all areas, economic and social. Nevertheless, in this case I lobbied and promoted their formation as part of our CSR strategy” (Peña 2013, personal interview)<sup>23</sup>.

Summarizing, partnerships can be understood as “local impacts” of LED given that when small firms apply either SVC or CSR, alliances work as *mobilizers or means* for LED.

### 5.2.2 Partnerships as Process of Learning and Source of Innovation

Learning is an essential process for companies in the current economy (Lundvall 2013: 6) “is central to maintaining and renewing competencies” (Helmsing 2002: 93) and embraces all the four stages of developing absorptive capacity for innovation. Innovation is a result of an interactive process among individuals and firms (Helmsing 2013) and its impact on the latter performance “range from effects on sales and market share to changes in productivity and efficiency” (OECD and EUROSTAT 2005: 21). When firms innovate and interact knowledge spillovers generates positive externalities on the local economy and partnerships are one of the main platforms where such information flow can be done to foster production and competitiveness.

As seen in the two case studies CSR and SVC partnerships are scenarios that hold organizational learning (Helmsing 2002), entail a mode of innovation (Helmsing 2013) and involve a broader view of it (*ibid*) (Lundvall 2013). Additionally, partnerships itself encompasses innovation in processes.

First, in both SVC and CSR partnerships bring learning processes internal to the firm concerning how to address specific social issues. Regardless, that the extent of absorption of the knowledge is different in both cases small firms acquire such information to stay competitive. “CSR increases firm competitiveness, hence learning how to do it is a priority” (Peña 2013, personal interview)<sup>24</sup>. For SVC promoting organizational knowledge in topics related to the core of the business is essential for achieving the model double purpose of increasing firm profit while solving social issues. As mentioned by the owner manager of HYBRYTEC “partnerships are a source of knowledge for our organization” (Jaramillo 2013, personal interview)<sup>25</sup>

Second, partnerships entail a process of “doing, using and interacting” (Helmsing 2013) in which partners acquired experience by doing, namely, is an experienced-based learning. Additionally, such process of learning is progressive and increased by time while partnerships are implemented. It can happen in all economic sectors and in organizations of all societal spheres. It occurs mainly on small firms given their flexibility to get adapted to new scenarios and changes, as mentioned by Jenkins (2003) and confirmed by the case studies.

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<sup>23</sup> Interview with Edelmira Peña, on fieldwork for Master Thesis data collection, 12 August 2013, originally in Spanish translated to English.

<sup>24</sup> *Ibid*.

<sup>25</sup> Interview with Camilo Jaramillo, on fieldwork for Master Thesis data Collection, 27 August 2013, originally in Spanish translated to English.

Third, partnerships imply a broader view about innovation. In both cases CSR and SVC, technological processes of innovation to deliver the service was done abroad. That means that hardware, namely equipment and tools necessary for conducting either the quality control process or providing an energy solution were imported. However, in both cases innovation was done in orgware and socware. Orgware because in both cases relations between employees entail new dynamics either for building a competitive team to formulate a project solution with solar energy for HYBRYTEC, or for establishing correctives for bad practices during the accomplishment of their duties for INTERLABCO. Socware because partnerships brought new tendencies related to how organizations from different societal spheres interact among them. HYBRYTEC experienced working with non-private organizations once it built and implemented the first partnership. INTERLABCO skilled in working with NGO's and the state once the initial partnership was executed.

Finally, partnerships themselves entail innovation in processes because involve new competencies for organizations (ibid). The collaborative initiatives established represented for the small firm in the SVC case new ways for making business. As HYBRYTEC owner-manager stated "partnerships were a way of surviving in the market when state contracting was stopped in 2011 in Colombia". Establishing partnership with social and state spheres yield the small firm to deliver impact projects across the country. On the other side, for INTERLABCO building partnerships was a way of learning how to approach communities and protect the environment.

Summarizing, learning and innovation processes embrace positive externalities for the local economy when small firms applying either SVC or CSR interact and exchange information and experience. Partnerships are precisely the mean or instrument to foster and upgrade knowledge within a process of learning by doing because they yield interaction among local actors. Additionally, they entail a broader view of innovation and as stated by Lundvall (2013) "impact of innovation on economic performance will typically depend on changes in (...) "orgware" and "socware"" (Lundvall 2013: 101).

### **5.2.3 Partnerships as Governance Enhancement Scenario**

Partnerships can be understood as platforms to enhance governance scenarios at the local level. As Glasbergen (2007) argued partnerships serve as steering mechanisms for providing solution to policy problems. Partnerships are built to establish rules, procedures and responsibilities, embedding legitimacy to non-state actions, broadening the local governance scenario and facilitating the interplay among different actors.

Regardless, Glasbergen (2007) stressed that partnerships emerge as a result of state failure in providing solutions to policy problems, it is important to recognize that other societal spheres as market and civil society face also from absence of capability to offer individual answers, showing "single actor solutions insufficient" (Bitzer et al 2011: 222) to overcome economic and social challenges. Hence, "building on the expertise of each member, partnerships seek to simultaneously fulfill development goals and private business interests" (ibid) yielding the emergence of potential solutions to public problems previously not attended.



Indeed, partnerships sought when small firms applying SVC and CSR entail a multi-actor approach that facilitates shaping policy problems and defining common efforts for solution in a horizontal structure, enhancing a type of governance understood as an “interplay among active participates” (Colebatch 2009: 63). Within this governance context relationships among local stakeholders are restructured (Glasbergen 2007: 3) embracing a new tendency for aligning public and private attentions and responsibilities, placing “public and private interest on a continuum” (ibid).

#### **5.2.4 Partnerships Promote LED Driven by Endogenous Sources**

LED is an issue when building partnerships. On one side, as stated by Selsky and Parker (2005) all CSSP partnerships have a LED focus. On the other side, some LED related issues are considered meta-problems that demand partnership building for their solution. However, the LED promoted when small firms apply either SVC or CSR is one driven by endogenous forces given that partnerships are envisioned as the new economic institutions mentioned by the local (re) generation theory, serving to leverage local resources, promoting homegrown entrepreneurship and human capital, involving and restructuring local communities (Gomez and Helmsing 2008: 2492).

First, Selsky and Parker (2005) mentioned four arenas in which CSSP can be built. As seen all four arenas predominantly focus on economic development or other “local impacts” as infrastructure and public services (Ashley and Elliot 2003). Consequently, LED appears to be one of the main issues for working when partnership-building processes are started and implemented, independently of sector origin of the partners.

For SVC this can be easily identified given its double purpose of achieving firm financial performance while addressing economic and social issues. In the case study providing energy solution and infrastructure was the purpose of the partnerships. Actually, working on capacity building to develop entrepreneurship ability of distributors was the core of the model for HYBRYTEC. However, for CSR the two conditions have to be accomplished for partnerships to contribute to LED in this framework.

Second, Selsky and Parker (2005) stated the existence of meta-problems that exceed the single institutional solving capacity and hence partners must cooperate to seek a solution. When CSSP are established as a result of a meta-problem, as seen in the four arenas the issue that drives collaboration is economic development or any other “local impact” which as explained, in turn generates the conditions for LED.

As seen in SVC what called HYBRYTEC participation in the partnership was the need to provide innovative solutions to public services delivery particularly energy issues. In that case there was no partner with problem solving capacity to offer a solution for public difficulty and there was a need to join multiple organizational efforts. Also, in the CSR case issues related to child, and youth empowerment and participation were the social strategy focus decided by the owner-manager. Drug abuse, domestic violence and children human rights represented a meta-problem related to community empowerment that required common response from local stakeholders.

Finally, when small firms apply CSR or SVC partnerships are envisioned as the new economic institutions used to address the local economic growth by endogenous forces. As seen in the case of HYBRYTEC the small firm tackled a partnership with local distributors, noticing that working through collaboration was the most effective way of redefining the productivity in the value chain, achieving the natural double purpose of their business model. “HYBRYTEC provides access to capital through individual credits of around 15,000 dollars yielding local entrepreneurs to commercialize new machinery and inputs” (Jaramillo 2013, personal interview)<sup>26</sup>. Additionally, they offer training, transferring skills related to the provision of customer technical assistance, accountability, marketing and some other management core areas. All initiatives aim to strengthen the entrepreneurial ability of the local distributors, enhancing local human capital.

Also as seen in the case of INTERLABCO the partnerships built pursue to work with community-based organizations seeking to restructure the conditions in which problems as domestic abuse, teenage pregnancy and children and youth human rights violation impedes local human resources to be developed. “One of our CSR objectives is to offer entrepreneurship capacity building to pregnant teenagers and children on developing home gardens with certified seeds” (Peña 2013, personal interview)<sup>27</sup>. The small enterprise understood that occupying teenagers’ free time reduces the risk of early pregnancy and domestic abuse; therefore jointly with its partners entrepreneurial workshops have been developed to overcome the challenges that limit the effective human resource development.

Summarizing, as mentioned by Selsky and Parker (2005) CSSP usually have LED focus. Indeed, when referring to small firms applying either SVC or CSR frequently the type of LED promoted is one driven by endogenous forces in which fostering local entrepreneurship and human capital, involving local communities is at the top of the agenda.

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<sup>26</sup> Ibid.

<sup>27</sup> Interview with Edelmira Peña, on fieldwork, for Master Thesis data collection, 12 August 2013, originally in Spanish translated to English.

## Chapter 6: Reflecting on Theory and Practice

Some reflections can be done after analyzing in theory and practice how small firms apply either SVC or CSR. First, some recommendations to SVC theory will be proposed to fit small firms needs. Second, the theoretical difference between SVC and CSR will be offered. Third, the existence of a blurring boundary in practice between both will be explained. Finally, a theoretical relation among practices, partnerships and LED will be described.

### 6.1 Making the SVC Model Fit Small Enterprises Needs

Four recommendations should be made to make SVC theory fit small firms needs: (1) organizational support (2) innovation and absorptive capacity (3) defining the core competence (4) price of the good or service and population focus. The purpose is to justify why are these areas important to be included in theory in order to fit small enterprises demands.

#### 6.1.1 Organizational Support

First, Moon et al (2011) and Porter and Kramer (2011) did not take into account the importance of organizations to support and enhance the process of SVC. However, is important to take into account the role of organizations given three significant reasons: (1) they serve as platforms to create knowledge (2) they serve as instruments to reduce transaction and investment costs (3) they promote rules to change small firms behavior towards sustainability.

First, organizations serve as platforms to create knowledge for small firms in the process of SVC. Given that knowledge is key in this model organizations provide tools related to performance assessment, enhancing learning processes based on the proper small firm experience. They act as external sources of knowledge (Helmsing 2013) providing inputs for change. As mentioned by the Manager of the B System “checking weaknesses and identifying mistakes is the first step for a small firm to learn and transform processes” (Camacho 2013, personal interview)<sup>28</sup>.

Second, organizations serve as instruments to reduce transaction and investment costs given that they act as networks among the associated firms. Different spaces are open to share information about the market, innovation processes, good practices and problem solving mechanisms. Additionally, business relations are promoted among the participants and information about new business opportunities flows between counterparts, reducing speculation and information searching related expenses.

Third, belonging to organizations entails following rules. Hence new institutions are created that transform small firms behavior. In the case of B System and as a conditionality to be part of the association, entrepreneurs are

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<sup>28</sup> Interview with Manuel Camacho, on fieldwork for Master Thesis data collection, 26 July 2013, originally in Spanish translated to English.

encourage to change firms statutes to engage all stakeholders in long term company decision processes. According to the B System manager “putting shareholders and stakeholders in the same place is the best way of assuring practices continuity even if there is a change in the board of directors” (Camacho 2013, personal interview)<sup>29</sup>.

Summarizing, organizations are important in the process of SVC for small firms given that first, offer tools enhancing processes of learning by doing; second, promote firms’ proximity hence costs associated to business processes are decreased and third, they foster internal rules shifts, promoting small enterprises sustainable practices in the long term.

### **6.1.2 Innovation and Absorptive Capacity**

Porter and Kramer (2011) analyzing transnational companies SVC referred to innovation in a narrow view and they did not discuss the issue of absorptive capacity (ACAP). First, for them reconceiving products and markets and redefining the productivity in the value chain entail innovation but it is associated mainly to hardware and software (Helmsing 2013). However, it is important to review this area to fit small enterprises needs given that as seen in practice small firms innovate yet in a broader perspective. In other words, what is done in exercise is innovation concerning orgware and socware (ibid).

In that sense, small companies innovate either changing how people relate to each other within the organization or establishing new dynamics on how organizations relate among them. In terms of the former and as seen in the case study, SVC embraced distinctive worker’s teams according to project demands and labour capabilities. In terms of the latter shifting from being a supplier of services to become a partner entails new dynamics in inter-organizational relations. Shortening, innovating in a broader view entails challenges and opportunities for SVC for small firms hence, it is important to be included and explained to fit small enterprises needs.

Second, as seen small firms mobilize partners seeking for knowledge. They intend to absorb information, process it and innovate given that it is related to the core of their business. However, the development of the ACAP of the company is not taken into account by SVC theory. Nevertheless, “four distinct but complementary capabilities that compose a firm’s ACAP: acquisition, assimilation, transformation and exploitation” (Zahra and George 2002: 189) have to be developed by the small enterprise in order to innovate for SVC, consequently explaining how this process works for small firms when they are engage in this model is essential to fit their needs.

### **6.1.3 Defining the Core Competence**

Moon et al (2011) mentioned defining the core competence, as the first question the small entrepreneur should ask as starting point for SVC. Defining the core competence is strongly related with the enhancement of the competitive advantage of the firm; however, according to the case study small entre-

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<sup>29</sup> Ibid.

preneurs acknowledged as a first step for SVC the identification of the social problem. Nevertheless, after analyzing how it is exercised in practice, an overlap between both activities is found, generating in the short-term transaction costs for the firm.

In application the entrepreneur identifies and shapes the social problem, namely studies the market whereas enhances the competitive advantage of the company strengthening relations with suppliers and searching for inputs technological advancement. Nevertheless, this process embraces dealing with costs related to searching information, negotiation and decision related to what to do and when to do it. Therefore, given that this choice entails an important judgment for the firm, the model must elaborate analyzing what possibility either identifying the social need or improving what companies do best is more efficient for small enterprises. Theory must stress the complexity of the decision but enlightening the small entrepreneur strategic path to reduce associated transaction costs in the short term.

#### **6.1.4 Price and Population Focus**

Porter and Kramer (2011) explained that a way of SVC by reconceiving products and markets is attending the BoP. However, in practice products and services offered by small firms involved in SVC reach the BoP via international cooperation agencies or state investment. As mentioned by HYBRYTEC “in the impact projects the client is one and the customer another” (Jaramillo 2013, personal interview)<sup>30</sup>. In other words disadvantage communities benefit from produces but they do not pay directly for them.

As seen in practice goods and services sold by small enterprises are innovative, they satisfy social needs previously not attended but vary in price. Some services incorporate high delivery costs for the firm therefore they are offered at a high price. This means that an individual from a disadvantage community cannot pay directly hence intermediates investment provides poor populations access to the services. “Providing infrastructure energy solutions is expensive. Local and national public financing is how natives benefit from service delivery” (Jaramillo 2013, personal interview)<sup>31</sup> hence not always in SVC the price is low and the BoP pays directly for it. Therefore, it is important for theory to explain small firms that selling expensive goods, benefiting the poor through third parties investment, is still SVC. The reason is because what is imperative for the model is that the produce satisfies low-income population disregarding by what means.

## **6.2 SVC and CSR: The difference remains in the extent to what the social action is embedded in the core of the business**

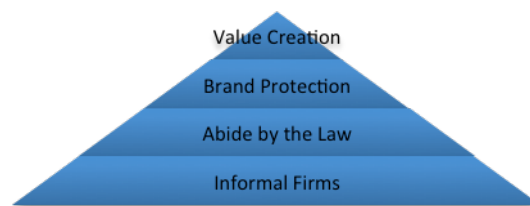
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<sup>30</sup> Interview with Camilo Jaramillo, on fieldwork for Master Thesis data collection, 27 August 2013, originally in Spanish translated to English

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Depending on the academic perspective of analysis CSR and SVC conceptualization can vary. On one side, heterodox scholars “roughly distinguish four types of CSR strategies, and (...) visualize their relative occurrence in a pyramid” (Knorringa 2010: 13). The types are: value creation, brand protection, law abiders and informal small enterprises that practice local philanthropy (ibid) (Hernandez 2013). For the author only the first two entail the existence of a CSR strategy. The former occurs when responsibility is achieved and maintained in the long term (ibid). The latter is formed by enterprises with identifiable CSR activity, spending on stakeholders for assuring brand reputation and inputs from suppliers (ibid).

Figure 1. Four Types of CSR Strategies



Source: Own elaboration based on (Knorringa 2013)

On the other side, orthodox scholars as Porter and Kramer (2011) launching the SVC concept explained how CSR and SVC differ. For the authors CSR focus has a restricted linkage with the company core business (Porter and Kramer 2011: 13) while SVC is the core of the business. Additionally, the CSR agenda is defined by both external pressure and interest of the management and it can be discretionary or motivated by external pressure (ibid), however, in SVC the agenda is always demarcated internally and compulsory for business purpose. Furthermore, CSR has limited budget whereas SVC has overall companies’ budget available for its commitment.

Figure 2. Theoretical Comparison Between CSR and SVC



Source: (Porter and Kramer 2011: 13)

However, as evidenced in practice SVC and CSR are two different concepts. What defines its difference in nature is what Porter and Kramer (2011) mentioned related to the extent in which the strategy is embedded in the core of the business. In other words, the distinction remains in the degree to what is socially done is equivalent to what is done for the business purpose. Namely, the level to which is not possible to establish a difference between solving an economic or social issue and the idea for what the business was started up.

In that sense, in the SVC case implementing impact projects to provide energy solutions to populations located in the countryside or commercializing equipment based on solar energy was the core of the business. By selling solar fridges and heaters to small-producers, building infrastructure for public services or delivering water and energy to communities, the small firm gained money and simultaneously achieved its economic growth and performance.

However, in CSR what is socially done is not exactly the purpose of the business. In other words, it is possible to establish a difference between delivering actions to support the community and achieving the purpose of the enterprise. In CSR there is not clear connection between solving economic and social issues and the idea for what the firm was started up.

As shown in the case of INTERLABCO CSR strategy regardless its importance for community and citizenship building and empowerment, there is not linkage between offering quality control testing of minerals and food with implementing a program for capacity building in values and principles or delivering activities to prevent drug consumption and domestic abuse.

Summarizing, the connection between SVC activities with the core of the business is evident. While delivering energy solutions HYBRYTEC is acquiring money as payment and accomplishing the objective for what it was created. Nevertheless, INTERLABCO reinforcing values and principle for children and youth is neither being compensated nor achieving the purpose for what it was created.

However is important to stress that mentioning the theoretical difference between SVC and CSR is neither assessing their contribution to LED nor defining what is better for development when private sector is engaged in this type of initiatives.

Finally, the difference is not rigid or a choice of black and white. Indeed, while the SVC concept understanding is increasing and its application in practice augmenting, the difficulty to distinguish both exercises is more clear and evident in practice, therefore a sort of blurring boundaries is clearly identified.

### **6.3 CSR and SVC: Some Blurring Boundaries in Practice**

Scholars as Jenkins (2006) and Porter and Kramer (2011) identified the activities that in practice have been undertaken by firms when applying either SVC or CSR. Analyzing their findings and comparing results some actions were found as exercised in both types of models. Procedures developed within the level of redefining the productivity in the value chain, particularly, resource use, energy use, employee productivity, procurement and location (Porter and Kramer 2011) were found as equally implemented within CSR while focusing their strategy on stakeholders as employees, environment and suppliers (Jenkins 2006: 248). Therefore, this creates a sort of blurring boundaries or overlap between both SVC and CSR when applied in practice.

In that sense, within SVC Porter and Kramer (2011) defined some working areas as resource and energy use which entail activities as new approaches in utilization of raw materials, reuse and recycling for the former and improvements in transportation and usage of non renewable resources for the latter. Likewise, Jenkins (2006) established as measures focus on environment within CSR tasks as waste minimization, reuse, recycling schemes, reduction in atmospheric emissions and investment in technology.

Additionally, SVC scholars within employee productivity, procurement and location recognized training and wellness (Porter and Kramer 2011: 7) for the former and sharing information and technology, increasing access to inputs (ibid) and supplier development (ibid: 8) for the last two. Similarly, CSR academics acknowledged initiatives concentrated on employees and supply chain as training and development programs and creation of good work-life balance (Jenkins 2006: 248) for the former, and promotion for long-term partnerships for the latter.

As seen before, activities related to energy, resource use and environment were equally termed. Also, for initiatives related to employees and suppliers regardless they were not equivalently named, the nature of the actions had the same purpose. Therefore, overlapping situations are found because one same activity can be developed within two distinctive ways of private sector engagement in development processes, indeed with different level of embeddedness of the social issues in the core of the business of the firm.

Finally, regardless the case studies did not evidence such blurring boundaries in practice, the fact that relevant literature mentioned it is enough for the author to consider it for the analysis.

## **6.4 Theoretical Relations Among Concepts**

As we have seen in LED definition for employment promotion and welfare achievement a vehicle through which actors can jointly manage available local resources is needed. Partnerships are the platform that literature explains as being what effectively serves that purpose. However, among all local societal spheres that participate in these initiatives, there is one that is essential for job creation and wealth formation: the private sector. Indeed, applying ei-



ther SVC or CSR private sector has been progressively engaged in development issues related to local economic problems.

#### **6.4.1 Theoretical Relationship between LED, Partnerships and SVC: The Size of the firm Does Not Matter**

The theoretical relation among these concepts is always the same regardless the size of the firm that applies the SVC: (1) LED offers the framework or *purpose* for both partnership building and SVC (2) SVC appears to be the *engine* for private engagement in LED and partnerships (3) Partnerships work as *mobilizer, platform or mean* for LED and SVC.

First, on one side as we have seen in the definition of LED, partnerships are built with the purpose of managing resources, promoting employment and achieving welfare. On the other side, SVC has a concurrent objective: increasing the financial performance of firms while solving economic and social issues. Namely SVC is always geared to LED. Then for both partnership and SVC, LED is the purpose.

Second, SVC is the way in which private sector is engaged in development given that the new market opportunity for business is to address economic and social issues. However business cannot do it by itself, therefore collaborative initiatives with other societal spheres are required. Together LED and partnerships, depend on SVC as the engine for private sector engagement.

Third, without partnerships there is neither vehicle through which resources can be managed for employment promotion and welfare achievement nor instrument for obtaining information and creating synergy in action between societal spheres for solving economic and social issues (Bocksttete and Stamp). Hence, partnerships are a mean for SVC and LED success.

Finally, when analyzing SVC and its theoretical relation with the other two concepts the firm size does not matter given that the business model will always required partnerships to be implemented (Bocksttete and Stamp) and LED will always be one of its double purposes (Porter and Kramer 2011). The previous consideration is given by SVC definition and theoretical construction based on large companies experience. However, the case study evidence showed that it occurs also when small firms practice this kind of models. Hence the relation of the concepts is given by the SVC model nature rather than by the size of the firm that applies it. In other words, this relation will always occur regardless the size of the firm exercising the model.

#### **6.4.2 Theoretical Relationship between LED, Partnerships and CSR: When CSR is Applied by SME's, the Size of the Firm Do Matters**

To establish the theoretical relation between LED, partnership and CSR is important to stress that the firm size do matters. As explained by Jenkins (2006) small firms have specific characteristics given by their size that make them to be particular business units with exclusive behavior, particularly in the way they approach CSR. However, as stated by Fox (2005) is important

to recognize small firms limitations to invest in long-term strategic measures given their “few managerial and financial resources” (Fox 2005: 6).

Having this in mind, the theoretical relation between the concepts when introducing CSR changes. By LED definition, it always offers the framework or *purpose* for partnership building and partnerships always work as *mobilizer, platform or mean* for it. However, for LED to offer the *purpose* for CSR, for the latter to be the *engine* for private engagement in LED and partnerships and for alliances to be a *mean* for CSR, two decisions must be taken by the owner manager: first, including LED or its related issues –as the ones defined as local impacts- as one of the main subjects within the CSR strategy and second, building partnerships as a mean to achieve responsibility purposes.

However, one caveat should be mentioned. By definition CSR does not have LED as its *purpose* because such strategy does not have as one of its double objective solving economic issues as SVC does. Additionally, as seen in the case study, given the autonomous decision of the owner manager to focus CSR strategy, it can be concentrated on social development rather than on LED, having little impact on the latter related topics. Therefore the theoretical relation between CSR and LED is not as clear as in the case of SVC and practice shows that responsibility can have bigger incidence in social development related concerns.

## ANNEXES

The following questions were asked to the owner managers during the case selection process. The succeeding were requested to the manager of HYBRYTEC.

- Owner manager characteristics:
  1. Can you please tell me about your professional background?
  2. Can you please tell me about your educational background?
  3. What are the most relevant characteristics of your personality?
  4. What is your age?
  5. How can you define your self-managerial style?
  
- Organizational Structure of the company:
  6. Can you please define the organizational structure of the company?
  7. What is the type of legal personality the company has?
  8. Where does the enterprise focus its operations?
- Business Strategy and Core Competence:
  9. What is the vision if the company?
  10. What are the goals and priorities of the business strategy?
  11. What assets have been disposed to achieve the goals?
  12. Have you developed any tool to assess the business strategy performance?
  13. How did the business idea emerge?
  14. What is what the company can do best?
- Characteristics of the product/service and market:
  15. When the business idea was developed, this was connected with giving solution to any social problem identified on the community or attending to a need previously not attended?
  16. Did the product or service required for its development a process of innovation?
  17. In terms of your product or service price is it lower, equal or higher in comparison with the competence?
  18. In terms of your product or service quality, is it lower, equal, or higher in comparison to the competence?
  19. What is the profile of your clients in terms of income, productive sector etc?
- Value Chain
  20. Are you the lead firm within the value chain of your product or service?
  21. If not, which firm is the lead firm?
  22. During your service delivery or product design, do you advance any activity aiming to:

- a. Increasing employee productivity i.e training, coaching or mentoring
  - b. Technology development and research to increase the productivity
  - c. Improvement in energy utilization
  - d. Reduction of water consumption
  - e. Reduce logistics time and transportation
  - f. Supplier development
    - i. Access to inputs
    - ii. Access to different sources of finance
    - iii. Access to technology
    - iv. Information exchange
    - v. Training
23. Do you operate in a place located within an agglomeration of industries?
- Partnerships
24. Do you establish partnerships as a tool to collaborate with suppliers or related industries and facilitate the production process?
  25. If yes, who participates in such partnerships?
  26. What is the objective of the partnership? Is it related with development?
  27. Do they entail financial contribution?
  28. What kind of outcomes has been achieved until today in the framework of the partnerships?
- Institutional / External Opportunities:
29. Did you seek for institutional support to develop your business idea?
  30. Is there any institutional support given by the local government to foster entrepreneurship?
  31. Did you require access to finance to develop your business? If yes how did you get the support?
  32. Did you require technology? If yes how did you get it?
  33. Is there any law that regulates your activity?
- Jobs generated
34. How many direct and indirect jobs are generated?

The following questions have been asked to the manager of INTERLABCO S.A.S:

- Owner manager characteristics:
1. Can you please tell me about your professional and educational background?
  2. What are the most relevant characteristics of your personality?
  3. What is your age?
  4. How can you define your self-managerial style?
- Organizational Structure of the company:
5. Can you please define the organizational structure of the company?
  6. What is the type of legal personality the company has?
  7. Where does the enterprise focus its operations?

- Business Strategy and Core Competence:

8. What is the vision of the company?
9. What are the goals and priorities of the business strategy?
10. What assets have been disposed to achieve the goals?
11. Have you developed any tool to assess the business strategy performance?
12. How did the business idea emerge?
13. What is what the company can do best?

- Characteristics of the product/service and market:

14. When the business idea was developed, this was connected with giving solution to any social problem identified on the community or attending to a need previously not attended?
15. Did the product or service required for its development a process of innovation?
16. In terms of your product or service price is it lower, equal or higher in comparison with the competence?
17. In terms of your product or service quality, is it lower, equal, or higher in comparison to the competence?
18. What is the profile of your clients in terms of income, productive sector etc?

- Value Chain:

19. Are you the lead firm within the value chain of your product or service?
20. If not, which firm is the lead firm?
21. During your service delivery or product design, do you advance any activity aiming to:
  - a. Increasing employee productivity i.e training, coaching or mentoring
  - b. Technology development and research to increase the productivity
  - c. Improvement in energy utilization
  - d. Reduction of water consumption
  - e. Reduce logistics time and transportation
  - f. Supplier development
    - i. Access to inputs
    - ii. Access to different sources of finance
    - iii. Access to technology
    - iv. Information exchange
    - v. Training
22. Do you operate in a place located within an agglomeration of industries?

- Partnerships:

23. Do you establish partnerships as a tool to collaborate with suppliers or related industries and facilitate the production process?
24. If yes, who participates in such partnerships?
25. What is the objective of the partnership? Is it related with development?
26. Do they entail financial contribution?
27. What kind of outcomes has been achieved until today in the framework of the partnerships?

Institutional / External Opportunities:

28. Did you seek for institutional support to develop your business idea?
29. Is there any institutional support given by the local government to foster entrepreneurship?
30. Did you require access to finance to develop your business? If yes how did you get the support?
31. Did you require technology? If yes how did you get it?
32. Is there any law that regulates your activity?
  - Jobs generated
33. How many direct and indirect jobs are generated?
  - Social Strategy:
34. What is CSR for INTERLABCO S.A.S?
35. When did you start applying CSR strategies?
36. How did you start applying CSR strategies?
37. Which are your stakeholders?
38. Did they participate in the formulation of the CSR strategy?
39. What kind of programs did you develop?
40. What instruments have you develop to monitor the implementation of the strategies?
41. Have you done an evaluation of the outcomes and impact of the strategy?
42. What is the amount of Budget defined for CSR in the company?

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