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"The Third Sector and Sustainable Social Change: New Frontiers for Research"
Barcelona (Spain) - July 9-12, 2008

8th ISTR International Conference
2nd EMES-ISTR European Conference
in partnership with CINEFOGO

SOCIAL ENTREPRENEURSHIP & SUSTAINABLE DEVELOPMENT

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CONTENTS

Introduction to the theme.....	3
1. Social entrepreneurship cases under study	7
2. Corporate stimulus to social enterprises	8
3. Social enterprise stimulation by grassroots organizations	14
Conclusions	17
References	18
Supplementary bibliography	19

INTRODUCTION TO THE THEME

The research currently conducted by CEATS¹ is focused on expanding the knowledge that derives from theory and practice about the relations that might exist between Social Entrepreneurship and Sustainable Socio-environmental Development. This objective is justified by the importance of each of these themes for a country such as Brazil, which is characterized by an emerging economy and by a democracy that is still undergoing consolidation.

On one hand, the organizational phenomenon of the emergence of enterprises geared toward generating both economic and social value stands out. The latter means the chief differentiation, once it is expected to help reduce the social conditions of iniquity and exclusion that affect large segments of the population. On the other hand, we are witnessing the development challenge that is periodically renewed over the course of the country's history, showing that merely economic growth is not enough to overcome obstacles such as unequal income distribution, absence of conditions for the exercise of citizenship, and the predatory use of human and natural resources.

The opportunity to identify the existence of these relations between both themes and to analyze the characteristics of their expression within the contemporary Brazilian context arose from two demands. The first one derives from the technical support that CEATS provides to firms: they adopt corporate responsibility strategies and thus, frequently face the challenge of investing in local development, combining altruistic choice with the need to add value to their business. The other ensued from the link established as of 2001 with SEKN, the Social Enterprise Knowledge Network², a knowledge production and dissemination network which is, from 2006 to 2009, investigating initiatives that aim at including low-income segments in the market's economic relations.

Corporate needs reflect Brazil's trend toward change perceived over the last ten years. Though their behavior is uneven, one sees that firms can no longer omit themselves from social responsibility. Those that have more mature initiatives underway have already overcome the stages of corporate philanthropy and are taking on the role of investors on sustainable development. When one associates the concept of sustainability with the notion of development, one is promptly reminded of the challenge of cross-sector collaboration.

Sustainability becomes manifest within a set of situations:

- The sustainability of the organizations of which an alliance or cross-sector network is comprised, guaranteeing that the network itself will be sustainable.
- Local economic development, which guarantees the renewal and perennality of natural resources and therefore of life and biodiversity.

1 CEATS – the Center for Social Entrepreneurship and Administration on the Third Sector, carries out activities connected with social entrepreneurship themes such as research and consulting projects for firms, grassroots organizations and government bodies (always from the point of view of knowledge generation), besides offering courses and publications. It was set up as an institutional program in 1998, with the support of FIA, the Administration Institute Foundation, and of FEA /USP, the School of Economics, Business Administration and Accounting of the University of São Paulo.

2 Representing the School of Economics, Business Administration and Accounting of the University of São Paulo - FEA/USP, CEATS is the only Brazilian organization that is a member of SEKN – a network of Iberian-Latin-American universities coordinated by the Harvard Business School. SEKN's mission is to strengthen the research into, the teaching of and the practice of social entrepreneurship managements. Its activities consist of jointly developing teaching material and publications on social entrepreneurship, cross-sectors strategic alliances and Third Sector managements.

- Socioeconomic development, which guarantees people's living and sociability conditions, enabling them to become the agents of their own transformation³(FISCHER, 2003).

In Brazil, companies such as Orsa Group, VCP, Agropalma, Apaeb and Natura are treading this path, which is characterized by innovation in several senses – the most important of which is the proposition of adding value, not only to corporate capital itself, but also to the social capital of the region in which the firm operates. CEATS supports these initiatives, by providing: socio-environmental diagnoses that aim to identify community needs and assets; planning coordination to provide activities and investments guidance; and the development of systems and evaluation indicators, designed to enable monitoring and improvement of the undertakings.

Academic demand results from the evolution experienced by SEKN where Social Entrepreneurship research is concerned. One of the Network's strengths is its multi-institutional and multinational character, which allows it to draw comparisons among the cases studied. In its first biennial phase, the Network was focused on identifying, in each member country, cases of cross-sector alliances created to promote social changes, mainly with regard to reducing the exclusion in which the poor and the destitute live. This investigation was based on the conceptual model proposed by James Austin⁴(AUSTIN, 2000) and resulted in 24 teaching cases and in one comparative analyses book⁵. (SEKN et al, 2004) The in-depth study of these partnerships enabled the Network to better understand that social entrepreneurship implies in reducing organizational borders and developing closer collaboration relations, so that the ensuing actions will reflect the "symbiosis" of the performance of allied organizations.

These thoughts led SEKN's second production cycle to develop activities focused on identifying and analyzing the social enterprises created through corporate and grassroots organization initiatives. This stage produced another set of cases and a second book whose content combines the comparative analyses extracted from empirical research with the theoretical frameworks that explain organizational characteristics such as: leadership, strategy, organizational culture, structure, finances, human resources and governance.

In the third research cycle, the bulk of the analytical effort targeted understanding the economic value and the social value generated through a social enterprise. Whereas in some cases it was relatively simple to detect economic value creation, because one was dealing with organizations whose products and services were priced and could have their quality evaluated, in most cases social value was not a tangible feature, or was something impossible to measure with any degree of precision. This is probably one of the greatest dilemmas faced by those who propose to study this theme, as the evaluation systems and the parameters traditionally used to monitor organizational performance tend to be inadequate for analyzing the changes that a social enterprise brings about. Thus, a broad concept was adopted, that defines it as *"any venture for which creating social value is the prime strategic objective and which addresses this mission in a creative and innovative fashion."*⁶(NICHOLLS, 2006)

3 FISCHER, R. M. A Responsabilidade pelo Desenvolvimento. Erudition Exam / FEA-USP, 2003.

4 AUSTIN, J. The Collaboration Challenge. San Francisco: Jossey-Bass, 2000

5 SEKN – SOCIAL ENTERPRISE KNOWLEDGE NETWORK et al. Social Partnering in Latin America: lessons drawn from collaborations of businesses and civil society organizations. Boston: Harvard University David Rockefeller Center for Latin American Studies, 2004. 410 p. ISBN-10: 0674015800 ISBN-13: 978-0674015807.

6 NICHOLLS, A. Playing the field – Social Entrepreneurship Posting from Oxford, vol. 1, autumn, 2006.

Despite this, the studies demonstrated that the benefits brought to low-income social groups by the studied enterprises were notorious regarding several types of needs, such as primary education, basic healthcare and digital inclusion. It is evident, in turn, that the barriers that keep these people from enjoying better living conditions are very strong: illiteracy, abandonment, lack of access to public services, lack of basic infrastructure, ignorance of civil rights and exclusion from market relations.⁷ (SEN, 2001)

These conclusions determined the direction of SEKN's third cycle of research, which focuses on the so-called socially inclusive markets or, in other words, on the hypothesis that the construction of cross-sector symbiotic relations between organizations might enable broader access to the markets, lowering transaction costs and offering the opportunity for new production energies to be incorporated into the economy.

This SEKN research used as its framework the polemic academic debate fueled over the last five years by scholars such as Prahalad⁸, who advocates that lucrative corporate initiatives targeting poorer population segments generate economic and social value and can foster the inclusion of these people. (PRAHALAD, 2005)

In Brazil, Prahalad's publication gave rise to a strong reaction in the academic milieu and among Third Sector organizations, recognized for their political militancy and their legitimacy vis-à-vis the grassroots communities. The Brazilian case presented in his book – Casas Bahia – describes the success of a large retail chain that expanded its market by attracting low income consumers with flexible payment arrangements. The chief criticism to this study stresses that this access to consumption benefits the firm's profit growth almost exclusively, while encouraging consumers to take on debt, since they are drawn by the possibility of purchasing made easy, but weakened by their purchasing power limitations. Thus, by concentrating his analytic focus on corporate performance, the author establishes a simple-minded connection between the growth of opportunity for commercial transactions and an alleged 'democratization of the economy', which would be the indicator of social transformation toward socioeconomic development.

However, if a mistake was made in the choice of an example, the BoP (Base of the Pyramid) proposition was right in highlighting the potential of the sectors that are currently locked out of the global market and the nearsightedness of private business in disregarding these sectors in its business strategy. Though the simple fact of being brought into the market does not empower the poor, this line of thought opened a debate on the other roles that the low income segments can perform in the economic relations of production, such as being partners, suppliers or entrepreneurs. Thus, the discussion substantially expanded research possibilities, because unlike the theme's pioneering authors, one should not limit oneself to studying the role played by large corporations, or to transforming the socially excluded into frenetic consumers.

In line with this broader approach, during the 2006 to 2008 period, the SEKN Network chose to study entrepreneurial cases in which low income individuals and groups could be considered within a range of different situations, such as the expansion of their access to consumption, the creation of conditions for increasing family income, the fostering of work conditions, and becoming a link in a production chain.

7 SEN, A.K. Development as Freedom, Oxford: Oxford University Press, 2001; ISBN: 0-19-289330-0; 366 p.

8 PRAHALAD, C. K. The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits, Wharton School Publishing, 2005

Analyzing the cases studied in the first two SEKN cycles from this standpoint one can voice a few preliminary thoughts⁹ (AUSTIN, et al, 2007):

- Innovation opportunities are real and can come true if the traditional markets' barriers are identified and modified to meet the low income segments' specifications;
- When they are seen as legitimate social actors rather than passive receivers, the poor show a capacity for creating and adding value to the production chain to which they belong;
- Civil society organizations, such as community cooperatives and associations, can be powerful allies in social enterprises geared toward local development.
- Organizational culture changes are required in order to achieve compatibility, making the flow of communication easier and creating room for innovation.

At this stage of the SEKN project in Brazil, the CEATS team is studying social entrepreneurship cases in which the low income segments play themselves the role of entrepreneurs within the context of a production chain. When they are presented, one tries to discuss the concept and the practices of this entrepreneurship, aiming at identifying if and how they can help to build local development processes that are socioeconomically and environmentally sustainable.

In this study, following a tendency found in different parts of the world, the concept of entrepreneurship ceases to mean merely the creation of capitalistic firms and also begins to encompass the competence of generating innovative organizational alternatives. And they are innovative, not only because they are modeled on formats different from those used by firms and corporations over the course of the 19th and 20th centuries, but also because they expand their strategic vision beyond the market and its few transaction forms. In this expansion, social entrepreneurs' initiatives reach toward far more distant horizons than the mere sale of products and services. They aim at increasing the socio-environmental development of places overlooked by capitalistic economic development; at making society inclusive for those who were stripped of the physical, social and economic conditions needed to be fully inserted into society as people, consumers and citizens; at expanding the opportunities for people to become emancipated on their own account, generating income and attaining the freedom to choose the lifestyle that they prefer and a future for their children; and at ensuring that subsequent generations have the right to be born and to live in freedom and with access to the natural resources afforded to human life by biodiversity.

In the selection of cases, the ones favored are those in which the enterprise provides conditions for the improvement of income generation, employability and the social and economic circumstances of groups that are depressed by poverty and lack of prospects; in other words, those who try to make social transformation results come true.

This objective has raised the challenge of inserting the social enterprise into a broader theoretical-conceptual context, which is the proposition of sustained local development. This means that besides analyzing and prospecting the sustainability of the enterprise itself, the need to investigate its potentials and limitations with regard to leveraging local development has come up, since a development strategy that encourages social transformation presupposes the mobilization of the resources, potentials and social actors that are actively involved and that mutually strengthen each other¹⁰. (BROSE, 2005)

9 AUSTIN, J. et al. – "Building New Business Value Chains with Low Income Sectors in Latin America" in Business Solutions for the Global Poor; Rangan and Quelch (org) Jossey- Bass, 2007.

10 BROSE, M. Redes: breve introdução à arte de tecer Capital Social. Available at: http://www.risolidaria.org.br/util/view_texto.jsp?txt_id=200505200017

In this paper the cases are summarized merely to provide the data that enable one to analyze their characteristics. They are, on one hand, cases led by a firm: VCP, Natura, Orsa Group and Agropalma. And on the other hand, those in which entrepreneurship is born of a Third Sector organization: Apaeb, Asmare and Coopa-Roca.

Both the entrepreneurial initiatives that arose from social movements and grassroots organizations, and those furthered by private corporations and firms, share the paradigm of cross-sector collaboration. In other words, to devise and implement them, it is necessary to add resources and efforts from several sources – government bodies, which can provide the conditions for expanding the scope of their action; the Third Sector, with its miscellaneous experiences, methods and technologies for dealing with social problems; entrepreneurial organizations, employing the best of their management knowledge and practice to ensure their own sustainability and that of the parties that are within their relationship universe. Thus, social entrepreneurship adopts the concept of work conducted in collaboration as its basic assumption.

So, the entrepreneurial initiatives decidedly discard the concepts of charitable assistance and dependence, replacing them by the notions of emancipation and citizenship. This is not merely a terminology modernization issue, but a radical change in the values that are the cornerstone of social action. It is not enough to promote good works but, rather, it is necessary to equalize social conditions where personal freedom is concerned, which freedom, as Amartya Sen¹¹ states, is a condition for the existence of any development process. (SEN, 2001)

1. SOCIAL ENTREPRENEURSHIP CASES UNDER STUDY

In the research on social entrepreneurship being developed by CEATS in Brazil, the field surveys connected with these investigations have been completed and the analysis and conclusion preparation stage is now beginning. Therefore, the text is based on descriptive as well as on analytical aspects, with a view to raising questions that encourage the interpretation and comparison of empirical data in more depth.

For the purposes of logical structure, the cases presentation was divided in accordance with whether or not there was a firm in the organizational network of which the social enterprise consisted. This separation, however, does not mean that we consider that social enterprises have different natures depending on whether or not they are connected with privately-held firms.

Though international academic production in recent years has focused insistently on the need for convergence of the integration between firms and society¹², what one is trying to understand in the cases studied is far less the competitiveness increase and far more the social benefits derived from entrepreneurship fostered by private initiative. Thus, the cases selected were the ones in which corporate social investment elect the entrepreneur as a partner, associate or supplier, establishing dynamics of local wealth generation where formerly there was stagnation and poverty. (PORTER, KRAMER, 2006)

The second focus of the work targets social enterprises based on community initiatives, through the creation of entities such as associations and cooperatives, with a view to overcoming poverty.

11 SEN, A.K. *Development as Freedom*, Oxford: Oxford University Press, 2001; ISBN: 0-19-289330-0; 366 p.

12 PORTER, M. E and KRAMER M. R. – *Strategy & Society: the link between competitive advantage and corporate social responsibility*, Harvard Business Review, Dec. 2006, vol. 84, 12, p. 52

Poverty is defined as the *"inability of individuals to guarantee for themselves and their dependents a set of minimum basic conditions for their subsistence and wellbeing in accordance with the standards of their society"*¹³. (G20, 2004) In other words, its measurement is not limited to the traditional income and consumption indicators, but needs to be complemented by other quality of life indicators that take into account the notions of risk and vulnerability. As Barbosa¹⁴ states, *"for as long as poverty is seen merely as a lack of resources and an income deficiency, the argument of economic development with progressive social income increase will be seen as sufficient to fight it"* (BARBOSA, 2006). However, from the point of view of the human development paradigm – therefore, not only from the economic standpoint – poverty is a state of "disempowerment", of deprivation of access capabilities and opportunities, a state of restriction of the availability of resources and citizenship.

These "disempowered" citizens are the target of the studies about the initiatives of community groups and grassroots organizations geared toward income generation. One is also dealing with an expansion of competencies that can help overcome vulnerability, and of social capital that can render the consolidation of the community dimension¹⁵ possible. (DE FRANCO, 2007)

2. CORPORATE STIMULUS TO SOCIAL ENTERPRISES

One of the aspects that is highlighted in the SEKN research protocol regarding social entrepreneurship concerns the importance of the awareness of the "ecosystem" within which the enterprise is inserted. This is required in all cases studied, but it stands out particularly among those entities whose network of symbiotic relations includes a privately held firm, as the latter has strong sensitivity to context influences, while also having a powerful capacity to influence stakeholders within its arena of relationships.

Therefore, characterizing the components of this "ecosystem"; understanding how and why organizations engage in a cooperative relation, as well as what they intend to obtain from it; and how they model these arrangements and manage to obtain synergy and organizational learning from them are some of the issues that drive an understanding of the inter-organizational arrangements formed to generate enterprises.

Since the mid 90s, CEATS has been researching the collaboration between firms and other types of organization with which the said firms would like to team up for engaging in social actions. This accrued experience helps us to understand the progress of the organizational ecosystem, which can aid the development of social entrepreneurship as a multi-sector project.¹⁶ (FISCHER, 2003)

The results of these studies allow us to identify what new social actors – companies, entrepreneurs, executives and employees – are joining the organizational collaboration scene in order to foster social development. It seems clear that reducing social exclusion and finding the means for achieving sustained development are no longer seen solely as a State

13 Annual Report on Poverty – G20 (2004)

14 BARBOSA, B. Brasil começa 2006 sem quebrar ciclo da pobreza, dizem especialistas. In: Carta Maior, Jan. 2, 2006.

15 "Social capital is a resource that enables sets of humans to create an environment favorable to good governance, economic prosperity and the expansion of a civic culture." – DE FRANCO, A. – Carta Rede Social 141 – aed@neuronia2.com.br – July 5, 2007

16 FISCHER, R.M. A Responsabilidade pelo Desenvolvimento. Erudition Exam / FEA-USP, 2003.

responsibility, nor are these activities solely the domain of charitable non-governmental organizations or social movements.¹⁷ (FISCHER, 2002)

However, the data only indicate the presence of this trend, still too limited to guarantee that entrepreneurial social action initiatives are actually having an impact on structural problems, such as unequal income distribution, the educational gaps and the absence of individual conditions for enjoying freedom – which is a premise for development. This fact lends veracity to analysts' main criticism of corporate initiatives that focus on promoting social entrepreneurship, or to their support of social programs and projects as a means of materializing their corporate responsibility. Yet, this criticism is insufficient to discourage this movement or to prove that it harbors manipulative intentions. Using the same arguments, one can construct analyses that go in the opposite direction, i.e., that social responsibility practices may come to expand and become deeper to the point of unleashing a cultural transformation of the organizations.

The last research referred to in this text allows one to verify that this social mobilization has enabled the establishment of organizational alliances, with the objective of promoting social actions. These partnerships seem to have a strong potential for becoming longer-lasting and more integrated, ensuring, on one hand, the continuity of the programs and projects and, on the other hand, helping to strengthen grassroots organizations, making them better known, more visible and often more capable, due to their collaborative work experience. This study's conclusions do not show, however, that cross-sector alliances are the organizational format that guarantees utmost efficiency to the projects centered on reducing the country's social deficits. They will probably become increasingly effective in achieving these results, to the extent that they become the vehicles of mobilization and articulation used to run programs and projects of high social impact.¹⁸ (FISCHER, et al, 2003)

To this end, an indispensable condition is that these actions be aligned with public policies formulated with efficiency, efficacy and effectiveness. Therefore, it will be necessary for cross-sector alliances to avoid limiting themselves to running specific projects, but rather, to create an impact with social resonance. On the other hand, government spheres must also be sensitive to these collaboration proposals, not only concerning their operational activities, but mainly their strategic and decision-making activities, such as:

- Surveying, analyzing and prioritizing social problems and needs when generating diagnoses with participative and interactive methods;
- Mapping local resources and potentials in defining the action plans and the allocation of duties and responsibilities¹⁹; (KRETZMANN, 1995)
- Balancing the distribution of power between the organizations that make up the network of assistance and of collaborative work mobilization.

Another condition is that there be room and legitimacy for social entrepreneurship to flourish. The word "entrepreneurial" tends to be used in a reductionist manner to identify people with the capability of creating businesses. However, its meaning is broader, as stated by Say²⁰

17 FISCHER, R.M. O desafio da colaboração: práticas de responsabilidade entre empresas e terceiro setor. São Paulo: Gente, 2002. 172 p.

18 FISCHER, R.M. (coord.) et al. Alianças estratégicas intersetoriais para atuação social: applied research – final report (Research for the Ford Foundation). São Paulo: CEATS/FIA, apr. 2003. 107 p.

19 KRETZMANN, J.P. Building Communities from the Inside Out – Northwestern University (paper), 1995 – in which the author points out the importance of elaborating the "inventory" of competencies and potentialities held by any community for the promotion of its own development.

20 DEES, J. G. The meaning of social entrepreneurship. Stanford University (paper), 1998 – in which the author quotes the economist Jean Baptiste Say, known for the broad meaning he ascribed to entrepreneurs as the agents of 19th century economic progress.

(DEES, 1998), because it "moves economic resources from a low productivity area to an area of higher productivity and greater returns". It is in this sense that Drucker²¹ highlights the importance of social entrepreneurship: the pursuit and identification of opportunities for generating social changes through strategic vision, innovative actions, results effectiveness and transparent management. (DRUCKER, 1990)

*"For social entrepreneurs, the social mission is central and explicit. Central creation, rather than wealth, becomes the impact of the mission. For social entrepreneurs, wealth is merely the means to a given end."*²²(DEES, 1998)

Partnerships are not the only way, but one of the most frequent ways for firms to carry out their social actions. There is a trend toward firms looking for this type of arrangement or considering that this work system can be more efficient and reduce the social action costs. A large number of firms, however, prefer to maintain the autonomy and exclusiveness of their actions. Issues such as lack of trust, lack of information and frustrated experiences permeate this inclination to turn down collaborative work, and keep it among the chief challenges facing the expansion of social responsibility and entrepreneurship practices.

Grassroots organizations seem to be fairly ambivalent with regard to firms' inclinations to find solutions to social issues. Those that have a positive perception of the partnerships in which they are involved emphasize their benefits: improved management capabilities, management practice modernization, network expansion, image strengthening and broader access to resources.

Those that avoid entering alliances or that have had frustrated experiences stress: the incompatibility of rationale and of the pace of work; lack of firm knowledge and sensitivity to social problem specificities; the arrogant and overbearing or paternalistic and condescending character adopted by the firm in its relations with the entity; lack of clarity of the firm's intentions and of the values that guide its actions; and insecurity as to how long the relationship will last.

One can say that over the course of the partnership's life, civil society organizations tend to oscillate between these two extremes, indicating that they depend on the firm's initiatives and decisions. Therefore, one step toward improving cross-sector alliances would be to encourage proactivity among civil society organizations and sensitize companies about maintaining a more balanced relationship where vital decisions for the future of these alliances are concerned.

The cases regarding entrepreneurship in this CEATS study highlight progress in the type of relationship that the firms propose. However, besides a partnership for managing social projects, the presented situations configure a strategic alliance relationship in which the company encourages people and social groups to create and maintain sustainable businesses that are then integrated into their production chain.

The characteristics of the external context are strong conditioning factors where this type of decision is concerned. The firms are large corporations operating within the agro-industrial sector, as is the case of Agropalma – a palm-oil producer –, of Orsa and of VCP – both producers of pulp and pulp products. Alternatively, they are firms whose production may be highly dependent on active ingredients derived from Brazil's biodiversity, this being the case of

21 DRUCKER, P. Innovation and Entrepreneurship: practice and principles. New York: Harper Collins, 1985. & DRUCKER, P. Managing the Non-Profit Organization: practices and principles. New York: Harper Collins, 1990.

22 DEES, J. G. op. cit. p. 2.

Natura, a cosmetics and personal hygiene products manufacturer. Therefore, the very characteristic of the firm's business presupposes an intense interaction with the environment and with the communities within its area of influence.

The **Orsa Group**, besides dedicating itself to a type of production that calls for special care where environmental issues are concerned, acquired Jarí Celulose, a pulp plant, in 2000. It lies in the heart of the Amazon forest and produces more than 350,000 t of pulp, of which some 90% is exported. It occupies an area of 1,700,000 hectares, being 1,100,000 covered with native woodlands. Around its industrial facilities, in regions with precarious access, the firm found 127 communities, each of which with some 20 families, so that together they total roughly 12,000 people who live on forest resources extraction and often under conditions of extreme poverty²³. The three neighboring towns have low human development indices and suffer from the extreme poverty and penury that are typical of the faraway riverside communities in the north of the country.

Not even the group's acknowledged experience with social projects, acquired through the Orsa Foundation, was enough to implement a corporate responsibility strategy in the region. Thus, moving beyond social investments and partnerships, the group developed propositions for undertakings involving communities, designed to encourage people's entrepreneurial capabilities, especially among the youth, making it possible to generate income in an area depressed by structural poverty, low job offerings, lack of manpower qualification and a low level of formal education.

As Sergio Amoroso, the Orsa group's president, said, *"a traditional privately-held enterprise, no matter how responsible it may be, has a limited capacity for balancing wealth distribution. The pressure on the forest and the social problems will continue to jeopardize the business's sustainability"*²⁴.

Looking into the human and natural resources potential of the region, with an awareness of these barriers as a starting point, the group devised and has been implementing enterprises such as the certified management of timber and non-timber resources, the development of nutraceutic and phytotherapy products, woodwork, furniture making, carpentry and the production of fibers for industrial application.

The entrepreneurs are the people living in the community, with technical advice and training programs provided by the company. Depending on the characteristics of each undertaking, the relations may be a company partnership or a supply contract. For each type, the partners' rights and duties are defined, as are the terms for generating and distributing revenues. However, in all cases, the group also invests in the generation of social capital through Orsa Foundation projects that aim at empowering people via citizenship practices and knowledge.

At the country's opposite end, on the border of the state of Rio Grande do Sul, next to Uruguay, another major firm in the same pulp and paper production sector realized it was necessary to redefine its relationship strategies. **VCP – Votorantim Celulose e Papel** is one of the most important divisions of the powerful Votorantim group, whose production activities spread over a wide range of sectors: mining, agro-industry, minerals processing and steel making. A strategic project of the division, which reflects the sector's growth trend in Brazil, expands the activities of farming and industrial production to the South region, taking advantage of the favorable conditions for acquiring land and setting up industrial facilities.

23 Socio-environmental Diagnosis of the Communities in the Jarí Valley, led by professors Rosa M. Fischer and João T. Pires and developed by the CEATS team for the Orsa Group. São Paulo, 2006.

24 www.gruporsa.com.br – Desenvolvendo a Sustentabilidade.

The project that is to be implemented in the next seven years plans to build an industry with the capacity to produce one million t/yr of pulp, which implies in occupying some 135,000 hectares with eucalyptus plantations. The project's impact reaches 21 towns with a rural and urban population of some 950,000 inhabitants.

Contrary to the tradition of pioneering entrepreneurs, who invaded the places they chose with the strength of their size and power, destroying natural resources and the inhabitants' living conditions, VCP has been carefully establishing itself in the region, developing synergistic relationship networks with the local communities. It commissioned a socio-environmental diagnosis to reconnoiter the area and model an impact evaluation system²⁵ to be used as a management tool for preventing the occurrence of negative externalities derived from its presence.

In an attempt to recognize the value of local entrepreneurial capabilities, the company avoided sourcing its agricultural production needs solely through its own farming. It aims to have at least 30% of its production needs supplied by local farmers, so as to increase their income generation and avoid real estate speculation. Thus, fixed in their small and average size rural properties, these farmers will not be expelled into cities and experience the depreciation of their savings.

Currently the company already counts on some 40,000 hectares belonging to small property owners that participate in the Forest Savings (*Poupança Florestal*) program, which guarantees the purchase of their timber at a fair and pre-established price, and that makes it easier for them to gain access to bank financing. As in the case of the Orsa group, VCP also recognizes the need for sharing with its partners the technical knowledge that will enable them to achieve the quality industry requires and the profitability that keeps the enterprise attractive. Thus, it provides technical services, which include help for the farmer to grow other crops on his property, thereby multiplying his sources of income and the means to avoid becoming overly dependent on supplying timber and experiencing the adverse impact of single crops on the environment.

In this type of relationship between the company and small local landowners it is important to stress the singular access of these people to information, which can leverage their business. The lack of conditions for the farmers to raise credit to fund their activities is commonplace in these impoverished areas. Even federal government programs with subsidized interest rates (such as PRONAF, the National Program for Support of Family Agriculture) do not benefit these people, because they are so very isolated and abandoned that they lack the means to tap into the program.

One of the cases under study is exemplary in this respect. It is on **Agropalma**, the largest producer of palm oil in Latin America, with 5.5 million palms planted and a production of 120 th t/yr of dendê oil²⁶. The firm is in the state of Pará, in the north of Brazil, 150 km away from Belém, the state capital, in a region where the economic and social exclusion of small rural producers is a key feature.

The corporate group, which comprises six firms, accounts for 80% of the domestic production of this oil, generating 2,800 direct jobs and annual sales of some US\$ 185 million. Though it controls the entire production cycle, from palm growing to industrial processing in areas that

25 Monitoring Systematization and Impact Evaluation project conducted for VCP by the CEATS team, under the leadership of Professors Rosa Maria Fischer and João Teixeira Pires

26 Dendê or palm oil is a popular oil in Brazilian cooking, produced from the fruit of the *Elaeis guineensis* palm, or Dendezeiro. In addition to being used for cooking, it can also replace diesel oil. It is used to manufacture candles and soap, to coat tin plate and sheet steel, to make grease and lubricants, and in vulcanized articles.

extend over 32,000 ha and that encompass three municipalities, the firm cannot overlook two trends in its ecosystem. The first is the demand growth outlook, not only due to the expansion and diversification of palm oil uses around the world (food industry, oleochemicals, soap manufacturing etc.) but also because of the rise of biodiesel as a fuel able to succeed fossil fuels. The second one indicates the need for replacing the agricultural production model of wholly owned plantations by more flexible alternatives capable not only of lowering costs, but also of enabling a symbiotic relationship with the surrounding communities.

Besides poverty, the region characterizes by frequent land disputes, which tend to become violent, especially when the area in question is the target of clandestine exploiters of hardwoods (a situation also faced by the Orsa group), or where social movements claim for land reform (as experienced by VCP as well). Anticipating these difficulties and feeling that tying up capital in land ownership would be uneconomic, Agropalma decided to invest in leveraging the entrepreneurs established in the neighboring areas. Inspired by the Malaysian and Thai family agriculture model, the firm planned on increasing production at a lower cost, by establishing relations with the small neighboring producers, who would stand to gain from the assured outflow and purchase of their production.

However, there are barriers to establishing these alliances: cultural differences between the farmers and the firm's technicians and managers; the community members' low educational level; and the lack of essential documents such as personal IDs and title to the land. These features made it difficult for these producers to gain access to PRONAF. Being illiterate, they were unable to fill in forms and sign loan contracts; in isolation, they had no access to bank branches and information; abandoned, they were ignorant of how to put their documents and registries in order; suspicious, they feared losing their land to the firm, because they did not trust the intent underlying the approximation or believe in the shared advantages this could provide.

Unlike VCP, which encouraged a private commercial bank to extend production loans to its partners, Agropalma established alliances with a state-owned regional development bank (BASA – Banco da Amazônia) and with the neighboring towns' councils. These choices are connected with the management style of each company and with the predominant socio-cultural and political features of each region.

Agropalma has been gradually expanding the number of families that take part in its program through a selection process that started with 50 families whose monthly income no greater than US\$ 27 in a 500 ha area (2001), and that by 2005 had expanded to 150 families and a 1,500 ha area. Average family income amounted to US\$ 345/month in the first crop year (2005), and doubled in the next twelve months. After the 7th year, once the plantation became perennial (2008), the net earnings per family are estimated to reach US\$ 11,000/yr from palm bunch production alone, and this may be even higher as a result of earnings from other crops farmed in the same area.

Still in the northern part of the country, **Natura**, a Brazilian cosmetics firm renowned for its sustainability strategy and the responsibility values of its organizational culture, has almost ten years of experience in maintaining alliances with community producers as partners and suppliers of raw materials for the creation and development of its products. Relying on its strong brand, which is linked to the concept of wellbeing and the proposition of delivering natural products, the firm underscored its strategic positioning by launching the Ekos line, consisting of products based on active ingredients provided by Brazilian biodiversity, especially from the Amazon forest. With this appeal, Natura went public and started implementing its internationalization project.

However, in order to realize these ambitious projects, it was necessary to invest in a long and deep learning process on how to establish and maintain cross-sector strategic alliances²⁷, including, among other groups, forest natives from small communities living off the extraction of natural elements, and local inhabitants familiar with traditional lore on the use of natural resources. (FISCHER, CASADO, 2003) This learning process is not always calm and linear and the firm often had to face unexpected demands, discontinue established agreements and negotiate new partnership standards.

These difficulties, however, do not affect managers' and directors' faith in the benefits that this effort can yield, or in the need to maintain these relationship networks, trying to make them symbiotic, i.e., generators of sustainability for the firm and for the low income groups that became local entrepreneurs and generators of social transformation.

One of the traits shared by these initiatives is that although they are soaked in a dose of altruism, they are characterized by a rational view that aims at attaining corporate business competitiveness. However, the nature of this competitiveness is not exploitative, because it is thought of as a sharing of advantages, which ensures perennality and sustainability of both the firm itself and of the social enterprises associated with it. Another characteristic is that these initiatives are neither isolated nor dependent solely on corporate will and action. To devise and implement them, it is necessary to combine efforts and resources from several organized sources, which are integrated in innovative configurations that materialize the cross-sector collaboration.

3. SOCIAL ENTERPRISE STIMULATION BY GRASSROOTS ORGANIZATIONS

Other enterprises analyzed in this study are those whose conception and implementation are not connected with a corporate initiative, although they may become part of a production chain that also includes private firms. In these cases as well, certain features of the ecosystem that condition the enterprise are highlighted, such as the need to implement strategic alliances to support consolidation.

However, it is in these examples that it was possible to find other important aspects for analysis within the scope of the social entrepreneurship theme, namely: the role of "bridge organizations"; the challenge of generating economic value; and management difficulties and, particularly, the governance of these undertakings.

Three enterprise cases were selected for insertion in this paper, all of which seem to be successful from the standpoint of a quick performance review.

The first one is **Apaeb** – the Association for the Sustainable and Solidary Development of the Sisal Region. It congregates small sisal²⁸ producers in the semi-arid portion of the state of Bahia, a region punished by long droughts that cause hunger, destitution and migration.

Brazil is the world's largest sisal producer, accounting for almost 50% of the global market. The state of Bahia is responsible for 92% of this production, which equals 120 th t/yr. Although it is one of the country's natural assets, most of this production's profit has always been appropriated by the tradesmen that processed and marketed the raw fiber supplied at very low prices by the farmers.

In 1980, a group of these small producers, indignant with the destitution and extortion that was victimizing them, sought a way to increase income generation and acquire more

27 Natura Ekos: from the forest to Cajamar. FISCHER, R.M.; CASADO, T.; Boston: Harvard Business School Publishing; 2003.

28 A plant that originally came from Mexico and whose leaves yield very strong fibers, used to make a range of handicrafts. In Spanish it is called "agave".

autonomy over their business. Encouraged by progressive European clergymen, they founded the Association as a collective means of solving their problems and providing each other with mutual support to face crises. They began investing in sisal farming and gradually started acquiring assets that consolidated the group's equity: a truck for transporting the production, a processing machine for adding value to their product, a sales outlet that is a modest consumption cooperative for the families, and an incipient and, at first, informal mutual credit cooperative. During the 80s, more than 2,000 families guaranteed the soundness of Apaeb, enabling it to take bolder steps: setting up a formal credit cooperative to provide working capital in between crops; direct sales and the professionalization of its production; and the elimination of middlemen.

Currently, Apaeb benefits 7,000 members spread over seven towns in the region. It injects more resources into the area than the town councils, the bulkiest volume being set aside for the Valente municipality, where its headquarters are located, thus having become the city economy's dynamo. These sole indicators would be enough to lead to a positive evaluation of the enterprise, especially if one considers these people's empowerment, who achieved not only higher family income but also new knowledge. Additionally, they have managed to keep their properties and gain access to modern consumption goods and better standards of comfort. New homes, built over the last few years, less migration and higher levels of formal education among their children are proof of the good results achieved.

However, as if this were not enough, the entrepreneurial spirit of the association members led them to envisage a formerly impossible target, now achieved: in the late 90s they set up the Valente Carpet Factory, with 630 workers organized into four shifts and producing 650 th sq m of sisal rugs and wall-to-wall carpeting, invoicing US\$ 5.5 million (2005) and marketing its output both domestically and abroad.

This reflects a qualitative jump from a social enterprise to a sustainable corporate business. The industrial revenues are sufficient not only to maintain their operations but also to fund the Association's initiatives that aid its members and all the communities' inhabitants, such as: a sports center, a recreational club, an agricultural school, technical training programs for living in a semi-arid area, and environmental education, among others.

Another association is in charge of providing dignified means of survival and recovery of the self-esteem of one of the social groups most stigmatized by poverty: the homeless. This is **Asmare** – the Association of Collectors of Paper, Cardboard and Reusable Materials, which is dedicated to collecting recyclable materials from the garbage of the city of Belo Horizonte, capital of the state of Minas Gerais.

In the early 80s, the substantial growth of the urban population in Brazil's capitals brought in its wake a deterioration of the social crises linked to the job scarcity. One of the indicators of this situation was the fast growth of homelessness – people who live at the bare limit of survival and are totally destitute. This group's social reinsertion difficulty is greater, as they lack any personal conditions for reintegrating themselves, being persecuted by the "hygienist" activities of local governments. Additionally, they are not targeted by public policies, corporate social actions or even philanthropy. Totally marginalized, they are at most the object of the attention of charitable religious entities.

However, the revival of this situation of violent social marginalization has caused local articulation movements to start appearing, movements that began to demand these people's rights to work and to organization. From the mid 90s to date, the movement has spread amongst the country's largest cities, held state meetings and federal congresses, and established connections with similar initiatives in other Latin American countries. Asmare's

success began to be carved when the homeless found a "market niche" for their activity, which consisted of joining the recycling industry production chain.

Asmare is the result of charitable work initiated in 1987 by the Roman Catholic Church in Belo Horizonte to provide support for the social organization and production activity of the homeless and of the waste collectors. The Association was set up in 1990 with the help of the city council. Its activities comprise the collection, separation, pressing and marketing of recyclable materials, but also extend to training and cultural events, which bear witness to its members' personal development. Its relationship network also comprises paper production industries, recyclable materials storehouses and firms, demonstrating the need for social enterprises to have the support of a set of strategic, cross-sector alliances.

The importance of this type of enterprise is evidenced by the fact that SEKN is now able to conduct a comparative study of cases in three Latin American countries.

In the SEKN research, the study of the "El Ceibo Recuperadores Urbanos" (Argentina), "Asmare – Associação dos Catadores de Papel, Papelão e Material Reciclável" (Brazil) and "Cooperativa de Recicladores Porvenir" (Colombia) social initiatives enable the network to develop more in-depth knowledge, as well as to understand the settings and the social and economic dynamics that leverage the emergence of this category of workers (recyclable material collectors) and their local, regional and national movements and organizations. Furthermore, they allow the identification and understanding of the role of the different actors involved in the recycling transforming chain of production and how they operate. One verifies that the collectors have built a network of partners – social organizations, private firms and public entities – that have become fundamental in the promotion of economic, social and environmental gains for the collectors and their families, for the associations and cooperatives and for society as a whole. Indeed, the successful initiatives involving solid waste collectors' associations and cooperatives in Latin America seem to be articulated, largely, on a rich basis of social capital and on operating as networks, whose formation and existence precede the very entrepreneurial experience.

Also embracing the cooperative organizational format, **Coopa-Roca**, the Handicrafts and Sewing Cooperative of Rocinha, produces handmade pieces for use in decoration, in the garment industry and by fashion designers. Created in the 80s by humble inhabitants of the Rocinha shantytown in Rio de Janeiro, its purpose was to provide a remunerated in-home occupation for women unable to get jobs in the formal job market, due to inadequate qualifications or dedication to non-regular work days, having to look after their small children and in poorly structured families.

Rocinha, an urban agglomeration of some 150 thousand people, is one of the many Rio de Janeiro shantytowns that illustrate the contrast between wealth and poverty in Brazil. The initiative driving this enterprise was encouraged by a sociologist whose intent was to engage in art education projects for children, but who ended up discovering among their mothers a talent for handicrafts that could be channeled into productive activities. In 1987, the cooperative was created by five Rocinha inhabitants with a very simple production structure whereby their products were sold erratically in fairs, bazaars and stores chosen at random. The intense growth of the fashion and garment manufacturing industries in São Paulo and Rio de Janeiro in subsequent years provided Coopa-Roca with the opportunity to expand and diversify its production; it became known as a supplier of handicrafts, a partner to fashion designers and renowned brands, becoming a real participant in these production chains.

In these chains, the commercial partners maintain, with the cooperative, a relation of simple supply of handicraft pieces and adornments, but they add an important feature, which is the adaptation of the enterprise's production standards. To line up with the requirements of

demand, the organization had to adapt to the industrial quality criteria, production scale and work pace.

The mobilization of the women involved with the cooperative is not limited to production, but comprises leisure activities, training and access to cultural assets, all of which raising their self-esteem, formerly depressed due to the "macho" culture prevalent in the conjugal and family relations conducted predominantly within the shantytown. Though the number of craftswomen oscillates at any given point in time as a function of the volume of work commissioned by the commercial partners, at present some 100 women work on a permanent basis.

Over 20 years, Coopa-Roca grew. This demanded a larger and better adapted physical area; the development of the co-op members' management capabilities; the redesign of their organizational structure; and the systematization of the work processes. Among the main challenges faced to guarantee the enterprise's sustainability is the need to create a governance model in line with its specificities, able to guarantee transparent management and real participation of the co-op members in the actions and decisions that guide Coopa-Roca's future and results.

CONCLUSIONS

All these cases show that grassroots organizations, with different organizational formats and management models, have the potential for becoming social enterprises. Their performance results, where social value generation is concerned, are evident, both when the evaluation is quantitative and when one tries to find qualitative parameters. The growth of personal and family income is a clear result of the life story of the Apaeb farmers, of the Asmare collectors and of the Coopa-Roca craftswomen. The enhancement of their professional qualifications goes hand in hand with other equally important gains: higher self-esteem, greater autonomy in determining their own life paths, greater participation in society and the exercise of their citizenship.

However, it is harder to identify the economic value added to the enterprises. Though they are regarded as successful cases, these enterprises have great difficulty in maintaining stable financial performance. All of them still depend on strong fundraising efforts and undergo frequent crises. Whether one is talking about Apaeb, which handles high volumes of money, or about Coopa-Roca and Asmare, which still depend on the support of external financiers, it is obvious that these enterprises are vulnerable, especially if the measurement of the economic value they generate relies on the current paradigms of corporate performance evaluation systems. One issue that arises, therefore, is whether the notion of economic value and its evaluation parameters must be redefined and adapted to the specific features of social enterprises.

Similar thoughts apply to management procedures in general and more specifically, to governance models and practices. Management models that are remarkable in corporations cannot be mechanically transferred to social enterprises. Therefore, there is a challenge at hand: not only to professionalize the management of social enterprises, but also to create managerial competences and tools more adequate to their characteristics and operations.

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