

8. Conceptual foundations: community-based enterprise and community development*

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8.1 INTRODUCTION

Since ‘development’ became an international project in 1949, the standard approach to its achievement has been based on the assumption that economic development is the goal, that industrialization is the means, and the state is its primary agent (Todaro and Smith 2003, Knutsson 2009). A striking counter to this view is found in the conviction that underlies much of what is explored in this volume: that genuine development must blend social goals with the economic, that the means must go beyond modernization assumptions about industrialization, and that social, environmental and economic challenges are frequently addressed best by initiatives arising at the level where those challenges are experienced most acutely: the local area and community level.

In the last decade and half, references to community enterprise, social enterprise, social economy, cooperatives, civic economy, and other initiatives originating at the community level have gained visibility. This chapter concerns what may be considered a particular kind of community enterprise, one that has come to be known in the literature as ‘community-based enterprise (CBE)’ (Peredo 2003, Peredo and Chrisman 2006, see also Orozco-Quintero and Davidson-Hunt 2009, Campbell-Hunt et al. 2010, Handy et al. 2011, Somerville and McElwee 2011, Peredo 2015). The research program that led to the identification of CBEs rose out of prior studies on the social, cultural, economic and environmental effects of increasing economic globalization on the livelihoods of rural communities (Peredo 1995, Abrahams and Peredo 1996). The basis for this chapter begins in communities in the global south, but extends to communities in the global north. Communities in poor countries were not the only ones negatively affected by the neoliberal Structural Adjustment Programs imposed by the International Monetary Fund in the 1980s and 1990s in

many poor countries (Stiglitz 2002). As neoliberal ideology fuelled the shrinkage of the welfare systems in rich countries as well, response in the form of community-based entrepreneurship and other alternative organizational forms became increasingly visible. In spite of these initiatives, and of failures such as the economic collapse that began in 2007, there remains a sense in many quarters that there is no alternative to the path of development spelled out in the neoliberal agenda. The community-based response is an emphatic denial of that proposal, and that is the context in which a search for alternative economic arrangements began.

That is the basis also of the research questions that underlie this chapter: to what extent can communities construct out of their cultural resources a response to crises in material, social and environmental well-being? Can communities act entrepreneurially to develop their own development path on their own terms? Are there other paths to development being built at the local level? The investigation focuses on a number of communities – mostly Andean – where members, acting collectively as a community, formed enterprises that they then operated on the same collective basis, thus functioning as both entrepreneur and enterprise. The aim of their operation is an amalgam of economic, social, cultural and environmental results that would constitute both individual and community benefits.

Most of the communities studied here have a particular history and set of cultural endowments, and it would be rash to generalize too quickly from their responses and their outcomes to the situation of other differently situated communities. We will suggest, nevertheless, that the results are suggestive of what might be accomplished elsewhere when local communities look to their own resources to address hardship.

Value creation and innovation through local business development are arguably essential means for the alleviation of poverty; these can also be vital tools in the reclamation and preservation of the natural environment, an objective that is fundamentally linked with poverty alleviation in the goals of community development. However, the employment of entrepreneurship development as a means to overcome poverty and protection of the environment requires a concept of entrepreneurship liberated from constrained economic and cultural assumptions in mainstream business (Peredo and McLean 2013).

Solutions to material poverty and ecological degradation need to be broad-based, local- and place-focused and interdisciplinary. Poverty is a multifaceted phenomenon (Narayan-Parker 2000) and to overcome it requires a holistic perspective. Environmental challenges are likewise multidimensional in the way that they bring together ethical, scientific and social considerations. Our approach, accordingly, draws on theoretical

considerations from the fields of entrepreneurship, environmental management, anthropology, and development studies.

We believe CBE represents a promising strategy for fostering sustainable local development. Whereas the community has traditionally been treated in the management literature as an exogenous part of the environment for entrepreneurship (e.g. Gartner 1985, Bull and Winter 1991, Ardichvili et al. 2003), our conceptualization of CBE treats the community as completely endogenous to the enterprise and the entrepreneurial process. The conceptual trinity of community, entrepreneurship and enterprise and the proposals emerging from it are important for several reasons.

Traditional concepts of entrepreneurship and economic development do not appear to capture the essential features of venturing in diverse social and cultural contexts such as communities. For example, the mainstream entrepreneurship literature assumes the primacy of economic goals and economic growth – as Bruton et al. (2013: 684) put it in their summary of entrepreneurship scholarship, ‘entrepreneurship scholars have focused their work on high-growth, high-wealth-creation businesses in either established or new startups’. Entrepreneurship exercised for community benefit, especially collective entrepreneurship of the kind discussed here, may be aimed primarily at cultural and/or environmental preservation with economic outcomes in a supporting role. The mushrooming study of ‘social enterprise’ pays attention to enterprise activity aimed at social benefits, and its findings may be more relevant to our subject than traditional entrepreneurship. However, the study of social entrepreneurship has largely inherited the tendency of traditional entrepreneurship studies to assume ventures are created by an entrepreneur acting solely or as part of a small team of individuals. By definition, CBEs are created by community members acting *corporately*. If we are to study entrepreneurship in settings where prevailing assumptions may not apply, we must develop new theories, new models and new frameworks.

We begin the chapter by outlining a pair of conceptual tools – the notions of ‘community orientation’ and ‘social capital’ – that add theoretical perspective on CBE. We then elaborate the CBE model itself, clarifying the ideas of ‘community’ and collective action, as well as the difference between CBEs and such organizations as cooperatives. We go on to suggest typical conditions of CBE emergence, and then discuss characteristic CBE features and economic outcomes. In our ‘discussion’ section, we give an overview of the proposed theoretical model and consider some of the challenges that it faces in its ongoing implementation. We then conclude with some observations about the potential impact of the CBE form and directions for further research on its character and potential.

8.2 THE NATURE OF COMMUNITY AND ENTREPRENEURSHIP

Every community combines in its ethos an implicit understanding of the way that the status and entitlements of its individual members should be understood in relation to the standing and legitimate requirements of the community itself. We use the concept of 'community orientation' to represent a range in the ways these rights and requirements may be balanced. The more 'community-oriented' a group is, the more its members experience their membership as resembling the life of parts of an organism; the more they will feel their status and well-being is a function of the reciprocated contributions they make to their community (Kilkenny et al. 1999). The more community-oriented a society is, the more its members will be entitled to certain societal benefits, including the satisfaction of needs connected with survival, such as basic income, health care, and safety. With that entitlement comes the understanding that the claim to these benefits overrides, to an increasing extent, the right of members' unfettered use of private property. Indeed the notion of private property may begin to attenuate as community orientation predominates. As community orientation grows, so does the sense that communities themselves have needs, such as clean air, safe water, jobs and affordable energy; and meeting these needs may take precedence over the unregulated freedom of individual choice. It is characteristic of the communities to which CBE appears relevant that they are, or can become, relatively 'community-oriented' in their outlook.

Although entrepreneurship is a relatively emergent field in management scholarship, entrepreneurial action broadly understood has been part of the entire history of humankind. Entrepreneurship may not only be compatible with diverse social arrangements, but may benefit from the integration of specific cultural values and norms (Anderson 2002, Basu and Altinay 2002). The evidence is that cultural identity may actually function as a tool for entrepreneurial activity (Light and Rosenstein 1995).

Entrepreneurial activity can flourish in diverse environments. In many small communities, especially in poor countries, a variety of combinations that simultaneously provide space for different economic logics has emerged. Imagine an Andean peasant woman, busily engaged in marketplace bartering, then hiking her voluminous skirts to retrieve her mobile phone for a quotation on the international price of potatoes: a skilled engagement with quite two different worlds.

8.3 EMBEDDEDNESS, COMMUNITY AND ENTREPRENEURSHIP

It is illuminating to think of the community orientation of a society in terms of 'embeddedness', 'social networks' and 'social capital'. The concept of embeddedness has come to be used as a tool for understanding how economic transactions are affected by the location of individuals and organizations in networks of personal relationships (Granovetter 1985). Embeddedness itself is a concept that owes a good deal to the notion of the 'gift economy'. Initially regarded largely as a holdover from archaic societies (Mauss 2002), the gift economy has come to be seen by researchers as an essential feature of modern societies (Cheal 1988, Klamer 2003). A gift economy exists when there are frequent and regular transfers of goods or services from one member of a community to another, or among communities, without remuneration or any explicit agreement of a *quid pro quo*. There may be implicit expectations of some form of reciprocity, but there need not be; and where they exist they are unstated and unspecified (Klamer 2003). What is crucial is that the practice is immersed in a set of social arrangements and shared understandings, which give it significance.

The importance of the gift economy as a basic principle on which communities are built has come to be used as a concept for understanding entrepreneurship and local economic development (Taylor 1999). Drawing on anthropological research, Granovetter (1985, 1989) challenged the view that, with modernization, economies and societies become detached and that 'economic transaction [is] defined no longer by the social and kinship obligation but by individual gains' (1985: 482). He reintroduced the concept of embeddedness to bring out the importance of concrete personal relationships and networks of relationships in standard market economic systems. Within these networks, people and communities are able to build strong relationships, which over time allow trust, cooperation and a sense of collective action to develop among members of a network. Concrete personal relationships and networks of these relationships are thus crucial components in the functioning of an economic system (Putnam et al. 1993).

Research and theory in entrepreneurship has drawn attention to the way in which those individuals with extended social networks are advantaged in the quest for entrepreneurial success (Larson and Starr 1993, Ardichvili et al. 2003). What needs further consideration, however, is the extent to which communities themselves, as collective units, may function as entrepreneurs and enterprises, and may benefit in those functions from the social capital at their disposal.

The concept of ‘social capital’ has become an accepted and revealing lens for understanding social phenomena at all levels, including community and enterprise development (Woolcock 2010, Kwon and Adler 2014). Originating in the work of Bourdieu (1986) and Putnam (1973), the idea incorporates the recognition that certain features arise in social organizations and networks that enhance the activity of members of those social settings. Putnam (1973: 37) goes so far as to say that ‘social capital embodied in norms and networks of civic engagement seems to be a precondition for economic development’. While there is disagreement about the precise definition of ‘social capital’ – Woolcock (2010: 470) goes so far as to call it an ‘essentially contested concept’ – it is clear that the concept is closely connected to the embeddedness/network perspective on community resources (Williams and Durrance 2008). For our purposes, it is most useful to see the two as intersecting, in that networks of various kinds are the source of social capital (Woolcock 2001: 70, Mouw 2006). Social capital itself, we will say, consists in such resources as trust, shared norms and a sense of reciprocity and goodwill that flow from awareness of shared social networks (Kwon and Adler 2014: 412).

A distinction has come to be accepted among three forms of social capital based on the sources in which it is embodied (Woolcock 2001). First, there is a difference between the social capital generated by relations among members of close and relatively homogenous groups such as families, near friends and close neighbours – ‘bonding’ social capital – and that created in more distant and heterogeneous relations such as those with more distant friends, neighbours, workmates and other more casual connections – ‘bridging social capital’. A third form – ‘linking social capital’ – is said to arise in relations with persons in positions of authority and influence, such as political office.

Scholars of enterprise development (e.g. Nahapiet and Ghoshal 1998) have drawn attention to the role of social enterprise in conferring several kinds of organizational advantage in the creation and operation of business. Flora (1998) argues that the strong social capital in ‘communities of place’ contributes to ‘an entrepreneurial social infrastructure’ that fosters community self-development.

Close attention to the dynamics among the different forms of social capital identified above, however, calls for a more nuanced appraisal of its function in enterprise development. Consider the possibility, for instance, that the relatively intense bonds that may exist within some social groups may also function to discourage bridging relationships with those outside its networks, and suppose that those bridging relationships are important perhaps in creating an enterprise but certainly in having it flourish. Similarly, bonding and/or bridging relations may be cultivated in a way

that discourages linking relations, and those might also be important factors in creating and sustaining an enterprise. Worse still, it is easy to imagine that networks and their social capital of various kinds can also be the conduits for favouritism and unequal treatment (Lin 2000) as well as outright corruption (Uribe 2012). It therefore seems appropriate to contend, as Woolcock (2001) does, that we must adopt a multidimensional approach to analysis in terms of social capital, and consider the combination of forms and the dynamic of their interaction as an enterprise develops. This is the perspective we will bring to considering the extent to which communities themselves, as collective units, may function as entrepreneurs and enterprises, and may benefit in those functions from the social capital at their disposal.

8.4 AN ALTERNATIVE DEVELOPMENT: COMMUNITY-BASED ENTERPRISE

The institutions of both community and entrepreneurship are frequently employed by governmental and non-governmental agencies, as well as foundations, in the effort to fight unemployment and generate economic growth in poor regions. Selsky and Smith (1994) use the term ‘community entrepreneurship’ to describe entrepreneurial leadership that arises within non-profit organizations. By contrast, as indicated earlier by our definition of CBE, we focus instead on local communities, which collectively create business ventures, and, through them and/or their results, aim to contribute to holistic community development that includes environmental as well as social and economic outcomes.

As noted above, we mean by ‘CBE’, a community acting corporately as both entrepreneur and enterprise in pursuit of community common good. Entrepreneurship, for our purposes, is understood as the creation of a new organization, arising as a result of combinations of familiar or new elements, in pursuit of opportunity (Schumpeter 1934, Kirzner 1973). The community acts as an entrepreneur when its members, acting as owners, managers and employees, collaboratively create or identify a market opportunity, and organize themselves in order to respond to it. The response combines familiar or new elements – goods or services, methods of production, markets, sources of supply and/or organizational structures (Schumpeter 1934). The community acts as an enterprise when its members work together to jointly produce and exchange goods and/or services using the existing social structure of the community as a means of organizing those activities. Thus, ‘CBE’ represents both the entrepreneurial process of venture creation and the venture created through the process.

The term 'community' is used here to refer to an aggregation of people that is not defined initially by the sharing of goals or the productive activities of the enterprise, but rather by proximity in a shared geographical location generally accompanied by collective culture and/or ethnicity and potentially by other shared relational characteristic(s) (Molinari et al. 1998). The community may be delineated by political boundaries – for example, it may also be a village or a municipality – but it need not be. There is no reason why, for instance, an ethnic enclave in a larger community could not constitute a CBE, provided its members are involved in the appropriate way. So in some cases, communities, as we define them, may be part of larger communities, but are distinguished by a shared sub-location, place and a common relational bond, such as ethnicity or culture.

The idea that members act 'together', 'corporately' or 'collaboratively' should be understood flexibly. Some members may be more active than others, but most or all will have some role in developing and implementing the entrepreneurial initiative. Most if not all members will participate in some relatively direct way in monitoring and directing the enterprise's activities. Some will, in addition, be active, ongoing participants in the productive tasks of the enterprise. But virtually all will be committed to a common undertaking, though they are first of all defined as a community by something other than that shared commitment. Obviously, no exact specification can be given as to the percentage of community that must be involved, for communities and conditions will vary from case to case in the real world. Suffice it to say that at least a very large majority of the community will have some degree of commitment to the enterprise.

Profit-making need not be, and typically will not be, the exclusive or even the primary purpose of the enterprise. While some return is necessary to make the operation sustainable, that return may be seen as strictly instrumental in achieving some other community purpose(s), and a lower rate of return may well be accepted in exchange for the achievement of other community goals.

These characteristics distinguish CBEs from collective ventures initiated by government (e.g. state lotteries) or community leaders (e.g. opera or ballet societies) on behalf of society where ordinary citizens, who may share the fruits of the endeavour, have, at best, a limited say in the aims and scope of the enterprise and no direct voice in its management. CBEs are owned, managed and governed *by the people* rather than by government or some smaller group of individuals *on behalf* of the people. Members govern, rather than being governed. Although CBEs may bear similarities to local governments and sometimes their leaderships may overlap substantially, CBEs' governance structures are designed to be participative,

not merely representative. Further, such things as the areas of their jurisdiction and their powers of sanction are likely to be quite different.

Cooperatives are not, in principle, CBEs either. Formally, the particular membership of cooperatives is marked out by a shared interest in a cooperative activity, rather than a shared interest on the part of a community in acting cooperatively, as is the case for CBEs. As with the opera or ballet societies, even if their membership is drawn from within some pre-existing community it is not essentially coextensive with it. In practice, some cooperatives identified with specific communities (one example is mentioned below) may be borderline cases or even hybrids. CBEs are often registered as cooperatives in the absence of a legal mechanism for recognizing a community form of business. The world may not be perfectly tidy with respect to what is and what is not a CBE.

Like most enterprises, CBEs are generally intended to be more than temporary. But like other enterprises, they may or may not last. There is nothing assumed in the notion of CBE about sustainability or longevity. The examples we will draw upon have typically persisted and enjoyed at least limited success. But all of them face challenges, and they would not cease to be CBEs if they had succumbed early to those forces. Neither would it disqualify them if they had been adopted strictly for short-term, instrumental purposes.

The cases at the heart of this study lie in the Andean area of South America. Beginning with these examples must not be allowed to create the impression that the CBE phenomenon is confined to that region. The Caribbean and Central America has at least a couple of examples in the Walkerswood Community in Jamaica (Lean 1995) and San Juan Community Forestry in Mexico (Tenenbaum 1996). Other areas in the global south such as the village of Ralegan Siddhi in India (Hazare 1997) illustrate a similar model. Communities facing challenges in more prosperous countries have also responded with CBE-like innovations, including the well-known Mondragon worker cooperatives, (Cheney 2002, Clamp and Alhamis 2010), floriculture using hot springs energy in Amagase, Japan (OECD 1995a), retirement living in Elliot Lake, Canada (OECD 1995b) and New Dawn Enterprises in Atlantic Canada, (MacLeod 1986, Reed 1999), and the Warner Community Hockey School (ATA 2003–4).

8.4.1 Conditions that Influence the Emergence of Community-Based Enterprises

8.4.1.1 CBE appears to be triggered by social, environmental, economic and or political stress

The roots of CBE lie in the attempts of communities under pressure to solve pressing economic social and/or environmental problems, sometimes including the attempt to address the absence of political power. Triggering stresses may be any combination of a) economic crisis, b) social disintegration, c) social alienation of a community or sub-group from mainstream society, d) environmental degradation, e) post-war reconstruction, or f) volatility of large business. Where they occur, these factors are typically a reflection of major macro conditions. The factors are often interrelated and many of them may be found in one community at the same time. The main point is that a major impetus for CBEs appears to be a threat that either causes the community to perceive a major disequilibrium in its way of life or an equilibrium condition that is so far below its former equilibrium condition that a search for opportunities and new resource combinations with both economic and social value is undertaken (cf. Cheah 1990). Overall, then, a CBE emerges as the result of the desire of communities to gain or regain control of their own local development. Adverse circumstances in a community give rise to a novel solution: in this case, the community-based enterprise. What is striking, however, is the way that in CBEs this 'novelty' is a legacy of long-standing resources in tradition and culture.

A threat to the sustainability of a community's way of life seems typically to be the trigger for developing a CBE. The Purepecha Indians, for example, have lived for 500 years in the Mexican highlands of Michoacan. By the mid-1980s Purepechans had been reduced to poverty, and government regulations had removed their right to freely harvest timber on their ancestral lands. When the government and outside individuals began to buy the land up and exploit it without significant commitments to hire locally, the community organized to defend the forests and establish the legal right of Indigenous groups to harvest their own trees. Acting as a community, and taking advantage of traditional arboreal knowledge, they hired a forestry engineer and launched a community-based enterprise, sustainably harvesting and marketing a wide variety of forest products (Tenenbaum 1996).

The city of Elliot Lake, Ontario, Canada, provides another example of this form of local response. The town was brought to its knees by the closure of the local uranium mine, which largely supported the community's population. Faced with a rapidly declining population, leaders won the support of the community in promoting the idea of a Florida-style

retirement community. The community, acting collectively, advanced the idea in a program of caravans and other publicity events. The result was a community-run enterprise attracting a substantial new population, and with it the businesses and social structures that largely recreated the community's way of life (OECD 1995b).

8.4.1.2 A history of collective experience integrating incremental learning and collective action

These factors are often identified as favouring localized development (Helmsing 2002). Frequently, the communities in which CBEs emerge have previously been involved in collective political action. These previous activities may result in the development of tacit knowledge, embedded within the community, with regard to organizing to achieve goals. Following Spender (1996) and Nahapiet and Ghoshal (1998), we suggest that such knowledge provides an advantage to communities who seek to embark on CBE. In fact, such knowledge may be essential for communities to recognize the possibility of CBE. Thus, just as previous and existing levels of entrepreneurial activity may foster additional entrepreneurial activity (Minniti and Bygrave 1999) the previous and existing levels of community activism may, in this case, become channelled toward enterprise creation.

The community of Alqu¹ in the Peruvian Andes provides an example (Peredo 2001). The population of Alqu had been brought together for many years in active political protest; for example, demanding access to basic services such as water and electricity, and better prices for their products. A triggering event, however, was the organizing of the community to protect against guerrilla insurgency. From 1979 to 1992, Peru was the scene of a bitter guerrilla war. Alqu was one of many communities that were savaged by the conflict, its members driven into hiding in the mountains to avoid injury or destruction. Drawing on their tradition of organizing to deal with adversity, patrols were set up to detect insurgent bands and alert the community, allowing it to mobilize in response. It was these experiences that provided the cohesion enabling the community to organize communal sheep farms (Peredo 2001). Similarly, the emergence of Mondragon in the 1940s drew deeply on the Basques' tradition of collective resistance during the Spanish Civil War (Morrison 1991).

8.4.1.3 Presence and balance in different types of social capital

One clear factor in the emergence of CBE is the presence of abundant stores of social capital. Bourdieu (1987), Coleman (1988) and Flora (1998) have highlighted the way that social capital can be a major resource for a community. Communities where CBEs emerge characteristically lack significant material resources. In many cases, land in the area is scarce and

impoverished, and there is little or no access to capital markets. In such a situation it is broadly recognized that people depend on social relations – social capital – to address their substantive everyday needs. CBEs are created on the basis of collectively owned cultural, social and ethnic endowments. These are historical products that create solidarity among community members and receptivity to collective action. Community networks allow resources to be pooled, actions to be coordinated and safety nets to be created that reduce risks for individual community members (Bourdieu 1987, Putnam et al. 1993). These networks allow the CBE to take risks not open to an individual by facilitating members' action and allowing for shared responsibility. It is precisely the ability of the CBE to marshal and exploit social capital that gives it added potential in conditions of chronic scarcity and fierce global competition.

It is important to recognize that the social capital commended in these statements is in fact a composite of different forms of social capital that are maintained in some appropriate, dynamic balance. The bonding form of social capital among extended families and close friends may be taken for granted in smaller rural communities, especially Indigenous communities like those in the high Andes. Even in larger, urban communities in more prosperous settings, bonding social capital has considerable weight. What is seen in communities where CBEs arise, however, is the kind of bridging capital that brings members of different kin and neighbour groups into a community effort that draws on their sense of interdependence and reciprocity. It is to be expected that different stages in the life of a CBE, from initiation through initial stages to ongoing practice, will call for adjustments in the balance among these connections. Successful CBEs manage those shifts in weighting.

The balance called for in social capital is illustrated in the case of Yacupampa in the Andean highlands of Peru. A prominent feature of this community is the concept of *faena*: unsalaried work owed by its inhabitants to the community in support of its collective projects. The CBE that has emerged in Yacupampa incorporates a number of different productive and service activities, including an agricultural arm to which the *faena* is an especially important contributor. The products of this work have been used to purchase machinery and irrigation systems as well as professional support for the agricultural operation. The result has been not only a highly productive potato operation, but also a gain for the family of activities that comprise the 'Self-Managed Community Enterprise (SMCE)' (Peredo 1998). These contributions clearly depend on a sense of reciprocal trust and obligation that extends beyond kin and close friends to the community at large. Yacupampa represents a paradigm case of the advantage of balanced social capital for CBE's development and ongoing function.

Equally striking in this respect is the CBE that emerged in the Andean community of Lluxllu. The CBE that emerged in this community depended on attracting members of neighbouring communities to a weekly market located in its central plaza. Without the bridges to those in the outside communities the enterprise could not have taken shape. Relations of trust and goodwill built out of 'weak ties' (Granovetter 1973) extend to major centres of population at some distance and draw participants to their community enterprise.

The bridging social capital that is so vital to community entrepreneurship arises in networks that these communities consciously foster with members of their community who move to other centres. The community of Yacupampa, for instance, maintains contact with those they call the *hijos de Yacupampa* ('children of Yacupampa') even when they relocate to Lima. A sense of connection is maintained that yields material as well as other forms of support as needed. These bridging networks in turn intersect with linking networks that may be used to connect community initiatives with municipal or other forms of support. Networks and their social capital are a vital part of enterprise formation and function.

Ralegan Siddhi in India provides another example of a developed balance in social capital. Prior to 1976, the village held a population of 2000, 15–20 per cent of whom subsisted on one meal a day or less. Only 70–80 acres of land in the area could be irrigated due to a general lack of water. Drought was common, and little or no effort was made to conserve the 15–16 inches of annual rainfall. A CBE emerged around the agricultural activities of community members but gathered them into commitments beyond family and immediate neighbourhoods. The community identified a number of goals for their joint enterprise, including employment and education. Following the lead of innovative members, villagers made the conservation of scarce water resources for production and community use a priority. Acting together, members coordinated their volunteer labour to build watersheds to gather rainfall. These became the backbone of prosperous organic farming and oil enterprises (Hazare 1997). Again, bonding and bridging social capital, as well as the linking social capital that brought access to government support, combined to provide a resource essential to the viability of a collaborative venture.

8.4.1.4 Appropriate community size

As with any entrepreneurial venture, the start-up and success of a CBE require that the community possess, or have access to, sufficient resources to launch the enterprise. With regard to material resources, we posit that especially in impoverished communities the amount of resources available on a per-capita basis is generally low. Therefore, larger communities

should have an advantage in the creation of CBEs vis-à-vis smaller communities. However, the relationship will not be linear. As stated earlier, a critical resource for CBE is the configuration of social capital that exists in a community, in which a balance between bonding and bridging social capital is crucial. Since the number of potential relationships in a social network increases factorially with the addition of each new person into the community, we argue that very large communities will have extremely complex and fragmented social networks. While conducive to individual entrepreneurship, we see such networks as a detriment to the formation of CBEs in the way that they ‘thin out’ bridging social capital by extending it over a greater number of relatively independent networks. For example, Kranton (1996) illustrates the fact that reciprocal non-market exchanges are more likely and provide greater benefits in smaller markets owing to the likelihood of frequent, future contacts. Furthermore, because of the importance of widely shared bridging social capital, smaller communities are more likely to achieve solidarity in terms of their subjective assessments of the initial endowments needed to form CBEs (cf. Minniti and Bygrave 1999). We therefore hypothesize that CBEs are far more likely to arise and maintain themselves in communities of a size large enough to supply an adequate store of resources but not so large as to entail numerous, fragmented and dispersed social networks.

The experiences of the ‘Mondragon Corporation Cooperative’ (MCC) are among many that invite the hypothesis. A large, highly successful system of cooperatives in the Basque region of Spain, the Corporation, arose in the 1940s in circumstances of intense Basque persecution. It was experiencing internal difficulties by the 1970s when the initial cooperative had reached 700 members. The communal assembly agreed, as a result of these difficulties, that it was time to decentralize and create new cooperatives within the community system, for new ventures. Thus, while the cooperatives continue to coordinate their organization and activities as one corporation, each ‘business unit’ is restricted in size (Morrison 1991, Greenwood 1992, Suzuki et al. 1993).

In summary, we theorize that CBEs come into being as a consequence of a combination of a lack of an acceptable equilibrium of conditions, a history of collective experience and action, and a stock of social resources that is optimal to allow social organization to become economic organization.

8.4.2 Characteristics of CBE

The nature of the communities that have and might engage in CBE, and the conditions that give rise to the birth of CBEs, suggest that each will be likely to possess certain characteristics once they emerge.

8.4.2.1 CBEs are generally based on available community skills

The type of economic activity adopted by CBEs is typically related to the type of skills and experience acquired by local people before the creation of the CBE. Some of those skills are based on collective ancestral traditional knowledge, while others have been developed through the experiences of individuals working outside the community. Skills and resources acquired before venturing are important factors that both improve the chances of venture success and provide a context for the search for opportunity (Ardichvili et al. 2003). Since the community is the entrepreneur, the creation and performance of a CBE is profoundly affected by the ability of a community to combine and adapt in an innovative way a variety of ancestral and new skills, experiences, cooperative practices, and values. In fact the type of enterprise in which a CBE embarks is likely to be a function of skills, trades and resources available within the community, related to perceived needs and opportunities.

In the Andean community of Lluxllu, a community beset in the 1970s by severe food scarcity and environmental degradation, the population took advantage of its strategic location, at the mid-point on a thoroughfare between the highlands and lowlands, to develop a community-run Friday Fair. But in doing so, Lluxlluns also capitalized on the traditional skill and reputation of community members as the providers of outstanding cheeses, a product that was the foundation of the fair's commercial success (Peredo 2003).

8.4.2.2 CBEs typically have multiplicity of goals

Indeed it is essential to recognize that the communities forming CBEs emphasize the need to achieve some combination of social, economic, environmental, cultural and/or political goals. This combining of ends emerges from the fact that many communities caught in a spiral of material poverty lack access to the social and economic facilities that could interrupt or reverse the spiral. Furthermore, CBEs must recognize the diverse needs of the members of their founding communities.

The multiplicity of CBE goals reflects the diversity of local needs, which both creates the potential for constructive local development and must be satisfied for exchanges and combinations of resources to occur. Since CBEs are created and managed by local people, their goals for overcoming poverty tend to be holistic and multifaceted, taking into account local economic, cultural, social and environmental needs.

Arguably, the CBE in Kachicocha, Ecuador provides an example of how CBE sustainability vitally depends upon a spectrum of economic and non-economic goals. Despite a considerable degree of success in production of dairy merchandise and a variety of products for domestic and

international markets, members of the community have experienced dissatisfaction with the absence of social goals from the enterprise's agenda. Such dissatisfaction may threaten the sustainability of this CBE by failing to address the diversity of objectives community members bring to the collective enterprise and thus weakening the commitment of those for whom social benefits are a priority (Peredo 2003). As a further example, in Yacupampa it is explicitly stated 'the objective of the enterprise is to improve the quality of life' (Peredo 2001: 181), which means paying attention to things such as health, education, and environmental integrity, as well as the economic well-being of community members.

CBEs will typically be aimed at profits only insofar as profits are instrumentally effective in achieving other community goals. CBEs thus arise as a mechanism to boost the sustainability and health of the community through economic means. Wealth creation is usually not the sole or primary goal of CBEs. Rather, sustainability, self-reliance and improvement of life in the community through, for example, income opportunities, access to social services and support for cultural activities are the primary aims. Achievement of these goals creates value in the community because it reduces the need for migration due to economic circumstances and helps revitalize remote communities (Lyons 2002).

The claim that the achievement of non-economic goals is not an accidental by-product of CBEs is illustrated by the situation of Sointula (Wilson 2005). The inhabitants of this island community off the west coast of Canada saw their existence as a family-based community of approximately 800 placed at risk. The collapse of fisheries and forestry was causing the departure of the island's younger people. There was a widespread sense that the traditional community was collapsing. In response, a core of entrepreneurial individuals, drawing on the island's history of cooperative enterprise, developed a CBE aimed at commercial farming of shellfish. Interviews with islanders revealed their conviction that while the commercial success of the farm is essential, it is a means to the overall goal of providing reliable employment for young people and keeping the community in the form they value (Peredo and MacPherson 2003).

8.4.2.3 CBE is based on community participation

Building effective and innovative forms of community involvement in decision-making is one of the major challenges of any form of local development (Hall and Hickman 2002). At the same time, grassroots participation enables CBE to be a fully endogenous form of development. Community participation permits local people to address a wide range of economic and social issues (Kapelus 2002) while enhancing members' sense of ownership (Hodson 2002). A CBE's governance structure is typically rooted in cultural

traditions. Ancestral traditions of community management and decision-making are frequently revitalized to play an important part in the communal life into which enterprise is woven (King 1995). Arguably, crises amplify the community orientation in a CBE's societal inheritance.

Traditional communal assemblies – regular meetings of all commoners in the community, where attendance and participation is expected and monitored – have been one of the most important mechanisms available for community planning, for dealing with power imbalances and conflict, for achieving accountability, and strengthening local organization (Peredo 2001). Cultural tradition can become the launching pad for new enterprise; but, conversely, the presence of enterprise can strengthen or create local social and cultural systems. The active involvement of local members plays an important role in generating a sense of community (Bowen et al. 2000) and shared ownership on the part of participants in the development of CBEs. In general, the governance structure of a CBE can be expected to be consistent with the structure of decision-making in its community, typically involving communal assemblies of stakeholders.

Alqu provides an example of the collective governance structure of CBEs (Peredo 2001). That community effectively merged, operationally, the community and its enterprise into a single entity. Community organization, prior to community enterprise, consisted of three governing bodies: The General Assembly, the Executive Body and the Control Council, with the Assembly as ultimate authority. This same structure is now used to make decisions for the CBE (Peredo 2001).

As CBEs grow, more formal structural and administrative systems tend to emerge as needed. In CBEs one can frequently recognize the coexistence of traditional ways of life, based on cooperation, alongside market-oriented processes. This is where socially adaptive innovation often takes place in the creation of a new hybrid organization (cf. Schumpeter 1934), in this case combining the customary community governance functions of traditional structures with responsibility for overseeing a commercial undertaking. Members of CBEs typically regard the enterprise as a naturally evolved social and economic form, adapted to the realities and pressures of the market economy while integrating their own cultural traditions (Peredo 2001, Anderson 2002). A common problem faced by CBEs, for instance, is the balancing of individual and collective goals within the organization. The practice, drawn from community tradition, of frequent and searching community assemblies exposes elected officers to a kind of continuous accountability. These officers are directly answerable to the members of the community, and since the community is the enterprise the probability of engaging in opportunistic behaviour without detection is minimized.

This traditional yet adaptive pattern of governance is clearly evident in Yacupampa, for example. Since its origin in the 1970s, the SMCE of Yacupampa has been governed by its Assembly that includes all community members (Peredo 2003). This body in turn determines the composition of the CBE's management and monitoring teams. Initially, these teams were formed largely on the basis of elder status, each neighbourhood being represented in the selection. As the SMCE evolved, those teams came to be elected from within the entire community, and expertise and training have increasingly become qualifications for selection. Despite such evolutionary changes, however, the SMCE has clung to its roots as a community enterprise, where every member of the community is a member of the venture. Pressures by the Peruvian government to convert the undertaking to a cooperative, for instance, were resisted on the ground that the natural resources of the community should be controlled and maintained by a body inclusive of all parties in the community. The people of Yacupampa feel they have evolved their own model, steering a middle course between the exclusively communal or individual patterns that outsiders are inclined to impose on them (Peredo 2001).

In summary, CBEs are built upon the collective skills and resources of the community. They have multiple social, cultural, environmental, economic and/or political goals, with the former often taking precedence over the latter. Governance structures tend to be collective and management structures democratic. All of this is in keeping with the concept of the community as the entrepreneur and the enterprise.

8.4.3 Effects on Local Business and Neighbouring Communities

CBE is a promising response to the challenges faced by many impoverished communities, and part of its potential as a method of economic development lies in the effect it can have on the behaviour of individuals and families within the community as well as on neighbouring communities.

One vital by-product of the CBE in action is the fostering of individual and/or family entrepreneurship in the community. While creating the infrastructure (e.g. road systems) to improve community life, CBEs also provide the conditions for family enterprise development. The enterprises sheltered under the CBE umbrella are frequently small, family-operated ventures, which depend on the community enterprise for their viability, but on the families' initiative for their emergence and vitality (Peredo 2001).

As described above, the town of Elliot Lake responded to a crisis created by the closure of the mine, which supported its population and businesses, by embarking on a campaign promoting itself as an affordable and beautiful place to retire. The caravans of seniors that travelled across Ontario

advertising the idea were highly successful in attracting new members to their community. But what is equally remarkable is the way in which collateral businesses sprang up in Elliot Lake, in a stimulating climate of development to service the rejuvenated community (OECD 1995b).

In Luuxllu, the trade fairs mounted by the CBE have created an environment stimulating a wide variety of new entrepreneurial activities – a yogurt factory, cheese factories, four restaurants, a beauty parlour, a cobbler, a gas station, the franchise of a post office, and a transportation business – all carried out by families and or multi-families in the community (Peredo 2003).

The transferability of CBE is another potential factor in the developmental effects of CBE. As noted above, communities of the kind where CBE arises are typically located in social and economic networks with other communities, particularly those in close geographic proximity. Consequently, the successful formation and development of a CBE in one area may inspire other CBEs to emerge in surrounding regions. There are three factors that might promote CBE in other communities. First, the start-up and success of a CBE may alter the assessment of the feasibility of engaging in community entrepreneurship, that is, their subjective initial endowment, in a contiguous community. Second, the success of a CBE in one community may create opportunities for CBEs in other communities as, for example, when the contiguous communities possess resources or skills that are complementary, or the success of one CBE increases the proximity of potential customers (e.g. tourists) for another. Third, CBE formation may alter perceptions of the acceptability and desirability of entrepreneurship when other communities determine that such endeavours can strengthen rather than weaken their traditions and way of life.

The Indian village of Ralegan Siddhi succeeded as a community in attracting a loan, which allowed the CBE to begin implementing its water conservation plans. Their action was directly followed by the formation of seven other water projects in neighbouring communities (Hazare 1997).

8.5 DISCUSSION

8.5.1 The Process and Character of CBE

CBE arises out of an environment of stress, understood as a multifaceted phenomenon, where considerable social capital of several kinds exists as a result of community culture and a previous process of social collective learning. Add to this a repertoire of relevant skills on the part of community members, a modicum of natural resources and applicable information,

and the ground is prepared for the creation of a CBE. Collectively, members of the community are encouraged to assemble a social vision, while creating and looking for market opportunities on which to construct the economic basis for furthering the vision. The CBE is new in the sense that emerging conditions – economic, social, environmental and political stress, a sense of local vulnerability and the forces of economic and social globalization – seem to have elicited an innovative entrepreneurial response. But its roots in culture and tradition make this response more an evolutionary step than a surprising novelty.

CBE has therefore been an adaptive and socially innovative response to macro-economic, social, legal and political factors with economic, social, environmental, political and cultural fallout for already impoverished communities. The effectiveness and energy (an element in social capital) of community reaction to these factors may be facilitated by local community culture, which taps into ancestral values, practices and collective learning from previous community mobilizations. The energy of a local response fosters a cycle between culture and action: local culture encourages community action, but at the same time community action reinforces local culture and entrepreneurship. Put differently, CBEs are built on social capital and create additional social capital for their communities. Furthermore, such actions may have spillover effects as the benefits of CBE become known outside the community.

In taking strategic decisions over what kind of business opportunities to pursue, communities involved in collective venturing are stimulated to join in an interpretative process. A number of elements play a role in this process: local culture concerning matters of ownership, management practices and communal work; previous occupational or technical experience or skills; the presence or absence of natural resources; the perception of the macro-economic, legal, social and political environment. All of these may contribute to the realization of the community's social vision by pointing to ways in which local resources may be mobilized to create local alternatives, in which economic and social objectives are blended.

Through its multiple goals and activities and participatory decision-making process, CBE addresses the diversity of needs at both the community and individual/family levels. In this sense, it offers a holistic approach in which a variety of aspects are interdependent and interconnected.

8.5.2 Challenges

The task in many resource-poor communities is to find viable and diversified activities that preserve whatever natural resources are available. In fact the success, survival or failure of these communities in these circumstances

is dependent upon the ability of the community to diversify its economic activity away from land-based resources. These communities must also find a way to make sustainability – not just environmental but social and economic – central to their efforts. If they pursue the CBE route to development, they have to create local wealth through economic self-reliance, and they must retain or regain control over their resources. They must be constructed so as to combine the fulfilment of individual needs with the revitalizing of community culture, and as part of that must favour long-term, holistic approaches.

These are challenges that any community embracing CBE must meet. It is worth identifying some specific forms of these challenges that have been observed in existing CBEs. We will draw attention to three in particular; two of them ‘internal’ and one ‘external’.

An internal challenge to maintaining the CBE and its benefits begins with the accomplishment underlying the development of a CBE in the first place: the establishment of a balance between offering benefits to the community as a whole and promising the same to individuals and families. A component of this challenge is, first, the maintenance of a balance in the networks and forms of social capital at the basis of a CBE. Leaders of the communities in the study underlying this chapter recognized that while it is essential that community members recognize and appreciate the benefits that come to them collectively in the form of community services, they must also be able to see outcomes that they value at the level of individuals and families. These are not always in harmony. There is a dynamic of keeping them in balance that members of a CBE must be able to manage that calls for maintenance and renewal of networks and social capital in a balanced form, as well as effective institutions of governance and management. A particular edge to this challenge emerges as members of the community become more prosperous. Relative affluence may have the effect of reducing individual and family commitment to the collective in favour of a more inward-looking perspective. Developments in some CBE communities have suggested this might occur, and it definitely constitutes a challenge.

A second ‘internal’ challenge connects with the first. It concerns the equilibrium among economic, social, environmental, political and cultural goals. It is clear that frequently these aims require relative trade-offs in at least the short run, and it is clear as well that the different kinds of outcomes will affect different members of the community in different ways. Communities live close to the environmental results of the choices in their domain, which gives a powerful incentive to take those outcomes into account. However, they also experience immediately the economic and social results, and at times one may seem more pressing than another. The

impact on different members of the community will vary with time but also in force and urgency. Balancing these considerations can be expected to be an ongoing test for the CBE.

There are many challenges to maintaining CBE performance that lie outside the community itself, but foremost among these is a network of factors that emerge in today's evolving environment of economic and cultural globalization. Some CBEs are more affected by this environment than others, but all are touched by it to some degree. One task that confronts many CBEs is the development of a form of enterprise that engages productively with the globalizing climate in a way that does not compromise the community values on which CBE was founded. The problem is illustrated by the experience of the community of Yacupampa in educating the next generation of community members and enterprise practitioners. Funds from the operation of their CBE allow the community to support young members attending university to study, among other things, business. Many imbibe the current, mainstream business outlook and on their return to the community urge a disconnection of the business operations of the community from its social aspects, as well as a 'professionalization' of governance and management and perhaps even a privatization of some elements in the enterprise (Peredo and Moore 2008, Peredo 2012). Exposure to the views of enterprise that achieve international currency may weaken the sense of enterprise embedded in the community culture and traditions that is at the root of CBE. The idea of the land and its resources as a common patrimony and a responsibility for the common good may likewise be diminished by acquaintance with external outlooks that have little room for such considerations. Forces like these from the globalizing worldview that separates economic life from other aspects of community life will be felt to an increasing extent even in remote communities, and it remains to be seen how they may weaken the conditions that help create and maintain CBE.

Of course 'globalization' involves more than the spread of beliefs about the way to conduct business and the relation between business and social goals. Steger (2005: 11) contends that globalization 'not only represents a set of political ideas and beliefs coherent enough to warrant the status of a new ideology, but also constitutes the dominant ideology of our time'. Consumerism and individualism thus spreads as the standard view of humans in society; and multinational corporations, with their massive marketing departments, come to dominate consumer tastes around the globe (Guliz 1999). This creates an added challenge for CBEs attempting to enter a market where global companies have established a standard consumer taste. The Yacupampa CBE attempted to market a locally produced soft drink and found themselves confronting the image and

marketing power of Coca-Cola and Pepsi, and struggled to establish their own niche.

The ideological influence of globalization extends to the governments and non-government organizations whose policy frameworks may at least permit, perhaps even stimulate, but also inhibit, the creation and operation of CBEs. These bodies may begin with a disinclination to see culture and tradition as resources for local development, and the hegemonic views that globalization inclines to spread do nothing to add respect for the use of common property or a blend of the gift economy with commercial activity. 'Modernization' brings with it a suspicion of folkways and customs that might contribute to the foundation of CBE but may also be regarded as getting in the way of real development as construed in the modernization model (Burkey 1993, Peredo 2012). The development of financial institutions and legal structures that are least benign with respect to CBEs, and might even support them, may face strong headwinds in such an environment.

8.6 CONCLUSIONS

The concept of community-based enterprise represents an alternative and promising model for development, particularly but not exclusively in impoverished communities. It is an unconventional form of entrepreneurship, in that it is based on regarding collective and individual interests as fundamentally complementary, and seeing communal values and the notion of the common good as essential elements in venture creation. These very characteristics make it, in a great many settings, a culturally appropriate response to the problems it is meant to address.

CBE emerges as a prospective strategy for the sustainable alleviation of hardship, partly because it is holistic and integrates so many different aspects – economic, social, cultural, environmental and political – of the community. In CBE, the community's cultural identity, embodied in its cooperative traditions, can be a driving force, impelling social, economic and environmental initiatives concurrently. At the same time, it is the local culture that may endow communities adopting CBE with the flexibility and resources necessary to find their place in a global economy.

One obvious avenue of further research is the investigation of how widespread, and how effective, this form of community enterprise is. We have identified CBEs in a number of regions of the world, but it would be interesting to see how many others exist and how they are related to their environment. How is success actually measured, and how *should* it be assessed?

We have mentioned a number of possible constraints on the emergence and/or sustainability of CBE even where it might be a valuable resource.

The effect of these on existing CBEs is another obvious area inviting further research.

We have outlined a number of background factors that seem to be associated with the formation of CBEs, and features of the enterprises that we observed in action. How characteristic are these of other developments that appear to qualify as CBEs? Orozco-Quintero (2006), Campbell-Hunt et al. (2010) and Handy et al. (2011) have undertaken work along these lines, while identifying CBEs in other regions. This work calls out to be extended. In this connection, the relation to citizenship and the forms of governance that prevail in different locations would be worth studying in relation to productivity and sustainability among other things.

A particularly interesting investigation would be the nature of and balance among different forms of social capital as those are related to region, size and character of community (Indigenous, rural, urban, and so on) and to effectiveness as well as sustainability. The concept of social capital and exploration of its application has received widespread attention (Portes 1998, Woolcock 2010, Kwon and Adler 2014), and the further consideration of CBE using that lens could be valuable both for understanding CBE and refining the concept of social capital.

These are but a few of the lines of research that could have valuable outcomes for our understanding of how communities can be entrepreneurial (see Peredo 2015, pp. 275–277). Such an understanding is vital for finding our way into the future where we begin with neighbourhoods and communities in recognizing new forms of prosperity that reflect a healthy blend of social, environmental and economic considerations.

NOTES

- * This chapter presents a synthesis of a conceptual paper on CBEs developed by the authors previously: A.M. Peredo and J.J. Chrisman (2006), 'Toward a theory of community-based enterprise', *Academy of Management Review*, 31(2), 309–328. That article has been edited and updated by Ana María Peredo for this chapter, with the kind permission of the Academy of Management Review.
1. The name of this and many other communities in this chapter have been changed to preserve their privacy.

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