

Indigenous Resource and Institutional Capital: Understanding its Role in Private Sector Sustainable Development

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Drawing on twelve illustrative case studies of companies operating in three divergent sectors in developing countries of Africa, this manuscript discusses the role of indigenous resource and institutional capital (IRIC) in private sector sustainable development. Three important features of IRIC are presented. First, a typology of IRIC is introduced denoting the different forms of capital available to the firm. Second, the study finds that successfully leveraging IRIC is highly contingent on a process of relationship building, theorization and institutionalization. Finally, outcomes related to IRIC translate into simultaneous value creation for the firm and its surrounding context.

INTRODUCTION

The role of the private sector in sustainable development has gained a lot of traction in recent years. Management scholars and practitioners have recently pushed for a greater consideration of the local context when developing strategies related to simultaneous social and economic value creation (Banerjee, 2003; Easterly, 2006; Elkington & Hartigan, 2008; Hart, 2005). Hart (2005) specifically referred to native capabilities as being an integral part of a firm's base of the pyramid strategy. Yet despite this growing consensus, there is little understanding about what these indigenous capabilities are, how their leveraged and what outcomes they present as essential components of a sustainable development strategy. Using qualitative twelve case studies, this manuscript aims to answer these very questions. I begin with a background that summarizes existing literature and introduces resource and institutional capital as an important lens for answering these questions. I then briefly describe the methodology followed by a presenting of the results. I end the paper with a discussion of implications.

BACKGROUND

Since its inception in 1987, sustainable development has grown in popularity amongst managers (Banerjee, 2003; Bansal, 2002; Hart, 1995; Hart & Milstein, 2003). Although several definitions of sustainable development exist, the definition most commonly used is the one put forth by the Brundtland Commission where sustainable development is 'a process of change in which the exploitation of resources, direction of investments, orientation of technological development, and institutional change are made consistent with future as well as present needs' (WCED, 1987) p. 9. Although the concept has been around for some time, the last few years has seen a dramatic increase of pressure on companies to adopt its principles (Bansal, 2002; Gladwin, Kennelly & Krause, 1995; Hart, 1995; 2005; Purser, Park & Montuori, 1995). The launch of the United Nations Global Compact in 2001 represented a signal from the international governance community that the private sector has an important role in sustainable development:

"This summit marks an historic opportunity to further the role of business in advancing sustainable development. At a time when more than 1 billion people are denied the very minimum requirements of human dignity, business cannot afford to be seen as the problem" (Kofi Annan, Former Secretary General, United Nations, World Summit on Sustainable Development).

The relevance of the concept is especially potent in developing countries where the prevalence of social inequity and injustice pose a striking contradiction to the core premise of sustainable development.

Government corruption, partial media and poor social infrastructure support have positioned the private sector as an important yet perhaps atypical agent in promoting sustainable development (Annan, 2002; Bansal, 2002; Hart, 2005; Prahalad & Hart, 2002). In response, the base of the pyramid concept was introduced to highlight the potential of business to profitably reach an untapped market while alleviating poverty (Prahalad & Hart, 2002). Social entrepreneurship has also emerged as a concept that sees the application of business models to the alleviation of social and environmental issues (Elkington & Hartigan, 2008; Seelos & Mair, 2005).

Recently, however, scholars have begun to criticize the western centric tone of sustainable development and the presumption that its definition can be universally applied to multiple contexts (Banerjee, 2003; Escobar, 1995; Peet & Watts, 1996). Kirkby et al., (1995) and Redcliff (1987) pointed out that the definition of sustainable development does not appropriately elaborate on the notion of human needs and wants. At the same time, scholars and practitioners have argued for the importance of context in a firm's quest for sustainable development (Banerjee, 2003; Hart, 2005) and the danger of presuming universal application of models and initiatives that were identified as successful in unique locations (Easterly, 2006; Elkington & Hartigan, 2008). Hart (2005) introduced the concept of native capabilities which refers to the ability to become indigenous as a business while Easterly (2006) heavily criticized the top-down approach of aid that presumed that aid projects can be replicated across multiple contexts. In their discussion of social entrepreneurs, Elkington and Hartigan (2008) highlighted the criticality of context when they explained, "Successful social innovators...have spent decades designing, implementing and referring demand-driven approaches to complex social and environmental problems. Their achievements have followed a continued process of trial and error...they know the stakeholders to involve, the signals to watch for, and the pitfalls to avoid. Those that have studied the dynamics of scaling and replication call for 'anything but a cooker-cutter process' (Elkington & Hartigan, 2008: 141).

Despite the growing consensus among scholars on the need for the private sector to effectively appreciate context in the quest for sustainable development (Banerjee, 2003; Easterly, 2006; Hart, 2005; London & Hart, 2004) we know very little about the ways in which local context is relevant, how firms go about understanding and leveraging this context and what outcomes are produced through this behaviour. These questions are important for three reasons. First, given the increasing pressure to consider local context in a firm's definition of sustainable development, understanding the cognitive idiosyncrasies of the local context may provide important clues about what is and what is not relevant for this objective. Second, in light of a firm's natural need to create strategic value through competitive differentiation, it is important to understand how the relationship between contextual factors and firm competitive advantage. Finally, due to the high level of animosity that exists between the private sector and indigenous communities, there are clearly important process dynamics that differentiate successful from unsuccessful firms in appropriating the valuable resources in their respective contexts.

To address these questions, I employ the interdependent concepts of institutional and resource capital. Institutional theory examines the role of social influence and pressures for social conformity in shaping organizations' actions (Scott, 2001). In this manuscript I draw on Oliver's (1997) view that resource selection and sustainable competitive advantage are profoundly influenced, at the individual firm, and interfirm level, by the institutional context of resource decisions. However, I add that the local institutional context surrounding the firm contributes to the firm's ability to achieve this sustainable competitive advantage in a way that contributes to sustainable development. I extend Oliver's definition of institutional context beyond just the rules, norms, and beliefs surrounding economic activity that define or enforce socially acceptable economic behaviour. I also include the institutional and resource capital of social and ecological stakeholders that both help to define what is and what is not perceived as socially and ecologically sustainable and provide lucrative strategic value for the firm. This extension aligns with the view of those scholars that argue for an increased recognition of native capabilities (Hart, 2005) or indigenous capital as an important source of value for the firm (Banerjee, 2003). For the sake of this

paper, 'capital' refers to "a durable but not necessarily tangible resource or capability that yields services over its lifetime that contribute to sustainable competitive advantage" (Oliver, 1997: 709). Whereas resource capital is defined as value-enhancing assets and competencies of an actor, institutional capital is defined as the actor's ability to support these value-enhancing assets and competencies (Oliver, 1997).

METHODOLOGY

This study draws on 12 illustrative case studies each operating in one of three sectors in countries of Kenya, Tanzania or South Africa. Qualitative data in the form of interviews and observations were gathered over a span of two years (2004-2006). A total of 161 interviews were conducted with a range of stakeholders including employees, senior managers, NGOs, community senior chiefs, farmers, government, and international finance institutions (Table 1). Additional data collection sources included observations and archival data. Interview data were transcribed verbatim and then analyzed to search for patterns in activity related to different forms of institutional and resource capital gained from the firm's external environment, the process through which this capital was incorporated in the firm and the outcomes of this process. Companies were existing or former clients of the IFC and were theoretically sampled based on the extent to which they had successfully merged sustainable development with their strategic trajectory. Structurally, the companies ranged from subsidiaries of large MNCs to small social enterprises. The research design was structured so that six of the twelve cases had successfully employed sustainable development as a strategy of the firm and six had failed in this regard.

Table 1: Case Background and Information

	Agriculture	Manufacturing	Tourism
# of Cases	4	4	4
Sectors	Honey, sugarcane, tea, fruit	Minerals (2), steel, cement	Eco-tourism (2), tourism, hospitality
Successful/unsuccessful	2/2	2/2	2/2
Research visits	8	8	4
Internal firm interviews	40	42	28
External firm interviews	24	14	13
Number of interviews	64	56	41
Interview time	69 hours	62 hours	48 hours
Onsite time	325 hours	420 hours	305 hours

RESULTS

Typology of IRIC

It became clear early on that external stakeholders of the firm, particularly those indigenous to the surrounding area, provide three different types of capital to the firm under the larger umbrella of indigenous resource and institutional capital (IRIC) (See Table 2). The first is physical resource capital, which includes tangible assets. Non-governmental offices on the ground in rural areas, public service infrastructure and existing buildings and equipment are examples of these. In their food and water drop plan, Kenya Mining used a number of the community's vehicles to effectively distribute the provisions while Kenya Honey used a number of the offices owned and operated by their partner NGO. The second type of capital is intangible resource capital which includes specific human resources, knowledge and expertise. Kenya Cement hired community clinicians who possessed important knowledge of the social infrastructure which helped in devising an effective HIV/AIDS program. South Africa Ecotourism accessed important human resources from the community for the purpose of policing poachers in and around game reserves.

Table 2: Typology of IRIC

Capital Type	Description	Examples
Physical resource capital	Equipment Buildings Infrastructure	Offices on the ground Trucks and equipment Public service use
Intangible resource capital	Knowledge Expertise Human resources	Knowledge of social issues Traditions of addressing issues Community human resources
Institutional capital	Social capital Cultural capital Norms and practices Perspective Way of doing things	Stakeholder relationships Cultural knowledge General traditions Ideas for specific business models

Finally, institutional capital represents social capital, cultural capital, ways of thinking, and norms and practices of indigenous stakeholders that represent important revolutionary levers for the firm's business models. Kenya Honey's relationship with an NGO presented important perspectives that informed the business model in a way that fostered unique differentiation strategies while Kenya Mining's food and

water drop plan was heavily dependent on the community's knowledge of back roads and more efficient approaches to distribution. A typology is developed by framing these forms of capital along two important dimensions. First, resource capital versus institutional capital where the former speaks to value-laden assets possessed by indigenous communities and the latter represents supporting activities for those assets (Oliver, 1997). Second, the degree of relevance to the firm's core operations varies across the two forms. This implies that the value of IRIC is not always obvious to the firm and may require a process related to understanding how these forms of capital can inform strategic value creation. These two dimensions can be presented in a matrix (see Figure1).

Figure 1: Typology of IRIC

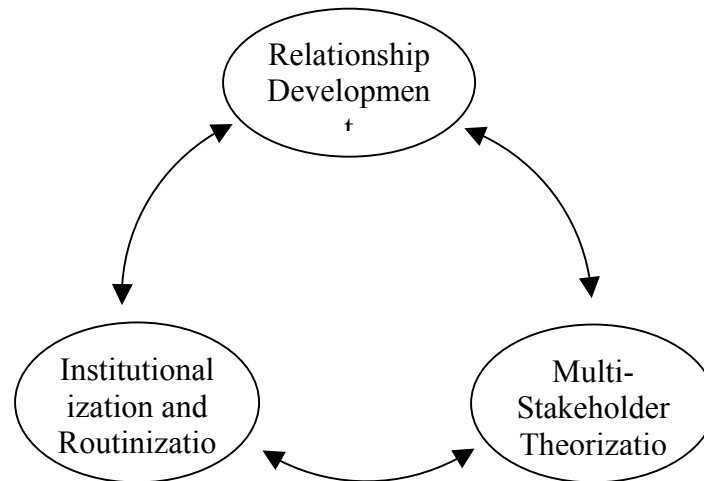
		Relevance to Firm Operations	
		Low	High
Form of Capital	Resource Capital	Infrastructure Equipment Public services General knowledge	Buildings Land Human resources
	Institutional Capital	Cultural capital Norms and practices Perspective Ways of doing things	Specific knowledge Relevant traditions Social issue knowledge

Ultimately, firms use these three forms of capital to generate business models and operations that incorporate sustainable development while also generating strategic value for the firm. Given that strategy refers to the development of core competencies and the effective positioning within a competitive market, collectively, these idiosyncratic forms of capital represent inimitable and rare (Barney, 1991) resources that can be leveraged by the firm. In the six cases that were not unsuccessful in incorporating sustainable development into strategy, these three forms of capital were influential in firm operations. For instance, Kenya Steel had the opportunity to enter neighbouring Sudan to penetrate the housing market. Yet, despite a partnership with an NGO who possessed critical knowledge capital of the Sudanese market, the firm was reluctant to partner with them for this knowledge. Such a partnership would have granted them lucrative and highly inimitable knowledge capital that would have overcome the many hurdles prevalent in entering this context presenting the firm with a valuable market position.

Process Dynamics of IRIC

While indigenous communities present the firm with critical IRIC, firms are unable to appropriate these forms capital until they undergo three important process phases (Figure 2). The first is relationship development with stakeholders. Due to the negative stigma that typically prevails between the private sector and the indigenous stakeholders, there is an important period of relationship building where stakeholders are prepared to share capital. This is especially important in the provision of institutional capital which requires the sharing of the stakeholders' belief systems. Second, once relationships gain in strength, the actors collectively undergo a theorization stage where the firm and its stakeholders essentially determine how these forms of capital should be leveraged for mutual social and strategic benefit. For instance, Kenya Honey engaged in a lengthy theorization process with its partner NGO in devising the specifics of the business model that would incorporate and leverage the social capital the NGO had with the farmers on which Kenya Honey would be dependent.

Figure 2: Process of IRIC Incorporation



The third phase is related to the institutionalization and routinization of these combined forms of capital. This refers to the incorporation of the operationalization of the capital into the core activities of the firm and the indigenous stakeholder. This implies that social and strategic value creation is dependent on multiple organizations collectively leveraging this form of capital in their increasingly interdependent activities. For instance, Kenya Honey shares activities related to farmer training and product collection with an NGO while South Africa Ecotourism relies heavily on the community's police force to provide appropriate security for the game reserves. Collectively, these sequential phases represent an important part of the process through which indigenous resource and institutional capital is leveraged for simultaneous strategic and social value creation. Specifically, this process plays an important role in shifting capital initially irrelevant to firm core operations to a state where they are essential.

Outcomes of IRIC

Intentionally or unintentionally, successful firms gain dual benefits associated with this process. But what exactly does this mean? The typology in Figure 1 provides important insight on how different forms of IRIC lead to different outcomes. While physical assets offered by stakeholders represent important operational advantages for the firm, competitive advantage is primarily based on leveraging the less tangible and more inimitable forms of capital available. As we move towards greater intangibility, this opportunity for advantage increases. Intangible resource capital includes important stakeholder knowledge that ultimately acts as a proxy for determining those social issues that make up the definition of sustainable development. This approach answers the call of scholars who have criticized the western-centric and universal tone of the sustainable development concept by keeping the definition of what is sustainable up to the stakeholders most impacted by the firm and allowing this definition to change over time. Intangible resource capital also provides integral knowledge that act as important strategic capabilities for the firm.

Institutional capital, if leveraged appropriately, can create a mutually beneficial arrangement that positions the firm in a very unique way by drawing on valuable perspectives and social capital that devise future operations typically unavailable to competitors. Due to the path dependent nature of building relationships with stakeholders in a typically hostile environment and the need for these relationships if institutional capital is to be leveraged by the firm, the process described in the previous section represents a critical ingredient of the strategic value creation process. In other words, leveraging institutional capital

is largely dependent on the lengthy and causally ambiguous process of relationship building. This process ultimately merges the firm's business operations with the perspectives and cultural capital of the stakeholder. Unsuccessful firms fell victim to indigenous stakeholders providing capital based on firm needs rather than the needs of the firm in the anticipation of gaining financial favours in return. For instance, Kenya Steel's installation of a bus shelter was clearly not a priority for the community but represented an easily marketable project that led to additional community assistance financially. Thus, while valuable institutional and resource capital existed, the firm was unable to shift that capital to the right hand side of the typology of "high relevance".

In summary then, simultaneous strategic advantage and social value creation is largely dependent on the process by which firms work to merge IRIC with core operations. There is no doubt that the local context surrounding the firm represents valuable sources of capital that not only provide direct strategic value in the form of access to assets and capabilities but also indirect strategic benefits through perspective and cultural capital. As firms migrate to the former, the implications for strategic benefit grow exponentially while the social value created is substantial.

IMPLICATIONS AND CONCLUSIONS

This research project set out to understand in more detail the role of indigenous resource and institutional capital (IRIC) in a firm's quest for strategic value creation through a strategy of sustainable development. Using inductive theory building on 12 case studies of companies operating in one of three sectors in developing countries of Africa, a typology of indigenous resource and institutional capital is presented that attempts to articulate the different forms of capital that is available to firms from the indigenous communities in which they operate. It is a combination of these forms of capital that result in a simultaneous social and strategic value creation. The focus, for example, only on resource capital likely leads to exploitation of the surrounding communities due to the fact that cognitive forms of capital are not incorporated by the firm. Following the three steps of relationship building, theorization and institutionalization is essential to effectively incorporate all four forms of capital and to ultimately move those forms of capital initially irrelevant to the firm to a state where they are essential. This objective represents a critical process finding that results in inimitable resources and capabilities for the firm and the natural incorporation of social issues.

Three contributions were intended. First, this study contributes to the literature on public-private partnerships and on global sustainable enterprise in that it provides insight on how firms incorporate the specificity of their surrounding contexts for the purpose of social value creation while searching for opportunities associated with competitive differentiation. Second, it begins to open up the black box of native capabilities articulated by Hart (2005) by defining the different types of indigenous capital and discussing how they collectively play a role in a firm's commitment to sustainable development. Third, the study emphasizes process related to transforming initially less relevant forms of IRIC into sources of competitive advantage and social value creation using the private sector as the vehicle. Practitioners can learn from the models presented here in their attempts to address stakeholder pressures related to sustainable development while also building sources of competitive advantage. The notion that such objectives are traded off is severely questioned in this manuscript by shifting focus away from efficiency and cost reduction and focusing to a greater extent on competitive differentiation through sustainable development.

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