

**Competitive Strategies in Community Forestry: Leveraging Through Second-tier  
Collective Enterprises in Mexico and Guatemala**

A Dissertation

Presented in Partial Fulfillment of the Requirements for the Degree of Doctor of

Philosophy

With a

Major in Natural Resources

in the

College of Graduate Studies

University of Idaho

and with a

Concentration in

Environmental Socioeconomics

In the

Graduate School

Centro Agronómico Tropical de Investigación y Enseñanza

by

Hiroyuki Tanaka

January 2012

Co-Major Professors: Steven Hollenhorst, Ph.D. and Dietmar Stoian, Ph.D.



## ABSTRACT

Although community forestry is widely recognized as a critical element in sustainable forest management strategies and the livelihoods of forest dependent people, the economic viability of community forest enterprises (CFEs) is poorly understood. Focusing on two second-tier CFEs – ICOFOSA, Mexico and FORESCOM, Guatemala – this study analyzes the competitive factors of CFEs, the emergence of collective entrepreneurship, the balance between business and social goals, and the influence of external interventions. The methodology consisted mainly of semistructured interviews of 125 key informants, including personnel of CFEs, buyers, government institutions, and NGOs.

Buyers see the competitiveness of CFEs reduced by their “sell-what-you-have” mentality. Still, they regard CFEs as interesting business partners as long as these meet their price, quality, volume and other requirements. By doing so, the social and environmental credentials of CFEs may translate into a competitive advantage.

Vertical integration through second-tier CFEs does not necessarily improve profitability. Difficulties to control the cost of processing, marketing, retailing and overall business administration compromise the benefits of acquiring additional functions in the value chain. Thorough market analysis and continuous efforts to reduce costs are critical to both second-tier and first-tier CFEs.

CFEs are often driven by social and political motives rather than market orientation. What it takes to run a social enterprise has rarely been questioned. CFEs often suffer from a lack of strategic vision due to (a) vaguely defined social value propositions, (b) underqualified staff, (c) insulation from market discipline caused by employee ownership, (d) immature corporate governance structures and mechanisms, and (e) limited external

linkages with other chain actors. As a result, the economic results of CFEs are mixed at best.

The study findings call for a more realistic view of the trade-offs CFEs face between their social and economic goals, and for innovative approaches based on producer agency to adjust their governance structures and interactions with other chain actors to the realities of the market and the overall business environment. Future research and development initiatives need to advance the conceptualization of collective social entrepreneurship, the provision of business development services to CFEs, and opportunities for the professionalization of CFE management.

## ACKNOWLEDGEMENT

I would like to express my sincere appreciation to the members of the doctoral committee: Dr. Dietmar Stoian, Dr. Ronnie de Camino (CATIE), Dr. Steven Hollenhorst and Dr. Steven Shook (University of Idaho) for their comments and mentoring. Their comments were always pertinent and intellectually stimulating.

I also appreciate all people who warmly accommodated me for five months during the field study in Oaxaca. This opportunity opened up my eyes. It was truly stimulating for me to interact with people who were seriously endeavoring to create a new model of community business with good entrepreneurial consciousness. It was a great pleasure to know that community enterprises can come that far. I would like to especially thank Ing. Pedro Vidal García, M.V.Z. Alberto Belmonte, C.P. Israel Santiago, Ing. Jesús Paz, C. Abel Cruz Salinas, Lic. Manuel Ignacio García, Sr. Fortunato Martínez, Ing. José Manuel Sierra, Lic. Josue Vásquez, Arq. Félix Turjillo, Sra. Christina Chincoya, Lic. Adriana Castellano, and Lic. Mabel Carolina Gutiérrez. I also appreciate kind cooperation rendered by communal authorities of Pueblos Mancomunados, Ixtlán de Juárez and Santiago Textitlán. I also thank all personnel of TIPMUEBLES, UPAF, UCFAS and Zapoteca Cárdenas for the moment of discovery, joy and smile we shared.

I would also like to express my sincere gratitude to those who kindly accepted me for a field study in Peten for six months. I would like to extend my appreciation especially to Sr. Juan Trujillo, Ing. Gustavo Pinero, Ing. Mario Reynoso, Ing. Glyde Márquez, Sr. Manuel Recino, Sr. Carlos Crasborn, Ing. Walter Ponce, and Sr. Mario Salguero. I wish FORESCOM's full recovery from current adversity and sound growth and development in the future.

Admittedly, this Ph.D. study has not always rolled smoothly. The study was significantly delayed by various factors including appointment of committee members, identification of appropriate cases, and difficulty in receiving comments from committee members. I had not only good time but also intellectually and mentally tough moments. The devastating earthquake and tsunami attack, and the accident of Fukushima nuclear power plants in my country also gave me enduring stress.

Nevertheless, fortunately or not, I could make “interreading” of literature which was not directly related with community forestry or value chain taking advantage of the “delays”. Those seemingly “irrelevant” concepts or ideas I came across during stressful time eventually allowed me to think outside the box. Frankly speaking, I do not think I could have come this far if everything went smoothly. Now I feel great and proud that I could make a small but tangible contribution to (academic) society through the completion of this study.

Lastly, I would like to express my deepest gratitude to my parents, Tomekichi and Chitose, for their subtle but consistent and ever-lasting warmth and love. I dedicate this work to them.

*¡Curiosamente así es la vida!*

January, 2012 in Turrialba, Costa Rica

Hiroyuki TANAKA

## TABLE OF CONTENTS

ABSTRACT.....	iii
ACKNOWLEDGEMENT .....	v
TABLE OF CONTENTS.....	vii
LIST OF TABLES .....	x
LIST OF FIGURES .....	xi
1. Dissertation Introduction.....	1
References.....	5
2. Methodology and Methods .....	8
2.1. Outline of the Data Generation Steps .....	11
References.....	17
3. Competitive Strategies in Community Forestry: Leveraging Through Second-tier Collective Enterprises in Mexico and Guatemala .....	19
Abstract.....	19
3.1. Introduction.....	20
3.2. Study Purpose and Methodology .....	20
3.3. Markets for the Studied CFEs.....	22
3.4. Factors Affecting Competitiveness and Customer Satisfaction as Perceived by Customers.....	22
3.4.1. Retail furniture at TIPMUEBLES.....	22
3.4.2. Furniture retail through private distributors.....	23
3.4.3. Bulk furniture production for institutions .....	24
3.4.4. Precious woods in international markets.....	25
3.4.5. Semiprecious and commodity timber in the international, regional and national markets .....	27
3.4.6. Wall and flooring products from LKSs in the national markets .....	28
3.5. The Competitive Advantage Created by Social and Environmental Attributes.....	29
3.6. The Effectiveness of Second-tier CFEs in Benefit Capturing in the Value Chain .....	32
3.6.1. ICOFOSA.....	32
3.6.2. FORESCOM .....	33
3.7. Producer-Oriented Selling Versus Marketing.....	34
3.8. Competitive Strategies of the CFEs in Dynamic Competition .....	37

3.9.	Conclusion .....	40
	References .....	42
	Notes .....	44
4.	Social Enterprise Without the Entrepreneur? – Social Entrepreneurship and Collective Corporate Governance in Community Forest Enterprises .....	45
	Abstract .....	45
4.1.	Introduction .....	46
4.2.	Study Context and Purpose .....	46
4.3.	Entrepreneurship and Social Entrepreneurship .....	48
4.4.	The CFE as a Social Enterprise.....	49
4.5.	Emergence of Collective Entrepreneurship in CFEs .....	53
4.5.1.	CFE: Social enterprise without the entrepreneur? .....	53
4.5.2.	Rotation of key personnel .....	54
4.5.3.	Separation of ownership from the firm’s administration .....	56
4.5.4.	Limited manager agency under a democratically elected board .....	60
4.6.	Balancing Business and Social Norms.....	62
4.6.1.	Influence of local norms and idiosyncrasy over performance .....	62
4.6.2.	Influence of poor forest governance over corporate governance.....	64
4.7.	Influence of Social Capital on Entrepreneurial Development .....	65
4.7.1.	Social capital as embeddedness .....	65
4.7.2.	Creative destruction of social capital to overcome trade-offs.....	65
4.8.	Entrepreneurship in Dynamic Competitions.....	69
4.9.	Conclusion .....	70
	References .....	72
	Notes.....	76
5.	Whose Vision Counts? – The Influence of Government Policy and Donor Intervention in the Formulation of Vision in Community Forest Enterprises .....	78
	Abstract .....	78
5.1.	Introduction .....	79
5.2.	The Study’s Necessity and Purpose .....	79
5.3.	The Purpose and Process of Emergence of CFEs, and Their Influence on Corporate Culture.....	81
5.3.1.	ICOFOSA.....	81
5.3.2.	FORESCOM .....	83



5.4.	Influence of Government Procurement Policy and Donor Interventions on the Vision of CFEs.....	89
5.4.1.	Influence of the Government’s Furniture Procurement Policy.....	89
5.4.2.	Influence of Donor Interventions.....	90
5.5.	Influence of Financial Services and Broader Policy Environment on CFEs.....	95
5.5.1.	Influence of External Financing Over Investment Planning.....	95
5.5.2.	Influence of the Policy Environment.....	97
5.5.3.	Influence of Forest Governance.....	99
5.6.	Conclusion.....	102
	References.....	104
	Notes.....	109
6.	Synthesis Discussion.....	111
6.1.	Connecting the Dots.....	111
6.2.	CFEs’ Trade-offs.....	115
6.3.	Factors Influencing the Competitiveness of CFEs.....	120
6.4.	Synthesizing the Study Findings and Existing Literature.....	125
6.4.1.	Internal business organization and performance.....	127
6.4.2.	Capacities and skills of key staff members.....	130
6.4.3.	External Business Environment.....	133
6.4.4.	CFEs’ constituency: Balancing Societal Expectations and Business Norms...	138
6.5.	Pending Agendas for Future Studies.....	139
6.6.	Academic Contribution Made by This Study.....	140
	References.....	142
	Notes.....	150
	APPENDIX A: The Approval Letters of the Institutional Review Board.....	151

## LIST OF TABLES

Table 2.1: Gradient of CFEs in Peten.....	11
Table 2.2: Summary of Methodology and Methods .....	12

## LIST OF FIGURES

Table 6.1: The Impact of a CFE's Policies and Conducts on the Enterprise's Competitiveness.....	116
Figure 6.1: The Four Key Elements Influencing Competitiveness of a CFE.....	121

## 1. Dissertation Introduction

Forests have been satisfying subsistence needs of rural people such as food, firewood, fodder, medicines, construction materials, dyes, manure, and so on for generations. Access to forest also provide the rural poor a security net when in need (Chambers & Leach, 1989; Hycner, 1999). However, centralized forest management regimes which aimed generation of state revenue often deprived them of access to forest resources whereas external industrial forest contractors or parastatal logging companies exploited the forest. The detachment of local people from forest governance also caused uncontrolled deforestation in tropical countries due to limited control actually exerted by the government at field level.

Community Forestry (CF) first came to prominence in the mid-1970s and gradually gained momentum globally since then (Arnold, 2001). CF has been an attempt of reviving common property regimes for securing controlled access to the forest by local populations while preventing open access which Hardin (1968) put forward as “the tragedy of the commons”. CF is also deemed as the recognition of indigenous or other local groups’ collective rights to territories, natural resources and cultural identity in the broad trend of political democratization (Pacheco et al. 2008 quoted in Larson, Cronkleton, Barry, & Pacheco, 2008). “Greater political openness is enabling more people to speak out openly about abuses, corruption, environmental damage, negative social impacts, and other elements of irresponsible forestry” (Scherr, White, & Kaimowitz, 2004, p. 23). In many circumstances, local populations are best placed as a custodian of the forest due to their reliance on it in terms of livelihoods, proximity, capacity, cost effectiveness and forest governance system adapted to local realities (Brown, 1999). They also have rights to use their forest for their sustainable livelihoods. “Fencing-off” policy of protected areas in which forest dwellers were once treated as a cause of deforestation has also been gradually giving way to more inclusive

forest governance schemes. There is growing recognition that the pursuit of conservation has been driven at the expense of those who depend on forests locally. The trend is progressively shifting from a predominantly protective orientation toward encouragement of sustainable systems of producing livelihood benefits while realistically achieving the conservation goal (Arnold, 2001).

CF has demonstrated success in facilitating sustainable use of forest and halting or reducing deforestation in many parts of the world (for examples, see Arnold, 2001; FAO, 2000; Poffenberger, 2000a; Poffenberger, 2000b). It is also convenient for governments because they can externalize a good extent of oversight and related control costs. As new legislations recognizing local forest governance are adopted and implemented around the world, forest areas owned or controlled by rural communities has increased rapidly (Scherr, et al., 2004). White and Martin (2002, p. 7) estimate that “in developing countries, community reserves and ownership total at least 22 percent of all forests – approximately three times the amount held by private individuals and firms”.

Small and medium-scale forest enterprises, including those owned by local communities are a major generator of jobs in job-scarce rural areas. They are the main component of forest industries in tropical counties (Mayers & Macqueen, 2007; Molnar et al., 2007). Although the statistical information on forestry in tropical countries are often incomplete and not totally reliable, ILO (2001) estimates that global total forest industries employment is around 47 million, and informal and subsistence employment is around 30 million: roughly two-third of the total employment created.

Community forest enterprises (CFEs) have a significant importance in such a context not only for forest conservation but also for the livelihoods of forest dependent people and local economic development. However, whereas many literature stresses the importance of poverty alleviation through commercialisation of forest products (for example, see Arnold,

2002; Donovan, Stoian, Macqueen, & Grouwels, 2006; Farrington & Mitchell, 2006; Lecup & Nicholson, 2000; Mayers & Vermeulen, 2002), there are a limited number of studies on the actual competitiveness of CFEs in marketplaces. Although CF demonstrates success especially in the context of “livelihood-oriented forest management” (FAO, 2004), there is limited evidence that forest dependent communities have actually achieved commercial success. The economic track record of CFEs has been mixed so far, demonstrating cases of success as well as failure (Molnar, et al., 2007; Stoian, Donovan, & Poole, 2009).

The purpose of this study is to contribute to a better scientific understanding of the competitiveness of CFEs, especially regarding the potential of second-tier CFEs in strengthening first-tier CFEs. For the purpose of this study, the author defines a second-tier CFE as “an enterprise which is directly or indirectly (e.g., through capital investment) governed by a group of CFEs for the purpose of promoting the business of the affiliated CFEs”. A comparative study of two second-tier CFEs – ICOFOSA (*Integradora Comunal Forestal de Oaxaca S.A. de C.V*) in Oaxaca, Mexico and FORESCOM (*Empresa Comunitaria de Servicios del Bosque, S.A.*) in Peten, Guatemala – has been carried out. Mexico and Guatemala are vanguard in terms of CFE development in timber business. Second-tier community enterprises in forest sector are still rare in tropics, and they are among those few benchmark initiatives, even globally speaking.

This study aims to examine the competitiveness of CFEs from the three aspects: (a) business study aspects, (b) socio-economic aspects, and (c) enterprise development policy aspects. It attempts to suggest clues for strengthening CFEs from these different perspectives. Following Chapter 1 (Introduction) and Chapter 2 (Methodology and Methods), the dissertation includes three articles. Chapter 3 examines the business aspects with the following guiding questions:

1. What factors, as perceived by CFE customers, affect the CFE's competitiveness and customer satisfaction?
2. Do the social and environmental "cause" of CFEs make a competitive edge in the market? If so, under what circumstance?
3. How effective are the second-tier CFEs in capturing benefits in the value chain?

Chapter 4 analyzes the socio-economic aspects with the following three guiding questions in mind:

4. How does collective entrepreneurship in CFEs emerge?
5. How do CFEs balance business and social norms?
6. How do different kinds of social capital affect entrepreneurial development of CFEs?

Chapter 5 examines the enterprise development policy aspects with the following guiding questions:

7. How did the CFEs' purpose and process of the emergence affect entrepreneurial culture, vision, and the relationship between the second-tier CFE and the affiliated first-tier CFEs?
8. How have the procurement policies of state institutions and donor interventions influenced the policies and strategies of the CFEs under investigation?
9. How do other external factors, such as financial services, broader policy environment and forest governance, affect CFEs?

Chapter 6 is a synthesis chapter that discusses the principal factors influencing the competitiveness of CFEs across the articles.

## References

- Arnold, M. (2001). *Forest and people: 25 years of community forestry* (pp. 134). Rome, Italy: FAO.
- Arnold, M. (2002). Identifying links between forests and poverty. *Discussion paper presented at the ECT/IIED Forestry and Poverty Reduction Workshop, Edinburgh, UK, 13 June, 2002*, 6 p.p.
- Brown, D. (1999). *Principles and practice of forest co-management: evidence from West-Central Africa*. London: ODI.
- Chambers, R., & Leach, M. (1989). Trees as savings and security for the rural poor. *World Development*, 17(3), 329-342.
- Donovan, J., Stoian, D., Macqueen, D., & Grouwels, S. (2006). The business side of sustainable forest management: Small and medium forest enterprise development for poverty reduction. *Natural Resource Perspectives*, 104 (December 2006), Overseas Development Institutes.
- FAO. (2000). Proceeding of the international workshop on community forestry in Africa - Participatory forest management: a strategy for sustainable forest management in Africa Retrieved from <ftp://ftp.fao.org/docrep/fao/006/x7760b/>
- FAO. (2004). *Simpler forest management plans for participatory forestry. FONP Working Paper 4*. Rome, Italy: Food and Agriculture Organization of the United Nations.
- Farrington, J., & Mitchell, J. (2006). How can the rural poor participate in global economic processes? *Natural Resource Perspectives*, (103), 6. Retrieved from <http://www.odi.org.uk/resources/download/35.pdf>
- Hardin, G. (1968). The Tragedy of commons. *Science*, 162, 1243-1248.
- Hycner, R. H. (1999). Some guidelines for the phenomenological analysis of interview data. In A. Bryman & G. Burgess (Eds.), *Qualitative research* (Vol. 3, pp. 143-164). London, UK: Sage Publications, Inc.



- ILO. (2001). Globalization and sustainability: The forestry and wood industries on the move  
Retrieved from [http://www.ilo.org/public/libdoc/ilo/2001/101B09\\_179\\_engl.pdf](http://www.ilo.org/public/libdoc/ilo/2001/101B09_179_engl.pdf)
- Larson, A., Cronkleton, P., Barry, D., & Pacheco, P. (2008). Tenure rights and beyond:  
Community access to forest resources in Latin America. *Occasional Paper No.50*  
Retrieved from [http://www.cifor.org/publications/pdf\\_files/OccPapers/OP-50.pdf](http://www.cifor.org/publications/pdf_files/OccPapers/OP-50.pdf)
- Lecup, I., & Nicholson, K. (2000). *Community-based tree and forest product enterprises: Market Analysis and Development*. Rome: Food and Agriculture Organization of the United Nations.
- Mayers, J., & Macqueen, D. (2007). *The big significance of small forestry enterprises*. Paper presented at the The West and Central Africa tropical forest investment forum: Issues and opportunities for investment in natural tropical forests Accra, Ghana.  
[http://www.itto.int/direct/topics/topics\\_pdf\\_download/topics\\_id=32800000&no=141](http://www.itto.int/direct/topics/topics_pdf_download/topics_id=32800000&no=141)
- Mayers, J., & Vermeulen, S. (2002). *Company-community forestry partnerships: From raw deals to mutual gains? An international review with proposals for improving forests, enterprise and livelihoods*. London: International Institute for Environment and Development.
- Molnar, A., Liddle, M., Bracer, C., Khare, A., White, A., & Bull, J. (2007). Community-based forest enterprises in tropical forest countries: Their status and potential in tropical countries, *ITTO Technical Series #28* (pp. 73). Retrieved from [http://www.itto.int/direct/topics/topics\\_pdf\\_download/topics\\_id=37100000&no=1&isp=inline](http://www.itto.int/direct/topics/topics_pdf_download/topics_id=37100000&no=1&isp=inline)
- Poffenberger, M. (2000a). Communities and forest management in South Asia: A regional profile of the working group on community involvement in forest management  
Retrieved from <http://www.asiaforestnetwork.org/pub/pub29.pdf>
- Poffenberger, M. (Ed.). (2000b). *Communities and forest management in Southeast Asia: A regional profile of the working group on community involvement in forest management*. Gland, Switzerland: IUCN.
- Scherr, S. J., White, A., & Kaimowitz, D. (2004). A new agenda for forest conservation and poverty reduction: Making markets work for low-income producers (pp. 160): Forest

Trends, Center for International Forestry Research (CIFOR) and The World Conservation Union (IUCN).

Stoian, D., Donovan, J., & Poole, N. (2009). *Unlocking the development potential of community forest enterprises: Findings from a comparative study in Asia, Africa, Latin America, and the United States*. Paper presented at the XIII World Forestry Congress, Buenos Aires, Argentine.

<http://www.catie.ac.cr/BancoMedios/Documentos%20PDF/development%20potential%20of%20cfe%20-%20stoian%20et%20al%202009.pdf>

White, A., & Martin, A. (2002). Who owns the world's forests? Forest tenure and public forests in transition Retrieved from

[http://www.rightsandresources.org/documents/files/doc\\_98.pdf](http://www.rightsandresources.org/documents/files/doc_98.pdf)

## 2. Methodology and Methods

This study is an instrumental case study (Stake, 2000) for better understanding and better theorizing about a still larger collection of cases. Given the exploratory characteristic of this research, the cases have been selected through nonprobability purposeful sampling. “Guidelines for determining nonprobabilistic sample sizes are virtually non-existent” (Guest, Bunce, & Johnson, 2006, p. 59). Sampling to the point of redundancy or saturation is ideal, but only hardly be a choice for this research topic due to the limited number of cases of second-tier CFEs.

What counts in purposeful sampling is opportunity to learn. Potential for learning is sometimes superior criterion to representativeness. Studying information-rich cases yields insights and in-depth understanding rather than empirical generalizations. Given the limited number of cases, it makes sense to adapt heterogeneity sampling (Patton, 2002) to choose cases of polar types. Comparison between clearly successful firms and unsuccessful ones makes the process of interest transparently observable (Eisenhardt, 1989). Although the limited number of cases ( $n=2$ ) in this study does not allow quantitative framing, heterogeneity sampling nevertheless mitigates this weakness through placing the selected cases in a certain gradient. Illustration as to how a phenomenon occurs in the circumstances of contrasting exemplars can provide valuable and trustworthy insights for refining theory and suggesting complexities for further investigation, as well as helping to establish the limits of generalizability (Stake, 2000).

Selecting ICOFOSA and FORESCOM satisfies these key conditions. Cases which encompass certain gradient is barely but meaningfully covered. They are contrasting in key aspects. The first-tier CFEs under ICOFOSA are homogeneous, and have a strong sense of ownership. They established a joint venture specifically for furniture retailing aiming at the

local high-end segment under the unified brand TIPMUEBLES. On the other hand, the first-tier CFEs under FORESCOM are heterogeneous. Some of them see FORESCOM just as another intermediary in the chain rather than a joint venture (Stoian & Rodas, 2006). Their trust toward FORESCOM is relatively limited. With its diverse functions FORESCOM tries to offer something for every member CFE, but not in a strategically focused way.

Mostly qualitative methods such as semistructured interviews were applied for data generation. The informants include personnel of CFEs and community authorities (n = 57), buyers (n = 30), government officials (n = 18), personnel of NGOs and associations (n = 16), and other service providers (n = 3). Semistructured interviews are suitable for exploring textual information as well as collecting factual information. In general, the goal is not to aggregate data across respondents, but rather to explore things like similarities and differences of views across different informants through “active listening” (Bartholomew, Henderson, & Marcia, 2000; Pretty, Guijt, Scoones, & Thompson, 1995). The process of collecting data on similar issues from different informants, for example, from CFEs, buyers, and support agencies, served as a key measure of triangulation. Presentation of research findings to CFE members also served for validating subjective interpretation made by the researcher from the perspective of their worldview.

Interviewees were identified by snowballing technique. First, key informants such as major buyers, regulatory institutions, and major donors were identified with assistance of the studied CFEs. Additional interviewees were identified as unexplored issues emerged through a series of interviews. The number of interviewees was determined considering the degree of saturation of information. Most of the interviews, survey and reporting to CFEs were carried out in Spanish by the researcher without using translator. Interviews to several buyers based in the U.S. were carried out in English.

Three subcases each were studied for in-depth inquiry at first-tier CFE level. All of the three affiliated CFEs (Pueblos Mancomunados, Ixtlán de Juárez, Santiago Textitlán) were covered under ICOFOSA study. FORESCOM study involved purposeful sampling of three subcases out of 13 first-tier CFEs because all of the CFEs could not be studied in-depth due to the limitation in resources and time. Two affiliated CFEs (Carmelita and Cruce a la Colorada) and one nonaffiliated CFE (Los Impulsores Suchitecos) were selected after the interviews with representatives of the 13 CFEs for preliminary screening (see Table 2.1). In terms of the two affiliated CFEs, one from the “active” group (Carmelita) and another from the “inactive” group (Cruce a la Colorada) were selected. Heterogeneity and polarity in terms of commitment to FORESCOM and degree of success in business were the major selection criteria.

**Table 2.1: Gradient of CFEs in Peten**

	←		→	
Capacity of CFEs	Low		High	
Involvement in FORESCOM	Concession Canceled	Inactive	Active	Not affiliated
Name of CFEs	Colorada, San Miguel	Cruce a la Colorada, Unión Maya Itzá, Técnica	AFISAP, Carmelita, Laborantes, Uaxactún, Árbol Verde, Custosel	Suchitecos, Esfuerzo

Data analysis was started with bracketing and phenomenological reduction (Hycner, 1999). “Delphi technique” (Pretty, et al., 1995, p. 219) was used for sorting and clustering of data: numerous post-its with bracketed data generated through interviews, analysis of financial and sales information, and general observation were sorted out and clustered manually. Through this process major themes were identified. These themes are organically connected each other in appropriate sequences so that it makes a logical flow in discussion.

Themes are presented with rich contextual information. Theoretical analysis is also provided citing relevant literature so that the studied phenomena can be understood in specific contexts. This provides readers clues to determine the generalizability and limit of validity of the findings. .

## 2.1. Outline of the Data Generation Steps

Table 2.2 summarizes the data generation steps of this study:

**Table 2.2: Summary of Methodology & Methods**

Phases	Informants / activities	Methods
Context analysis	Regulatory & supporting institutions	Interviews [n = 18 (I), 16 (F)]
2nd-tier level	Management, board members, marketing manager, accountant, etc. Consumer survey (I)  Industrial/institutional buyers	Interviews [n = 7 (I, F)]  Questionnaire to shoppers (n = 60)*, Telephone interviews to existing customers (n = 60)  Interviews [n = 1 (I), n = 12 (F)]
1st-tier level	Screening CFEs for in-depth study (F) Management, board members, mill manager, accountant, community leaders, etc. Inquiry to industrial/institutional buyers	Interviews (n = 13) Interviews [n = 19 (I), n = 23 (F)]  Interviews [n = 13 (I), n = 7 (F)]
Synthesis	Presentation of the study results	Presentation and group discussion

(I): ICOFOSA study, (F): FORESCOM study. Some buyers purchase products from more than two CFEs.

\* The survey was made at the two furniture shops (n = 30 x 2)

The field activities were carried out in Oaxaca from October 2, 2009 to February 25, 2010, and in Guatemala from March 5, 2010 to 24 August, 2010. Actual duration of the field study was 21 weeks for ICOFOSA and 24 weeks for FORESCOM.

## ICOFOSA (Mexico)

1. Preparation for fieldwork (the first and the second week of October 2009): The first week was devoted for the preparatory activities such as finding an appropriate accommodation. The research plan was introduced to the board of ICOFOSA. The expected benefits of the research and the expected contribution to be made by ICOFOSA were clarified. Their interests in research were also consulted so that the necessary adjustment could be made.
2. Context analysis (from the second week to the fifth week of October): Service providers and regulatory institutions related to ICOFOSA were identified initially with the assistance of the manager of ICOFOSA and an NGO personnel, and later by snowball sampling. The policy environment, major trends in the market, and the services rendered to ICOFOSA and the affiliated CFEs were studied through interviews with 18 informants from 17 institutions including government institutions, NGOs, a union of forest communities and a commercial bank. Relevant secondary information (e.g., brochures) was also collected at this stage.
3. Inquiry to ICOFOSA's managerial and operational personnel (from the fifth week of October to the first week of November): In this step how ICOFOSA operated was examined. How ICOFOSA had been established and governed by the three first-tier CFEs was also studied. The enterprise's mandates and the role division between ICOFOSA and the first-tier CFEs were clarified. The corporate policy, vision and strategy were analyzed for grasping how the enterprise positioned their existing lines of products in market. Key informant interviews were conducted for information collection and analysis. Financial data provided by the enterprise such as the income statements were also analyzed to identify the weaknesses and opportunities.

4. Consumer survey (the first and second week of November): Opinion and perception of the shoppers of TIPMUEBLES (n = 60) were surveyed at their two furniture stores. Telephone interviews (n = 60) were also carried out to the consumers who actually bought TIPMUEBLES products in the past taking advantage of the TIPMUEBLES' client database. Their perceptions toward the social and environmental attributes of the TIPMUEBLES products were also studied.
5. Presentation of the study updates to the board: The result of the customer survey was presented to the board of ICOFOSA immediately after its completion to explain the preferences and comments of the customers and to suggest some specific marketing initiatives. In addition, I, in conjunction with a consultant of an NGO and another student who had studied ICOFOSA for her dissertation, convened a session with the board members in the first week of January 2010 for probing their vision regarding marketing and distribution strategies toward future.
6. Inquiry to the first-tier CFEs' managerial and operational personnel (from the third week of November to the second week of February 2010): Interviews with key informants and the analysis of qualitative data provided by each CFE (e.g., income statements, the number of devolutions and the sales by product) were conducted. How the management of the three enterprises (Pueblos Mancomunados, Ixtlán de Juárez and Santiago Textitlán) positioned ICOFOSA in their entire furniture buyer portfolio was analyzed. The history of the development of each CFE and their corporate governance system were studied. The production and marketing strategies of each CFE were also investigated in iterative manner in order to explore their bottlenecks and opportunities, and to analyze how they were striving to be competitive (e.g., in product development, process improvement, and reduction of costs). The inquiry was first started with Pueblos Mancomunados, next with Ixtlán de Juárez, and then with



- Santiago Textitlán considering the difference of each community in terms of openness to the study.
7. Inquiry to the furniture buyers of the first-tier CFEs (from the third week of January 2010 to the second week of February): Contact information of the major buyers was obtained from each CFE. Their opinions and perceptions towards the CFEs' products and services (i.e., prices, design, quality, volume, timeliness, and adherence to the contract) in comparison with the other suppliers were investigated through semi-structured interviews. Perceptions of final users regarding the timber certification and social aspects of the CFEs' products were also probed indirectly.
  8. Presentation of the study result to ICOFOSA and the first-tier CFEs (the final presentation to ICOFOSA and the three first-tier CFEs were made in the third and fourth week of February): The findings were synthesized and an oral presentation with a written report was made to the board of ICOFOSA before the author left the field. The reports regarding the customer opinions and other recommendations to individual CFEs were also presented to each CFE. The feedbacks of ICOFOSA and each CFE given to the reports also helped crosscheck the findings.

#### FORESCOM (Guatemala)

1. Travel from Oaxaca to Peten (the first week of March 2010).
2. Preparation for fieldwork (the second week of March 2010): The first week was devoted for preparatory work. A suitable accommodation was identified in Flores. The research plan was introduced to the board of FORESCOM. Expected benefits of the research and expected contribution to be made by FORESCOM were clarified. They were consulted regarding the focus of research so that the necessary adjustment

- was made in a way the research would be also useful for them and the affiliated CFEs.
3. Context analysis (from the second week of March to the third week of April): Government institutions in charge of forest administration and other related areas, non-government institutions which have assisted community forest enterprises in Peten, and a private forest industry which collaborated with the CFEs in the area were identified with an assistance of the president of FORESCOM and an NGO. The number of informants was amplified later through snowball sampling. Information was collected from 16 informants of 14 institutions both in Peten and Guatemala City. A series of interviews was carried out to probe how forest enterprises were regulated and supported. Major trends in the market were also probed. Context analysis deepened the understanding about the historic context and overall dynamics in forest governance in Peten. Relevant secondary information (e.g., tariff applied for the harvest of forest products) was also collected at this stage.
  4. Inquiry to FORESCOM's managerial and board level (the first, third and fourth week of April): How FORESCOM was developed and governed by the 11 first-tier CFEs were studied at this stage. The role division between FORESCOM and the affiliated CFEs were clarified. The performance, vision and strategy of different department were also studied through key informant interviews. Some quantitative information such as the sales and the financial statements were also provided by FORESCOM for exploring the weaknesses and opportunities.
  5. Inquiry to the buyers of FORESCOM's timber products (from the second week to the fourth week of April): Opinions and perceptions of 12 domestic and international buyers toward FORESCOM were investigated through semi-structured interviews in person carried out in Peten, Guatemala City, Coban and San Juan Sacatepequez.

- Telephone interviews and email-based inquiry were carried out to international buyers.
6. Semi-structured interviews to the representatives of the 13 first-tier CFEs (from the first week to the third week of May): How the representatives of the 11 affiliated CFEs and 2 nonaffiliate CFEs evaluate FORESCOM both as a buyer of timber and a provider of the services was studied through a series of semistructured interviews. Perceived benefits and drawbacks of having a business with FORESCOM were investigated. How FORESCOM was positioned in the buyer portfolio and/or the service supplier portfolio of each CFE was examined. Their perceptions toward ACOFOP (*Asociación de Comunidades Forestales de Petén*), the political representative body of forest communities in Peten and the mother institution of FORESCOM, were also studied.
  7. Inquiry to the three selected first-tier CFEs' (from the first week of June to the fourth week of July): Three first-tier CFEs offering rich and contrasting learning opportunity (Los Impulsores Suchitecos, Carmelita and Cruce a la Colorada) were selected on the basis of the maximum variation sampling considering the result of the interviews with the 13 CFEs carried out in the previous phase. The business strategy, corporate governance system and performance of the three selected CFEs were investigated through key informant interviews and the analysis of quantitative data (e.g., income statements) provided by each CFE. The way the management of each CFE evaluated FORESCOM in their whole buyer portfolio and service provider portfolio was analyzed.
  8. Inquiry to the buyers of the three first-tier CFEs (from the second to the fourth week of July): Opinions and perceptions of the major buyers of the three selected CFEs toward the CFE's products and services (i.e., prices, design, quality, volume,

timeliness, and adherence to the contract) compared with the other suppliers were studied. Information was collected through semistructured interviews carried out in Peten and Guatemala City. The perceptions of the final consumers were also probed indirectly.

9. Preparation of final reports and presentation of the results to FORESCOM and the three first-tier CFEs (from the first to the fourth week of August 2010): The findings were synthesized and presented before the author left the field. Oral presentation with a written report was made to the board of FORESCOM, inviting the representatives from the affiliated first-tier enterprises. The buyers' opinions toward the selected three first-tier CFEs were synthesized separately and presented to the boards of each CFE. The feedbacks of FORESCOM and the three CFEs given to the reports also helped crosscheck the findings.

### *References*

- Bartholomew, K., Henderson, A., & Marcia, J. (2000). Chapter eleven: Coded semistructured interviews in social and psychological research. In H. T. Reis & C. M. Judd (Eds.), *Handbook of research methods in social and personality psychology* (pp. 286-308). Thousand Oaks, CA: Sage Publication.
- Eisenhardt, K. (1989). Building theories from case study research. *Academy of Management Review*, *14*(4), 532-550.
- Guest, G., Bunce, A., & Johnson, L. (2006). How many interviews are enough? An experiment with data saturation and variability. *Field Methods*, *18* (1), 59-82.
- Hycner, R. H. (1999). Some guidelines for the phenomenological analysis of interview data. In A. Bryman & G. Burgess (Eds.), *Qualitative research* (Vol. 3, pp. 143-164). London, UK: Sage Publications, Inc.

- Patton, M. (2002). *Qualitative research and evaluation methods* (3rd ed.). Thousand Oaks, CA, USA: Sage Publications.
- Pretty, J. N., Guijt, I., Scoones, I., & Thompson, J. (1995). *A trainer's guide for participatory learning and action*. London: International Institute for Environment and Development.
- Stake, R. E. (2000). Chapter 16: Case studies. In N. Denzin & Y. Lincoln (Eds.), *Handbook of qualitative research* (2nd ed., pp. 435-454). Thousand Oaks, California, USA: Sage Publications.
- Stoian, D., & Rodas, A. (2006). Sociedad civil para el desarrollo Árbol Verde - Case study from Petén, Guatemala *Community-based forest enterprises in tropical countries: Status and potential - Comparative study* (pp. 20): ITTO, Forest Trends, RRI.

### 3. Competitive Strategies in Community Forestry: Leveraging Through Second-tier Collective Enterprises in Mexico and Guatemala

#### *Abstract*

The author carried out a study on two second-tier CFEs and the affiliated first-tier CFEs in Mexico and Guatemala to analyze their competitive strategies. The study consisted of a consumer survey (120 respondents, the Mexican case only) and semistructured interviews with 125 informants including CFE personnel, buyers, government institutions and NGOs. The study is focused on factors that affect CFE competitiveness and customer satisfaction as perceived by CFE customers. Whereas many CFEs still overlook their weak customer orientation and high cost structure and maintain a “sales” rather than a “marketing” mentality, some CFEs are striving toward professional business excellence through inter-CFE collaboration. The study also shows the varied perceptions among buyers toward the social and environmental attributes of the CFEs’ products. The vertical integration of new functions through second-tier CFEs will not necessarily generate improved profit without continuous well-focused marketing and cost reduction efforts despite the higher product prices that are captured by extending services down the value chain.

**Key Words:** Community forest enterprise, competitive strategy, cause marketing, Mexico, Guatemala

### 3.1. Introduction

Many rural people satisfy their critical livelihood needs from community forests. Community forestry (CF) has reduced deforestation in various parts of the world by taking advantage of local forest governance institutions, which are more responsive to local realities and needs (Arnold, 2001; FAO, 2000; Poffenberger, 2000a, 2000b). Upon securing use rights, many forest-dependent communities are keen to commercialize forest products. Much of the literature stresses the importance of poverty alleviation through the commercialization of forest products (Arnold, 2002; Donovan et al., 2006; Farrington and Mitchell, 2006; Lecup and Nicholson, 2000; Mayers and Vermeulen, 2002). However, in reality, the CFEs' entrepreneurial capability is often limited. A few studies indicate that community forest enterprises (CFEs) have had mixed results in terms of commercial viability (Molnar et al., 2007; Stoian et al., 2009). It is critically important to understand the competitiveness of CFEs as perceived by CFE customers. Unless they achieve customer satisfaction, CFEs cannot thrive in the ever-increasing global competition.

### 3.2. Study Purpose and Methodology

The author carried out a study that focused on how CFEs strengthen their competitive strategies through two second-tier CFEs: ICOFOSA (*Integradora Comunal Forestal de Oaxaca S.A. de C.V.*) in Oaxaca, Mexico and FORESCOM (*Empresa Comunitaria de Servicios del Bosque S.A.*) in Peten, Guatemala.<sup>1</sup> For the purpose of this study, the author defines a second-tier CFE as “an enterprise which is directly or indirectly (e.g., through capital investment) governed by a group of CFEs for the purpose of promoting their business.” Second-tier community enterprises in the forest sector are still rare in the tropics, and these two cases are among the few global benchmark initiatives.

ICOFOSA was established by the indigenous forest communities in 2006. Three first-tier CFEs that produce furniture joined forces to launch a retail business under the joint brand

“TIPMUEBLES.” ICOFOSA operated two stores in the City of Oaxaca as of the year 2010.<sup>2</sup> FORESCOM was established in San Benito in 2004 as an umbrella organization for nine CFEs<sup>3</sup> with the aim of providing services related to forest management consultancy, timber brokering, wood drying, the manufacture of wall and flooring products, and machinery rental.

The field study was carried out from October 2009 to August 2010. The study was based on semistructured interviews with 125 informants from within and external to the value chain; in addition, a questionnaire survey was conducted with final consumers (120 respondents, ICOFOSA case only). The informants include executives and key staff of ICOFOSA and FORESCOM, members of the 14 first-tier level CFEs,<sup>4</sup> buyers, government officials and service providers such as NGOs. These informants were identified through snowball sampling.

This study is part of a larger study that aims to examine the competitiveness of CFEs from three perspectives: (a) the socio-economic perspective, (b) the enterprise development policy perspective, and (c) a business perspective. The “competitiveness” of CFEs consists of two fundamental aspects. The first aspect is the articulation of social missions. A CFE must have the ability to clearly define and articulate its social vision in operational terms in regard to the equitable distribution of responsibilities and benefits. The second aspect is the CFE’s economic performance as a business entity. This article only discusses the second aspect from (c) a business perspective. After introducing the markets targeted by the studied CFEs, this article is organized by the following research questions:

1. What factors, as perceived by CFE customers, affect the CFE’s competitiveness and customer satisfaction?
2. Do the social and environmental attributes of CFEs create a competitive advantage in the market? If so, under what circumstances?
3. How effective are the second-tier CFEs in capturing benefits in the value chain?



This study next discusses the importance of “marketing” versus “selling” based on the findings from the inquiry. It also introduces the competitive strategies that are employed by the studied CFEs.

### 3.3. Markets for the Studied CFEs

The three CFEs affiliated with ICOFOSA sell not only furniture but also pine (*Pinus spp.*) timber. This study limits its focus to their furniture markets. The CFEs have three major distribution channels: (3.4.1) retail at TIPMUEBLES stores, (3.4.2) retail through private distributors, and (3.4.3) bulk production of furniture for government and other institutions.

The studied CFEs in Peten sell sawn wood such as mahogany (*Swietenia macrophylla*), Spanish cedar (*Cedrela odorata*) and other lesser known species (LKSs) including *manchiche* (*Lonchocarpus castilloi*), *santa maría* (*Callophyllum brasiliense*), and *pucté* (*Bucida berseras*). The CFEs make deals directly with buyers or indirectly through FORESCOM. They have three major categories of products: (3.4.4) high-grade mahogany and Spanish cedar are mainly sold in niche markets such as guitar manufacturers in the U.S., (3.4.5) lower-grade mahogany and LKSs are mainly sold within regional or national markets, and (3.4.6) wall and flooring products from the LKSs produced by FORESCOM are mainly sold in the national market. Although FORESCOM offers a wide range of services this paper limits itself to a discussion regarding its customer opinions for its timber products.

### 3.4. Factors Affecting Competitiveness and Customer Satisfaction as Perceived by Customers

#### 3.4.1. Retail furniture at TIPMUEBLES

TIPMUEBLES targets the medium-high and high segment of home and office furniture with products of contemporary design made of certified solid pine timber. The survey showed that the perceptions of “shoppers” (n = 60) and “purchasers” (n = 60) were quite positive.<sup>5</sup> Most of the purchasers acknowledged and appreciated how products and services

had improved since the launch of TIPMUEBLES. Impressively, 95% of the interviewed purchasers responded that they would buy TIPMUEBLES again. The areas for improvement that they noted included delivery delays (64%), limited model varieties (62%), insufficient quality control (28%) and infrequent renovation of the existing models (17%).

Regrettably, many customers noted a weak market presence for TIPMUEBLES. The number of shoppers at the two stores is low. Shoppers from the “key” districts where many affluent people live are limited due to the lack of well-focused advertisement. TIPMUEBLES has not taken advantage of its distinctive appeal, such as the quality of its solid timber products, FSC (Forest Stewardship Council) certification and its social attributes to create publicity. Neither has TIPMUEBLES carried out a specific initiative to nurture the loyalty of its existing customers. The customer database was not managed for these strategic purposes.

Despite the high quality of products, the installation and design of the exhibition floor and the exterior of the two stores remains unsophisticated. TIPMUEBLES needs to create an exclusive image so that it can excel against its competitors in the high-end segment. In addition, according to the survey, there is insufficient attention to the quality of customer service.

#### *3.4.2. Furniture retail through private distributors*

The three CFEs also sell their furniture through private distributors. Each CFE individually diversifies their distribution channels. Using private distributors other than ICOFOSA is convenient for targeting the popular segment with cheaper products of lower quality. In this segment, they also compete with relatively cheap furniture made of MDF (medium density fiberboard) and other materials.

The perceptions of the private distributors are also generally positive in terms of prices, quality of products, services and payments. One buyer mentioned that one of the CFEs had invited him to their factory. This experience greatly helped him establish a good rapport with the CFE and deepened his understanding of community-based business. Several buyers

criticized one of the CFEs for inadequate quality control, delayed delivery, and slow response to a claim. This particular CFE has a weakness in the shortage of professionals due to their communal policy of not hiring external professionals.

#### *3.4.3. Bulk furniture production for institutions*

CFEs under ICOFOSA also produce furniture for institutions such as schools and hospitals, taking advantage of the state policy of procuring certified furniture for their institutions. In fact, a major part of the sales for the three CFEs is made to this segment. However, it is predicted that orders from this segment will be reduced. Therefore, it is necessary for the CFEs to develop new markets that can replace the reduced institutional sales. In the institutional segment, wood furniture has advantages, such as aesthetic properties and durability, and disadvantages, such as heaviness, limited mobility, and bulkiness in storage.

The perceptions of the institutional buyers were mostly positive. However, some details for improvement in this sector were identified. For example, internal control systems and the communication between management and employees were not satisfactory, especially regarding delivery. One buyer felt that the CFE had insufficient capacity to respond to their voluminous order, especially when the CFE also had orders from other institutions. Another buyer pointed out that CFEs usually have only one point of production and distribution, whereas private industries offer more. This single point is not convenient when buyers are making a national- or interstate-level procurement. Most of the buyers appreciated the annual modification of furniture design through which products have been made lighter yet more durable. The buyers' opinions have catalyzed regular improvements in both aesthetics and ergonomics. Although some buyers received a considerable number of complaints from the end users when business began, the current models receive mostly positive feedbacks. The level of compliance to the delivery date was also generally satisfactory. One CFE won a contract with a new institution thanks to a positive reference from another institution.

#### 3.4.4. *Precious woods in international markets*

Guatemalan mahogany is not price competitive in the U.S. market. According to an international buyer, it costs US\$4.00/bf (board foot), air-dried, delivered at the mill in Guatemala by cash payment only. In contrast, African mahogany (*Khaya spp.*) costs US\$2.25/bf, kiln-dried, delivered in the U.S., with 90-day credit.

A major competitive advantage of the CFEs in Peten has been the abundance of a globally scarce timber: mahogany. The price of mahogany has increased from US\$1.10 to US\$4.20/bf over the last decade. After the economic crisis in 2008, the price has remained around US\$3.75 – 4.00/bf. According to one buyer, the price will most likely no longer increase due to competition with African mahogany. Some major mahogany buyers in the U.S. went bankrupt during the crisis, and these buyers used to purchase over 300,000 bf of mahogany from Guatemala: now, buyers remain under 25,000 bf. The U.S. buyers are currently under heavy cost reduction pressure. One major buyer has taken advantage of their monopoly situation in Peten and has gradually degraded their terms of business. For example, they asked the CFEs to bear transport costs to port in 2010.

Guatemalan mahogany is also expensive when compared with that of Peru, Ecuador, Fiji and the Solomon Islands. Community concessions in Guatemala have a high cost structure because they only commercialize mahogany, Spanish cedar, and limited varieties of LKSs. FSC certification also limits the volume of extraction. Their harvest intensity (one tree per 1 or 2 ha) is very low. On the other hand, the mahogany of Fiji and the Solomon Islands is grown in plantation, and their production cost is much lower. A few major Guatemalan timber dealers have already shifted their major source of timber out of Guatemala.

Buyers often prefer to negotiate directly with the first-tier CFEs to avoid “bureaucracy” and the delay. One buyer mentioned that she had originally expected that FORESCOM would offer a one-stop sales point and would make procurement easier for buyers. However, the actual business did not improve as expected. FORESCOM does not have direct control

over the raw materials, and they usually have a short inventory because of the chronic shortage of running capital. Management must undergo a lengthy inquiry process to the first-tier CFEs each time they fix a deal with an external buyer. The enterprise also suffers from the frequent turnover of managers, which makes customer relations inconsistent. One buyer noted that communication with FORESCOM deteriorated when it became inconvenient for FORESCOM. The first-tier CFEs, on their part, do not feel that it is necessary to make a mahogany deal through FORESCOM. In the end, FORESCOM simply sells timber to the same existing buyers with whom the first-tier CFEs usually deal. In addition, the demand for kiln-dried mahogany, which necessitates FORESCOM's service, has not been strong.

Neither do the first-tier CFEs have a good reputation. These CFEs essentially sell what they have rather than what the buyers demand. Some of the CFEs refuse to classify timber in accordance with the buyer's criteria, instead preferring buyers who will take all timber, regardless of grades and dimensions. The CFEs also provide unpredictable delivery. The first-tier CFEs sometimes suddenly cancel agreed-upon orders when they find another buyer who offers a slightly better price. No community manages a database of international timber prices, and their price assumptions are often outdated. The local agents for the international buyers have to convince the local CFEs of the actual international prices. Due to imperfect classification, most of the buyers must send their local agents to the mill to select timber. These unnecessary costs are borne by the buyers, which the CFEs take for granted. The CFEs rarely offer sales on credit, though this service is much appreciated by buyers.

Nevertheless, due to the technical assistance of major international buyers, six or seven of the CFEs are currently considered to be mature by the international buyers in terms of quality control, though there are others whose product quality remains low. The advanced CFEs usually provide punctual delivery. Most of them also maintain a certain level of running capital and no longer require advanced payment from buyers. Some of the CFEs consciously avoid advanced payment because it can put them in a disadvantageous position

for price negotiation once it is received. One CFE abandoned its managerial rotation and hired a professional manager. This CFE's buyers appreciated the significant improvement in its corporate administration, customer attention, and quality control.

Strictly speaking, even the relatively mature CFEs have not yet been able to provide complete buyer satisfaction. The CFEs sometimes mistreat timber, leaving it exposed to the weather or handling it roughly. Although mahogany is relatively resistant, it does suffer from cracks and invisible fissures that open when it is kiln-dried. The packaging is also not always uniform, with two or three different lengths of timber packed together. Many of the buyers believe that it is high time for the CFEs to aim for a higher degree of professionalism and awareness of their clients' satisfaction.

#### 3.4.5. *Semiprecious and commodity timber in the international, regional and national markets*

It is difficult for intermediaries to promote *manchiche*, *pucté*, *mano de león* (*Chiranthodendron pentadactylon*) and other hardwoods in the U.S. market. Kiln-dried domestic hardwood is cheaper in the U.S. *Manchiche* and *pucté* compete with cherry (*Prunus spp.*), maple (*Acer spp.*), ash (*Fraxinus spp.*), and Brazilian *ipe* (*Tabebuia spp.*). According to an international buyer, certified *pucté* costs \$2.00/bf, whereas similar-looking ash costs \$0.90/bf. *Mano de león*, promoted as "Mayan maple," costs \$2.00/bf, air-dried, imprecisely cut, and with some stains and insect damage, whereas maple costs \$1.10/bf, kiln-dried, with a fine appearance. To make matters worse, neither FORESCOM nor the first-tier CFEs maintain an inventory of LKs. The majority of buyers complained about the slow delivery of these products.

One intermediary commented that it would be much more realistic for the CFEs to target national or regional markets such as El Salvador, Costa Rica, Dominican Republic, Puerto Rico, Aruba, and Guadalupe, among others, where U.S. companies are not strongly focused. Guatemalan producers often cannot offer a minimum volume of steady supply. To

promote LKSs in international markets, an intermediary needs a minimum of 10 to 60 containers<sup>6</sup> of supply every year. However, the CFEs are not interested in making a concerted effort to consolidate the fluctuating supply among them. The buyers commented that the CFEs are oriented toward the easier mahogany business. Many LKS buyers complained that they are treated as “second-class buyers.” Frequent managerial rotation is also a risk factor in the LKS business, which demands long-term consistency in supply. In addition, whereas producers in Peten offer timber only up to 16-18 feet long, producers in other countries offer timber up to 30 feet long. This difference further limits the market for Guatemalan timber.

In the national market, the customers generally prefer pine timber for its price. The consumption of hardwoods is relatively limited to the niche markets such as furniture and door production. Many of the national buyers avoid direct deals with the first-tier CFEs because of their poor customer focus and slow response. The national buyers instead do business through FORESCOM or other intermediaries. One intermediary offers next-day delivery with 30-day credit as well as promotions, sending their sales agents to visit buyers. Neither FORESCOM nor the first-tier CFEs offer these services. One buyer mentioned that the prices offered by FORESCOM were based on international prices and thus too expensive for national-level buyers.

#### *3.4.6. Wall and flooring products from LKSs in the national markets*

The market for wooden walls and flooring in Guatemala is small. For construction firms, it is quicker and cheaper to use laminated or engineered flooring. These substitutes limit the market for solid wood flooring. The competitors in Peru, Colombia and Brazil always maintain an inventory of products, and there is no difference in delivery speed between these companies and FORESCOM. The competitors in these countries offer cheaper prices and sales on credit. The prices of FORESCOM’s products are 7-10% higher, even when compared to those of its competitors in Guatemala, such as the private forest industries.

Nevertheless, the opinions of the buyers are not necessarily negative. Various buyers commented that the quality of the flooring and wall products of FORESCOM is very satisfactory, even compared with imported products. These buyers also mentioned that FORESCOM's customer service is good, except for one case. However, even those buyers who appreciate FORESCOM were preoccupied with FORESCOM's low running capital, which has caused short inventory and delays in the acquisition of timber. One luxury home developer complained that FORESCOM had not been cooperative in the promotion of LKSs in the national market.

### 3.5. The Competitive Advantage Created by Social and Environmental Attributes

The awareness among shoppers about TIPMUEBLES' social attributes (58%) and FSC certification (35%) is not high. Most of the shoppers did appreciate these aspects as added values once they were noticed. These shoppers stated that it is worth paying a slightly higher price in comparison to competing products to support a local community enterprise (47%). Regarding the environmental attributes, they said that it is worth paying a slightly higher price for forest certification (70%).

The awareness of the purchasers is much higher. The purchasers almost all knew that TIPMUEBLES' furniture was manufactured by the local indigenous communities (97%). The purchasers answered that it was worth paying a slightly higher price to support a local community enterprise (42%). For 23% of the interviewed purchasers, the social attributes were actually a major reason for buying TIPMUEBLES. Regarding the environmental attributes, the purchasers commented that it was worth paying a slightly higher price for forest certification (67%).

ICOFOSA and the three affiliated CFEs were appreciated as a symbol of the "Oaxacan community-based green economy" by the government institutions that purchased their furniture. This study confirmed that the social and environmental attributes are critical



reasons for their purchase. For example, one major buyer stated that they would reduce the volume of procurement if the three CFEs left the forest certification.

Interviews were also carried out with private distributors and other institutional clients. Buyers' interest in doing business with the local CFEs was high; 9 out of the total of 11 interviewed buyers responded positively. Local procurement is also beneficial for the buyers as it reduces transportation costs. At the same time, the buyers' perceptions regarding the forest certification vary. Having the forest certification was not particularly important for seven of the respondents, though it was important for four of the distributors. These distributors emphasized the importance of explaining the environmental attributes directly to the customers at the store. One distributor posited that forest certification could effectively attract even the popular segment if the product prices were affordably set.

Among the timber buyers in Guatemala, the customer perceptions toward the social and environmental attributes were quite different. Most of the buyers did not particularly appreciate the social attributes. Some buyers criticized the CFEs' weak orientation toward customer needs. One buyer lamented that her willingness to support the CFEs had been tainted due to other liabilities. The perceptions toward forest certification varied buyer by buyer. Certification was appreciated by 6 out of the total 15 interviewed buyers as a company philosophy or policy. Most of these buyers targeted relatively less price-conscious and high-end niche markets, such as the construction of luxury houses, the installation of wood flooring, and the manufacturing of premium guitars. One buyer bought certified *pucté* posts from FORESCOM because competing products, such as arsenic-impregnated pine, are toxic. Two national-level buyers appreciated forest certification as a measure for complying with government regulations. For the other six buyers, forest certification was not important. One international buyer posited that it was problematic that NGOs and the FSC advocated that certified timber would fetch high prices because it is erroneous. No interviewed buyer mentioned that the social attributes or the forest certification actually fetched a price

premium in the market. These qualifications are important only for “select” grade mahogany for the purpose of entering specific niche markets.

In the value chain for timber or semifinished products, what the final consumers see is basically a finished product such as a house. The consumer usually does not have direct control over what type of timber should be used in the end products that they buy. The social and environmental attributes of the raw materials are not visible. The people who make the purchase decisions are industry professionals who are much more cost conscious. It therefore appears to be much harder to turn environmental or social attributes into competitive advantages in the commodity timber or semifinished products market. A study in the U.K. shows that the demand for certified timber is not evident apart from the DIY sector where final consumers have direct control over the attributes of timber they buy (Bass et al., 2001). However, high-value consumer end products such as those offered by TIPMUEBLES can be much more effectively marketed directly to final consumers “with strong stories attached” (Macqueen et al., 2008, p. 30).

Clay (1997) argues that there is interest in the environmental impacts in developed countries but not in the social impacts because consumers in these countries see generating dollars for people as a transfer of their wealth to somebody else. An international survey to timber traders mostly based in developed countries indicates that environmental standards are more important than social standards in the passive context of risk reduction: to avoid exposure by environmental NGOs. The timber traders report that the demand for socially conscious products from final consumers tends to be low (Macqueen et al., 2008). Nevertheless, the TIPMUEBLES case indicates that relatively well-educated middle class consumers in moderately developed countries like Mexico are quite conscious of the social and environmental attributes of the products they buy. Despite Clay’s proposition, the willingness of these consumers to purchase locally produced, socially conscious consumer end products appears to be linked with their patriotic or hometown consciousness. Therefore,

their willingness may be higher than the similar willingness held by consumers in developed countries. The high willingness to promote the local economy seen among distributors and other institutional buyers in Oaxaca also supports this proposition.

### 3.6. The Effectiveness of Second-tier CFEs in Benefit Capturing in the Value Chain

#### 3.6.1. *ICOFOSA*

TIPMUEBLES was originally established as an exclusive point of sales so that the three CFEs could avoid being exploited by the large departmental retailers. The current board members of ICOFOSA had a difficult experience receiving low offers. They naturally had high expectations that they could better capture benefit through their own retail business. However, the performance of the TIPMUEBLES stores has so far been low. The stores' pricing is based on cost plus margin. Although the stores can avoid exploitation by external retailers, the relatively high prices have become a factor in low sales. An inadequate number of shoppers and their composition<sup>7</sup> indicate that TIPMUEBLES does not attract the popular segment. The sales in 2009 are estimated to be approximately 10% to 24% of the total furniture sales of the three CFEs. The stores are not operationally required to be self-sufficient, and monthly "contributions" by the three CFEs makes up the deficits. This arrangement does not allow the factories to capture the margin (15% over the cost of products) that they originally expected. Two of the CFEs have suffered from losses for many months. Thanks to improvement in product design and quality, the store installations, and customer service, 2009 sales improved despite the world economic crisis. On average, no factory is suffering from losses though they are also not particularly profitable. The actual profitability for the TIPMUEBLES products for the three factories in 2009 is approximately 2-7%.

One fundamental weakness for these stores is the limited sales volume. TIPMUEBLES still does not enable its factories to produce furniture in volume to achieve lower costs. Home

and office furniture is usually sold as a set. The factories have to maintain supplementary or optional products despite low sales so that they can sell other major products. The production of a variety of products in small lots is costly compared to the production of limited products in a large lot. The latter is only possible under large institutional contracts, while the former raises the costs for operations and inventory. This situation creates a certain ambivalence within the factories. The product lines for TIPMUEBLES call for constant renovation and improvement in product variety to attract consumers, whereas these requirements significantly elevate costs.

In short, ICOFOSA captures high prices in the value chain through its autonomous price setting. However, the high costs of sales and production and the limited sales volume decrease the profitability of the business as a whole. Nevertheless, ICOFOSA is important for the three CFEs as it allows them to learn the furniture business, attracts the general public and government institutions, allows for the joint filling of large orders, and diversifies the sales channels.

### 3.6.2. *FORESCOM*

FORESCOM offers an alternative market, particularly through processing. FORESCOM autonomously sets the prices for their wall and flooring products, thereby, capturing high prices in the value chain. However, FORESCOM has high administration and operational costs and low sales, it has not generated enough profits to allow for improved prices to the first-tier CFEs, and no dividend has been paid to the CFEs in the history of enterprise. FORESCOM has generated deficits, not profits. FORESCOM has suffered severe losses for at least three consecutive years, from 2007 to 2009. Operational costs such as the cost of key personnel have occasionally been covered by external assistance. The affiliated CFEs have not made a significant additional financial commitment beyond the initial capital investment. The managerial posts and the other employments offered to the affiliated communities have been a major benefit for the first-tier CFEs. The frequent rotation of

managers and the lack of a registry for key information have made the regular monitoring of profitability difficult. This situation has been worsened by their weak inventory control. FORESCOM no longer purchases raw materials due to limited running capital, instead, providing services such as kiln-drying and woodwork without transfer of ownership.

In short, FORESCOM captures high prices in the value chain through the autonomous price setting of their semi-finished products. However, due to their high cost structure and poor corporate governance, they fail to generate profits. The affiliated CFEs have received little benefits in terms of improved prices for timber or dividends.

### 3.7. Producer-Oriented Selling Versus Marketing

Many CFEs maintain the traditional characteristics of the “producer-oriented” community business. These CFEs tend to push what they have or what they want to sell. Logic, necessity, and convenience on the part of producer are prioritized over the needs of the customers. The CFEs’ business models tend to rely on the value of the raw materials for sale. Initiatives for value addition are sometimes pursued because of political impetus rather than proven demand. Market studies tend to receive short shrift. The CFEs traditionally adopt “cost plus margin” pricing and take high production costs for granted, rather than analyzing the customer’s willingness to pay for a certain value and adapting their product design and production system to meet the target price.

The two studied cases clearly reflect differences in corporate culture. One critical difference lies between “marketing” and “selling.” Kotler (interviewed by Drucker, 1990) posits that the difference between marketing and selling is whether you begin with your customers or with your set of products. “Marketing” means starting out with an understanding of what is really important to the customers so that you can continuously adapt your products and services. Conversely, “selling” means pushing your products out into any market you can find.

What the three CFEs in Oaxaca aim for through ICOFOSA is marketing. They have struggled to learn what sells so that they can produce it. However, strictly speaking, the current business model of ICOFOSA has a problem. Only the stores, not the factories, can directly communicate with their customers to understand their values. Therefore, the former have to command the latter to produce exactly what the customers demand. However, for ICOFOSA, the three factories basically send whatever they want to sell to the stores. Each CFE individually develops prototypes for new models and tests them. This situation has slowed down the unification of product styles under the joint brand TIPMUEBLES. The situation has also hindered the coordination and focus in product development linked with strategic marketing at the stores.

This situation has been created by the current cooperate governance system. ICOFOSA is financially and administratively dependent on the three affiliated CFEs. Instead of purchasing furniture from the CFEs, the stores manage the inventory of furniture that belongs to each factory on behalf of the CFEs. In other words, the stores offer an exhibition space to each CFE in return for a monthly “contribution.” The amount of the contribution is set in accordance with the total costs incurred for the store’s operation. Even if the stores earn a deficit, it is compensated for. The total cost is divided by three, so that each CFE pays an equal amount. ICOFOSA’s subordinated position overlooks the unstated policy of “send us whatever you like” in the name of “autonomy” for each CFE.

Nevertheless, each factory indirectly receives customer feedbacks from the salespeople at the stores so that each factory does eventually “market” their products, at least in an individual manner. The design and quality control of products have steadily been improving. The interaction with customers has also accelerated the improvement of services such as the diversification of payment schemes and on-time delivery. The annual revision of product design demanded by the government institutions has also facilitated an enterprise-wide orientation toward customer demands. To win institutional contracts, CFEs often have to

accept a predetermined price. This practice has also induced the adoption of target pricing in place of cost plus margin pricing. The ICOFOSA board is gradually forming initiatives to overcome a negative community mentality: an unprofessional culture rejecting the exchange of professional knowledge in the name of community autonomy at the expense of high costs and uncompetitive products, expenses that are eventually borne by customers. The board is aware that the three CFEs should coordinate production, product design, process management, and costing for long-term survival in fierce competition. This need to coordinate is particularly important given the structural problem of the low volume production of diverse products. The challenge lies in producing attractive products on the basis of proven customer demands, procuring a certain variety of product lines, yet cutting costs. In short, each CFE “individually” initiated a marketing effort on the shared platform of ICOFOSA and informally learned the products, services and management of the other factories. Consequently, they became aware of the necessity for interfactory collaboration. The factories no longer simply sell what they have or what they can conveniently produce.

The marketing efforts of FORESCOM and the affiliated first-tier CFEs has been relatively limited; they simply sell what they have to those who offer the best price each year. The absence of timber inventory at FORESCOM caused by low running capital is a fine example of their weak customer orientation. For their convenience, they accept orders only upon a 50% advance payment and then force customers to wait for two months.

Neither have the first-tier CFEs aligned their business to meet their customer’s demands. These CFEs do not present a predetermined price to their buyers. Instead, they ask the buyers to offer them a price. This modality of asking “how much will you pay?” is considered to show a lack of professionalism by the buyers. Most of the transactions are spot trades. Some communities do not dare to maintain a long-term relationship with their buyers. The LKSs are under-harvested, largely due to an insufficient effort to lower the production costs to enter the market. Ironically, less mature CFEs that sell standing trees to small private

contractors commercialize a much greater variety of species than the more mature CFEs with a sawmill.

The CFEs often give short shrift to marketing. Their business is primarily oriented toward production, and they assign key personnel for production at mills and factories to handle sales in their spare time. Periodic managerial rotation means that customers regularly see a change in the “sales clerk.” Even among the relatively successful CFEs in Oaxaca, the enterprise managers act as a sales agent when they make sales to institutions. There is no full-time sales manager assigned to actively seek new institutional customers by knocking on doors. The lack of a proactive salesforce is a significant weakness, especially among the CFEs in Guatemala. FORESCOM has not had a full-time sales manager in the history of the enterprise. FORESCOM hardly sends out sales agents to customers, they sometimes join trade fairs without sufficiently coordinating with the first-tier CFEs, and they often cannot satisfy the volume requirement of potential buyers. One interviewed buyer criticized FORESCOM for only providing a sample and pictures of timber in brochure. The first-tier CFEs are passively waiting for buyers to come to their mill for their mahogany. Some of the CFEs do not have regular access to a telephone or the internet. Yet they do not dare to make a proactive communication with buyers from their part.

### 3.8. Competitive Strategies of the CFEs in Dynamic Competition

The CFEs affiliated with ICOFOSA are gradually shedding the producer-oriented mentality of the traditional community business. Two CFEs, for example, openly recruit external professionals; many of the external professionals have experience in private industries. When one CFE suffered from a factory fire and lost most of its machinery, they turned this devastating incident into an opportunity. Emergency cooperation with another CFE created the sharing of professional knowledge and experience. Now, the concept of “design for production” is shared among different factories for the efficient use of raw



materials. These CFEs also introduced the standardization of parts between different furniture models for cost reduction. The fire even helped the CFE to rectify their once-inflated workforce. The manager admits that without this dire event, restructuring would have been much more difficult.

This CFE has also suffered from plague in the forest, and most of their logs are no longer suitable for furniture production. However, they are outsourcing timber from other log-producing CFEs. Problems in delayed delivery have also been overcome through proper inventory control for parts and unpainted furniture. The CFEs are also no longer bound to operate only in their village. Two of the CFEs moved their sawmills and constructed a factory outside of their community for better air-drying of sawn timber and lower transportation costs. Another CFE plans to move their assembly and painting lines to the City of Oaxaca for higher finishing quality<sup>8</sup>, easier recruitment of qualified personnel and logistical cost advantages. These efforts clearly indicate that their business no longer relies on the advantages from cheap lumber. Instead of overlooking weaknesses in the name of a social cause, these CFEs solve problems for customer satisfaction.

Interfactory collaboration under ICOFOSA has already been implemented in some areas. There is a shared 15-day delivery policy. The factories have reduced costs through joint bulk procurement of raw materials such as paints, screws and canvas. The color tones for finishing were unified across the three factories by taking advantage of capacity building offered by a paint supplier. The color unification widened the customer's choices because the furniture produced by different CFEs can now be coordinated. This decision was an important step toward establishing a solid brand image. The three CFEs also now jointly prepare their annual design revision proposal to one major institutional buyer.

Further collaborations will potentially reduce cost and improve product quality. For example, one CFE has been providing the glue-laminated boards for tabletops to another CFE. However, these boards are often stained with mildew partly because of improper

logging operations and partly because there are different quality control criteria applied in the different CFEs. These boards are also prone to cracking because there is inconsistent kiln drying at the sawmill. These problems can be solved through close interfactory coordination. The unification of a costing system and the introduction of activity-based costing is another potential area for collaboration. Accounting information is not currently used for analysis beyond the tax payment purposes. Inventory and accounts receivable controls and the strategic use of value chain financing, such as factoring, are also common agenda items to be tackled. Last, strengthening liquidity and reducing the cost of financing would improve profitability.

Each factory has different machinery and, thus, unique advantages and disadvantages. One factory may also have excess capacity when the others are short of capacity. Coordinated product development at the ICOFOSA level and the launch of a single, unified production system based on interfactory role division would optimize production capacity and the unique advantages of each factory and minimize costs.

The actual implementation of these potential initiatives, however, depends on the leadership of managers and community leaders. ICOFOSA has had limited authority regarding what each factory produces. Even professionally appointed managers in these CFEs do not necessarily have jurisdiction, administrative authority or the job security to guide the direction of the firm as “the CEO.” It would be an epoch-making event if these three independent CFEs could achieve operational integration and interfactory role division in pursuit of business excellence.

Unfortunately, many of the CFEs in Peten are not actively striving for change. These CFEs still maintain a business model that is overly dependent on the value of mahogany. Their efforts to strengthen the timber business through the increased production of LKSs are minimal despite the structural limitations of the current business model. Nevertheless, some CFEs are actively diversifying business into ecotourism, *xate* (*Chamaedorea spp.*)

production, furniture or door production, and so on. These new initiatives are generally carried out by individual CFEs, and strategic coordination at the second-tier level is relatively limited.

Unfortunately, FORESCOM's limited credibility keeps the first-tier CFEs from strategically using their relationship with it. The donor-led foundation of FORESCOM blurred the corporate vision and weakened producer agency among the first-tier CFEs. There are challenges where FORESCOM could take the initiative, including the stabilization of annual mahogany production volume through the re-division of logging plots, the marginal costing of logging operation, the consolidation of LKSs' volume across the different CFEs, the collection and dissemination of international timber price information, and the change of the commercial names of the LKSs to be in accordance with the names commonly used in the international market. However, these initiatives are not currently being considered by FORESCOM.

### 3.9. Conclusion

This study examined the efforts of CFEs toward product improvement and customer satisfaction as well as their lingering sell-what-you-have mentality. The CFEs traditionally give marketing short shrift. They often maintain a producer-oriented modality, in part due to weak professionalism and in part due to trade-offs made as a social enterprise. Buyer interviews revealed that many CFEs do not meet the bottom lines in terms of prices, product quality, volume and services. Customer opinions toward these businesses are generally negative. The CFEs must learn what products and services their competitors offer and why buyers choose the competition. The CFEs also have to objectively know their own business and products first to be chosen.

Many customers are quite supportive of the CFEs and appreciate their social and environmental attributes as a competitive advantage as long as the CFEs offer quality

products and services. Emerging economies have a growing middle class. The hometown or patriotic consciousness and the environmental awareness of this middle class are opening up new markets for high-end consumer products for the CFEs. However, commodity timber or the semifinished wood products produced by the CFEs do not usually fetch a price premium because the social and environmental attributes of these products are barely visible to the final consumers and because those who actually make the purchase decisions are very cost conscious. Nevertheless, forest certification may be required for entering niche markets for premium timber and for ensuring adherence to regulations.

The vertical integration of retailing, timber brokering or timber processing function through the second-tier CFE does not necessarily generate improved profit. Donors pushing the idea of adding value by the CFEs through a group approach may not be free from pro-CFE biases. These donors might be underestimating the required professional capabilities and the real cost of transactions. Difficulties in controlling costs of processing, marketing, retailing and overall business administration compromise the benefits from acquiring additional functions in the value chain. The vertical integration calls for rigid business planning and financial foresight that may be beyond the capability of the general business support services handled by the nonspecialized development NGOs. Continuous cost reduction efforts and well-focused marketing are becoming more and more indispensable.

## References

- Arnold, M. (2001). *Forest and people: 25 years of community forestry* (pp. 134). Rome, Italy: FAO.
- Arnold, M. (2002). Identifying links between forests and poverty. *Discussion paper presented at the ECT/IIED Forestry and Poverty Reduction Workshop, Edinburgh, UK, 13 June, 2002*, 6 p.p.
- Bass, S., Thornber, K., Markopoulos, M., Roberts, S., & Grieg-Gran, M. (2001). Certification's impacts on forests, stakeholders and supply chains. *Instruments for sustainable private sector forestry series*. (pp. 134). Retrieved from <http://pubs.iied.org/pdfs/9013IIED.pdf>
- Clay, J. W. (1997). Chapter 8: Business and biodiversity - rain forest marketing and beyond. In N. C. Vance & J. Thomas (Eds.), *Special forest products: Biodiversity meets the marketplace* (pp. 122-145). Washington, D.C.: U.S. Department of Agriculture, Forest Service. Retrieved from <http://www.fs.fed.us/pnw/pubs/gtr63/gtrwo63h.pdf>.
- Donovan, J., Stoian, D., Macqueen, D., & Grouwels, S. (2006). The business side of sustainable forest management: Small and medium forest enterprise development for poverty reduction. *Natural Resource Perspectives*, 104 (December 2006), Overseas Development Institutes.
- Drucker, P. (1990). *Managing the nonprofit organization: Principles and practices*. New York: HarperCollins.
- FAO. (2000). Proceeding of the international workshop on community forestry in Africa - Participatory forest management: a strategy for sustainable forest management in Africa Retrieved from <ftp://ftp.fao.org/docrep/fao/006/x7760b/>
- Farrington, J., & Mitchell, J. (2006). How can the rural poor participate in global economic processes? *Natural Resource Perspectives*, (103), 6. Retrieved from <http://www.odi.org.uk/resources/download/35.pdf>
- Lecup, I., & Nicholson, K. (2000). *Community-based tree and forest product enterprises: Market Analysis and Development*. Rome: Food and Agriculture Organization of the United Nations.

- Macqueen, D., Dufey, A., Gomes, A. P. C., Nouer, M. R., Suárez, L. A. A., Subendranathan, V. et al. (2008). Distinguishing community forest products in the market: Industrial demand for a mechanism that brings together forest certification and fair trade. Small and Medium Forestry Enterprise Series No. 22, Retrieved from [http://www.rightsandresources.org/documents/files/doc\\_579.pdf](http://www.rightsandresources.org/documents/files/doc_579.pdf)
- Mayers, J., & Vermeulen, S. (2002). *Company-community forestry partnerships: From raw deals to mutual gains? An international review with proposals for improving forests, enterprise and livelihoods*. London: International Institute for Environment and Development.
- Molnar, A., Liddle, M., Bracer, C., Khare, A., White, A., & Bull, J. (2007). Community-based forest enterprises in tropical forest countries: Their status and potential in tropical countries, *ITTO Technical Series #28* (pp. 73). Retrieved from [http://www.itto.int/direct/topics/topics\\_pdf\\_download/topics\\_id=37100000&no=1&disp=inline](http://www.itto.int/direct/topics/topics_pdf_download/topics_id=37100000&no=1&disp=inline)
- Poffenberger, M. (2000a). Communities and forest management in South Asia: A regional profile of the working group on community involvement in forest management Retrieved from <http://www.asiaforestnetwork.org/pub/pub29.pdf>
- Poffenberger, M. (Ed.). (2000b). *Communities and forest management in Southeast Asia: A regional profile of the working group on community involvement in forest management*. Gland, Switzerland: IUCN.
- Stoian, D., Donovan, J., & Poole, N. (2009). *Unlocking the development potential of community forest enterprises: Findings from a comparative study in Asia, Africa, Latin America, and the United States*. Paper presented at the XIII World Forestry Congress, Buenos Aires, Argentine.  
<http://www.catie.ac.cr/BancoMedios/Documentos%20PDF/development%20potential%20of%20cfe%20-%20stoian%20et%20al%202009.pdf>

## Notes

---

<sup>1</sup> More information on ICOFOSA and FORESCOM is available on the following websites, respectively: <http://www.tipmuebles.com> and [http://www.acofop.org/forescom\\_en\\_el\\_2011.html](http://www.acofop.org/forescom_en_el_2011.html).

<sup>2</sup> ICOFOSA opened a new branch in Puebla in 2011.

<sup>3</sup> Two additional CFEs joined a year later. Therefore, 11 out of 13 major CFEs in Peten are affiliated with FORESCOM.

<sup>4</sup> Pueblo Mancomunados, Ixtlán de Juárez, Santiago Textitlán (Oaxaca), AFISAP, Cruce a la Colorada, Árbol Verde, Uaxactún, CUSTOSEL, El Esfuerzo, Impulsores Suchitecos, Laborantes del Bosque, Carmelita, Unión Maya Itzá, and La Técnica (Peten).

<sup>5</sup> “Shoppers” are customers who visit the TIPMUEBLES stores. “Purchasers” are those who actually purchased TIPMUEBLES products in the past. The survey to the former was carried out at the two stores. The survey to the latter was carried out through telephone calls using the ICOFOSA customer database.

<sup>6</sup> The capacity of a container depends on the density of timber. In the case of *manchiche*, the capacity is approximately 7,000 bf.

<sup>7</sup> The questionnaire survey indicated that most shoppers are relatively affluent, for example, specialists, teachers, government employees and entrepreneurs.

<sup>8</sup> The current factory in the community is located in a cold and wet climate. In the warmer and drier climate of Oaxaca paints dry more quickly and better.

#### 4. Social Enterprise Without the Entrepreneur? – Social Entrepreneurship and Collective Corporate Governance in Community Forest Enterprises

##### *Abstract*

Community forest enterprises (CFEs) have benefits and drawbacks as social enterprises. They are often established because of political incentives rather than market opportunities and do not necessarily demonstrate entrepreneurship. This article presents the results of a qualitative study of CFEs in Mexico and Guatemala that included semistructured interviews with 125 informants, including CFE personnel, buyers, officials of government institutions and NGO professionals. The study shows that successful CFEs gradually adopt standard business practices. It is important to facilitate internal debate in the community in order to maximize positive social capital, minimize negative social capital and accelerate entrepreneurial development.

Key words – community forestry enterprise, collective social entrepreneurship, social capital, Central America, Mexico, Guatemala



#### 4.1. Introduction

Community forestry (CF) facilitates the sustainable use of forests and has reduced deforestation in many parts of the world (Arnold, 2001; FAO, 2000; Poffenberger, 2000a, 2000b). However, community forest enterprises (CFEs) have had mixed results in terms of commercial viability (Molnar et al., 2007; Stoian, Donovan, & Poole, 2009). Juan Manuel Torres Rojo, the Director General of the Forestry Department of Mexico, states: “In terms of economics, community forestry doesn’t make much sense.... But in terms of equity, and perhaps conservation, it’s the way to go” (The Economist, 2010, September 23).

CFEs usually take a long time to become independent. Stoian et al. (2009) suggest that CFEs require two to four decades to mature. CFEs generally agree with and are unconcerned by this presumed timeline. However, value chain actors in the private sector, such as buyers and commercial banks, often assume that a new business including CFEs should grow steadily and become profitable within three to five years. There is a clear gap between the given understandings of these actors and an obvious need for a faster CFE development process. However, little research has addressed this critical issue.

CFEs are often established as a result of political incentives rather than market opportunities; they therefore do not necessarily demonstrate entrepreneurship. Unfortunately, the business challenges encountered by CFEs as social enterprises have not been sufficiently analyzed. Required collective entrepreneurship has not been extensively examined, although a better understanding of this dynamic may lead to practical shortcuts in the CFE development process.

#### 4.2. Study Context and Purpose

This article presents the results of a study of the competitive strategies of CFEs realized with the leverage of two second-tier CFEs: ICOFOSA (*Integradora Comunal Forestal de Oaxaca S.A. de C.V.*) in Oaxaca, Mexico and FORESCOM (*Empresa Comunitaria de*

*Servicios del Bosque S.A.*) in Peten, Guatemala<sup>1</sup>. For the purpose of this study, the author defines a second-tier CFE as “an enterprise which is directly or indirectly (e.g., through capital investment) governed by a group of CFEs for the purpose of promoting their business.” These cases were purposefully selected because of the exploratory nature of this study and its emphasis on theorizing. Mexico and Guatemala are at the vanguard of CFE development in the timber business. Second-tier community enterprises in the forest sector are still rare in the tropics, and these two cases are among the few global benchmark initiatives.

ICOFOSA was established by indigenous forest communities in 2006. Three first-tier CFEs producing furniture joined forces to launch a retail business under their joint brand “TIPMUEBLES.” ICOFOSA ran two stores in the city of Oaxaca during the time of the field study. FORESCOM was established in San Benito in 2004 as an umbrella organization over nine CFEs<sup>2</sup> with the aim of providing services related to forest management consultancy, timber brokering, wood drying, the processing of lesser known species, and machinery rental services.

The field study was conducted between October 2009 and August 2010. Semistructured interviews were conducted with 125 informants from within and outside the value chain, and a questionnaire survey was orally conducted with final consumers (120 respondents, ICOFOSA case only). The informants include executives and key staff at ICOFOSA and FORESCOM, members of 14 first-tier CFEs<sup>3</sup>, product buyers, government officials and service providers from NGOs. These informants were identified through a snowball sampling method.

This article is part of a larger study that aims to examine the competitiveness of CFEs from three angles: (a) socio-economic aspects, (b) policy aspects, and (c) business aspects. This article discusses the first issue, socio-economic aspects. The author first attempts to define the CFE as a social enterprise and addresses the following research questions:

1. How does collective entrepreneurship emerge in CFEs?
2. How do CFEs balance business and social norms?
3. How do different kinds of social capital affect entrepreneurial development?

This article also examines the way collective social entrepreneurship is practically articulated in dynamic competitions.

#### 4.3. Entrepreneurship and Social Entrepreneurship

The concept of “entrepreneurship” is well developed in economic and business studies. The Say-Schumpeter tradition emphasizes that entrepreneurs create value through the efficient allocation and use of resources and innovation. Drucker and Stevenson expanded the concept, emphasizing that entrepreneurs also search for change and respond to it as an opportunity rather than a problem. Entrepreneurs are not bound by the tangible resources they currently controls (Dees, Economy, & Emerson, 2001). While traits such as “innovation” and “risk taking” are often associated with entrepreneurship, they are not decisive factors (Schoof, 2006).

Although the concept of “social entrepreneurship” is gaining popularity, it means different things to different people. To one group of researchers, the concept refers to the phenomenon of applying business expertise and market-based skills in the nonprofit sector (Austin, Stevenson, & Wei-Skillern, 2006). To others, social entrepreneurship refers to the socially responsible practices of commercial businesses (Sagawa & Segal, 2000; Waddock, 1988 cited in Mair & Martí, 2006). Yunus (2010) also identifies a profit-making company owned by poor people and dedicated to a predefined social cause as one type of social enterprise. Despite these differences the fundamental trait of a social enterprise is its orientation toward a social missions. In this article, the author uses the following definition provided by the Schwab Foundation (quoted in Grenier, 2006) to discuss social entrepreneurship within a CFE:

Social entrepreneurs create social value through innovation and leveraging financial resources. They transform groups, organizations, or institutions. Social entrepreneurs take risks, they act courageously, they pursue new ways, and they are engaged and committed to create social value, to serve society, particularly the poor and marginalized. (p. 128)

Most studies of social entrepreneurship, emphasis clearly focus on the individual rather than the collective (Spear, 2006). A number of studies emphasize individual traits when examining what is required to be a social entrepreneur. A typical paper involves a heroic entrepreneur who tackles a social problem from a new angle. Such an individual mobilizes limited resources and leverages them through innovative ideas and networking. Although several competing theories are proposed to study the emergence of a lone entrepreneur (Chiles, Low, 2001; Phan 2004 cited in Chambers, 2007; Schoof, 2006), few studies address how “collective” entrepreneurship emerges. Studies of collectively owned social enterprises from the perspective of entrepreneurship are surprisingly rare<sup>4</sup>.

#### 4.4. The CFE as a Social Enterprise

CFEs have many of the traits of social enterprises, but few studies have examined the extent to which social entrepreneurship is required in these organizations. CFEs share many of the same managerial characteristics as social enterprises, which aim to create jobs for a disadvantaged target population such as homeless people or former drug addicts. It is critically important to recognize that these organizations face special challenges that for-profit enterprises do not face. These social enterprises strive to achieve a balance between two distinctive goals: profit making and serving the target group. In the case of a CFE, the target group is, in a broad term, the community in which it belongs. A CFE has to satisfy those who buy its products as well as local community members.

In the Mexican CFEs examined in this study, the communal authority functions like a parent nonprofit. Along with their sister community enterprises, the CFEs are managed under the auspices of the *Comisariado de Bienes Comunales* (Commission of Community Resources). This communal authority offers a variety of social service programs that invest the revenues from the community enterprises. These programs include the free supply of drinking water and electricity, construction of local infrastructures, and provision of medical services and pensions.

Profit making is often treated as a means to allow the firm to stay “in the black”. The firm exists to pursue its social missions. However, a number of successful social entrepreneurs admit that “a company’s social mission is usually way down the list of priorities when a customer buys a product or service” (Portis & Majeska, 1999, p. 65). They posit that social enterprises need to continuously invest and strive to stay competitive. They argue that growth is always desirable and should only be questioned when it jeopardizes or no longer furthers the organization’s social mission (Majeska, 1999). Therefore, there is often a value conflict between profit maximization and “the cause” (Flannery & Deiglmeier, 1999a). These two orientations cannot be simultaneously maximized, and the conflict therefore poses a dilemma to the manager. Because employees are the ultimate stakeholders, this type of social enterprises tends to suffer from a chronic tension between job creation and cost control. For example, a manager at a CFE in Peten admits that he would have fired many excess workers to cut costs if the CFE were his private firm. This CFE has never made a significant profit because it maintains an inflated payroll because of popular pressure even when demand for its products is low.

CFEs have similar characteristics as “employee-owned” firms<sup>5</sup>. Hansmann (1996) argues that employee ownership works best when the employee-owners are homogeneous, such as in cooperatives of taxi drivers. Employee ownership is most viable where either no important conflicts of interest exist among the employee-owners or some simple and

uncontroversial means are available to resolve the conflicts. The viability of employee ownership is severely compromised when the employees who share ownership play diverse roles within the firm and consequently will be differently affected by important decisions. The ownership of CFEs is usually in the hands of both employee and nonemployee community members, and these two groups are affected quite differently by employment and wage policies. Because of these diverse interests, making everybody an owner increases the costs of collective decision making enormously, which puts employee-owned firms at a disadvantage relative to investor-owned firms, in which owners generally share a single well-defined objective of maximizing the net value of the firm's earnings. In investor-owned firms, stockholders' control aids in policing the management to focus on profit maximization; employee-owned firms do not have this level of control. Instead, employee-owned firms may offer benefits to labor to the detriment of product prices. Thus, employee-ownership is advantageous for workers, but may be disadvantageous for other stakeholders such as the firm's consumers and investors (Hansmann, 1996).

Because of the lack of separation among the beneficiaries, the management and the owners, the manager of a CFE is under different hiring pressures than the managers of other businesses. Unlike nonprofit social enterprises, in which the distribution of profits to shareholders is not allowed, in CFEs, the community members as the "owners"<sup>6</sup> are entitled to dividend payments. Thus, building consensus— for example, increasing employment to create jobs versus streamlining it to produce higher dividends —becomes even more difficult. The management of a CFE in Peten planned to propose seasonal lay-offs for employees and some managerial staff to cover deficits, though the management was not confident that the proposal would pass the community assembly. In another less mature community, members solicited Christmas bonuses while their CFE was in deficit, urging the management to obtain a loan from private lenders.

Social enterprises often suffer from low skilled labor and do not have the option of externalizing the costs of capacity building by simply hiring only the best candidates; private enterprises take this option for granted. Hiring the target group, even if they have suboptimal skills, is part of the mandates of a social enterprise, and it is not easy to fire an employee who has a low level of productivity. It may not be easy to establish a balanced “80/20 mix” in the workforce (Flannery & Deiglmeier, 1999b), that is, hiring 80% of the workforce from the target group and filling key posts on the basis of competitive merit.

There are many other costs associated with social enterprises. CFEs often pay employees wages that are higher than the market rate, inherently causing a higher cost structure. An accountant at a CFE in Peten admits that the preferential employment of community members inflates costs. The daily wage, including social benefits, paid to community members in this CFE is 164.20 quetzales (Q. 164.20), whereas the wage of outside workers is only Q. 73.60. In addition, hiring suboptimal workers means higher social costs and a lower level of productivity, increased waste of materials, increased time spent addressing employees’ personal issues, additional senior management time needed for supervision and an increased employee turnover rate (Gowdy, 2000). Expectations about the provision of a social security net and a focus on communal projects also inflate the total costs.

While a CFE often has a clear orientation toward general social missions, its exact goal may be ambiguous. CFEs rarely define or measure the returns that are supposed to be generated for specific sets of stakeholders or the social and economic functions that are fulfilled or sacrificed. In other words, these organizations have often not clearly defined the meaning of “social value.” It is, therefore, critical for a CFE to reach an internal consensus about what is and is not the core mission of the enterprise. However, dynamic politics within the community may mean that reaching an internal consensus is not an easy task. The

manager often ends up dealing with a difficult tension without institutionalized buffers or sufficient autonomy to make decisions.

The following sections examine the extent to which entrepreneurship plays a role in collective visioning in CFEs and the process in which members of these organizations share the sense of entrepreneurship.

#### 4.5. Emergence of Collective Entrepreneurship in CFEs

##### 4.5.1. *CFE: Social enterprise without the entrepreneur?*

The proliferation of CF since the mid-1970s is in part a reaction to the exploitative extraction of forest resources by external concessionaires and to policies in which the forest was “fenced off” without sufficient consultation with local communities. The emergence of CF is often driven by the desire of communities to gain or regain control of their own livelihoods. The CFEs in Oaxaca and Peten that were examined in this study also emerged through a social struggle. Existing leaders, local experience in forest management and governance, and a sense of crisis against deforestation especially among women often played a critical role in the formation of a communal effort.

Most CFEs begin after a policy change allows the community to make commercial use of the forest; CFEs are sometimes supported by a heavy subsidy provided by external institutions such as NGOs. CFEs are expected to fill the gap caused by the absence of social services through the self-creation of employment and social projects.

Austin et al. (2006) emphasizes that the social value proposition that drives a social enterprise can be materialized only through the well-balanced deployment of people, opportunities and capital. Unlike cases in which a farsighted individual social entrepreneur starts and leads an initiative, few social entrepreneurs were found in CFEs in developing countries. This lack of social entrepreneurs is partly because those who lead the process must practically be from the local community, which often does not have personnel with adequate



expertise in business. CFEs may enjoy several favorable assets such as cheap access to standing trees, the existence of traditional forest governance institutions, exemption from income taxes (in Mexico until 2002), and technical assistance provided by external institutions. However, they do not necessarily have a favorable mix of the three key elements: people, opportunity and capital. In general, CFEs only have forest resources that are endowed by the government authority (capital), some individuals with good leadership skills but little experience in business and people with knowledge about forest use (people), and an unproven market (opportunity). CFEs usually do not have an entrepreneur who knows how to use an innovative approach to accomplish a lot with few resources. CFEs are, instead, led by local leaders with a variety of strengths who are not necessarily knowledgeable about business operations. Personnel in NGOs or GOs who assist CFEs do not always have the necessary business skills either. The initiative is justified by a “rights-based” commitment in the name of the “cause”, but the “pull” of market demand may be missing. The CFE’s agenda is often predetermined with little study of the value chain. A better entrepreneurial approach would start with potential customers, discover what they demand, and then build the business.

In most cases, the business models of CFEs are not particularly innovative. These organizations are simply additional forest enterprises that do not create or satisfy a new consumer demand. CFEs usually begin their business by simply selling what they have. While they lack an entrepreneurial edge, CFEs nevertheless have to cope with the many challenges of social enterprises.

#### 4.5.2. *Rotation of key personnel*

Individuals who occupy key posts in a CFE have an incentive to behave opportunistically, taking advantage of the immature corporate governance framework. These individuals have information that is inaccessible to others and will bare only a small fraction of the cost of their behavior (Hansmann, 1996). A timber buyer in Peten who dealt with

many CFEs observed a tendency among the management (e.g., the president, treasurer, or secretary) to use the enterprise as an economic ladder for personal gains.

The avoidance of usurpation is a crucial issue and one of the first challenges facing CFEs. Commonly, CFEs rotate key personnel such as the manager, treasurer and president of the board of directors every 1 or 2 years. This rotation is a simplest method that facilitates an equitable distribution of employment. Moreover, CFEs often have no separation between the management and the communal authority at this stage. The president of the communal authority directly runs the business in such a case.

Their business grows, often taking advantage of their “cheap” forest resources. They accumulate profits and reinvest it, for example, in their own sawmill. As the business gets more complicated, the CFE faces a problem of insufficient expertise. The technical and administrative requirements are often beyond the capacity of a nonprofessional manager who was politically appointed by the communal assembly. Frequent rotations prohibit the accumulation of experience and knowledge within the enterprise, and cause an unsteady learning curve (Donovan, Stoian, & Poole, 2008). The buyers find that the quality of products and services remains inadequate for years. This rotation also harms the continuity of business policy and hinders long-term planning with the buyers. The customary policy of preferential hiring of community members even when the candidates are not qualified for the jobs limits the organization’s capacity in production, sales and administration. The payroll tends to get inflated under the communal pressure for jobs while sales go down. In addition, CFEs commonly face multiple structural constraints, including high commodity costs (e.g., petrol) in rural areas and a weak infrastructure such as poor roads, telecommunication systems and internet service (Farrington & Mitchell, 2006). These CFEs consequently lose their profit margin, but the high cost structure is left untouched.

#### 4.5.3. *Separation of ownership from the firm's administration*

After years of costly experience some communities gradually come to realize the inefficiency of nonprofessional management. The most fundamental steps and decisive moment in the course of a CFE's development is the replacement of the rotation leadership system with the appointment of a professional manager. However, this process is not easy.

A staff member of the vigilance committee in a community in Oaxaca explains that the organization used to change its community representative every year. Once a person had learned the job he or she was replaced by another who was less knowledgeable. This mode of business did not produce positive results. A president of the board of a CFE in Peten argues that it is not viable for a president to take on the administrative functions of the enterprise because of the limited time available for day-to-day management activities. This role confusion also prevents the board from concentrating on more political and social issues.

A new strategic decision must resonate with wider social norms and values. A staff member on the vigilance committee in a community in Oaxaca explains the difficulty of handling a community assembly with more than 300 people; many people begin by saying "no" to whatever proposal is made and do not give proposals serious thought. Because a lot of effort was required to approve any proposals, the community nominated an executive committee of about 20 people. Any problems were analyzed among a small number of respected people with the assistance of newly contracted professionals such as an accountant and lawyer. Their professional advices gradually changed the mindset of the committee members and consequently that of the rest of the community. The availability of a trusted professional within the community or nearby led some communities in both Oaxaca and Peten to hire that person on the basis of professional merit.

Two of the three studied CFEs in Oaxaca have already established a merit-based open recruitment policy. These communities have defined and divided the roles of the manager and the board of directors (*Consejo de Administración* or *Junta Directiva*) to give the

professional manager a certain degree of independence. Procedures have been established for planning, investing, recruiting key staff and workers, financial monitoring, and auditing, and these procedures provide a basis for accountability toward the board and the community assembly. The manager develops a working plan that includes the recruitment of staff and investment according to strategic needs. The board revises this plan, endorses it for authorization at the community assembly, and monitors the results. After setting aside a certain amount of required capital for reinvestment, the manager deposits profits into an account held by the communal authority. The manager is rewarded or sanctioned depending on the amount of profit or loss. This monitoring and scrutiny of economic performance was not practically applicable when a lay manager was politically appointed and periodically rotated. A staff member on the vigilance committee of one CFE mentions that the community members do not dare to intervene in the activities of the administration, but they are sure to procure and scrutinize information. In this case, the community is interested in the level of profit, and they authorize the manager to hire whoever is best able to achieve this goal. The manager of their furniture factory is not from their village but has extensive experience working in the furniture sector. There is no problem hiring external professionals in key posts so long as they are making a good profit.

The communal authority, on the other hand, concentrates more on social and political issues. They handle various social projects and focus on the equitable distribution of revenues, whereas practical policies and business strategies are elaborated by a group of professionals at the CFE level. The division of roles among the management, the board, and the community assembly is a critical breakthrough required for professional corporate governance. Given the heterogeneity within communities, indirect representation of the employee-owners through the board could have an advantage over more direct forms of democratic control in securing professional management and avoiding high process costs or inefficiently biased decisions (see Hansmann, 1996).

Professional management based on the role division also attracts external institutions such as commercial banks and government institutions. A bank clerk emphasizes that CFEs with a professional administration are more credit worthy. When the community authority puts well-qualified staff in administrative positions to make sure the enterprise stays profitable, banks have the confidence to assist. On the other hand, no commercial bank would become involved in an enterprise in which the community has political disputes or any other risks, even if the community is endowed with rich natural resources.

This new strategic decision must resonate with wider social norms and values, and thus is not always easy. It took 7 years for one CFE to end the manager rotation practice, and 17 years for another CFE to do so. A third CFE still resists external consultants and maintains the manager rotation system. This CFE has had five managers since 2000. While non-rotating professionals are appointed to key posts, all of the candidates must be selected from the community when possible and must be nominated in the community assembly.

The community assembly makes key decisions but may not understand business related issues (Antinori & Bray, 2005). A key staff member of this CFE admits that although their manager has representative power in the community assembly, his position is not operational. The politically appointed manager does not engage in much of the actual administration of the enterprise. Another staff member argues that their manager is not aware of many aspects of the enterprise. The operation is practically impeded by the manager's lack of understanding of the firm's strategic needs, which include the shortage of qualified professionals in key posts. Although they have excellent machinery in the factory, they cannot take full advantage of it. Lay persons have authority over the recruitment of personnel while those who know the job have very limited authority to push their entrepreneurial agenda at the community assembly level. Those who direct the business and those who operate it do not work well together.

The studied CFEs in Peten have been in operation for 10-13 years, whereas those in Oaxaca have been in operation for 30-34 years. Partly because of the shorter history, professional managers are assigned in only one CFE in Peten. Although the availability of community members who are professionally capable is usually limited, CFEs often face resistance against hiring external professionals. Many CFEs prefer employing their own people as much as possible, partly to provide jobs and curb emigration and partly because of simple envy when jobs are lost to outsiders. The employment of outsiders also has drawbacks; local community members are expected to have a higher and longer-term moral commitment to the community compared with external professionals. The assignment of well-qualified community members, if available, supposedly minimizes turn-over among key managerial staff. Some CFEs offer a scholarship to children in the community on the condition that they return to the community and work for the CFEs or other community enterprises, although such an initiative requires time.

A staff member at an NGO commented that one of the obstacles to professional management is an insufficient capacity and willingness among CFEs to pay for professionals. He also mentioned that many CFEs are not sure how to organize and establish sufficient criteria to hire an adequate candidate. They are not aware of the methods used to attract external professionals or to monitor and control their performance. In short, community leaders also have to demonstrate a certain entrepreneurial capacity to hire and control external managers.

A managerial staff member at a CFE in Peten also expressed concern that an external manager may manipulate the administration (e.g., by receiving a kickback from the buyers). His concern is partly due to his lack of experience and confidence in an indirect form of corporate governance. In Peten, CFEs often independently distribute revenues according to the decisions made in the community assembly. Although an authority called COCODE (Committee for Community Development) exists under an auxiliary mayor (*alcalde*

*auxiliar*), this authority does not often exert control over the CFE. The lack of role division between the organization that makes money (CFE) and the organization that distributes the revenues for social purposes (community authority) may hinder the appointment of an external professional manager.

#### 4.5.4. *Limited manager agency under a democratically elected board*

Although a division of labor among the management and the appointment of a non-rotating professional manager is a critical first step, it is still not sufficient to allow entrepreneurship to flourish. Low (2006) suggests that social enterprise governance may be a hybrid of the for-profit stewardship and nonprofit democratic models. The stewardship model is increasingly applied as a nonprofit strengthens its market-based activities and becomes a social enterprise. In stewardship theory, the board members act as agents of the shareholders. Their function is to improve organizational performance with business expertise. As the complexity of trading and demands from the market intensify and an increasing amount of funding is outsourced, the board members of a social enterprise are selected on the basis of their expertise in managing and accumulating assets. On the other hand, a traditional nonprofit is partly evaluated by who is on the board. In a democratic governance model, the board is regarded as a tool of democratic participation. Governance is often the arena in which the legitimate interests of all stakeholders can be considered. Individual expertise is secondary to the claim of representing a particular stakeholder group (Low, 2006).

CFEs are social enterprises with strong for-profit trait. They strive to make profits for their community member owners. However, CFE corporate governance is commonly characterized as a “democratic model”. Questions such as “who participates” (related to who is a member of “the community”), “who determines the agenda”, and “whose interests are being furthered at whose expense” are critical. These are good reasons for CFEs to maintain their democratic leadership model. However, this model is not necessarily optimal for the pursuit of excellence in business.

There is a fundamental difference between the individual social entrepreneurship model in which a visionary social entrepreneur sets the agenda and the collective entrepreneurship model of CFEs in which the agenda is established through dialogue (see Nicholls & Cho, 2006). A typical CFE may have a few visionaries with good leadership skills, but their sphere of influence is usually limited. Often, an individual may be the “president” or “manager” in name only. The head of a CFE does not necessarily have the jurisdiction, administrative authority or job security needed to control the direction of the firm as the CEO. Even a professional manager free from regular rotation can be replaced easily if his or her policies are deemed to be too different from the prevailing norms in the community. Unlike investor-owned firms, the expectations of community members do not easily converge into a single objective of profit maximization, even after the separation of administration and ownership. It is questionable whether “lay” community board members alone can effectively supervise the business. At best, the board of a typical CFE acts as a “trustee” of the resources rather than a “promoter” of entrepreneurship (see, Stevenson & Gumpert, 1985). These CFEs rely on resources under their immediate control rather than trying to leverage external resources through innovative partnerships. They embrace the status quo and tend to see only short-term issues. They do not anticipate or face inconvenient changes in demands. Employee-owners tend to buffer the management from customers’ voices. To make things worse, various form of “subsidies” provided by NGOs and government agencies may further insulate a CFE from the punitive discipline of the market (see Austin, et al., 2006). Relations with donors also deprive the CFE staff of precious time, and this lost time could otherwise be devoted to truly entrepreneurial activities.

Recruiting and retaining a professional manager, either internally or externally, cannot be taken for granted. Externally recruited professionals tend to leave the firm relatively easily for a better opportunity when they feel that their activities are irrationally hindered or when they are not professionally supported. However, the professional staff member’s moral



commitment is often taken for granted by the board and the rest of the community. Professional support is often insufficient when the management must be challenged, ideally by professionals from a third party. Somebody must ask the management difficult questions, review decisions and supply financial foresight. However, the nonprofessional board alone has too limited of an ability to provide such support. A professional manager of a CFE internally recruited by his community complained that he sometimes feels lonely because many colleagues have already left the firm for better opportunities, and the human relationships in the community are sometimes difficult. It is a complicated task to be a managerial staff member at a CFE.

#### 4.6. Balancing Business and Social Norms

##### 4.6.1. *Influence of local norms and idiosyncrasy over performance*

Strong ties among local people enable them to join together. Without such cohesion, community-led initiatives like community forest management would be more difficult. However, village conventions often lead to a producer-oriented culture to the detriment of customer values. Community members often resist merit-based employment policies in order to guard their own employment. Too strong ties among local people may exclude external personnel despite the lack of local expertise. The community cannot take advantage of “the strength of weak ties” (Granovetter, 1973). One member of the community authority in Oaxaca admitted that it is difficult to find personnel with sufficient professional experience in their own community. However, they cannot easily hire external professionals because of the strong opposition of the assembly. A key staff of the CFE explains that his community is idiosyncratically envious of their assets and does not allow outsiders to manage their resources. Community members, for their part, have to show their “moral commitment”. He explained that he is not at liberty to leave the enterprise because he was nominated by the assembly. Many people work against their wishes because it is almost obligatory to show

moral commitment to the community. While they are motivated and proud to work because the enterprise belongs to the people, they feel lonely at the same time. Nevertheless they do not publicly show such feelings. Some stay and work in the factory even though they are sick, and others feign illness.

The lifestyle of community members also influences a CFE's performance. One member of the community authority mentioned that many community members are farmers who work a variety of jobs rather than dedicating themselves to only one job. These individuals may work in the firm for just a fortnight or two, and the CFE suffers from high rate of rotation among personnel. In the factory, 20-25 individuals begin working every year, and 20-25 individuals leave every year; the factory has a total of only 35-40 employees. The CFE has ended up hiring more non-community members than community members, while managerial posts are kept only for the community members. The workers who stay for a certain period of time occupy key operational posts such as the heads of production lines. Yet, many of the workers are not fully qualified because of their limited period of employment (which averages from 8 months to 2 years). The high rate of rotation makes capacity building difficult, and it is difficult for the factory manager to have workers register information that is indispensable for monitoring costs and controlling the production process. Additionally, it is not easy to introduce disciplines at the factory. A key staff member of the same firm complained that many workers are not accustomed to working under the rules. They say, "How can you force me to obey the timetables? I am an owner, too."

The factory manager of another CFE commented about the traditionally poor approach to work that is common among local people. The CFE cannot reach its full potential because of the mentality of the people and the habits and customs that remain strong in the community. For example, workers do not come to the factory even when there is a *fiesta* in another community. Another managerial staff member at this CFE points out that workers do not really understand for whom they are working. The rank and file have little awareness of

their role in a larger team. It is difficult for these workers to recognize that working hard and pursuing profits eventually benefits them partly because the CFE's business is already too large<sup>7</sup>. Some employees who are the heads of production lines are concerned with profits, but there are others who just complete the production plan given from above like a robot. They do not dare to go extra miles. They stay eight hours in the factory and that is it. When they are asked to do something extra they ask how much extra they are going to be paid.

It is also important to note the influence of socio-economic issues such as emigration. A factory manager of a CFE stated that those who are educated and have the ability often emigrate. Others stay, and it is very difficult to train them. Once they have learned a bit they leave the job. All of the CFEs in Oaxaca that were studied have placed their factories outside of the community or plan to move a part of the factory partly to increase the ease of procuring quality labor.

#### 4.6.2. *Influence of poor forest governance over corporate governance*

Especially in immature CFEs, community poverty and a relatively low level of education and literacy can lead to irrational claims for inflated job creation, dividend payments and social assistance. Some community members see the CFE as an infinite source of communal funds. Downward leveling norms and power games can seriously hinder entrepreneurial development. For example, a member of one community recalled that some community members would enter the forest to open a firebreak at 8 a.m., leave the site at 10 a.m. without finishing the task, and still demand a wage for the whole day. Money would be wasted from the lack of control and the operation did not progress.

Immature CFEs are also affected by the influence of poor forest governance. The culture of impunity prevailing in Guatemala since the civil war has become a breeding ground for poor administration and corruption, threats of violence, cronyism and lax labor control in some CFEs. Some community forest concessions have been canceled because of the uncontrolled deforestation induced by external ranchers and corrupt government officials.

One surviving concession in the affected area is still struggling to recovery from the accumulated debt caused by corruption.

When community members do not fully trust the management, for example, because of the historical control of the enterprise by a limited number of families, it is difficult for the management to convince community members of the need to streamline the payroll. If the community members are concerned that the generated profit might disappear in one way or another, they will logically resist the proposal.

#### 4.7. Influence of Social Capital on Entrepreneurial Development

##### 4.7.1. *Social capital as embeddedness*

Social capital– “the ability to secure resources by virtue of membership in social networks or larger social structures” (Portes & Landolt, 2000, p. 532) –is a key driving force behind community forest management. Although social capital sets widely accepted norms that enable collective actions, it has both positive and negative aspects (Portes, 1998; Portes & Landolt, 2000). A high level of “embeddedness” (Granovetter, 1985; Mair & Martí, 2006; Woolcock, 1998) may impede the ability to adapt to changing circumstances (Fedderke, De Kadt, & Luiz, 1999) and inhibit key individuals from leading a process of transition from the culture of trusteeship to the culture of entrepreneurship. Embedded local norms can often surface and decrease the competitiveness of a CFE. These norms include the rejection of external professionals and excess claims for inflated employment. Downward leveling norms sometimes condone low performers. There is often a mentality that the management finds a way to keep underperforming workers so long as the workers are “nice” at the management. However, this model is not sustainable (see Boschee, 2006).

##### 4.7.2. *Creative destruction of social capital to overcome trade-offs*

To develop a competitive CFE, the initial benefits of intensive intracommunity integration must give way over time to allow for extensive extracommunity linkages such as

value chain level collaborations and the open recruitment of well-qualified professionals (see Woolcock, 1998). These linkages are critically important considering the limited professional support provided by the nonprofessional board. “All forms of social capital are not equal – and certainly some forms of social capital are more suitable for the purposes of economic development than others” (Fedderke, et al., 1999, p. 739). CFEs must forge and maintain linkages internally as well as externally in order to optimize positive social capital while minimizing negative social capital in a way that:

- (i) The economic and non-economic claims of community members can be resisted when they undermine (or threaten to undermine) the group’s economic viability;
- (ii) Entry to more sophisticated factor and product markets can be secured; and
- (iii) Individuals of superior ability and ambition within the business group itself are able to insert themselves into larger and more complex social networks.

(Woolcock, 1998, p. 175)

Social entrepreneurs in a CFE must lead a dynamic effort to change the rules of the game. This process invokes Schumpeter’s notion of the “creative destruction” of social capital. In the studied CFEs, the separation of the firm’s administration and the control function allowed a situation in which well-qualified professionals set the entrepreneurial agenda whereas local community members set the social agenda and determine the ways in which the revenue is invested.

For CFE leaders, social capital is the set of social relations that enables or disables entrepreneurs to gain, maintain or expand access to markets, professional resources, raw materials, credit, licenses, and new designs (see Knorringa & van Staveren, 2006). Social capital should help reduce transaction costs, reinforce collective action, and broaden learning spin-offs. What, then, is the functional impact of prevailing social capital? What is the right

social capital to target to increase positive effects and to minimize negative effects? What is the right consequence of the targeting?

Entrepreneurial norms that are externally induced (e.g., by the leverage of financial assistance) may not resonate with wider social norms and values and may be unsustainable if they are at odds with the prevailing norms (Fedderke, et al., 1999). In essence, social entrepreneurs disrupt embedded norms and structures in one way or another. Therefore, social entrepreneurship does not necessarily enjoy cognitive legitimacy in local society.

However, change is not necessarily bad or unfeasible. What counts is the local community's own agency toward change. Even most traditional communities are based on internal pluralism, and each individual may be exposed to different external commercial activities. Communities also have internal tensions and are just as unbalanced, and therefore, as dynamic and bound to change as any other culture. The promotion of internal debate is a key means of enabling people to determine the best possible alternatives, even if they are unwilling to question well-established cronyism or practices such as lax employment policies and managerial rotation. The practical challenge is bringing people together to progressively face inconvenient realities and accept discussion (see Hountoundji, 2001).

CFEs usually begin by selling standing trees. The first challenge is having people learn the basic "law" of the market: "Do not push what you have. Sell what buyers demand in a way which is convenient for them". This first move already necessitates a certain entrepreneurial awareness among community leaders. An analysis of the strengths and weaknesses of prevailing social norms would be a starting point for external interventions. Negative social capital sometimes inhibits or delays key innovations. It is necessary to make both the strengths and weaknesses of strong ties explicit to the community. External interventions should emphasize that the leadership skills required to organize a community are different from those required to run a profitable business. Healthy CFEs require both sets of skills; the former are required at the community level and the latter are needed at the CFE

level. A clear division between community and enterprise governance is a fundamental factor for entrepreneurial development that has also been observed in other CFEs in Mexico (Bray, Antinori, & Torres-Rojo, 2006). Capacity building among board members, including representatives of the communal authority, may be required to raise entrepreneurial awareness and establish systems that allow an entrepreneur to make decisions for business excellence free from communal politics. This is a key aspect of merit-based entrepreneurial administration.

While the community accumulates capital to upgrade the business, internal debate should be promoted to address the major trade-offs required of social enterprises. First, the community must establish a labor policy and reach agreement about the relationship between job creation and cost control: “Labor should not make claims which undermine the firm’s economic viability for long term survival”. Second, the enterprise should establish a benefit distribution system at the community level: What benefits should be generated for what sets of stakeholders, and which social or economic functions are fulfilled or sacrificed in what ways? Third, the community must establish a system of checks and balances for corporate governance, including regular planning, reporting, monitoring and auditing. As the business grows, management and the community authority must face often inconvenient realities and must address these issues to survive challenges such as changes in demand, price fluctuations, insufficient expertise, and resource depletion. Internal constraints should be made explicit so that the community can allow the management to suggest alternative options. The need for non-rotating professional management personnel should be promoted. This transformation can be practically catalyzed by connecting the community to professional resources in the context of addressing systemic constraints at both the internal and value chain levels.

Social entrepreneurs who lead such a challenging balancing act are nurtured in a long course of commercial activities. The transformation may involve power games as highly

political issues of benefit distribution are addressed. As a result, this change may take years to accomplish. However, dynamic competitions in the contemporary market do not allow for decades-long maturation processes. Strategic external interventions focused on this transformation are needed to accelerate CFE development.

#### 4.8. Entrepreneurship in Dynamic Competitions

Clear administrative procedures and regular monitoring have enabled professional management. The open recruitment of professionals is promoted, so the manager can assure a work force of the required quality and can introduce new entrepreneurial ideas. Some CFEs even intentionally invite promising managerial staff from their competitors. A member of the board of ICOFOSA described how the organization had many personnel changes when it began. The business learned by doing, but that learning cost them. Now, the organization is looking for personnel who know the job, can bring in outside experience and who are more aggressive in sales. An externally recruited factory manager of another CFE stated that the firm had a “vice of having timber”. The timber did not cost much, and given this low price, the enterprise did not add much value to the furniture that they produced. The firm brought him in to rectify the situation and to manage the inventory.

The strategic recruitment of professionals gradually raises awareness among the workers about the importance of customer satisfaction, cost reduction and profit making. These professionals develop networks within the industry, partnering with suppliers and buyers despite the traditional distrust toward private forest industries held by many community members. They are also engaged in political alliances related to forest and taxation policies. These new linkages allow the managers to develop opinions about the future direction of the business.

Dynamic competitions challenge the old mentality and modality in corporate management and demands innovative solutions. Various new initiatives have been



considered or carried out not only at the firm level but also at the ICOFOSA level, including interfactory role division and collaboration in production, joint procurement of raw materials, product design for cost effective manufacturing, unification of product specifications, unification of costing method, coordination in the development of new products, quality control, and inventory control. Many of these changes require a basic understanding of MBA-level concepts among the leaders. A manager of one CFE explains that the company's growth prospects will be improved through the consolidation of the production process among the three CFEs; this consolidation considered the advantages and disadvantages of each factory. On the other hand, a staff member at ICOFOSA argues that no true entrepreneur has yet emerged who can unite the different cultures of the three CFEs with a clear vision and strong leadership. With many heads the joint initiative may get lost.

Less advanced CFEs in Peten also face the challenge of uncertain markets. Their business models, heavily subsidized by the high price of mahogany, are threatened following the 2008 global economic crisis and the decline in prices. Even seemingly simple initiatives, such as the commercialization of lesser-known species, require a long-term collaboration with buyers to consolidate the fluctuating inventories of different community concessions.

The slow adaptation of professional management among CFEs in Peten reflects their relatively weak awareness of the crisis posed by rapid changes in the market. Few community members have the professional qualifications needed to maintain the CFEs. Weak entrepreneurial awareness among community leaders delays the separation of CFE management from the communal authority, and, unfortunately, the corporate governance system of many of these CFEs remains immature.

#### 4.9. Conclusion

CFEs are often created as a result of political efforts rather than consumer demand. What it takes to run a social enterprise has rarely been questioned. CFEs often suffer from a

lack of strategic vision due to: (a) vaguely defined social value propositions, (b) unqualified staff, (c) insulation from market discipline caused by employee ownership, (d) an immature corporate governance structure and mechanisms, and (e) limited external linkages with other value chain actors. These are the critical factors behind the mixed economic results of CFEs.

A CFE cultivates collective entrepreneurship through interaction with external social networks on the foundation of well-defined corporate governance system. A successful CFE and its community gradually accept changes that improve the business. The key steps needed to establish a profitable and sustainable business include the separation of the CFE management from the community authority, the replacement of a managerial rotation system with professional managers, and the establishment of a transparent mechanism to allow for the effective control of the management by the community authority.

Balancing the often conflicting business and social norms is a key challenge for many CFEs. Cronyism, frequent employee turnover, emigration, and lax labor control could seriously hinder entrepreneurial development. Many CFEs still rely on a managerial rotation system because of insufficient confidence in corporate governance. They also tend to maintain an inflated payroll in the name of job creation despite the resulting high cost structure and lower competitiveness.

Bonding social capital is a fundamental way of bringing people together. However, it should give way to bridging social capital as the business grows. If internal cohesion is too strong, it may lead to the rejection of external ideas and professional resources. A transformation toward a merit-based business administration system could be induced to optimize positive social capital and minimize negative social capital. Iterative internal debate is indispensable in the effort to overcome the major trade-offs of a social enterprise.

CFEs should not let their internal problems compromise customer values. Entrepreneurs in the private sector are working hard to compete and aggressively dedicate

themselves to improving their products and services, lowering their costs and fine-tuning their logistics and distribution.

This article attempts to define CFEs as social enterprises and to clarify the entrepreneurial challenges of these enterprises. Although it is still short of empirical studies to conceptualize “what collective social entrepreneurship is” in its entirety, a better understanding of the process through which collective entrepreneurship emerges is indispensable. This understanding can help CFEs mature in a shorter period of time and become increasingly robust.

### *References*

- Antinori, C., & Bray, D. B. (2005). Community forest enterprises as entrepreneurial firms: Economic and institutional perspectives from Mexico. *World Development*, 33(9), 1529-1543.
- Arnold, M. (2001). *Forest and people: 25 years of community forestry*. Rome, Italy: FAO.
- Austin, J., Stevenson, H., & Wei-Skillern, J. (2006). Social and commercial entrepreneurship: Same, different, or both? *Entrepreneurship Theory and Practice*, 1-22.
- Boschee, J. (2006). Social entrepreneurship: The promise and the perils. In A. Nicholls (Ed.), *Social entrepreneurship: New models of sustainable social change* (pp. 356-390). New York: Oxford University Press.
- Bray, D. B., Antinori, C., & Torres-Rojo, J. M. (2006). The Mexican model of community forest management: The role of agrarian policy, forest policy and entrepreneurial organization. *Forest Policy and Economics*, 8, 470-484.
- Chambers, M. (2007). *Informing the theory of collective entrepreneurship: Investment choice*. Unpublished doctoral dissertation, The University of Missouri, Columbia. Retrieved from

- <https://mospace.umsystem.edu/xmlui/bitstream/handle/10355/4881/research.pdf?sequence=3>
- Dees, J. G., Economy, P., & Emerson, J. (2001). *Enterprising Nonprofits : A Toolkit for Social Entrepreneurs*. New York: John Wiley & Sons.
- Donovan, J., Stoian, D., & Poole, N. (2008). *Global review of rural community enterprises: The long and winding road to creating viable businesses, and potential shortcuts*. Turrialba, Costa Rica: CATIE.
- FAO. (2000). *Proceeding of the international workshop on community forestry in Africa - Participatory forest management: a strategy for sustainable forest management in Africa*. Retrieved from <ftp://ftp.fao.org/docrep/fao/006/x7760b/>
- Farrington, J., & Mitchell, J. (2006). How can the rural poor participate in global economic processes? *Natural Resource Perspectives*, (103). Retrieved from <http://www.odi.org.uk/resources/download/35.pdf>
- Fedderke, J., De Kadt, R., & Luiz, J. (1999). Economic growth and social capital: A critical reflection. *Theory and Society* 28, 709-745.
- Flannery, D., & Deiglmeier, K. (1999a). Leading the social purpose enterprise: An examination of organizational culture. In Roberts Enterprise Development Foundation (Ed.), *REDF box set - Social purpose enterprises and venture philanthropy in the new millennium: Vol.1, Practitioner perspectives* (pp. 11-18). San Francisco: Editor. Retrieved from <http://www.redf.org/system/files/%281%29+Vol.+1+-+Leading+the+Social+Purpose+Enterprise.pdf>.
- Flannery, D., & Deiglmeier, K. (1999b). Managing the social purpose enterprise. In Roberts Enterprise Development Foundation (Ed.), *REDF box set - Social purpose enterprises and venture philanthropy in the new millenium: Vol. 1, Practitioner perspectives* (pp. 11-18). San Francisco: Editor. Retrieved from <http://www.redf.org/system/files/%282%29+Vol.+1+-+Managing+the+Social+Purpose+Enterprise.pdf>.
- Gowdy, H. (2000). True cost accounting: The allocation of social costs in social purpose enterprises. In Roberts Enterprise Development Foundation (Ed.), *REDF box set -*

- Social purpose enterprises and venture philanthropy in the new millennium: Vol. 2, Investor perspectives* (pp. 103-114). San Francisco: Editor. Retrieved from <http://www.redf.org/system/files/%2815%29+Vol.+2+-+True+Cost+Accounting.pdf>.
- Granovetter, M. (1973). The strength of weak ties. *American Journal of Sociology*, 78(6), 1360-1380.
- Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, 91(3), 481-510.
- Grenier, P. (2006). Social entrepreneurship: Agency in a globalizing world. In A. Nicholls (Ed.), *Social entrepreneurship: New models of sustainable social change* (pp. 119-143). New York: Oxford University Press.
- Hansmann, H. (1996). *The ownership of enterprise*. Cambridge, MA: The Belknap Press of Harvard University Press.
- Hountoundji, P. J. (2001). Tempting traditions: Internal debate needed in traditional cultures. *COMPAS Magazine* (March 2001), 12-13.
- Knorringa, P., & van Staveren, I. (2006). *Social capital for industrial development: Operationalizing the concept*. Retrieved from [http://repub.eur.nl/res/pub/21665/\\_social\\_capital.pdf](http://repub.eur.nl/res/pub/21665/_social_capital.pdf)
- Low, C. (2006). A framework for the governance of social enterprise. *International Journal of Social Economics*, 33(5/6), 376-385.
- Mair, J., & Martí, I. (2006). Social entrepreneurship research: A source of explanation, prediction, and delight. *Journal of World Business*, 41, 36-44.
- Majeska, K. (1999). Growing a social purpose enterprise. In Roberts Enterprise Development Foundation (Ed.), *REDF box set - Social purpose enterprises and venture philanthropy in the new millennium: Vol. 1, Practitioner perspectives* (pp. 11-18). San Francisco: Editor. Retrieved from <http://www.redf.org/system/files/%283%29+Vol.+1+-+Growing+a+Social+Purpose+Enterprise.pdf>

- Molnar, A., Liddle, M., Bracer, C., Khare, A., White, A., & Bull, J. (2007). Community-based forest enterprises in tropical forest countries: Their status and potential in tropical countries, *ITTO Technical Series #28*. Retrieved from [http://www.itto.int/direct/topics/topics\\_pdf\\_download/topics\\_id=37100000&no=1&disp=inline](http://www.itto.int/direct/topics/topics_pdf_download/topics_id=37100000&no=1&disp=inline)
- Nicholls, A., & Cho, A. H. (2006). Social entrepreneurship: The structuration of a field. In A. Nicholls (Ed.), *Social entrepreneurship: New models of sustainable social change* (pp. 99-118). New York: Oxford University Press.
- Poffenberger, M. (Ed.). (2000a). *Communities and forest management in South Asia: A regional profile of the working group on community involvement in forest management*. Retrieved from <http://www.asiaforestnetwork.org/pub/pub29.pdf>
- Poffenberger, M. (Ed.). (2000b). *Communities and forest management in Southeast Asia: A regional profile of the working group on community involvement in forest management*. Gland, Switzerland: IUCN.
- Portes, A. (1998). Social capital: Its origins and applications in modern sociology. *Annual Review of Sociology*, 24, 1-24.
- Portes, A., & Landolt, P. (2000). Social capital: Promise and pitfalls of its role in development. *Journal of Latin American Studies* 32(2), 529-547.
- Portis, C., & Majeska, K. (1999). Managing key relationships with the rest of the world: Lessons learned (the hard way) by social purpose enterprises. In Roberts Enterprise Development Foundation (Ed.), *REDF box set - Social purpose enterprises and venture philanthropy in the new millennium: Vol. 1, Practitioner perspectives* (pp. 63-76). San Francisco: Editor. Retrieved from <http://www.redf.org/system/files/%286%29+Vol.+1+-+Managing+Key+Relationships.pdf>.
- Schoof, U. (2006). *Stimulating youth entrepreneurship: Barriers and incentives to enterprise start-ups by young people, SEED Working Paper No.76*. Retrieved from <http://www.ilo.org/youthmakingithappen/PDF/WP76-2006-Rev.pdf>
- Spear, R. (2006). Social entrepreneurship: a different model? *International Journal of Social Economics*, 33(5/6), 399-410.

- Stevenson, H., & Gumpert, D. (1985). The heart of entrepreneurship. *Harvard Business Review*, (March-April), 85-94.
- Stoian, D., Donovan, J., & Poole, N. (2009). *Unlocking the development potential of community forest enterprises: Findings from a comparative study in Asia, Africa, Latin America, and the United States*. Paper presented at the XIII World Forestry Congress, Buenos Aires, Argentine. Retrieved from <http://www.catie.ac.cr/BancoMedios/Documentos%20PDF/development%20potential%20of%20cfe%20-%20stoian%20et%20al%202009.pdf>
- The Economist. (2010, September 23). A special report on forests: Keeping it in the community - Well-organised locals often make the best forest managers, but they need help. Retrieved from <http://www.economist.com/node/17062703>
- Woolcock, M. (1998). Social capital and economic development: Toward a theoretical synthesis and policy framework. *Theory and Society* 27, 151-208.
- Yunus, M. (2010). *Building social Business: The new kind of capitalism that serves humanity's most pressing needs*. New York: Public Affairs.

### Notes

<sup>1</sup> Additional information about ICOFOSA and FORESCOM is available on the following websites: <http://www.tipmuebles.com> and [http://www.acofop.org/forescom\\_en\\_el\\_2011.html](http://www.acofop.org/forescom_en_el_2011.html).

<sup>2</sup> Two additional CFEs joined a year later. Therefore, 11 out of 13 major CFEs in Peten are affiliated with FORESCOM.

<sup>3</sup> Pueblo Mancomunados, Ixtlán de Juárez, Santiago Textitlán (Oaxaca), AFISAP, Cruce a la Colorada, Árbol Verde, Uaxactún, CUSTOSEL, El Esfuerzo, Impulsores Suchitecos, Laborantes del Bosque, Carmelita, Unión Maya Itza, and La Técnica (Peten).

<sup>4</sup> For example, Yunus (2010) discusses the entrepreneurship required for social business but assumes a non-loss, non-dividend company devoted to solving a social problem

(Type I) only. He has made few arguments about the collective entrepreneurship required for social business owned by poor people themselves (Type II).

<sup>5</sup> Not all of the employees are owners, as non-community members are hired as well.

<sup>6</sup> “Owner” means those who maintain two formal rights: the right to control the firm and the right to appropriate the firm’s profits, or residual earnings (Hansmann, 1996).

<sup>7</sup> All of the studied Oaxacan CFEs run businesses that are quite large. For example, the annual sales of the furniture factory of this CFE in 2008 were 9.7 million pesos.



## 5. Whose Vision Counts? – The Influence of Government Policy and Donor Intervention in the Formulation of Vision in Community Forest Enterprises

### *Abstract*

How do external factors such as donor interventions and government policies influence the competitiveness of community forest enterprises (CFEs)? The author conducted a qualitative study on two second-tier CFEs in Mexico and Guatemala. The study primarily consisted of semistructured interviews with 125 informants, including CFE personnel, buyers, government institutions and NGOs. It revealed the importance of the autonomous formulation of corporate vision. External interventions should be based on the producers' agency rather than on the donors' agendas. The study also found that forest industries, including CFEs, are generally overregulated, while the root causes of deforestation are not effectively addressed.

Key Words: Community forest enterprises, forest policy, donor interventions, corporate vision, Mexico, Guatemala

## 5.1. Introduction

Community forest enterprises (CFEs) hold significant importance not only for forest conservation but also for local economic development, especially for the livelihoods of forest-dependent people. Much of the literature emphasises the importance of poverty alleviation through the commercialisation of forest products (Lecup & Nicholson, 2000, Arnold, 2002, Mayers & Vermeulen, 2002, Donovan, et al., 2006, Farrington & Mitchell, 2006). However, the economic record of CFEs has been mixed (Molnar, et al., 2007, Stoian, et al., 2009).

The promotion of small- and medium-scale enterprises, including CFEs, is a topic of debate among donors and development practitioners. Various conceptual frameworks and approaches are applied in development interventions. These include “value chain” approaches (Kaplinsky & Morris, 2000, GTZ, 2007), “supply chain management” (Handfield & Nicholls, 2002, Blanchard, 2007), “cluster” development (Porter, 1998, Schmitz & Nadvi, 1999), “business development services” promotion (Harper & Tanburn, 2005), and the “making markets work for the poor” approach (DFID, 2005, Miehlbradth, et al., 2005).

Although some of the literature addresses the issue of impact assessment and assesses the impact of value chain intervention by donors (USAID, 2006, Humphrey & Navas-Alemán, 2010, Seville, et al., 2011), it is insufficient. In particular, studies are lacking regarding the ways in which external interventions influence corporate policy and the vision of community enterprises.

## 5.2. The Study’s Necessity and Purpose

The author conducted a study on how CFEs strengthen their market competitiveness strategies through two second-tier CFEs: ICOFOSA (*Integradora Comunal Forestal de Oaxaca S.A. de C.V.*) in Oaxaca, Mexico, and FORESCOM (*Empresa Comunitaria de Servicios del Bosque S.A.*) in Peten, Guatemala.<sup>1</sup> For the purpose of this study, the author

defines a second-tier CFE as “an enterprise which is directly or indirectly (for example, through capital investment) governed by a group of CFEs for the purpose of promoting their business”. Given the exploratory nature of this study and its emphasis on theory building, these cases have been purposefully selected. Mexico and Guatemala are on the vanguard in terms of CFE development in the timber business. Second-tier community enterprises in the forest sector are still rare in the tropics, and these two cases are among the few global benchmark initiatives.

ICOFOSA was established by indigenous forest communities in 2006. Three CFEs producing furniture joined to launch a retail business under the brand “TIPMUEBLES”. ICOFOSA managed two stores in the City of Oaxaca at the time of the field study.<sup>2</sup>

FORESCOM was established in San Benito in 2004 as an umbrella organisation of nine CFEs<sup>3</sup> with the aim of providing services related to forest management consultancy, timber brokering, wood drying, wood processing, and machinery rental services. The field study, conducted from October 2009 to August 2010, primarily consisted of semistructured interviews with 125 informants from within and outside of the value chain. The informants include executives and key personnel of ICOFOSA and FORESCOM, members of the 14 first-tier CFEs,<sup>4</sup> buyers, government officials and service providers such as NGOs. These informants were identified through snowball sampling.

This study was conducted for a Ph.D. dissertation and aims to examine the competitiveness of CFEs from three angles: (a) socio-economic aspects, (b) policy aspects, and (c) business aspects. This article solely discusses (b) policy aspects. It responds to an overarching question that emerged during the study: “Whose vision counts in the formulation of the vision of the community enterprise”? The article is organised according to the following research questions:

1. How did the CFEs’ goals and processes of establishment affect the corporate culture and the relationship between second-tier CFEs and affiliated CFEs?

2. How have the procurement policies of state institutions and donor interventions influenced the policy and strategies of the CFEs under investigation?
3. How do other external factors, such as financial services, broader policy environment and forest governance, affect CFEs?

### 5.3. The Purpose and Process of Emergence of CFEs, and Their Influence on Corporate Culture

#### 5.3.1. *ICOFOSA*

ICOFOSA was founded by three indigenous communities whose first-tier CFEs share relatively similar characteristics in terms of maturity and business objectives. For more than two decades, all three CFEs have managed their own natural pine forest totaling 72,841 hectares and operated logging and sawmilling businesses. They have created more than 1,000 direct and indirect positions.<sup>5</sup> The three CFEs separately began producing furniture around the year 2005. Their initial products were purchased in large part by the State Institute of Public Education (IEEPO).<sup>6</sup> They took advantage of the state governor's new policy regarding governmental procurement of certified furniture. However, the gradually diminishing lots assigned to the three CFEs, combined with delayed payment by IEEPO triggered by a civil strike in Oaxaca in 2006, prompted the three CFEs' managers to search for new markets and distribution channels for their furniture. As part of this search, they requested quotes from several department stores for their products. These buyers' low offers disappointed them. Ultimately, they decided to jointly launch their own retail business with kitchen, living room, bedroom and office furniture. They opened the first branch of TIPMUEBLES in Oaxaca in the same year without any external funding.

From the beginning, ICOFOSA has had clear objectives that the three CFEs shared: (a) to learn about the retail furniture business and to experiment with new lines by taking advantage of direct feedback from the customers, (b) to win large institutional contracts by

taking advantage of the highly consolidated production capacity of the three factories, (c) to discover new markets not accessible to the individual CFEs, and (d) to demonstrate their community development initiative to the general public and to attract external support.

The costs of administering of TIPMUEBLES stores, including both salaries and rent, are equally borne by the three CFEs regardless of the sales level of each factory. ICOFOSA is firmly controlled by the three CFEs as their own “instrument”. This arrangement protects the corporate policy and vision from external intervention. However, ICOFOSA is not strictly required to be self-sufficient. Any deficits are covered by the three CFEs. This dependency weakens ICOFOSA’s autonomy regarding product design and customer service. Instead of the stores directing the factories as to what products to produce, the factories decide what products to sell in the stores. This arrangement differs from private business, where retailers as buyers dictate instructions to the producers. It has delayed the establishment of a unified TIPMUEBLES product style. Nevertheless, the quality of the products and customer services has significantly improved thanks to direct interaction with customers.

Although the three CFEs are not yet satisfied with ICOFOSA’s profit margin, all of them consider it to be part of their long-range strategy for broader diversification. Each CFE individually has parallel sales efforts with other retailers. ICOFOSA respects the autonomy of the first-tier CFEs and does not intervene in the arrangements between them and their existing buyers. Instead, it has attempted to identify new markets at the national level, for example, by participating in furniture expos. The three CFEs also appreciate ICOFOSA’s function of winning new governmental contracts. The contracts guarantee institutional buyers timely delivery based on the firm’s highly consolidated production capacity.

The CFEs also value ICOFOSA’s “showcase” function. The initiative is branded as a key component of the “Oaxacan community-based green economy”. As such, it attracts significant assistance from various government institutions as well as NGOs, including

financial assistance for expanding the exhibit space in one store and for participating in furniture expos. It has also attracted technical assistance to improve interior installations in both stores.

### 5.3.2. *FORESCOM*

FORESCOM was founded as a spin-off venture of ACOFOP, the Community Forestry Association of Peten, with considerable financial assistance from a donor. It was positioned as part of the phase-out strategy of a donor project. The project formally funded forest management consultancies for CFEs once provided by local NGOs. The donor led the process of formulation. The project aimed to quickly form an organization at the second-tier level and succeeded in convincing the leaders of nine CFEs.<sup>7</sup> However, the initiative was not well rooted in each CFE's individual strategy, thereby limiting the effectiveness of follow-up processes. There was limited information sharing among the CFEs. Due to the hasty process, true "buy-in" among members of each CFE was not secured.

The maturity and geographic distribution of the affiliated CFEs was heterogeneous. Some already had their own sawmill while others sold standing trees. Some CFEs in the Usmacinta region are located far from San Benito, where FORESCOM is located. Even those leaders who were convinced of the project's value were uncertain as to its final form. They had unfocused expectations regarding such aspects as group negotiation with buyers for better prices, international commercial liaisons, value addition, forest management consultancy, and group certification. However, rather than prioritise the services, FORESCOM attempted to pursue every service at once. Coordination among the donors and local NGOs was insufficient. The establishment of FORESCOM initially caused friction with the local NGOs because the forest management consultancy service once provided by local NGOs with donor funding was taken over by FORESCOM.

Various donors and other financial agencies came and left. They did not work for long-term success, but rather changed personnel and priorities. They consequently shifted the

focus of FORESCOM's activities from time to time. The original aim of establishing a second-tier enterprise was to create a self-sustaining body of forest management consultancy services so that the termination of the project would not cause a technical problem for the first-tier CFEs. The interest of one donor in preventing forest fires also triggered the establishment of the Department of Machinery. Other donors suggested incorporating the commercialization of forest products. These various initiatives were not necessarily prompted by the shared interests of affiliated CFEs.

The commercialization of forest products was experimentally handled by the Trade Liaison Office of ACOFOP before the establishment of FORESCOM. This initial initiative made a significant achievement. In that period, one single buyer paid seven different prices to communities, taking advantage of weak information sharing among them. Four CFEs then consolidated their individually produced wood for group negotiation. They managed to sell mahogany for USD \$1,144/m<sup>3</sup>, while the other CFEs that negotiated individually were only able to obtain a price of USD \$890/m<sup>3</sup> (Hidalgo & Pasos, 2008). However, due to legal constraints of ACOFOP as a civil association, the function was eventually transferred to FORESCOM, whose legal status as a private company allows for commercial activities. It initially succeeded in obtaining a unified price with a 1 per cent price increase and an interest-free advance payment from two US buyers in 2004 (Hidalgo & Pasos, 2008). The price of mahogany steadily increased due to the low price originally depressed by buyers and its scarcity in the market until the global economic crisis in 2008. Group negotiations organized under FORESCOM may have prompted this price increase.

FORESCOM has met expectations for lower fees for forest management consultancy and group certification. With respect to timber processing, the quality of products has increased, as evidenced by the increased number of buyers at the national level. However, despite initial successes, progress in the area of timber commercialization has been disappointing. Opinions among affiliated CFEs confirm this conclusion. FORESCOM's

marketing efforts have generally been passive. Its capacity to uncover markets remains no better than that of individual member CFEs. What FORESCOM does have is well-developed small market niches. The prices offered by FORESCOM were no better than those offered by the existing buyers. It hardly made sense to centralise timber sales if FORESCOM could not locate a new market that could provide a higher price for a consolidated volume.

Clear roles are also not established between FORESCOM and the affiliated CFEs. The CFEs are often reluctant to provide timber that meets FORESCOM's specifications. Instead, the CFEs prefer to sell timber to a buyer who purchases all of the lots, regardless of dimensions and quality. Even after FORESCOM negotiated agreements, some CFEs cancelled the sales upon finding a better paying buyer. This act led to a breach of contracts and cancelations of sales between FORESCOM and external buyers. FORESCOM then meddled in deals between first-tier CFEs and their existing buyers. FORESCOM asked CFEs to sell timber to them out of moral obligation. Some CFEs preferred direct selling to their existing buyers and stopped dealing with FORESCOM altogether.

Different funding agencies provided assistance and investment inducement in different areas, including a seed fund for the commercialization of lesser know species (LKSs), the purchase of woodworking machinery, the establishment of the Department of Machinery, and the construction of timber drying kilns. These investments were often justified by an optimistic notion of value addition despite concerns expressed by affiliated CFEs. Development interventions have an intrinsic risk of "the Abilene paradox": the assistance recipients may be unconsciously led during the "participatory" process to say what the facilitator or consultant wants to hear, concealing their misgivings and minimizing the importance of their doubts (Cooke, 2001). Some of the investments were of an experimental and high-risk nature. They have often been guided by donor-funded consultancies as if they were a donor "project". However, FORESCOM later experienced the consequences as a private enterprise.



Community leaders and the staff of technical support institutions have attended a number of trade fairs. They concluded that CFEs needed to begin processing semifinished wall and flooring products, taking advantage of the abundance of LKSs such as *santa maría* (*Callophyllum brasiliense*), *manchiche* (*Lonchocarpus castilloi*) and *pucté* (*Bucida berseras*) in concession areas. FORESCOM once attempted a partnership with local private industries for processing hardwood species. The partner did not fulfill expectations due to chronic weaknesses, such as the poor maintenance of equipment. The decision-makers assumed that FORESCOM should make investments in machinery themselves and achieve full ownership of the forestry supply chain in Peten (Hidalgo & Pasos, 2008). However, the first-tier CFEs have in reality demonstrated limited interest in strengthening the commercialization of LKSs. Their high-cost production structure subsidized by sales of mahogany (*Swietenia macrophylla*) had not allowed them to enter the market. Many interviewed buyers of LKSs noted that they were treated as second-class buyer by the first-tier CFEs. The majority of the CFEs pay attention only to the customers of mahogany. Some more advanced CFEs are willing to add value to lower-grade mahogany through the production of furniture or doors or to promote ecotourism and other nontimber forest products such as *xate* (*Chamaedorea spp.*) over LKSs.

There was little to gain in making a concerted effort at the second-tier level when the first-tier CFEs made a limited effort. Despite strong interest among some donors and the provision of seed funding and technical assistance in processing and the maintenance of equipment, FORESCOM's actions in sales of LKSs were limited to a series of might best be described as "spot trading". They did not make a strategic effort to ask the affiliated CFEs to provide firm-specific information, such as inventory information, to consolidate their fluctuating inventories. This kind of effort is crucial for brokering binding agreements between first-tier CFEs and buyers. Buyers require a steady supply of a certain volume of timber to develop markets in foreign countries such as Vietnam and China. The harvest of

LKSs did not significantly increase after months-long capacity building courses on processing LKSs offered to sawmill operators from 10 CFEs. FORESCOM did not follow up with commercial liaison efforts.

Once the seed funding for commercialising LKSs disappeared, FORESCOM suffered from chronic shortages of working capital. Facing this situation, FORESCOM invested in two additional wood drying kilns under the inducement of consultancies provided by an international nonprofit financial institution almost immediately after the construction of the first kiln donated by MAGA.<sup>8</sup> Unfortunately, they did not make a staged investment so that they could begin on a small scale and monitor the growth of demand. Currently, the kilns are severely underutilized because many international buyers have their own kilns. It is also inconvenient to use a kiln for an individual CFE because the required volume to operate it is too large.

After FORESCOM fell into debt for two kilns, it diverted the buyers' funds for the timber consigned by first-tier CFEs to pay the administrative costs. FORESCOM consequently failed to make its payments to the first-tier CFEs. Weak control of the contracts also worsened the matter. The relationship between them deteriorated. It is ironic that first-tier CFEs currently assist FORESCOM with services due to a moral or political commitment.

The establishment of the Department of Machinery is another example of haphazard intervention. The decision to purchasing machinery was made under heavy donor influence. The original intention was to purchase machinery to control forest fires. However, it was difficult to purchase forestry machinery such as tractors for opening firebreaks due to environmental regulations. The machinery purchased (that is graders, compacting rollers and excavators) were not logging equipment, which the affiliated CFEs needed. However, the donor wanted to purchase them partly because the logging equipment was restricted by the environmental regulations and partly because it can only be operated during the harvest season. The new Department of Machinery had little to do with forestry operation or fire

control. Nevertheless, its actions were justified by their expected function of generating supplemental revenue for the administration of the enterprise. The CFEs eventually accepted the premise so as not to lose the donation. The revenue raised by the department has primarily been utilized to cover the enterprise's administrative costs.

This donor's intervention eventually placed the profitability of the enterprise in jeopardy. Reinvestment in new machinery for offering a new service has been limited due to the department's marginal position in the enterprise. Many of the clients have already obtained similar types of machinery and no longer require the services once provided by the department. The recent global financial crisis has also reduced the public works budget. The department has found it difficult to recover from the drastic reduction of sales.

The inconsistency in corporate vision is closely related to weak corporate governance. The strategies and monitoring have been inconsistently administered due to the frequent rotation of managers. Neither did donors offer sufficient capacity building in enterprise administration in parallel. Little buy-in towards FORESCOM among ordinary members of first-tier CFEs weakened the board members' position. Community leaders did not understand the necessity of hiring a well-compensated professional manager. The limited professionalism among the board members caused role confusion with the management of FORESCOM. At times, the board members intervened in the firm's administration in an inappropriate manner. There was even a period when the manager could not sign checks, whereas the president of the board and the treasurer could. The lack of a remuneration system linked with actual performance has inflated the costs of personnel. It also hindered effective management control by the board. It affected the managers' accountability towards the affiliated CFEs. Some members of the affiliated CFEs regret that FORESCOM's financial reports were prepared more for the donors, while the affiliated CFEs themselves were not informed about FORESCOM's deficit.

This situation has cultivated an ambiguity regarding responsibility. Neither politically appointed “*campesino*” (country folk) managers— a criticism used by some buyers —or externally recruited professional managers with short-term moral commitment have taken responsibility for the enterprise’s financial performance.

#### 5.4. Influence of Government Procurement Policy and Donor Interventions on the Vision of CFEs

A fundamental difference between the two cases lies in the quality of external influence in the development of corporate vision. The Oaxacan government’s procurement of certified furniture— along with the CFEs’ own spontaneous efforts of learning product design, quality control, store presentation, publicity and customer relation at ICOFOSA —has contributed to creating a customer-oriented culture among the concerned CFEs.

However, a donor-led foundation meddled in FORESCOM’s goals and vision from the beginning. Many donors came and went. It is hardly possible to differentiate the influence of an enterprise’s emergence process on cooperate culture from the influence of donor interventions because the enterprise’s history so closely parallels the history of donor interventions. By whose agency the enterprise is actually driven has been blurred. Without clear role definition between the second-tier and the first-tier actors, the enterprise’s policy and vision remain adrift while the firm continues to rely on external assistance.

##### 5.4.1. *Influence of the Government’s Furniture Procurement Policy*

The Oaxacan state policy regulating the acquisition of certified furniture for government institutions has exerted a significant influence over the launching of furniture production among the three CFEs. IEEPO has supported this community-based industry since its foundation, placing a series of orders valued at \$116 million pesos total between 2006 and 2009.

This policy has effectively aligned with the three CFEs' learning process. It has stimulated improvement on part of the producers. IEEPO requests annual design modifications that convey the preference of final users for lighter, stronger and more comfortable furniture. The three CFEs jointly submit counterproposals that meet IEEPO requirements while minimizing the production costs by adapting "design for production" (Herrmann, 2003). IEEPO also provides a contract to associations of local carpenters and penalizes those who cannot meet the scheduled delivery date by diminishing the volume of the contract in the following year. IEEPO has a clear sense of its role as a catalyst for community-based initiatives and sustains this responsibility in the form of long-term commitments.

At the same time, IEEPO forces the producers to compete with one another. They are gradually diminishing the total volume of their orders each year to induce the producers to diversify their market. In other words, they provide a grace period for community-based industries to mature and become self-sufficient. The three CFEs are expanding the sales to other government institutions to compensate for the reduction in the IEEPO's orders while developing a strategy to strengthen the sales through TIPMUEBLES and other distribution channels.

#### 5.4.2. *Influence of Donor Interventions*

Lusby (2006) argues that external interventions should avoid being overly prescriptive or heavy-handed in determining what the structure of the market relationship should be or what activities to engage in. Claus Offe (quoted in Doner & Schneider, 2000, p. 270) indicates that organizations of firms "do not generate power that does not already exist, nor do they formulate ends that do not derive directly from the ends already defined and consciously pursued at the level of the individual member firms".

There is a striking difference between ICOFOSA and FORESCOM in this respect. The former has received significant external assistance from various institutions. However, its

corporate policy or vision does not oscillate. The organization exercises its agency to make its own decisions. It only takes risks that the organization can bear. Once the organization makes a decision, it is willing to suffer the consequences. Furniture retail conducted at ICOFOSA derives from the concrete corporate strategies of each affiliated CFE regardless of external assistance that it sometimes receives.

Unfortunately, external assistance often directs the investment policy of the recipient, as the FORESCOM case indicates. Donors intervene in formulating corporate vision, which should be autonomous. There is a tendency among donors and NGOs to be less demand driven. They are prone to become internally focused and convinced that they are doing the right thing (see Drucker, 1990). They often do not understand the appropriate balance of risks and returns expected by the buyers in part because they lack “business DNA” (Hoffman, 2005) and in part because they themselves do not assume any risk in case of failure. The adherence of FORESCOM’s donors to the notion of value addition is an indicative example. Their “cause marketing” may ultimately become “cause selling”: instead of learning customers’ circumstances, they push the sellers’ concepts. They believe that they have a good product and do not attempt to understand why people are not rushing to purchase it (Kotler interviewed by Drucker, 1990). The products and services of donor-assisted CFEs at times reflect more of what the donors believe is appropriate rather than what the market demands (see Lusby, 2006). What represents “value” to the producer is not necessarily in accordance with the final customer or the intermediary who makes the buying decision. Adding value can be treacherous if it is not implemented carefully (Clay, 1997). Buyers do not demand timber certification in the same way that forest authorities, donors and NGOs do. The CFEs tend to charge what represents “costs,” while the buyers are only willing to pay for value. “Businesses are not paid to reform customers. They are paid to satisfy customers” (Drucker, 1985, p. 193). An external FORESCOM buyer who respects its philosophy still criticizes it for its “socialist business model,” which is not acceptable to the buyers.

Lusby (2006) argues that many external interventions are group-focused. They first establish a group and provide capacity building assistance, and then they look for a market. They tend to try to go around “exploitative” intermediaries and sell directly to large-scale buyers or to alternate fair trade markets (Miehlbradth, et al., 2005, Lusby, 2006). They may shift trade “to flow through farmer cooperatives as the intermediary of choice” (Seville, et al., 2011, p. 44). Their understanding of the role of intermediaries is often inadequate. They tend to underestimate the required capacity and costs of bypassing the intermediaries. However, intermediaries often offer very important embedded services. For example, many CFEs in Peten appreciate a local intermediary’s commercial liaison function. He searches for different buyers in different countries on behalf of the producers so that the various grades of timber can be marketed effectively.

A new initiative must be built on what already exists rather than supplanting the old with newly imported models to be both sustainable and locally owned (Committee of Donor Agencies for Small Enterprise Development, 2001, Seville, et al., 2011). Instead of attempting to eliminate intermediaries, it is critically important to understand who the existing market players are and what function they serve to address “systemic constraints” and to explore how to work with both intermediaries and producers to reduce the inefficiencies that cause high costs or low prices. Only market actors understand what is feasible or not from their own perspectives. It is always preferable to engage the targeted market players, such as producers, traders, wholesalers, and transporters in the design of program interventions (Lusby, 2006). Group negotiations with buyers commonly observed in traditional group approaches tend to aim to strengthen the power of small producers, whereas it also reduces buyers’ transaction costs for dealing with many small producers. Addressing systemic constraints at the value chain level, however, has the potential to “enlarge the pie,” creating a new market with a leverage of reduced costs or added value. It offers benefits not

only for small producers but also for other value chain actors, and thus, it is more likely to be accepted.

Doner and Schneider (2000) argue that the institutional capacity to induce members to commit resources and abide by the collective rules and decisions provides a good indicator of the strength of an association. The satisfaction and buy-in of each member firm is strongly connected with the benefits they receive. Any first-tier CFE's decision regarding collaboration with a second-tier CFE is based on an assessment of the benefits on one hand and the costs and risks on the other. However, "often, the benefits will be long term and hypothetical, whereas costs and risks are obvious and immediate" (Meyer-Stamer, 2003, p. 21). In the case of FORESCOM, relatively cheap technical services of forest management consultancy and group certification have served as the bottom line benefits prompting the CFEs to remain affiliated with it. They expected FORESCOM to perform as a "soft" network (Rosenfeld, 1996) for solving common problems such as buyers playing pricing games. They expect a reduction in the "transaction costs" through loose coordination rather than a reduction in the "adaptive costs" through active joint investment (see Macqueen, 2004).

In a traditional group approach among small farmers, the less group management that is required, the greater the chance of success. The group may be more effective at simpler functions such as representation and advocacy, information sharing, capacity building, joint purchase of raw materials and value chain coordination (Miehlbradth, et al., 2005, Lusby, 2006). The same tendency is often observed in a soft network of small enterprises. It may be unfair to expect a soft network to be a joint venture. Affiliated CFEs, however, did not forcibly control FORESCOM. They did not make an effort or bear the costs so that it could align with their true aspirations. They have consequently let the vision and focus drift because the initiative was not "theirs" from the beginning. They had little motivation to collaborate due to their diversity in maturity, business strategies, and geographic locations.



Initiatives with heavy donor leverage either intentionally or unintentionally shy away from inconvenient business realities. FORESCOM and support institutions were not serious enough in convincing affiliated CFEs of the strategic importance of cost reduction because of their conflicting support for employment creation and improved welfare. For their part, CFEs indulge themselves with high mahogany prices without a conscious effort. Ironically, the abundance of mahogany itself became a systemic constraint. Crises at times offer opportunities, whereas complacency creates problems (Drucker, 1985).

The CFEs offer their employees higher wage and better social security than do competing private industries. They also provide better food, electricity and recreational facilities in the work camps. As a social enterprise, it is justifiable for the CFEs to incur such costs. However, some CFEs even assign an “assistant of assistant” who has few responsibilities. Such inefficient operations with inflated payrolls have been tolerated in the name of “job creation”. In serious cases, community members demanded Christmas bonuses even when the CFE was running at a deficit, urging it to obtain loans from private lenders who charged high interest. Few CFEs dare to face their own disadvantages in terms of high costs, irregular volume, and lack of long-term commitment with buyers, thus limiting their marketing horizon. When “local firms are increasingly forced to perform to global standards not just in matters of costs but also quality, speed of response, and flexibility” (Schmitz & Nadvi, 1999, p. 1507), buyers do not see that those CFEs are making a serious effort to satisfy customers. Even a CFE, which supposedly embraces the cause of CFEs, chose a private contractor who paid a higher price for their standing trees rather than selling the same trees to a neighboring CFE. The latter invested in a high capacity sawmill, assuming that it could also purchase logs from neighboring communities. However, the CFE offered a log price 10 per cent lower than that of private competitors due to its high cost structure. The sawmill remains idle for many months each year despite a high depreciation cost.

Donors' heavy influence also nurtures a culture of dependence and obscures responsibility for the deficit and failed projects. Ostrom (2000) argues that norms set by the community members themselves seem to have performance and encourage cooperative behavior over time, whereas externally imposed rules may disappear very quickly. The worst results occur when external authorities impose rules but are only able to achieve weak monitoring and sanctioning. The mild degree of external monitoring discourages the formation of social norms, whereas it makes deceit attractive to some actors who appreciate the low risk of being caught.

The sense of responsibility among the donors has also been blurred. Drifting policy and change of personnel in donor interventions made the CFEs "a prisoner" in a sense. The phenomenon seems to be partially rooted in the industry's structural problem that "it pays to be ignorant" (Pritchett, 2002). Meyer notes the general bias in the development industry:

The evaluator/consultants want another job so they mute their criticisms, the sharp edges of evaluation reports get smoothed over as the draft moves up the chain of command for comment, the practical problems of working in tough environments get emphasized as a way to soften the fact of lack of impact, , [sic] etc. etc. [sic] (Meyer, 2006, p. 22).

## 5.5. Influence of Financial Services and Broader Policy Environment on CFEs

Other external factors such as financial services, the policy environment and poor governance have also influenced the competitiveness of the CFEs under analysis.

### 5.5.1. *Influence of External Financing Over Investment Planning*

Various financial schemes provided by different Mexican government institutions, such as CONAFOR, the Economic Ministry, SAGARPA, FIRA and FIRCO,<sup>9</sup> extend loans to many CFEs. They offer continuous support by taking advantage of relatively steady stream of government funds. Some guarantee schemes, however, demand that the applicants identify

a guarantor. A business plan alone is not sufficient, even if it is well studied and deemed feasible. An interviewed bank official suggests that it would be more realistic for CFEs to apply for the programmes if they were obliged to procure the liquidity of only 10 per cent of the total amount of investment without requiring a guarantor. Their inability to offer their forest as collateral also hinders their access to financial services. Thus, the forestry sector is unattractive to entrepreneurs in comparison with the agricultural or livestock sectors.

Another detrimental aspect of external financing is that CFEs tend to make hasty decisions so as not to miss opportunities for external funding. Two CFEs in Oaxaca made a significant investment without conducting a sufficient market study beforehand. CFEs do not necessarily have the entrepreneurial maturity to conduct market studies or other preparatory activities before launching a new business. They may not ensure a gradual and staged investment if a large sum of money is available at once. Members of a CFE have even stated that their enterprise is a victim of external funding in a sense. Nevertheless, the enterprise was immature at that moment, and the lender's scrutiny of the proposal was not adequate. Key personnel of the same enterprise recognize the problem of overinvestment, which raises operational costs and depreciation costs. Although the firm has good machinery, it is not fully operated due to limited demand. This community has not made any social investment since 2004 because of its high debt payments. In another CFE, the factory was originally constructed to produce doors rather than furniture. Later, the enterprise changed its direction. Consequently, some machinery is underutilized and adds high depreciation costs to the organization's balance sheets.

Financial schemes provided to CFEs by government institutions in Guatemala appear to be relatively limited.<sup>10</sup> Nevertheless, a similar tendency may also be observed as the investment of wood drying kilns at FORESCOM demonstrates. The recipient undertook inadequate market study, and the lender's scrutiny of the proposal was inadequate.

### 5.5.2. *Influence of the Policy Environment*

It is important for the government at all levels to do no harm (Meyer-Stamer, 2003). However, various government regulations hinder competitive business practices. Apart from the challenges related to actively supporting CFEs through technical or financial services, existing government policy may negatively influence CFEs.

First, overregulation and inflexible policy applications in forestry often increase transaction costs and reduce the competitiveness of forest enterprises. Much paperwork and processing time is required to obtain various authorizations, permits, and certificates, including mandatory forest certification, annual operational plan, forestry licenses (for logging), certificates of origin, phytosanitary certificates, transportation permits, export licenses, and CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora) certificates. For example, it takes 8 to 10 days to obtain CITES permits, which are issued only in Guatemala City, whereas a similar clearance can be made in neighboring Belize within 24 hours. Timber thicker than four inches is not allowed to be exported from Guatemala. Such a regulation does not reflect the market demand, such as the export of railway sleepers. It diminishes business opportunities for local forest industries. If the agriculture or livestock sector were overregulated as the forestry sector is, these sectors would lose their competitiveness (de Camino, et al., 2007).

Similar regulations, including environmental impact assessments, annual operational plans, and transport permits, are also observed in Mexico, and they substantially raise the costs borne by CFEs. The CITES permit is only issued in Mexico City. Within the State of Oaxaca, many permits are issued only in the City of Oaxaca.

Second, tax policy is important area affecting profitability. Community enterprises were formerly exempt from income tax in Mexico.<sup>11</sup> The revision of the income tax law in 2002<sup>12</sup> has hindered the development of CFEs. CFEs argue that the law was imposed in a top-down manner without sufficient consultation to the unions of forest communities. A

major part of the revenue of CFEs is typically used for social projects. However, these expenses are not tax deductible under the current law. The payment of income tax is almost a double tax payment under such a situation. It is regrettable that the disproportionately negative effect of the law on community enterprises seemed not to be adequately considered despite the federal government's commitment to "regulatory impact analysis" through COFEMER (Federal Commission for Regulatory Improvement). CFEs make social investments in place of the government because they do not count on the government's support. A coordinator of a union of forest communities posits that a CFE under ICOFOSA pays approximately 7.5 million pesos of income tax annually. The enterprise has paid more than 28 million pesos of income tax since 2002. This amount exceeds the total amount of investment in their industries. They suffer from high taxes whereas imported timber enjoys relatively low customs duties. CFEs also have difficulty procuring receipts when they make purchases in their own community because small businesses in the community are not obliged by law to provide a receipt to clients. Although CFEs prefer local purchases for promoting the local economy, these expenses often cannot be made tax deductible. The resistance against the payment of income tax among community members is strong, such that some CFEs pay only value-added tax and reject the payment of income tax by establishing a moratorium agreement with the local government.<sup>13</sup> Nevertheless, they run a latent risk. It is also problematic not to consider the income tax payments when they establish costs and prices.

CFEs also argue that the payment of a value added tax hinders vertical integration. Under the current law, only log-producing CFEs are exempt from value added tax. Once they saw timber and thus add value to the raw material, they are no longer exempt from the tax payment. This policy discourages industrialization among CFEs.

Third, it is obligatory to subscribe to the governmental social security program both in Mexico and Guatemala. However, the program is not meaningful or practical from the CFEs' perspective. There are often few clinics in communities where CFE employees can take

advantage of their medical benefits. Many CFEs claim that it sometimes takes a week for a patient to see a doctor in a government hospital in Guatemala. CFEs, both in Mexico and Guatemala, often send their patients to a private doctor and cover the medical costs on their behalf without using the social security program. This arrangement duplicates the medical costs, consequently decreasing revenues. Two CFEs in Oaxaca reject the social security scheme and cover all their employees' medical costs. However, the labor costs cannot be exempted from the income tax when the enterprise does not subscribe to the mandatory social security program.

### 5.5.3. *Influence of Forest Governance*

Weak mechanism and institutional efforts in law application, weak coordination among the concerned authorities, and corruption in forest administration hindered necessary political actions and consequently harmed the stability of CFEs in Guatemala. For example, even with a valid transportation permit, timber trailers can be unnecessarily stopped on the road due to poor coordination among the concerned authorities. It is not uncommon for drivers to be harassed and even forced to pay a bribe.

Community concessions in Peten, including La Colorada, San Miguel Palotada, La Pasadita and Cruce a la Colorada, seriously suffered from the problem of external ranchers' illegal settlements. These ranchers illegally bought the land under community concessions. Many community members recall that even the regional head of a concerned government institution encouraged villagers "to sell their rights" in a public meeting held in the community. External people offered to "purchase" land from the community members. Some locals who rejected the offers were even threatened. The authorities were reluctant to respond to the communities' requests for intervention. An informant in a concerned government institution states that the political costs of intervention were too high. Officials did not dare to intervene because they had no political backing during that period. Campos and de Camino (2009) note the tendency in Latin America for the implementation of the laws to depend on

the discretion of the government officials in applying the laws. The responsiveness of the institution responsible for the affected area has improved in recent years due to a change in key personnel. Nevertheless, three concessions (La Colorada, San Miguel Palotada, and La Pasadita) have already been suspended due to the uncontrolled change of land use and the settlement of external people.<sup>14</sup>

Weak corporate governance often festers in the context of poor forest governance by regulatory agencies. Some personnel in affected CFEs attempted to maximize their personal gain by embezzling from the CFE's budget. Some even made violent threats to those who opposed them. A CFE that experienced these problems in the past continues to suffer from the accumulated debt created by corrupt management in the past.

Transparent financial administration and regular auditing serves as the fundamental basis of healthy enterprises. External assistance in administration, such as accounting and auditing, is critically important. For example, the government imposed sanctions to a debt-laden CFE to accept the obligatory intervention by ACOFOP so that the CFE could reinstitute transparency in its accounting and pay its debts. Thanks to this intervention, the CFE's debt has been reduced by more than half in two years.

Policy drifts have also been observed in the region. The expansion of protected areas without the due consideration of the rights and needs of forest-dependent rural populations continues to occur in Latin America (Campos & de Camino, 2009). The project of *Parque Nacional Cuenca del Mirador* (Mirador Watershed National Park) was unilaterally imposed despite the existing 25-year contracts of community forest concessions in the overlapping area. Approximately 60 to 65 per cent of one community's concession area falls within the proposed national park. Once the project is implemented, it would be very difficult for them to continue their timber business. The first attempt was rejected because the decree was annulled by a law suit. However, the central government and tourism interests are poised to reinstate the park. Affected communities are anxious about the unclear future of their

concessions. They are preoccupied with the lack of transparency and their limited involvement in the planning process.

Forest governance in Oaxaca suffers from its own problems. Although the government's procurement of certified furniture has significantly promoted some community forest industries, impacts in terms of curbing deforestation at the state level is relatively limited. In fact, there appears to be a tendency among different government agencies to concentrate assistance on a limited number of "star" communities. They may do this for the sake of simplifying planning and monitoring but also to improve their chance of success. Conversely, less-organized communities, often characterized by *cacicazgo* (undemocratic rule by local bosses) and boundary conflicts, receive little or no assistance despite their commercial forest production potential. Agencies also tend not to provide assistance until they are "invited" to by communities. *Cacicazgo* communities may be less likely to request assistance because it would bring light to corruption and cronyism.

Unfortunately, such problematic communities comprise nearly half of the forest communities in Oaxaca. Most deforestation actually occurs in those communities, which is ironic, considering the heavy regulation over forestry operations in the other half of the forest communities. One NGO staff member noted that federal forest policy is skewed towards the promotion of forest plantations of approximately 1 million hectares instead of much larger tracts of natural forests that have the potential for commercial forestry operation. Consequently, the increasing domestic timber demand is currently captured by imported timber, whereas Mexican producers are losing their market share.<sup>15</sup> In addition to support for high-profile initiatives such as ICOFOSA, more commitment is also needed to address problematic forest communities to curb illegal logging and to promote sustainable development of the Mexican forest industry as a whole.



## 5.6. Conclusion

The goals and processes of CFEs' establishment exert a decisive influence on the CFEs' corporate culture and vision. The comparison of ICOFOSA and FORESCOM demonstrates the importance of "producer agency," which has been underemphasized in value chain interventions (Seville, et al., 2011). The issue is not whether second-tier CFEs can promote the development of CFEs or not. Rather, what matters most are the vision and agency held by the first-tier CFEs. ICOFOSA has always been under the strategic control of three affiliated CFEs, although it has also received considerable external assistance. As long as the first-tier CFEs commit themselves to using the second-tier CFE as their own instrument, the second-tier CFE will maintain a good potential to function. Otherwise, its chance of success will be slim. A second-tier institution of community enterprises does not command power or drive initiatives that do not derive from the true aspirations of the first-tier enterprises.

IEEPO's commitment as a buyer has strengthened producer agency. It has enacted its environmental and social agenda in a commercially feasible way. IEEPO also effectively utilizes competition among producers as a stimulant for the continuous improvement of product quality and services. The gradual reduction in purchases effectively works as a phase-out strategy, urging CFEs to diversify their markets to function independently.

In contrast, the donor-led foundation "buttoned up the shirt crookedly" and blurred FORESCOM's corporate vision. It weakened the buy-in among many first-tier CFEs. It is ironic that first-tier CFEs are steadily maturing professionally on their own account. A key international buyer dispatches experts every year for approximately 8 years so that the CFEs can meet the quality requirements of the US market. This assistance has significantly contributed to the advancement of concerned CFEs. Six or seven first-tier CFEs in Peten are already deemed quite mature by the buyers in terms of their quality control.

The vision of an enterprise should be guided by buyers' values. Relying upon the intuition or desires of CFE executives does not make sense unless the buyers offer positive feedback. CFEs tend to move in the right direction only when they align their products and services with buyers' demand. Whereas the clients are always the "kings" of the market, development institutions and practitioners traditionally embrace a "farmer first" philosophy (Chambers, 1983). However, development institutions do not assume the risks and consequences of their interventions, a fact that allows them to forward their agenda. Any interventions regarding investment decisions or other strategic moves should be based on producer agency and made in a way that nurtures and strengthens the producer's own agency. External inducements based on a certain ethical consideration or rights-based commitment cannot be more than a secondary element. A shift from a "farmer first" to "customer first" culture is of paramount importance for support institutions, as well.

Unfortunately, many CFEs are unable to access financial services because of their difficulty in procuring mortgages and guarantors. The capacity of financial service institutions in business planning is still limited. Coordination between these institutions and business consulting services is also insufficient. CFEs tend to grasp at available funding opportunities even when their market studies are incomplete. This situation may result in risky investments.

The policy environment for CFEs is often more prohibitive than supportive. Unfortunately, there are still many hindrances in terms of policy, policy application and administrative procedures. Forest industries should not be handicapped by overregulation. CFEs' social investments should be tax exempt. Governments should strengthen the coverage and quality of health service institutions, especially in rural areas, so that subscribing to the obligatory social security program becomes worthwhile. The involvement of CFEs in policy discussion is a crucial step. The mandatory implementation of regulatory impact analysis,

which is gradually gaining currency among developing countries including Mexico (Rodrigo, 2005), would help to promote community-based industries and improve forest governance.

Policy drifts resulting from short-term economic interests must be discouraged. Laws should be applied as specified, not based on the discretion of the government officials in charge. Unfortunately, poor law enforcement and corruption among government officials is widely reported in the forestry sector (Colchester, et al., 2006, Brown, et al., 2008).

Addressing corruption and other political conflicts that prevent effective forest governance is a difficult challenge. Nevertheless, forest authorities should have the courage to confront inconvenient realities. It is important “to discriminate between different forms of ‘illegality’ and attention needs to be focused on whether the system helps to reveal the true grounds of ‘criminality’” (Brown, et al., 2008, p. 67). Government officials should address the root causes of deforestation instead of overregulating relatively healthy community forest industries.

### *References*

- Arnold, M. (2002). Identifying links between forests and poverty. *Discussion paper presented at the ECT/IIED Forestry and Poverty Reduction Workshop, Edinburgh, UK, 13 June, 2002, 6 p.p.*
- Blanchard, D. (2007). *Supply chain management: Best Practices*. Hoboken, NY: John Wiley & Sons.
- Brown, D., Schreckenber, K., Bird, N., Cerutti, P., Del Gatto, F., Diaw, C., et al. (2008). *Legal timber: Verification and governance in the forest sector*. London: Overseas Development Institute.
- Campos, J. J., & de Camino, R. (2009). Políticas e institucionalidad necesarias para la gestión sostenible de los recursos naturales en América Latina. In M. Piñeiro (Ed.), *La institucionalidad agropecuaria en América Latina: Estado actual y nuevos*

- desafíos* (pp. 228-275). Santiago, Chile: Oficina Regional para América Latina y el Caribe, FAO.
- Clay, J. W. (1997). Chapter 8: Business and biodiversity - rain forest marketing and beyond. In N. C. Vance & J. Thomas (Eds.), *Special forest products: Biodiversity meets the marketplace* (pp. 122-145). Washington, D.C.: U.S. Department of Agriculture, Forest Service. Retrieved from <http://www.fs.fed.us/pnw/pubs/gtr63/gtrwo63h.pdf>.
- Colchester, M., Boscolo, M., Contreras-Hermosilla, A., Del Gatto, F., Dempsey, J., Lescuyer, G., et al. (2006). Justice in the forest: Rural livelihoods and forest law enforcement, *Forest Perspectives 3* Retrieved from [http://www.cifor.cgiar.org/publications/pdf\\_files/Books/BColchester0601.pdf](http://www.cifor.cgiar.org/publications/pdf_files/Books/BColchester0601.pdf)
- Committee of Donor Agencies for Small Enterprise Development. (2001). *Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention* Retrieved from <http://www.ilo.org/public/english/employment/ent/papers/guide.htm>
- Cooke, B. (2001). The social psychological limits of participation? In B. Cooke & U. Kothari (Eds.), *Participation: The new tyranny?* (pp. 102-121). London: Zed Books.
- Chambers, R. (1983). *Rural development: Putting the last first*. Harlow: Longman Scientific & Technical.
- de Camino, R., Breitling, J., Cardona, R., Becker, O., Carrera, J. R., Pineda, E., et al. (2007). La reforma de las políticas sobre bosques y áreas protegidas en Guatemala. In R. de Camino & J. Breitling (Eds.), *El cambio es posible: 20 años de experiencias innovadoras en los recursos naturales en Guatemala* (pp. 1-114). Ciudad Colón, Costa Rica: Universidad para la Paz.
- DFID. (2005). Making Market Systems Work Better for the Poor (M4P): An introduction to the concept. *Discussion paper prepared for the ADB-DFID 'learning event'* Retrieved from [http://www.urbanlandmark.org.za/downloads/DFID\\_M4P\\_An\\_introduction\\_to\\_the\\_concept.pdf](http://www.urbanlandmark.org.za/downloads/DFID_M4P_An_introduction_to_the_concept.pdf)

- Doner, R., & Schneider, B. (2000). Business associations and economic development: Why some associations contribute more than others. *Business and Politics*, 2(3), 260-288. doi: 10.1080/1354983002000645 0
- Donovan, J., Stoian, D., Macqueen, D., & Grouwels, S. (2006). The business side of sustainable forest management: Small and medium forest enterprise development for poverty reduction. *Natural Resource Perspectives*, 104 (December 2006), Overseas Development Institutes.
- Drucker, P. (1985). *Innovation and entrepreneurship: Practice and principles*. New York: HarperCollins.
- Drucker, P. (1990). *Managing the nonprofit organization: Principles and practices*. New York: HarperCollins.
- FAO. (2008). FAOSTAT [Database]. Retrieved July 28, 2008, from <http://faostat.fao.org/site/626/default.aspx#ancor>
- Farrington, J., & Mitchell, J. (2006). How can the rural poor participate in global economic processes? *Natural Resource Perspectives*, (103), 6. Retrieved from <http://www.odi.org.uk/resources/download/35.pdf>
- GTZ. (2007). ValueLinks manual: The methodology of value chain analysis Retrieved from <http://edu.care.org/Documents/GTZ%20ValueLinks%20Manual.pdf>
- Handfield, R., & Nicholls, E. (2002). *Supply chain redesign: Transforming supply chains into integrated value chain systems*. Upper Saddle River, NJ: Financial Times Prentice Hall.
- Harper, M., & Tanburn, J. (Eds.). (2005). *Mapping the shift in business development services: Making markets work for the poor*. New Dehli, India: ITDG Publishing.
- Herrmann, J. W. (2003). Design for Production: Concepts and Applications. *Proceedings of the SME East Coast Region 3 Annual Members Conference*. Retrieved from <http://www.isr.umd.edu/Labs/CIM/projects/dfp/r3memcon.pdf>
- Hidalgo, N. S., & Pasos, R. (2008). 6. Lessons from trade in community forest products - Guatemala. In D. Macqueen (Ed.), *Distinguishing community forest products in the*

- market: Industrial demand for a mechanism that brings together forest certification and fair trade: Small and Medium Forest Enterprise Series No. 22 (pp. 73-88). Edinburgh, UK: IIED. Retrieved from [http://www.rightsandresources.org/documents/files/doc\\_579.pdf](http://www.rightsandresources.org/documents/files/doc_579.pdf).
- Hoffman, K. (2005). Aid industry reform and the role of enterprise (pp. 10). Retrieved from <http://www.nextbillion.net/archive/files/Shell%20Foundation%20-%20aid%20reform%20and%20private%20enterprise.pdf>
- Humphrey, J., & Navas-Alemán, L. (2010). Value chains, donor interventions and poverty reduction: A review of donor practice, *Research report Vol. 2010, No. 63* Retrieved from <http://www.ids.ac.uk/files/dmfile/rr63.pdf>
- Kaplinsky, R., & Morris, M. (2000). *A handbook for value chain research*. Ottawa, Canada: IDRC.
- Lecup, I., & Nicholson, K. (2000). *Community-based tree and forest product enterprises: Market Analysis and Development*. Rome: Food and Agriculture Organization of the United Nations.
- Lusby, F. (2006). Useful principles for adopting a market development approach for enterprise development organizations. *International Journal of Emerging Markets*, 1(4), 341-347. doi: 10.1108/17468800610703388
- Macqueen, D. (2004). Associations of small and medium forest enterprise. Retrieved from <http://pubs.iied.org/pdfs/13512IIED.pdf>
- Mayers, J., & Vermeulen, S. (2002). *Company-community forestry partnerships: From raw deals to mutual gains? An international review with proposals for improving forests, enterprise and livelihoods*. London: International Institute for Environment and Development.
- Meyer-Stamer, J. (2003). Obstacles to cooperation in clusters and how to overcome them. *Developing Alternatives*, 9(1), 19-24. Retrieved from [http://www.dai.com/pdf/developing\\_alternatives/competitiveness\\_winter\\_2003.pdf](http://www.dai.com/pdf/developing_alternatives/competitiveness_winter_2003.pdf)
- Meyer, R. (2006). Re: Day One: Defining impact assessment, Impact assessment: An online speaker's corner discussion led by Gary Woller and hosted by microlinks.org (pp. 22-

- 23): USAID. Retrieved from  
[http://www.microlinks.org/ev\\_en.php?ID=13552\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=13552_201&ID2=DO_TOPIC).
- Miehlbradth, A., McVay, M., & Tamburn, J. (2005). From BDS to making markets work for the poor: *The 2005 Readers*. Retrieved from [http://www.value-chains.org/dyn/bds/docs/452/Reader\\_2005\\_final\\_LOW\\_RES.pdf](http://www.value-chains.org/dyn/bds/docs/452/Reader_2005_final_LOW_RES.pdf)
- Molnar, A., Liddle, M., Bracer, C., Khare, A., White, A., & Bull, J. (2007). Community-based forest enterprises in tropical forest countries: Their status and potential in tropical countries, *ITTO Technical Series #28* (pp. 73). Retrieved from [http://www.itto.int/direct/topics/topics\\_pdf\\_download/topics\\_id=37100000&no=1&disp=inline](http://www.itto.int/direct/topics/topics_pdf_download/topics_id=37100000&no=1&disp=inline)
- Ostrom, E. (2000). Collective action and the evolution of social norms. *Journal of Economic Perspectives*, 14(3), 137-158. Retrieved from <http://www.atypon-link.com/AEAP/loi/jep>
- Porter, M. (1998). Cluster and the new economics of competition. *Harvard Business Review*(Nov-Dec 1998), 77-90.
- Pritchett, L. (2002). It pays to be ignorant: A simple political economy of rigorous program evaluation. *The Journal of Policy Reform*, 5(4), 251-269. Retrieved from doi:10.1080/1384128032000096832
- Rodrigo, D. (2005). *Regulatory impact analysis in OECD countries: Challenges for developing countries*. Paper presented at the International Conference "Reforming the Business Environment", Cairo, Egypt.  
<http://www.businessenvironment.org/dyn/be/docs/77/Session3.1RodrigoDoc.pdf>
- Rosenfeld, S. (1996). Does cooperation enhance competitiveness? Assessing the impacts of inter-firm collaboration. *Research Policy*, 25, 247-263. Retrieved from <http://www.sciencedirect.com/science/article/pii/0048733395008357>  
doi:10.1016/0048-7333(95)00835-7
- Schmitz, H., & Nadvi, K. (1999). Clustering and industrialization: Introduction. *World Development*, 27(9), 1503-1514. Retrieved from <http://www.sciencedirect.com/science/article/pii/S0305750X99000728>  
doi:10.1016/S0305-750X(99)00072-8

Seville, D., Buxton, A., & Vorley, B. (2011). Under what conditions are value chains effective tools for pro-poor development? Retrieved from <http://pubs.iied.org/pdfs/16029IIED.pdf>

Stoian, D., Donovan, J., & Poole, N. (2009). *Unlocking the development potential of community forest enterprises: Findings from a comparative study in Asia, Africa, Latin America, and the United States*. Paper presented at the XIII World Forestry Congress, Buenos Aires, Argentine.  
<http://www.catie.ac.cr/BancoMedios/Documentos%20PDF/development%20potential%20of%20cfe%20-%20stoian%20et%20al%202009.pdf>

USAID. (2006). Impact assessment: An online speaker's corner discussion led by Gary Woller and hosted by microlinks.org Retrieved from [http://www.microlinks.org/ev\\_en.php?ID=13552\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=13552_201&ID2=DO_TOPIC)

#### Notes

---

<sup>1</sup> More information on ICOFOSA and FORESCOM is available on the following websites, respectively: <http://www.tipmuebles.com> and [http://www.acofop.org/forescom\\_en\\_el\\_2011.html](http://www.acofop.org/forescom_en_el_2011.html).

<sup>2</sup> They opened a new branch in Puebla in 2011.

<sup>3</sup> Two additional CFEs joined a year later. Thus, 11 out of 13 major CFEs in Peten are affiliated with FORESCOM.

<sup>4</sup> Pueblo Mancomunados, Ixtlán de Juárez, Santiago Textitlán (Oaxaca), AFISAP, Cruce a la Colorada, Árbol Verde, Uaxactún, CUSTOSEL, El Esfuerzo, Impulsores Suchitecos, Laborantes del Bosque, Carmelita, Unión Maya Itza, and La Técnica (Peten).

<sup>5</sup> Source: <http://www.tipmuebles.com/>

<sup>6</sup> *Instituto Estatal de Educación Pública de Oaxaca*.

<sup>7</sup> See the notes No. 3.

<sup>8</sup> Ministry of Agriculture, Livestock and Food.



---

<sup>9</sup> *CONAFOR: Comisión Nacional Forestal; SAGARPA: Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación; FIRA: Fideicomisos Instituidos en Relación con la Agricultura; FIRCO: Fideicomisos de Riesgos Compartidos.*

<sup>10</sup> Guatemalan CFEs tend to receive more external assistance from NGOs and foreign donors than from government institutions. Some first-tier CFEs received loans from private banks such as BanCafe (currently part of BanRural) for capital investments such as sawmills.

<sup>11</sup> Artículo 10-B de La Ley Del Impuesto Sobre La Renta, el 30 de diciembre de 1980.

<sup>12</sup> Artículo 81 de La Ley Del Impuesto Sobre La Renta, el 1° de enero de 2002.

<sup>13</sup> It is also inconvenient for local governments to have political disputes with community leaders. The application of legislation at times depends on the delicate balance of power in Mexico.

<sup>14</sup> These three concessions experienced disadvantages from the beginning: (a) the size of concession was small, (b) the original inventory was poor due to the prior decimation of valuable species by private concessioners, and (c) the communities' livelihoods were traditionally based on agriculture and livestock raising rather than forestry.

<sup>15</sup> Mexico's steady economic growth has raised its status to the seventh largest importer of sawn wood (3.0 million m<sup>3</sup>/year) in the world. The market share of imported sawn softwoods rose from 20 per cent (0.7 million m<sup>3</sup>) in 2000 to 58 per cent (3.1 million m<sup>3</sup>) in 2006. The domestic production decreased by 21 per cent (from 2.9 million m<sup>3</sup> to 2.3 million m<sup>3</sup>) in the same period although the estimated domestic timber consumption (consumption = production + imports - exports) grew by 53 per cent (from 3.5 million m<sup>3</sup> to 5.3 million m<sup>3</sup>) in the same period (based on FAOSTAT data, FAO, 2008).

## 6. Synthesis Discussion

### 6.1. Connecting the Dots

This section includes a synthesis of the responses to the guiding questions, discusses their implications for CFE development, and provides an outlook to future research and development issues.

Interviews with buyers showed the importance for CFEs to move beyond production-oriented mentality toward a customer satisfaction approach. Many CFEs still charge what represents production costs rather than values for customers. Customer opinions toward the traditional “sell what you have” approach taken by many community businesses are generally negative. On the other hand, customers are open to enter into long-term business relationships with CFEs as long as these provide them with quality products and services. Social and environmental credentials of CFEs can be a distinctive feature in the market, provided that their products, services and prices are attractive for customers.

The study shows that changing consumer preferences in developed countries such as the United States, along with those of a growing middle class in moderately developed countries such as Mexico and Guatemala, result in increasing demand for products produced with environmental and social responsibility. These trends suggest good market prospects for community enterprises that process wood sourced from sustainably managed forests. This, however, does not necessarily generate a price premium as social and environmental attributes of these wood products are often hardly visible to final consumers or, if they are, they are only rewarded by those among them who are not strongly cost-conscious. In general, social and environmental benefits do not make up for possible competitive disadvantages of CFEs, such as high prices, low quality, limited volume, and limited product variety. CFEs must be cognizant of the products and services which their competitors offer, and how their

own products perform in comparisons. They need to develop an objective view of their own strengths and weaknesses in order to become successful in the marketplace.

Business organization into first- and second-tier CFEs and resulting vertical integration of wood production, processing, and commercialization is an interesting option to capture more of the value added along the chain. However, the two cases show that the existence of a second-tier CFE does not necessarily improve overall profitability or benefit capturing. The costs associated with retailing, intermediation, processing and administration can quickly outpace the benefit of improved prices captured from the value chain. Thorough customer satisfaction research, continuous adaption of products and services, and continuous cost cutting efforts are required to both second-tier and first-tier CFEs.

A “sell what you have” mentality often results from the fact that CFEs are driven by political impetus rather than pulled by market demand. This kind of mentality is often reinforced by CFE members interested in social benefits, in addition to the employment opportunities provided by these enterprises. However, what it takes to run a social enterprise has rarely been questioned, neither by the academic community nor by development practitioners or CFE members. As a result, CFEs often suffer from a notorious lack of vision and strategic orientation, partly because of (a) vaguely defined social value propositions, (b) shortage of well-qualified professionals, (c) insulation from market discipline due to employee ownership, (d) immature corporate governance structures and mechanisms, and (e) limited linkages with downstream and upstream chain actors. The more these factors are at play, the more they compromise the economic performance of CFEs, and, hence, their long-term viability.

A better understanding of the process of emerging collective entrepreneurship is indispensable for supporting CFEs so that their maturation can be accelerated. Strong leadership is required to develop a clear consensus about what to accomplish and what not to. This includes policies regarding salary, fringe benefits, recruitment, investment and revenue

distribution. It naturally involves highly political questions such as “who participates”, “who determines the agenda”, and “whose interests are being furthered at whose expense”. Facilitation of internal debate and iterative consensus building helps the CFE members and the community identify the major trade-offs of their decisions. As the social enterprise matures, CFE members and its constituency in the community gradually accept the rules of the game for what it takes to make a business viable. Key steps for establishing profitable and sustainable businesses include separation of CFE management and community authority, termination of managerial rotation for professional management, and establishment of transparent mechanisms for accountability and controlling management. Strong internal ties need to be developed within the community, along with external linkages to downstream and upstream chain actors and service providers. The latter is a key if technical, managerial and financial bottlenecks are to be overcome. Effective and efficient services can also help to improve internal corporate governance and process control such as audit and managerial accounting, as critical elements of a viable business administration strategy.

The comparison of ICOFOSA and FORESCOM shows the critical role of producer agency. Oaxacan state institutions’ procurement of certified furniture has strengthened producer agency. It also provides CFEs a grace period to become mature. They effectively use competition among producers as a stimulant for continuous improvement of product quality and services. In contrast, the donor-driven foundation of FORESCOM “buttoned up the shirt crookedly” and blurred the corporate vision of the enterprise. In this context, a critical role accrues to the vision and agency of the first-tier CFEs, as well as a clear labor division between first- and second-tier CFEs. In their absence, the chance of success of second-tier CFEs is slim at best. Second-tier CFEs should also exert a strong command toward first-tier CFEs for the purpose of operationally articulating customer demands into actual improvement of products and services, and show a clear value added in terms of services to their first tiers. As the vision, product and services portfolio, and performance of

first-tier CFEs improve, second-tier CFEs need to be able to further advance their vision, portfolio, and performance. Otherwise they simply become redundant and their functions will be absorbed by the first tiers. This is a real risk in particular in the case of FORESCOM where several first-tier CFEs are eager to take over certain functions performed by their second-tier enterprise.

NGOs and donor institutions do not always account for the appropriate balance of risks and returns from the perspectives of private sector players. They tend to inconsiderately promote value addition through vertical integration and forest certification before they challenge the often rudimentary business model and high cost structure of a CFE. Although the dynamism observed in community-based enterprises is often complex and difficult to change, it is wrong to expect that buyers make up for institutional weaknesses of CFEs. A shift from “farmer first” to “customer first” culture is a prerequisite not only for CFEs but also among support institutions. Externally induced norms or values based on ethical considerations or rights-based commitment cannot be more than a secondary element. As a rule of thumb, the vision of an enterprise should be aligned with the norms and values of the customers. The risks and consequences of development interventions are borne by the CFEs, not by the development agencies and NGOs who support these. Therefore, any intervention should be driven by producer agency, in line with the aspirations of both CFEs and other chain actors.

Unfortunately, many CFEs still have little access to financial services due to their lack of collateral and guarantors. CFEs may therefore respond hastily when external funding becomes available, even when market and other risks are not well understood. Their capacity to carry out feasibility studies and cost-benefit analyses is often limited, and their providers of technical, business and financial services may not fill this gap.

The study also revealed that there are still many obstacles in terms of policy, policy enforcement, and administrative procedures. Forest management and the wood-based

industry should not be handicapped with overregulation. Involvement of CFEs and other small and medium enterprises in policy discussion is a crucial step. It is important “to discriminate between different forms of ‘illegality’, and attention needs to be focused on whether the system helps to reveal the true grounds of ‘criminality’” (Brown et al., 2008, p. 67). Policy drift resulting from short-term economic interests must be discouraged. Laws should be indiscriminately applied as specified, not upon the discretion of government officials in charge. Unfortunately, interventions which incur political risks tend to be avoided by the authorities even when such interventions are extremely needed. Addressing corruption and other political conflicts that prevent effective forest governance is a difficult challenge. Nevertheless, forest authorities should have the courage to confront with inconvenient realities. Government officials should address the root causes of deforestation instead of overregulating relatively healthy community forest industries.

## 6.2. CFEs’ Trade-offs

CFEs often pursue dual, if not triple, goals: economic, social, and environmental goals. Ideally, these goals are complementary, but often they are not, and considerable trade-offs exist when pursuing them jointly. There is an urgent need to balance positive and negative effects of their policies, strategies, and conducts to minimize the trade-offs and maximize synergetic effects.

Hereinafter environmental impacts are treated as part of social impacts for the purpose of simplifying the discussion. Related impacts can be roughly grouped into seven categories: (a) positive both in social and business impacts, (b) socially neutral but positive in business, (c) socially negative but positive in business, (d) socially positive but neutral in business, (e) socially positive but negative in business, (f) socially neutral and negative in business, and (g) negative both in social and business impacts. The author has not identified policies or conducts which are neutral both in social and business, or socially negative but neutral in

business. Examples of policies, strategies, and conducts and their influence on the competitiveness of the CFE are shown in Table 6.1.

**Table: 6. 1: The Impact of a CFE's Policies and Conducts on the Enterprise's Competitiveness**

		Social and Environmental Impacts		
		positive	neutral	negative
Business Impacts	positive	Division of management and community authority, establishment of checks and balance systems, capacity building.	Investment in business, merit-based labor control, non-rotational professional management, appointment of external professionals, use of external professional services, collaboration with external actors.	Employment of external non-specialized labor*, exploitative forest use (rare), exploitative employment practices (rare).
	neutral	Social investments, minimization of environmental impacts, appointment of qualified community members to key managerial/operational posts.		
	negative	Managerial rotation, appointment of unqualified community members to key posts, inflated payroll, excess claim for dividend and social benefits.	High employee turnover, weak discipline among employees, unconditional rejection of external professionals.	Corruption, cronyism/nepotism/ <i>cacicazgo</i> , embezzlement, unjustifiable claims for allowances, lax labor control.
* Some communities see the provision of jobs to external labor as socially positive.				

(a) Positive both in social and business impacts: These policies make positive impacts when thoughtfully adapted. These include: division of management and community authority, establishment of checks and balances systems such as internal rules regarding procedures on planning, investment, recruitment, monitoring, evaluation, and auditing; capacity building of CFE employees; and scholarship for children in the community.

(b) Socially neutral but positive in business: These policies make positive impact in business while making little negative social impacts. These include: appropriate investment in business, merit-based labor control, non-rotational professional management, appointment of external professionals, customer-oriented product development and marketing, use of external professional services, value chain level collaboration, and external networking.

(c) Socially negative but positive in business: These policies may make socially negative impacts, but often improve profits (at least for a short period) in business. These

include: employment of external non-specialized labor, and exploitative forest use and employment practices (rarely observed in CFEs). Employment of external labor may reduce employment opportunity for community members, but reduces unnecessarily inflated wage and special privileges rendered to community members. It also eases procurement of quality labor. It is notable that some communities do not see the provision of jobs to external labor negatively but positively because it still provides positive impacts on regional economy. However, some communities see it negatively as the draining of their employment opportunities.

(d) Socially positive but neutral in business: These policies make positive social impacts, and may eventually help build positive conditions for sustainable community business although they incur costs covered by CFE. These include: social investments such as infrastructure development, medical services and pension; due payment of dividends; social security and attractive working environment to employees; minimization of environmental impacts including obtainment of forest certification; employment of local people even if they were suboptimal labor; and appointment of qualified (but not optimal) community members to key managerial and operational posts. Employment of suboptimal labor calls for capacity building and employees' own effort for minimizing its negative effects on productivity. Appointment of qualified community members to key posts may be ideal if they are competitive even compared with external candidates. However, many CFEs have shortage of such human resources in reality.

(e) Socially positive but negative in business: These conducts may provide positive social impacts, but hinder entrepreneurial development and sustainable business. These include: managerial rotation, appointment of unqualified community members to key posts, inflated payroll, and excess claim for dividend and social benefits.

(f) Socially neutral and negative in business: These conducts closely relate with prevailing social norms. Community leaders should lead the community toward change for



what it takes in business. These include: high turnover of employees condoned by traditional lifestyle, weak discipline among employees who take employee ownership in a wrong way, and unconditional rejection of external professionals.

(g) Negative both in social and business impacts: These conducts make seriously negative impacts on society and business. These include: corruption, cronyism/nepotism/*cacicazgo*, embezzlement of CFE's budget, unjustifiable claims for allowances, and lax labor control including absenteeism. These problematic conducts should be strictly controlled adapting appropriate corporate governance system based on transparent reporting, regular monitoring, and application of sanction.

Unfortunately, policies and strategies which likely make positive impacts both in social as well as business terms classified under (a) such as division of management and community authority and establishment of checks and balances systems are not adopted in many CFEs yet. Delayed adoption of these key policies is often caused by limited knowledge, capacity and consciousness in social organization and business administration among community leaders. Logically, immature CFEs without these corporate governance systems are prone to conducts classified under (g). Harmful conducts classified under (g) are often triggered by personal interests of powerful players in the community, and make negative impacts both in social as well as business terms. Such CFEs are also prone to influence of powerful external economic interests as the external ranchers and corrupt officials deteriorated some of the community concessions in Peten.

Many business-oriented policies classified under (b) could make very positive impacts in business while they cause few negative social impacts. Apparently, it should be relatively easy to promote such constructive policies. However, adaption of these policies often necessitates the change of people's mentality sometimes manifested as the conducts classified under (e) and (f). Claims for inflated employment, excess dividend and other benefits may be triggered due to poverty to a certain extent. However, along with other

negative conducts such as high turnover and low productivity practices, they are mostly caused by weak consciousness among local people about business. CFE management has to raise their awareness about what community business can do and cannot do. Practices such as managerial rotation and appointment of unqualified community members to key posts are closely related with the availability of trust-worthy professionals at local level and community's confidence in indirect corporate governance. Networking and liaison with external professional resources could facilitate change for the better.

Provision of employment to external nonspecialized labor classified under (c) is not only influenced by the degree of awareness of management in cost control, but also by the general availability of employments in the area. Shortage of alternative employment opportunities is often observed in communities which oppose such policy. The adoption of this policy is subject to political choice of a given community.

Policies classified under (d) are often included in mandates of CFEs. Provision of social benefits is the goal of a social enterprise. Therefore, the adoption of these policies is subject to political choice of each community. However, distribution of revenues for social purpose should be positioned as "social investments" which is based on objectives shared among community members and necessitates verification of impacts. It should not be treated just as "social expense": uncoordinated distribution of benefits to be made as uncoordinated demands arise. The extent to which a CFE can realize social investment is naturally not static because it all depends on the level of profit which changes under the influence of various new challenges and opportunities in markets. CFE's social investment strategy should be flexibly adjusted through iterative internal debate.

Effects of employee ownership should also be carefully considered. For example, enfranchisement of community members including preferential employment and provision of higher-than-market-rate wage may improve members' livelihoods, but limits the "spill-over" effects to regional economy, and disenfranchises externally hired employees (e.g., those from

neighboring communities). For timber-based CFEs membership expansion is usually strictly limited (Donovan et al., 2008). High payment of dividends, when preferred by the community, usually implies high barriers to entry (Donovan et al., 2008). Some “forest communities suffer from ‘communal fetters’, overly restrictive traditional practices and a lack of trust that impede the development of a CFE” (Bray, Antinori, & Torres-Rojo, 2006, p. 480). Community members as a “special interest group” may inflate costs of personnel and decrease the competitiveness of the community business as the effect of the two-tier wage policy in a first-tier CFE in Peten illustrates (see section 4.4). Under this policy the enterprise pays higher wages to members than those paid to non-members for the same job, that is, not on the basis of professional merit but solely on the basis of community membership.

### 6.3. Factors Influencing the Competitiveness of CFEs

Various factors influencing the competitiveness of CFEs discussed in this dissertation can be summarized in the framework of “the four key elements influencing competitiveness of a CFE” (Figure 6.1) adapted from “the four key elements of effective strategy formation” presented by Learned, Christensen, Andrews, and Guth (1969, cited in Porter, 1981, p. 610, hereinafter abbreviated as LCAG framework).

Porter(1981) explains that the industrial organization paradigm presented in the LCAG framework defines business strategy “as how a firm attempts to compete in its environment, encompassing key choices about goals, products, markets, marketing, manufacturing, and so on” (p. 610). The LCAG framework offers logically compelling consistency tests that could help a firm probe if the firm’s internal competences and values match with the broader external environment. The framework conceives that goals of the firm encompass both economic and noneconomic considerations including social obligations. Therefore, it can be adapted for the purpose of synthesizing the factors influencing the competitiveness of social enterprises including CFEs as shown in Figure 6.1. These factors can be roughly categorized

into those related to the business model or system and those related with people. When

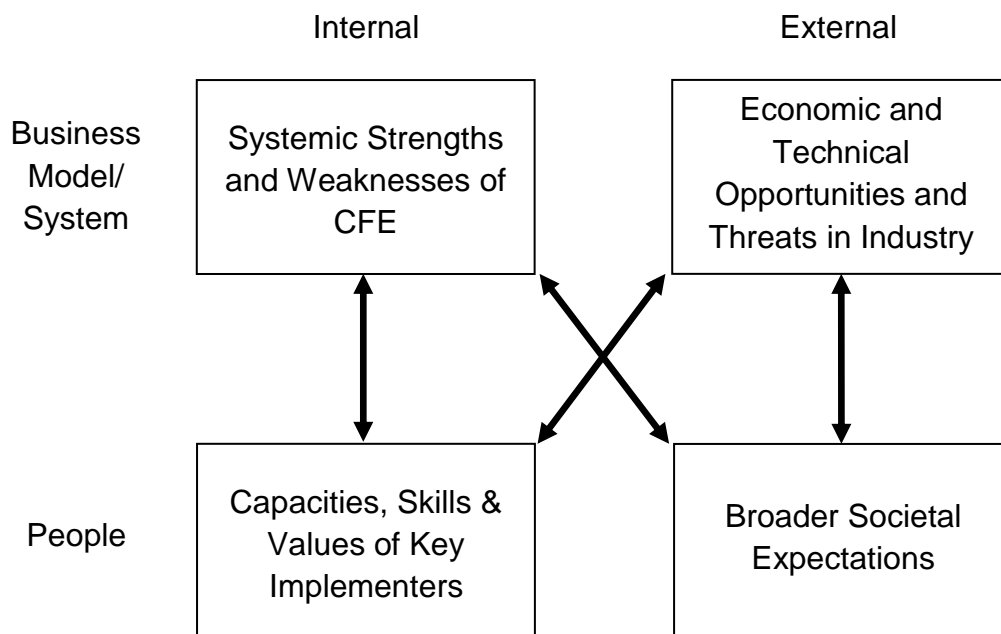


Figure 6.1: The Four Key Elements Influencing Competitiveness of a CFE (Adapted from “The four key elements of effective strategy formulation” by Learned, Christensen, Andrews and Guth, 1960 quoted in Porter, 1981, p. 610)

further accounting for internal and external factors, the following four elements constitute the adapted model: (a) systemic strengths and weaknesses of CFE, (b) capacities, skills and values of key implementers (both CFE staff members and leaders in community authorities), (c) economic and technical opportunities and threats in industry, and (d) societal expectations.

(a) Factors closely related with CFE’s systemic strengths and weaknesses discussed in this study include:

- Corporate governance system including planning, monitoring, evaluation and audit;
- Rotating management or non-rotating professional management;

- Employee ownership;
- Wage, fringe benefits and social security policy for employees;
- CFE's facilities such as sawmill, patio, furniture factory, store, logging machinery, vehicles, and logging roads;
- Access to forest resources in terms of cost and volume;
- Location of enterprise: the influence of the road network, local commodity prices, access to communication services such as telephone and internet, and availability of skilled and semi-skilled labor. The location of a CFE should not necessarily be in the community. It is a matter of a strategic choice;
- Product development and marketing system;
- Production system;
- Quality control system;
- Cost control system; and
- Logistics and distribution system.

(b) Factors closely related with capacities, skills and values of key implementers

include:

- Leadership of CFE manager and community leaders for leading the process of constructive destruction of social capital (see section 4.7.2);
- Entrepreneurial consciousness toward merit-based recruitment and labor management, and investment among board members including leaders of communal authority;
- External and internal linkages of CFE manager and community leaders; and
- Professional capacity of manager and other key operational and administrative personnel.

(c) Factors closely related with economic and technical opportunities and threats in

industry include:

- Economic trend and business fluctuation;
- Competitors;
- Price elasticity and profitability of each product;
- Potential for cause marketing by product;
- Quality of transport infrastructure and accessible logistic services;
- Access to technical, business and financial services;
- Governmental procurement policy of certified furniture or timber;
- Overregulation on forest industry;
- Government's low priority to forest sector compared with other sectors such as agriculture, livestock, mining, and tourism;
- Weak forest governance which causes forest degradation, conflicts and commercialization of illegally harvested timber competing with CFE's products;
- Tax regime; and
- Mandatory social security policy.

(d) Societal expectations: A private enterprise must respond to the expectations of various stakeholders including stockholders, buyers, labor, and the general public. A CFE should also respond to the similar expectations. However, due to its employee ownership and often internally-realized capitalization, the societal expectations to which a CFE must respond mostly come from its own communal constituency. Factors closely related with those include:

- Job creation pressure;
- Cost of hiring suboptimal labor;
- Internalization of capacity building costs;
- Provision of social services to community;

- Pressure for “irrational” provision of benefits caused by people’s vulnerable livelihoods or greed;
- Existing “rules of the game” in local society including rejection of external professionals, nepotism, *cacicazgo*, emigration, and high turnover of employees caused by farming-oriented livelihoods;
- Client expectation to socially and environmentally conscious products (especially in niche markets); and
- Environmental and social expectations (expressed as explicit or implicit conditionality) by support agencies and donors.

Many challenges stem either from unclear goals (social value propositions) discussed in section 6.2 or capacity of key implementers. A CFE needs to build entrepreneurial capacity for effectively administrating the business, articulating operations such as product development, manufacturing, marketing, logistics and distribution, and institutionalizing these operations as systems. On the other hand, some external challenges such as unfavorable policies cannot be tackled by a CFE alone. In order to make effective interventions it is crucial to identify key constraints in all of the four elements, and determining an appropriate sequence to address them. Many operational constraints can effectively be addressed only after solving the challenges related with societal expectations and the capacity of key implementers as discussed in section 6.2. Community members select and assign key implementers according to their values or norms. Systems for corporate governance, administration, and operation need to be approved by the general assembly before being implemented by the CFE manager. In short, community members must have a certain entrepreneurial awareness to choose the right person who has leadership, entrepreneurship, and professional capacity so that he or she can establish appropriate systems which enable profitable business and which synchronize with community members’ value.

It takes time for a CFE to mature not only because people face vulnerable livelihoods or their academic and entrepreneurial capacity is limited or they suffer from unsupportive policies, but also because the process of collectively defining “social value propositions” is highly political. The absence of separation of the beneficiaries, the management and the owners under employee ownership implies an idiosyncratic approach to CFE development. If, however, the process of CFE development and consolidation is to be accelerated, a holistic approach is required. Facilitation of internal debate applying participatory approaches has its own place in CFE intervention. Participatory market appraisal (for example, see Joss, Schaltenbrand, & Schmidt, 2002; Lecup & Nicholson, 2000; Ostertag, Lundy, Gottret, Best, & Ferris, 2007) and value chain study (GTZ, 2007; Kaplinsky & Morris, 2000) has its own place. Support in accounting and audit, more specialized business development services, financial services, and multistakeholder negotiation for political lobbying – all of them also have their own place in CFE interventions, and have appropriate combination and sequence to be applied. The challenges related to external services are further discussed in section 6.4.3.

#### 6.4. Synthesizing the Study Findings and Existing Literature

A number of literature discuss CFEs from various perspectives. These include: company-community partnerships (Hewitt & Castro-Delgadillo, 2009; Kaimowitz, 2002; Mayers & Vermeulen, 2002; Morsello, 2006; Vidal, 2005), pro-poor forestry (Arnold, 2002; Donovan, Stoian, Macqueen, & Grouwels, 2006; Mayers, 2006; Mayers & Macqueen, 2007; Molnar et al., 2007; Scherr, White, & Kaimowitz, 2004; UK Tropical Forest Forum, 2006), forest certification (Bass, Thornber, Markopoulos, Roberts, & Grieg-Gran, 2001; Cashore, Gale, Meidinger, & Newsom, 2006; Hughell & Butterfield, 2008), forest environmental services (Landell-Mills & Porras, 2002), cause marketing of CFEs’ products (Macqueen et al., 2008; Macqueen, Dufey, & Patel, 2006), business development services (Macqueen,



2008), CFE associations (Macqueen, 2004), and CFE establishment guide (Lecup & Nicholson, 2000). Much other literature discusses influence of policy, market environment, community organization and local political dynamics on CFEs' status in specific case, country or region.<sup>1</sup> Although there are many CF literature, the number of CFE literature is not many, especially those from countries other than Mexico and Guatemala. Even among CFE literature orientation toward "E" (enterprise, economic performance, entrepreneurship) aspects is generally weak. Studies focusing on economic performance are limited to a few including Molnar et al. (2007), Donovan et al. (2008) and Stoian et al. (2009). Literature mentioned above emphasizes more about the influence of policy and market environment rather than actual competitive strategies or producer agency of CFEs. Neither are studied much the perspectives of private sector players in value chains toward CFEs. In this light, this study stands out and makes a unique contribution to deepen the understanding over CFEs. Weak emphasis on producer agency probably reflects generally weak "business DNA" (Hoffman, 2005) among CF researchers. For example, Molnar et al. (2007) mix up overall benefits of CFEs with their competitive advantages by including under the latter the following general benefits: generation of employment; management for long-term biodiversity; ceremonial, recreational and subsistence values; political empowerment; self-esteem building; and cultural stability (p.51). In addition, CFEs' insufficient capacity to meet demand in terms of quality, volume, price, and preference change are treated as market barriers rather than competitive disadvantages (p.56). However, market is not a "given" but to be "gained" through producers' efforts. Such paternalistic mentality is probably caused by excessive pro-poor biases among CF researchers and development practitioners. Most of existing literature has strong policy focus due partly to the preferences of the institutions that funded these studies. It is true that policy and market environment often exert significant influence on CFEs' competitiveness. This, however, does not mean that only "others" (e.g., policy, market and business services environment) are to be blamed. Rather, there is an

urgent need to critically analyze what the CFEs themselves can and need to do differently to become more competitive.

Weak emphasis on producer agency is pointed out by a few studies in the value chain literature including Seville et al. (2011), but not by CF literature. Literature which analyzes CFEs from a business perspective is even rarer. Articles which focus on producers' own competitive efforts are limited to a few including Butterfield, Garcia and Gutierrez (2005), Hernández, Fortín and Butterfield (2010) and Clay (1997). These articles introduce specific quality control and cost reduction efforts on part of CFEs.

Molnar et al. (2007) and Donovan et al. (2008) are among a few studies which provide comprehensive overview of the CFEs' economic status based on a number of cases from the perspectives of their organizational models, stakeholder involvement, forest policy, market environment, development intervention, and CFE constituency. In the remainder of this chapter, the author will discuss the findings of this study in comparison with those of these two key studies and other pertinent references.

#### *6.4.1. Internal business organization and performance*

Both Molnar et al. (2007) and Donovan et al. (2008) point out several weaknesses of CFEs. According to these studies, CFEs typically suffer from competitive disadvantages related to remoteness, lack of organizational skills, social dynamics, weak production assets and small scale production. Many CFEs have a problem of delayed and/or erratic delivery. Quality segregation hardly takes place and incentives for quality production are largely absent. CFEs sometimes "fail to meet quality standards or agreed-upon species mixes, or break contracts" (Taylor & Zabin, 2000, p. 149). Production costs are high as their limited processing capacity does not allow for economies of scale. Their business model often relies on large endowments of natural capital. This confirms the finding of this study in that many CFEs still cannot meet bottom line quality, volume, price and services.

Donovan et al. (2008) suggest outsourcing of processing as a potential alternative, though related models are still rare. It may allow CFEs to focus on their core activities, and reduce risk and management burden, while it offers opportunity of value addition to CFEs. Outsourcing of specific functions is actually observed in the Oaxaca case study. A first-tier CFE contracts out product design to an external furniture designer partly because it is not easy for them to convince the general assembly to employ an external professional due to their “community-member-only” policy (see section 4.6.1). They also outsource the retailing function through a “sales-on-consignment” contract with retailers. This policy allows the CFE to make use of exclusive furniture retail stores without incurring the cost of a major investment in stores although the CFE has to bear the cost of inventory. This policy also reduces entry barrier to private furniture store owners and reduces risk because they can avoid a heavy initial investment in furniture inventory. Unsold furniture is returned to the CFE.

Donovan et al. (2008) argues that the selection of a given legal form for the enterprise implies specific trade-offs. They argue that sometimes not even the second-best option is chosen due to the lack of business vision, legal inexperience and inappropriate advice by NGO. They suggest changes in the adoption of legal forms for business organization over time, whereby CFEs could opt for not-for-profit legal forms in the early stages of enterprise development before adapting for-profit forms as their enterprises evolve. A similar strategy has actually been pursued by the three studied CFEs in Oaxaca. In their case, although they have not changed the legal form (*unidad forestal*) as such, they divided the enterprise by function in order to reduce tax payment: one enterprise for forest management and logging, and another for sawmilling and furniture production. In Mexico, log producing CFEs are not subject to payment of VAT (Value Added Tax), unlike those CFEs that process logs. They reduce the payment of VAT by adapting an internal log pricing policy similar to “transfer

price” observed in multinational companies. The logs are “sold” to the sawmill for relatively high price to reduce the “value added” at the sawmill.

Donovan et al. (2008) also point out that the level of capitalization among community enterprises is limited. They are often not adequately equipped with state-of-the-art technology or facilities. Typically equipment and machinery are purchased second hand. This lowers initial investments but causes higher maintenance and operating costs. The depreciation of equipment and machinery tend not to be accounted, and they struggle for cash when the old machinery breaks down. Some studied CFEs in Peten suffer from similar problem. However, despite Donovan et al.’s argument the consciousness toward capitalization among the most of studied CFEs is relatively high. Advanced CFEs, especially in Oaxaca, are often equipped with the-state-of-the-art facilities. Antinori and Bray (2005) mention that most Mexican CFEs made investments in asset maintenance such as logging roads. Vertically integrated CFEs made even higher investments, for example in cranes, trucks, and processing facilities and equipment. They also report that Mexican CFEs rely little on outside funding which suggests barriers to access credit, a bias against debt, and/or lack of need for debt-financing.

Donovan et al. (2008) also discuss the relationship between non-forestry community enterprises and their members. Prices offered to members are not significantly different from those offered by competing local traders or processors. Incentives for affiliation are more related to affordable credit, training and transport services. Most community enterprises maintain informal relations with their members with no established rules or regulations beyond distribution of income. They often carry out transactions without written contracts. Effective implementation and enforcement mechanisms may not be in place, for example when side selling is observed due to untimely payment modalities. Although these findings are identified mostly through the observation of non-forestry community enterprises, such a

situation is very similar to the relationship between FORESCOM and its affiliated communities.

#### 6.4.2. *Capacities and skills of key staff members*

Both Molnar et al. (2007) and Donovan et al. (2008) point out the shortage of formally trained staff members in CFEs. Capacities and skills are often acquired through learning by doing. Capacity building of key staff members, especially among management and board members, is hampered by quick turnover. Frequent managerial rotation causes zigzag learning curves and slow entrepreneurial development.

General lack of entrepreneurship is observed both among management and board. Molnar et al. (2007) mention unwillingness among CFE management to adapt their practices to market demands. They often face tensions over management decisions caused by limited knowledge of marketing opportunities or strategies. Donovan et al. (2008) argue that the overall innovation and management capacity is low among CFE staff. Many CFEs face difficulties in clearly expressing their needs for technical, business and financial services. As a result, their service needs may be identified by outsiders, such as NGO or project staff members. This confirms the findings of this study, particularly those from Peten.

Democratic decision making in some CFEs may cause a burden for buyers. For example, in the community of Noh-Bec in Mexico potential buyers must present their proposals directly to the general assembly in which decisions need to be taken by consensus (Donovan et al., 2008). At the same time, certain community enterprises governed by their board or general assembly and without a professional manager have been able to handle relatively complex resource management, production, and marketing operations. In these cases, a democratic governance structure legitimizes major decisions whereas hiring externally sourced managers may imply reduced sense of ownership, less democratic governance, and a challenge for sustainability (Donovan et al., 2008). However, the CFEs with professional management studied in Oaxaca and Peten still maintain a strong sense of

ownership (see section 4.5.3). Their enterprise-wide awareness of competitive business practices is higher than in other CFEs with nonprofessional management. The FORESCOM case indicates that appointing external professional managers subsidized by development agency is likely to weaken sense of ownership. However, as long as a CFE autonomously hires external professionals for its own strategic purpose and pays for them on its own account there is little risk of losing the sense of ownership. What matters is the ability and mechanisms to monitor performance of management and to enable community authority to scrutinize key entrepreneurial policy as needed. This is in line with the findings of Donovan et al. (2008). The enterprise would simply dismiss external professionals and hire others if their performance turned out to be unsatisfactory.

Hiring professional manager from within the community, if available, would seem to be an ideal solution. An internally recruited professional manager could be expected to be more loyal to the community which would minimize managerial turnover. However, their long term assignment based on moral commitment cannot be taken for granted as discussed in section 4.5.4. A manager may feel isolated and suffer from “burn-out” under tension in human relation and political pressure if the CFE could not offer the manager appropriate professional and moral support and institutionalized buffer. Lack of understanding among community members as to the operations of the community enterprise may lead to the perception that professional staff receives unfair access to benefits over members (Donovan et al., 2008). A clear division of responsibilities is often lacking between manager, board, and general assembly. They frequently struggle with “transition from an enterprise directly controlled by community governance structures into a structure that incorporates enterprise forms of organization that create a clearer division between community and enterprise governance” (Bray et al., 2006, p. 479). These support and checks and balances systems could only be built through collective awareness raising and capacity building among community leaders and other community members/owners. Community members have to

have minimum entrepreneurial awareness although they do not necessarily have to acquire technical know-how in timber or furniture business by themselves.

Donovan et al. (2008) argue that CFEs rarely find a manager or director who combines two essential skills: innovation and managerial capacity for business administration. They also question “whether the human capital needed for innovation and management can, and should be, formed among RCE (Rural Community Enterprise) members gradually over time” (p.79, parenthesis added by the author). It may be worthwhile developing human capital within a community providing capacity building and scholarship to community members and their children. However, it often takes a long time whereas the CFE needs well-qualified personnel now. CFEs have to begin professional capacity building of its personnel from very early stage, and the capacity building alone is often inadequate. The Oaxaca case suggests that hiring external professionals can be a very attractive option once a given CFE acquires a confidence in corporate governance. External professionals are not treated as those who impose something to community but as a key resource which widens the sphere of community’s actions (Valencia, 1994). Merit-based open recruitment often brings in “know-how” of a successful private enterprise in the same industry as discussed in section 3.8 and 4.8. It can be a very cost effective and strategic move if it is prompted at the right timing.

A key question emerges here: To what extent should entrepreneurial decision-making be participatory? Most private enterprises which prosper in the market do not adopt democratic decision-making for good reasons. The case of Bel Juice Company, non-timber CFE in Nepal, also suggests that a complex company structure hardly allows for participatory management (Molnar et al., 2007). Commercial banks interested in supporting CFEs may hesitate to assist CFEs which maintain broad-based democratic decision-making at firm level. As a social enterprise, democratic decision-making at community assembly level regarding benefit distribution and democratic delegation of control functions to the board are indispensable. CFE administration should also be transparent enough to be accountable to

community members/owners as a private enterprise should be accountable to its stockholders. However, enterprise administration does not necessitate direct democracy. The manager should be given a certain room for flexible and timely decision-making, for example, in recruitment and minor investment for adjusting the business to changing demand. “Undemocratic” management does not necessarily hinder the attainment of social value propositions determined at community level whereas excessively democratic management often stagnates business, reduces profits, increases costs, and eventually hinders full attainment of social value propositions. The CFEs studied in Oaxaca prove that merit-based “autonomous” management based on the separation of community level decision-making and enterprise level decision-making is attainable. Similar finding is also reported in the El Balcon Ejido in Guerrero, Mexico (Orozco, n.d.).

#### 6.4.3. *External Business Environment*

##### *Policy environment.*

Studies often find more barriers than support in terms of policy environment. Conservation bias in policy application and overregulation of community forest industries are commonly reported (Donovan et al., 2008; FAO, 2004; Mayers & Bass, 1999; Mayers & Vermeulen, 2002; Molnar et al., 2007; Scherr et al., 2004). Forest sector continues to be one of the most regulated sectors with an historical carry-over of regulations geared to larger scale private or parastatal forest industries. Overregulation is sometimes advocated by environmental NGOs for their mistrust and belief that commercial forestry is unconditionally destructive (e.g., Guatemala, Thailand). Overregulation includes overly demanding rules for management plans and monitoring. Business registration and export procedures are often complicated. Legal basis for contracts regarding, for example, company-community agreements is sometimes unclear. Regulations are often ambiguous and overlapping with other regulations for other sectors. Rules are applied inflexibly and approval of applications is slow. The fact that permits are only issuable in cities implies a high transaction costs to



rural CFEs. Permits tend to be front-loaded instead of charging tax after the sales of forest products in order to reduce initial financial burdens to CFEs. Discriminatory taxation is also observed (Forest Trends, 2005). CFEs usually cannot use their forest as collateral, and this limits their opportunity of investment. Molnar et al. (2007, p. 56) argues “governments widely subsidize or provide privileged access to large-scale producers and processors”, although no evidence is provided. In worse cases governments create artificial incentives for external actors – sometime those in other sectors – to clear local forests, and set excessive taxes and forest agency service charges to CFEs. Despite the overregulation on CFEs, illegal logging especially in areas other than those managed by CFEs is often ineffectively controlled due to influences of various political interests, conflicts, criminal activities, violence and corruption (Brown et al., 2008; Colchester et al., 2006; Molnar et al., 2007). “The political nature of policies is disguised by the objective, neutral, legal-rational idioms in which they are portrayed” (Shore and Wright, 1997 cited in Mayers & Bass, 1999, p. 230). However, a gap between policy and practice “is rarely a void, but a space already crowded with perspectives and biases, and thus ‘full’ already of preconceptions and misconceptions” (Mayers & Bass, 1999, p. 229).

Illegal logging is not only problematic in terms of environmental impacts, but also represents stolen livelihood assets (Mayers, 2006). It undermines price structures and deprives law-adhering CFEs of their markets (Donovan et al., 2006, 2008).

These findings also hold true for the Mexican and Guatemalan cases although in both countries heavy subsidies or privileged access to large-scale producers and processors are not observed. Neither are forest service charges particularly high. High transaction costs for CFE and for forest management in general are caused by mistrust and the belief that commercial forest management is destructive, a perception often promoted by environmental NGOs that would like to see all the forests untouched.

*Market environment.*

Fewer studies have addressed market conditions. Global trend of wood product market includes concentration of buyers and emergence of big international buyers such as IKEA and Home Depot, and decrease of commodity wood prices due to substitution (Molnar et al., 2007). Scherr et al. (2004) and Donovan et al. (2008) argue recent increase in domestic demand of commodity timber in developing countries although the price competition is intense. At the same time, Donovan et al. (2008) admit that CFEs may not be appropriate where niche market orientation is not a viable option. They also argue that CFEs may not be the best option where overall business environment is less than hospitable, and local leadership and technical know-how is weak. Social and environmental attributes are often treated second-order objectives in commodity timber markets. These observations are generally similar to the findings of this study. Whereas growing middle class in developing countries are opening up new market niches for CFEs, commodity timber suffers from price decrease. In commodity timber markets, forest certification turns out to be a competitive disadvantage rather than a competitive advantage due to high certification costs and lack of price premiums. The demands for certified timber in distribution channels other than DIY sector is also relatively weak (see Bass et al., 2001).

*Service environment.*

*Financial services:* Donovan et al. (2008) point out that for most CFEs government agencies rather than private banks or NGOs have been the key source of long-term loans. Private banks tend to be reluctant to provide services. This may stem from a perception that CFEs lack business consolidation characterized with managerial rotation and nonprofessional administration with complex decision-making process. A bank clerk in Oaxaca shares the similar view as discussed in section 4.5.3. CFEs with professional management based on the separation between management and community authority provide confidence to commercial banks. Difficulty of obtaining loans from private banks often complained by many immature CFEs and CF literature partly stems from CFEs' own weakness in corporate governance.

CFEs also tend to suffer from shortage of operation capital. They often have to resort to high-cost credit, for example, to bridge delays in payment by buyers partly because private banks usually do not provide short-term loan up to several month. CFEs often have to borrow money for longer period for higher cost just to bridge a gap for two to three months. Many CFEs do not have an access to more appropriate value chain financing such as factoring (see Miller & Jones, 2010). Another problem in financial services is that the service is often provided in isolation from adequate business development services.

*Business Development Services:* Donovan et al. (2008) argue that Business Development Services (BDS) are often not available in rural areas. Even if they are, BDS are often incomplete and insufficiently focused. In general BDS is provided by generalist service providers who tend not to meet the demand. Forest institutions, on their part, tend to emphasize environmental sustainability whereas they have insufficient know-how in business (Macqueen, 2008). CFEs struggle to advance beyond the start-up stage of business development (Donovan et al., 2006) often due to lack of access to quality BDS. Donovan et al. (2008) argue that role division in BDS interventions between generalist providers, specialist providers, research and training centers, and financial institutions is required, but there is usually no operational coordination among these institutions. Although progressive contracting of different specialized services is optimal, interventions usually tend to be made without appropriate consideration on sequencing of service delivery. They are often limited to one-off training events on business planning, administration and cooperative administration. Provision of specialized BDS is still limited. The main criterion among CFEs toward BDS is still “free-of-charge”, rather than “as-per-demand”. Cost recovery schemes are not seriously considered, either.

Strategic facilitation of collective entrepreneurship through well-sequenced interventions is also one of the key arguments of this study discussed in section 4.7.2. CFEs themselves have to overcome their own “aid-recipient” mentality. The key challenge is weak

entrepreneurial capacity and awareness in management in terms of identifying their weaknesses so that they can invite appropriate professional services at appropriate timing by themselves. Consultancy companies, for example, in product development and marketing, industrial engineering, process improvement, and managerial accounting must be available at least in capital cities such as Guatemala City. CFEs can invite them for fee if they are aware of the value of truly professional BDS. For example, two CFEs in Oaxaca and Guerrero currently invite a professional factory manager working in a studied CFE in Oaxaca as a consultant for fee. Unfortunately potential and practical challenges of making use of specialized BDS have not been studied in this study. Coordination of general BDS, specialized BDS and financial services is a pending agenda in CFE intervention. For example, Macqueen (2008) suggests introduction of voucher schemes for BDS, but the idea is yet to be tried out in the field.

*Subsidizing CFE personnel:* In some cases service providers such as donors and NGOs provide support to CFEs in the form of externally funded managers or direct administration through NGO staff members. This type of external support hinders producer agency, and does not create sense of ownership (Donovan et al., 2008). In addition, it is also prone to be unsustainable unless a clear strategy exists for local skill development and phasing-out. Long-term intervention is often not compatible with project structure and funding structure. Termination of funding often seriously damages CFE. Similar negative impacts are observed regarding donor interventions in FORESCOM as discussed in 5.3.2 and 5.4.2.

*Excessive intervention by service agencies:* CFEs face tensions over limited negotiating power vis-à-vis donor or NGO advisers (Molnar et al., 2007) although too much control by government or donor supporters can stifle capacity building in CFEs and limit CFEs' innovations and market adaptations. This is partly because the vast majority of RCEs including CFEs can trace their origins to extensive involvement of support agencies (Donovan et al., 2008). The recipients of the assistance may be unconsciously led to say what

the donor or NGO staff wants to hear, concealing their misgiving. Such Abeline paradox (Cooke, 2001) and politically driven nature of CFEs are also pointed out in this study under section 5.3.2 and 4.5.1.

#### 6.4.4. *CFEs' constituency: Balancing Societal Expectations and Business Norms*

Several authors mention that CFEs face tensions in balancing societal expectations and business norms (Antinori et al., 2005; Molnar et al., 2007; Donovan et al., 2008). These relate to the lack of clear economic objective; choice regarding the use of revenues between capitalization, social investment, and dividend payments; assignment of employment opportunities; and the degree to which activities will be targeted to marginal or poorer members in community. There is “a tendency to overstaff operations (driving up costs of production) and underinvest in new machinery (cuts into dividends) or mechanization (eliminates jobs)” (Butterfield et al., 2005, p. 3). Overextension of social service provision within or outside of the local community also compromises cost effectiveness. In some cases, CFEs also suffer from mismanagement of resources and revenues by individuals and/or the capture of benefits by elites.

Undoubtedly CFEs face a number of trade-offs when seeking to balance their economic and social goals (see sections 4.4 and 6.2). Though certain authors point at these trade-offs (e.g., Molnar et al., 2007; Donovan et al., 2008), they do not discuss how to minimize them. A key contribution made by this study is therefore to clarify the costs of being a social enterprise and to suggest how to balance these trade-offs. Being a social enterprise poses restrictions to CFEs, and these are often reflected in relatively high prices of CFE products eventually borne by customers. Therefore, CFEs have to offer even higher customer values compared with their competitors. This calls for merit-based professional management and firm-wide pursuit for business excellence as discussed in chapter 3 and 4.

Molnar et al. (2007) and Donovan et al. (2008) also point out general biases toward male community members in terms of employment provision. Women are clearly

underrepresented in decision-making posts. Such biases were also observed in this study, especially as regards logging and milling activities. However, the sampled CFEs are trying to provide jobs for women outside of these traditionally male-dominated activities. For example, the three furniture factories studied in Oaxaca employ more female than male workers. In the same communities, the community enterprises related to water bottling and ecotourism have recruited female managers. Some CFEs in Peten also employ women in xate, ecotourism and furniture business, though appointment of female manager in logging or sawmilling is limited to only one case.

#### 6.5. Pending Agendas for Future Studies

CFEs have to address a number of internal issues to become competitive. However, how best to do this remains understudied. The pending agendas for future research into the competitiveness of CFEs could be summarized as follows:

- *Conceptualization of what collective social entrepreneurship stands for:* Existing studies on social entrepreneurship mostly assume individual ownership models. Collective social entrepreneurship has hardly been studied. Being a social enterprise poses restrictions to community enterprises. How to balance the trade-offs and how to effectively support community leaders who can lead a process of aligning social norms for business excellence should be studied further.
- *Strategic provision of business development services:* If CFEs are to “own” their business improvement initiatives, as suggested in section 6.4.3, they need to transform themselves into “active seekers” of BDS given their relatively weak entrepreneurial capacity. Potential and practical challenges (e.g., subsidization, awareness raising) of making use of existing specialized BDS, and how to practically coordinate general and specialized BDS as well as financial services should be

- studied further for improving the accessibility to BDS and accelerating “professionalization” of CFEs.
- *Business studies of CFEs*: Producers’ own efforts for increased competitiveness, such as cost reduction, product development and marketing, quality improvement, inter-CFE collaboration, and collaboration with business partners upstream and downstream the value chain are understudied. CFEs’ competitiveness can be leveraged by strategic efforts at the following six levels: (a) industry, (b) supply chain, (c) company, (d) portfolio, (e) product, and (f) client. Various analytical frameworks and tools are available for improving business, including: competitive strategy development (Porter, 1980, 1985), balanced scorecard (Kaplan & Norton, 1992, 1996; Kaplan, 2001, 2002), value chain (Haggblade & Gamsler, 1991; Kaplinsky & Morris, 2000; Joss et al., 2002; GTZ, 2007; Lundy et al., 2007; Lusby & Panlibuton, 2007), activity-based costing (Cheatham & Cheatham, 1993; Lewis, 1993; Compton, 1996; Jackson et al., 2008), six sigma (Eckes, 2003; Gupta, 2003), process mapping (Handfield & Nicholls, 2002), and design for production (Ulrich & Eppinger, 2003). However, few existing studies discuss the adaptation of MBA-level concepts to CFE management. These potential initiatives are no longer beyond the capacity of some mature CFEs. There are CFEs with professional management which are capable to introduce MBA-level business administration techniques especially in Mexico. Further studies should be carried out in the context of actual BDS interventions, and the information sharing should be facilitated among CFEs and their supporters.

#### 6.6. Academic Contribution Made by This Study

Ph.D. studies should make a clear contribution to academic society by presenting new findings or insights. This study can be credited with the following academic achievement:

- It attempts to conceptualize what collective social entrepreneurship is – this issue has hardly been conceptualized in the academic literature – in a practical context of CFE development for the purpose of entangling what it takes to effectively run a CFE, and clarifying trade-offs they face as a social enterprise.
- It clarifies CFEs’ internal competitiveness factors from a business perspective. These issues have rarely been studied in the academic literature. It also suggests pending agendas for future research in this field.
- It adds empirical understanding regarding the potential and limitations of second-tier CFEs based on actual buyers’ opinions in the context of strengthening first-tier CFEs’ business. Such studies are particularly rare in a developing country context.
- It deepens empirical understanding regarding the importance of producer agency in the context of actual CFE interventions of government institutions and donors. The FORESCOM case critically shows structural limitations and weakness of a current modality of donor interventions which tends to treat CFEs as recipients of external interventions rather than active seekers of specific professional BDS. This study also introduces a model of government interventions as a buyer of CFEs’ socially and environmentally conscious products. This kind of intervention is rarely reported in a developing country context.



## References

- Antinori, C. (2000). *Vertical integration in Mexican common property forests*. Unpublished Ph. D. thesis, University of California, Berkeley, CA.
- Antinori, C., & Bray, D. B. (2005). Community forest enterprises as entrepreneurial firms: Economic and institutional perspectives from Mexico. *World Development*, 33(9), 1529-1543. doi: 10.1016/j.worlddev.2004.10.011
- Arnold, M. (2002). Identifying links between forests and poverty. *Discussion paper presented at the ECT/IIED Forestry and Poverty Reduction Workshop, Edinburgh, UK, 13 June, 2002*, 6 p.p.
- Bass, S., Thornber, K., Markopoulos, M., Roberts, S., & Grieg-Gran, M. (2001). Certification's impacts on forests, stakeholders and supply chains. *Instruments for sustainable private sector forestry series*. (pp. 134). Retrieved from <http://pubs.iied.org/pdfs/9013IIED.pdf>
- Bray, D. B., Antinori, C., & Torres-Rojo, J. M. (2006). The Mexican model of community forest management: The role of agrarian policy, forest policy and entrepreneurial organization. *Forest Policy and Economics*, 8, 470-484. doi: 10.1016/j.forpol.2005.08.002
- Bray, D. B., & Merino-Pérez, L. (2004). La experiencia de las comunidades forestales en México: Veinticinco años de silvicultura y construcción de empresas forestales comunitarias Retrieved from <http://www.era-mx.org/publicaciones/Merino2004>
- Bray, D. B., Merino-Pérez, L., & Barry, D. (Eds.). (2005). *The community forests of Mexico: Managing for sustainable landscapes*. Austin, TX: The University of Texas Press.
- Brown, D., Schreckenber, K., Bird, N., Cerutti, P., Del Gatto, F., Diaw, C., et al. (2008). *Legal timber: Verification and governance in the forest sector*. London: Overseas Development Institute.
- Butterfield, R., Garcia, P. V., & Gutierrez, M. (2005). *Challenges faced by Mexican ejidos in the international marketplace*. Paper presented at the The Society of American Foresters National Conference Fort Worth, Tx.

- Cashore, B., Gale, F., Meidinger, E., & Newsom, D. (Eds.). (2006). *Confronting sustainability: Forest certification in developing and transitioning countries*. New Haven, CT: Yale School of Forestry and Environmental Studies.
- Clay, J. W. (1997). Chapter 8: Business and biodiversity - rain forest marketing and beyond. In N. C. Vance & J. Thomas (Eds.), *Special forest products: Biodiversity meets the marketplace* (pp. 122-145). Washington, D.C.: U.S. Department of Agriculture, Forest Service. Retrieved from <http://www.fs.fed.us/pnw/pubs/gtr63/gtrwo63h.pdf>.
- Colchester, M., Boscolo, M., Contreras-Hermosilla, A., Del Gatto, F., Dempsey, J., Lescuyer, G., et al. (2006). Justice in the forest: Rural livelihoods and forest law enforcement, *Forest Perspectives 3*. Retrieved from [http://www.cifor.cgiar.org/publications/pdf\\_files/Books/BColchester0601.pdf](http://www.cifor.cgiar.org/publications/pdf_files/Books/BColchester0601.pdf)
- Compton, T. (1996). The ABCs of ABC: Implementing activity-based costing. *The CPA Journal*. Retrieved from <http://www.nysscpa.org/cpajournal/1996/mar96/features/implementing.htm>.
- Cooke, B. (2001). The social psychological limits of participation? In B. Cooke & U. Kothari (Eds.), *Participation: The new tyranny?* (pp. 102-121). London: Zed Books.
- Cheatham, C., & Cheatham, L. (1993). *Updating standard cost systems*. Westport, CT: Quorum Books.
- Chemonics International. (2004). *Análisis de oferta y demanda de productos forestales de las concesiones comunitarias del Petén, Guatemala*. USAID/Guatemala.
- de Camino, R., & Breitling, J. (Eds.). (2007). *El cambio es posible: 20 años de experiencias innovadoras en los recursos naturales en Guatemala*. Ciudad Colón, Costa Rica: Universidad para la Paz.
- Donovan, J., Stoian, D., Macqueen, D., & Grouwels, S. (2006). The business side of sustainable forest management: Small and medium forest enterprise development for poverty reduction. *Natural Resource Perspectives*, 104 (December 2006), Overseas Development Institutes.

- Donovan, J., Stoian, D., & Poole, N. (2008). *Global review of rural community enterprises: The long and winding road to creating viable businesses, and potential shortcuts*. Turrialba, Costa Rica: CATIE.
- Eckes, G. (2003). *Six sigma for everyone*. Hoboken, NJ: Wiley.
- FAO. (2004). *Simpler forest management plans for participatory forestry. FONP Working Paper 4*. Rome, Italy: Food and Agriculture Organization of the United Nations.
- Fonseca, S. A. (n.d.). Forest management in the community enterprise of Santa Catarina Ixtepeji, Oaxaca, Mexico Retrieved from [http://www.rightsandresources.org/documents/files/doc\\_230.pdf](http://www.rightsandresources.org/documents/files/doc_230.pdf)
- Forest Trends. (2005). Market options and barriers for timber and sawnwood from Michoacán, Oaxaca, Guerrero, Campeche and Quintana Roo, Mexico Retrieved from [http://www.forest-trends.org/documents/files/doc\\_113.pdf](http://www.forest-trends.org/documents/files/doc_113.pdf)
- GTZ. (2007). ValueLinks manual: The methodology of value chain analysis Retrieved from <http://edu.care.org/Documents/GTZ%20ValueLinks%20Manual.pdf>
- Gupta, P. (2003). *Six sigma business scorecard*. Blacklick, OH: McGraw-Hill Professional Publishing.
- Haggblade, S. J., & Gamsler, M. S. (1991). *A field manual for subsector practitioners - Tools for microenterprise programs: Nonfinancial assistance section*. Bethesda, MD: Gemini.
- Handfield, R., & Nicholls, E. (2002). *Supply chain redesign: Transforming supply chains into integrated value chain systems*. Upper Saddle River, NJ: Financial Times Prentice Hall.
- Hernández, T., Fortín, R., & Butterfield, R. (2010). The impacts of technical assistance on a community forest enterprise: The case of San Bernardino de Milpillas Chico, Mexico Retrieved from [http://rainforest-alliance.org/sites/default/files/publication/pdf/Mexico\\_English\\_Final\\_0.pdf](http://rainforest-alliance.org/sites/default/files/publication/pdf/Mexico_English_Final_0.pdf)
- Hewitt, D., & Castro-Delgadillo, M. (2009). Key factors for successful community-corporate partnerships: Results of a comparative analysis among Latin American cases

- Retrieved from [http://www.rainforest-alliance.org/resources/documents/corporate\\_community.pdf](http://www.rainforest-alliance.org/resources/documents/corporate_community.pdf)
- Hoffman, K. (2005). Aid industry reform and the role of enterprise (pp. 10). Retrieved from <http://www.nextbillion.net/archive/files/Shell%20Foundation%20-%20aid%20reform%20and%20private%20enterprise.pdf>
- Hughell, D., & Butterfield, R. (2008). Impact of FSC certification on deforestation and the incidence of wildfires in the Maya Biosphere Reserve Retrieved from [http://www.rainforest-alliance.org/sites/default/files/publication/pdf/peten\\_study.pdf](http://www.rainforest-alliance.org/sites/default/files/publication/pdf/peten_study.pdf)
- Jackson, S., Sawyers, R., & Jenkins, G. (2008). *Managerial accounting: A focus on ethical decision making* (4th ed.). Mason, OH: Thomson Higher Education.
- Joss, S., Schaltenbrand, H., & Schmidt, P. (2002). Client first! A rapid market appraisal toolkit: *Helvetas Best Practice Publications No.3* Retrieved from [www.helvetas.ch/global/pdf/english/Professional\\_competences/Documented\\_experiences/resources/Clients\\_First\\_lowres.pdf](http://www.helvetas.ch/global/pdf/english/Professional_competences/Documented_experiences/resources/Clients_First_lowres.pdf)
- Kaimowitz, D. (2002). In good times and bad: company – community partnerships *POLEX (LISTSERV)*. Bogor, Indonesia: CIFOR Retrieved from <http://www.cifor.org/online-library/polex-cifors-blog-for-and-by-forest-policy-experts/english/detail/article/1222/in-good-times-bad-company-community-partnerships-1/browse/10.html>
- Kaplan, R. (2001). Strategic performance measurement and management in nonprofit organizations. *Nonprofit Management and Leadership*, 11(3), 353-370.
- Kaplan, R. (2002). The balanced scorecard and nonprofit organizations. *Balanced Scorecard Report*, 4 (No. 6, November-December 2002), 1-4.
- Kaplan, R., & Norton, D. (1992). The balanced scorecard - Measures that drive performance. *Harvard Business Review* (January-February 1992).
- Kaplan, R., & Norton, D. (1996). Using the balanced scorecard as a strategic management system. *Harvard Business Review* (January-February 1992), 71-70.

- Kaplinsky, R., & Morris, M. (2000). *A handbook for value chain research*. Ottawa, Canada: IDRC.
- Klooster, D. (2000). Institutional choice, community, and struggle: A case study of forest co-management in Mexico. *World Development*, 21(1), 1-20.
- Landell-Mills, N., & Porras, I. T. (2002). Silver bullet or fools' gold?: A global review of markets for forest environmental services and their impact on the poor Retrieved from <http://pubs.iied.org/pdfs/9066IIED.pdf>
- Lecup, I., & Nicholson, K. (2000). *Community-based tree and forest product enterprises: Market Analysis and Development*. Rome: Food and Agriculture Organization of the United Nations.
- Lewis, R. (1993). *Activity-based costing for marketing and manufacturing*. Westport, CT: Quorum Books.
- Lundy, M., Gottret, M. V., Ostertag, C., Best, R., & Ferris, S. (2007). *Participatory market chain analysis for smallholder producers*. Cali, Columbia: CIAT.
- Lusby, F., & Panlibuton, H. (2007). *Value chain program design: Promoting market-based solutions for MSME and industry competitiveness*. Washington D.C.: USAID.
- Macqueen, D. (2004). Associations of small and medium forest enterprise. Retrieved from <http://pubs.iied.org/pdfs/13512IIED.pdf>
- Macqueen, D. (2008). Supporting small forest enterprises: A cross-sectoral review of best practice Retrieved from <http://pubs.iied.org/pdfs/13548IIED.pdf>
- Macqueen, D., Dufey, A., Gomes, A. P. C., Nouer, M. R., Suárez, L. A. A., Subendranathan, V., et al. (2008). Distinguishing community forest products in the market: Industrial demand for a mechanism that brings together forest certification and fair trade. Small and Medium Forestry Enterprise Series No. 22, Retrieved from [http://www.rightsandresources.org/documents/files/doc\\_579.pdf](http://www.rightsandresources.org/documents/files/doc_579.pdf)
- Macqueen, D., Dufey, A., & Patel, B. (2006). Exploring fair trade timber: A review of issues in current practice, institutional structures and ways forward Retrieved from <http://pubs.iied.org/pdfs/13530IIED.pdf>

- Mayers, J. (2006). Poverty reduction through commercial forestry: What evidence? What prospects? (pp. 32): The Forests Dialogue. New Haven, CT: Yale University, School of Forestry & Environmental Studies.
- Mayers, J., & Bass, S. (1999). *Policy that works for forests and people*. London: IIED.
- Mayers, J., & Macqueen, D. (2007). *The big significance of small forestry enterprises*. Paper presented at the The West and Central Africa tropical forest investment forum: Issues and opportunities for investment in natural tropical forests Accra, Ghana.  
[http://www.itto.int/direct/topics/topics\\_pdf\\_download/topics\\_id=32800000&no=141](http://www.itto.int/direct/topics/topics_pdf_download/topics_id=32800000&no=141)
- Mayers, J., & Vermeulen, S. (2002). *Company-community forestry partnerships: From raw deals to mutual gains? An international review with proposals for improving forests, enterprise and livelihoods*. London: International Institute for Environment and Development.
- Miller, C., & Jones, L. (2010). *Agricultural Value Chain Finance: Tools and Lessons*. Bourton on Dunsmore, Warwickshire, UK: Practical Action.
- Molnar, A., Liddle, M., Bracer, C., Khare, A., White, A., & Bull, J. (2007). Community-based forest enterprises in tropical forest countries: Their status and potential in tropical countries, *ITTO Technical Series #28* (pp. 73). Retrieved from [http://www.itto.int/direct/topics/topics\\_pdf\\_download/topics\\_id=37100000&no=1&isp=inline](http://www.itto.int/direct/topics/topics_pdf_download/topics_id=37100000&no=1&isp=inline)
- Morsello, C. (2006). Company-community non-timber forest product deals in the Brazilian Amazon: A review of opportunities and problems. *Forest Policy and Economics*, 8, 485-494.
- Nittler, J., & Tschinkel, H. (2005). Community forest management in the Maya Biosphere Reserve of Guatemala: Protection through profits: United States Agency for International Development (USAID), Steering Committee on Nature, Wealth and Power (NWP), and Sustainable Agriculture and Natural Resource Management (SANREM), Collaborative Research Support Program (CRSP), University of Georgia.
- Nygren, A. (2005). Community-based forest management within the context of institutional decentralization in Honduras. *World Development*, 33(4), 639-655.

- Orozco, C. G. (n.d.). One small peasant village's grand forest industry: A case study of the *El Balcon Ejido* in Western Mexico (pp. 22). Retrieved from <http://www.rightsandresources.org/french/documents/index.php?pubID=227>
- Ostertag, C., Lundy, M., Gottret, M. V., Best, R., & Ferris, S. (2007). Identifying market opportunities for rural smallholder producers, Retrieved from [http://pdf.usaid.gov/pdf\\_docs/PNADP098.pdf](http://pdf.usaid.gov/pdf_docs/PNADP098.pdf)
- Porter, M. (1980). *Competitive strategy: Techniques for analyzing industries and competitors*. New York: The Free Press.
- Porter, M. (1981). The contributions of industrial organization to strategic management. *The Academy of Management Review*, 6(4), 609-620.
- Porter, M. (1985). *Competitive advantage: Creating and sustaining superior performance*. New York, USA: The Free Press.
- Sabogal, C., de Jong, W., Pokorny, B., & Louman, B. (Eds.). (2008). *Manejo forestal comunitario en América Latina: Experiencias, lecciones aprendidas y retos para el futuro*. Belém, Brazil: CIFOR-CATIE.
- Scherr, S. J., White, A., & Kaimowitz, D. (2004). A new agenda for forest conservation and poverty reduction: Making markets work for low-income producers (pp. 160): Forest Trends, Center for International Forestry Research (CIFOR) and The World Conservation Union (IUCN).
- Seville, D., Buxton, A., & Vorley, B. (2011). Under what conditions are value chains effective tools for pro-poor development? Retrieved from <http://pubs.iied.org/pdfs/16029IIED.pdf>
- Stoian, D., & Donovan, J. (2006). Fortalecimiento de la gestión empresarial de empresas colectivas y comunidades forestales en Guatemala y Nicaragua: Informe de consultoría Programa de capacitación y asistencia técnica basado en un diagnóstico empresarial, Rainforest Alliance and CeCoEco, CATIE.
- Stoian, D., Donovan, J., & Poole, N. (2009). *Unlocking the development potential of community forest enterprises: Findings from a comparative study in Asia, Africa, Latin America, and the United States*. Paper presented at the XIII World Forestry

- Congress, Buenos Aires, Argentine.  
<http://www.catie.ac.cr/BancoMedios/Documentos%20PDF/development%20potential%20of%20cfe%20-%20stoian%20et%20al%202009.pdf>
- Stoian, D., & Rodas, A. (2006a). Community forest enterprise development in Guatemala: A case study of Cooperativa Carmelita R.L. *Community-based forest enterprises in tropical countries: Status and potential - Comparative study* (pp. 21): ITTO, Forest Trends, Rights and Resources.
- Stoian, D., & Rodas, A. (2006b). Sociedad civil para el desarrollo Árbol Verde - Case study from Petén, Guatemala *Community-based forest enterprises in tropical countries: Status and potential - Comparative study* (pp. 20): ITTO, Forest Trends, RRI.
- Taylor, P. L., & Zabin, C. (2000). Neoliberal reform and sustainable forest management in Quintana Roo, Mexico: Rethinking the institutional framework of the Forestry Pilot Plan. *Agriculture and Human Values*, 17, 141-156.
- UK Tropical Forest Forum. (2006, 26 September). *Small enterprise development and forests*. Paper presented at the UK Tropical Forest Forum, Royal Botanic Gardens, Kew.
- Ulrich, K. T., & Eppinger, S. D. (2003). *Product design and development* (3rd ed.). New York: McGraw-Hill.
- Valencia, G. (1994). La unidad de producción forestal de Pueblos Mancomunados: La constitución de un sujeto social. *Revista Mexicana de Sociología*, 56(2), 133-146.
- Vidal, N. G. (2005). Forest company-community agreements in Mexico: Identifying successful models Retrieved from [http://forest-trends.org/documents/files/doc\\_118.pdf](http://forest-trends.org/documents/files/doc_118.pdf)
- Wilshusen, P. R. (n.d.). Country case study, Quintana Roo, Mexico, Sociedad de Productores Forestales Ejidales de Quintana Roo (SPFEQR). Focus community: Petcacab Retrieved from [http://www.rightsandresources.org/documents/files/doc\\_282.pdf](http://www.rightsandresources.org/documents/files/doc_282.pdf)



*Notes*

---

<sup>1</sup> The literature includes: Antinori, 2000; Antinori & Bray, 2005; Bray et al., 2006; Bray & Merino-Pérez, 2004; Bray, Merino-Pérez, & Barry, 2005; Chemonics International, 2004; de Camino & Breitling, 2007; Fonseca, n.d.; Forest Trends, 2005; Klooster, 2000; Nittler & Tschinkel, 2005; Nygren, 2005; Orozco, n.d.; Sabogal, de Jong, Pokorny, & Louman, 2008; Stoian & Donovan, 2006; Stoian, Donovan, & Poole, 2009; Stoian & Rodas, 2006a, 2006b; Taylor & Zabin, 2000; Valencia, 1994; and Wilshusen, n.d.

## APPENDIX A: The Approval Letters of the Institutional Review Board

University of Idaho

## University Research Office

Institutional Review Board

PO Box 443010  
Moscow ID 83844-3010

Phone: 208-885-6162

Fax: 208-885-5752  
hac@uidaho.edu

To: Hiroyuki Tanaka  
CATIE 7170, Apartado 40, Turrialba, Cartago  
30501, Costa Rica

Cc: Steven Hollenhorst  
Conservation Social Science  
University of Idaho  
Moscow, ID 83844-1139

From: Casey Inge  
Chair, University of Idaho Institutional Review Board  
University Research Office  
Moscow, Idaho 83844-3010

IRB No.: IRB00000843

FWA: FWA00005639

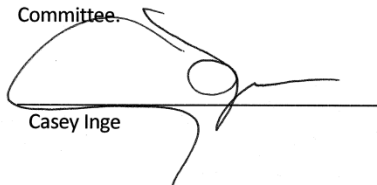
Date: August 24, 2009

Project: Approval of "Competitive Strategies of Community Forest Enterprises through the Leverage of Second-tier Joint Enterprises in Mexico and Guatemala"  
Project Number 08-333

---

On behalf of the Institutional Review Board at the University of Idaho, I am pleased to inform you that the protocol for the above-named research project is approved as offering no significant risk to human subjects.

This approval is valid for one year from the date of this memo. Should there be significant changes in the protocol for this project, it will be necessary for you to resubmit the protocol for review by the Committee.



Casey Inge

## University of Idaho

### Office of Research Assurance

Institutional Review Board

PO Box 443010  
Moscow ID 83844-3010

Phone: 208-885-6162

Fax: 208-885-5752

rac@uidaho.edu

To: Hiroyuki Tanaka  
CATIE 7170, Apartado 40, Turrialba, Cartago  
30501, Costa Rica

Cc: Steven Hollenhorst, Faculty Sponsor  
CCS  
University of Idaho  
Moscow, ID 83844-1139

From: Traci Craig PhD  
Chair, University of Idaho Institutional Review Board  
University Research Office  
Moscow Idaho 83844-3010

IRB No.: IRB00000843

FWA: FWA00005639

Date: June 14, 2010

Project: "Competitive Strategies of Community Forest Enterprises through the Leverage of Second-tier Joint Enterprises in Mexico and Guatemala" (Protocol No. 08-333)  
Extension **Approved until August 24, 2011**

---

On behalf of the Institutional Review Board at the University of Idaho, I am pleased to inform you that the first-year extension of your proposal is approved as offering no significant risk to human subjects as no changes in protocol have been made on this project. This extension of approval is valid until August 24, 2011 at which time a second extension will need to be requested if you are still working on this project. If not, please advise the IRB committee when you are completed. Should there be any significant changes in your proposal within the year, it will be necessary for you to resubmit it for review.

Thank you for submitting your extension request.

## University of Idaho

Office of Research Assurance

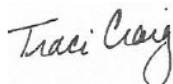
Institutional Review Board

PO Box 443010  
Moscow ID 83844-3010

Phone: 208-885-6162

Fax: 208-885-5752

[hac@uidaho.edu](mailto:hac@uidaho.edu)



Traci Craig

TC/sn

## University of Idaho

Office of Research Assurances  
Institutional Review Board  
PO Box 443010  
Moscow ID 83844-3010

Phone: 208-885-6162  
Fax: 208-885-5752  
irb@uidaho.edu

To: Steven Hollenhorst  
Cc: Hiroyuki Tanaka

From: Traci Craig, PhD  
Chair, University of Idaho Institutional Review Board  
University Research Office  
Moscow, ID 83844-3010

IRB No.: IRB00000843

FWA: FWA00005639

Date: August 8, 2011

Title: 'Competitive Strategies of Community Forest Enterprises through  
the Leverage of Second-tier Joint Enterprises in Mexico and  
Guatemala'

Project: 08-333

Approved: 08/24/11


Expires: 08/23/12

---

On behalf of the Institutional Review Board at the University of Idaho, I am pleased to inform you that the **second-year extension** of your proposal is approved as offering no significant risk to human subjects as no changes in protocol have been made on this project.

This is a second year extension of approval and is valid until the date listed above at which time a new protocol will need to be requested if you are still working on this project. If not, please advise the IRB committee when you are completed. Should there be any significant changes in your proposal within the year, it will be necessary for you to resubmit it for review.

Thank you for submitting your extension request.



Traci Craig