

## case study

# *The Challenges to Social Entrepreneurship in Brazilian Art/Handicraft Organizations: Today and in the future*

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## Introduction

In the interest of social entrepreneurship, there are organizations around the world that have been successful such as Bill Drayton founder of Ashoka, Innovators for the Public and Muhammad Yunus, founder of the Grameen Bank where he began the concept of microfinance for small enterprises (Mair & Marti, 2006). On a less global level but equally important, the purpose of this case study is to show the story of A Estrela, a Brazilian organization that survived Rio de Janeiro's dark days including the country's fascist government, the relocation of the capital to Brasilia, the shift of financial markets from Rio de Janeiro to Sao Paulo and the expansion of favelas. With the recent media attention on the 2014 World Cup and Olympics 2016, there has been increased focus on tourism to Rio de Janeiro. It is known that shopping and specifically authentic art is a common activity for many tourists (Paige & Littrell, 2003). After 50 years of being an entrepreneurial, non profit operation providing authentic art to tourists and providing employment to many people who live in the favelas, A Estrela is at risk economically, socially and culturally.

## Teaching Objectives

After reading and analyzing this case study and supporting articles/videos, students should be able to: 1) describe the characteristics and environments of social entrepreneurs; 2) discuss the process of creating shared values in organizations; 3) outline the framework for creating social value; and 4) identify the challenges facing authentic art tourism. The target audience is college students in upper level or graduate level tourism management class.

## Review of Relevant Literature

### *Social entrepreneurship in tourism and hospitality*

Mair & Marti (2006) defined the function of a social entrepreneurship as an organization that implements "an innovative use of resources to explore opportunities that meet a social need in a sustainable manner". However, Sloan, Legrand & Simons-Kaufmann (2014) state that most research to date in this area is phenomenological and there is a lack of a theoretical framework. The mission of a social entrepreneur is "to solve a social problem", such as reduction of poverty,

through harnessing market forces, as opposed to providing charity. Sloan et al (2014) note that only 2% of tourism and hospitality research since 1994 has made any references to social entrepreneurship.

Sigala (2015a&b) proposed a market approach to understanding social entrepreneurs in her research and identified the capabilities that generate social value as: 1) building networks with various stakeholders; 2) adopting ethical flexible and inclusive recruiting practices; and 3) using common terminology and performance metrics. Social sustainability of tourism is rooted in community and local development that leads to a more authentic and meaningful experience for both locals and the visitors (Singh, 2003). In respecting the needs and aspirations of the local people, local culture is preserved.

### *Creating shared value OR corporate social responsibility*

A common phrase heard in organizations today is the triple bottom line (tbl) which was described in detail in John Elkington's 1998 book *Cannibals with Forks: the Triple Bottom Line of the 21st Century Business*. This approach to accounting added the concepts of social and environmental performance of an organization to the economic performance. It was argued that enterprises should measure and report on social and environmental performance to determine the impacts on society.

As a result, the term "corporate social responsibility" has become part of the culture of organizations globally. Carroll (1999) examined the evolution of corporate social responsibility and demonstrates that it has been part of the business vernacular for the last 50 years. Initially, it was called "social responsibility". It began with a book entitled *Social Responsibilities of the Businessman* written by Howard R. Bowen (1953). He stated that social responsibility "refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society".

Since then, the academic literature on the topic expanded during the 1960's. Definitions of the term proliferated in the 1970s and social responsibility became "corporate social responsibility". By the 1980s there was more research and there were fewer definitions and more attempts to measure and conduct research on CSR. During the 1990s the concept made the transition to alternative themes such as stakeholder theory, business ethics theory and corporate citizenship. At the beginning of the millennium, more attention was being given to measurement of CSR and it had become an essential element of the business vernacular.

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One of the issues with corporate social responsibility is that for some organizations, it was an activity unrelated to the core business. The employees of an organization might volunteer for a socially conscious project on one hand, yet on the other the organization might be exporting jobs to overseas plants where employees were underpaid and overworked in poor conditions.

Now well into the millennium, companies such as Wal-Mart, Unilever, Nestle and Johnson & Johnson have embarked on "creating shared values" by reconceiving products and markets; redefining productivity in the value chain and enabling cluster development. Taking these steps, these organizations are able to stimulate innovation and growth and at the same time providing greater benefits to the society.

A more current approach to CSR has evolved as has been defined by Porter and Kramer (2011) as "creating shared value" which means the creation of "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates". Shared value creation focuses on identifying and expanding the connections between societal and economic progress. The concept of shared values is making the difference between for profit and non-profit organizations less clear. In essence, CSV is creation of economic value by creating societal value.

### *Social entrepreneurs create social value*

With social entrepreneurs being defined as those who incorporate the tenants of entrepreneurship to create social ventures that address social, economic, or environmental problems and to create social change (Dees, 1998), there has been much research conducted on the behavior, goals, personality, characteristics, traits, competencies and tangible outputs of the entrepreneur (Dees, 1998). However, little attention has been given to how social entrepreneurs actually create social value until recent publications by Sigala (2015a& b). She developed a framework that examines how social entrepreneurs create social value in hospitality and tourism by "learning with the market" which incorporates three capabilities that the social entrepreneur must address: market structure, market practices and market pictures (Sigala, 2015a&b).

In developing capabilities in market structure, the social entrepreneur creates networks with various stakeholders to access, exchange and aggregate resources. An example of this would be a social entrepreneur in cultural tourism gaining access to relational, functional and symbolic resources (Nieminen & Lemmetyinen, 2015). With regard to market practices, the social entrepreneur promotes interaction and exchange of resources wherein market practices lead to market opportunities. Examples of these market practices would be such practices as recycling and the use of bio fuels or wind power which become formalized and routine within the organization. And finally, market pictures refer to the process of helping people create a new mindset consistent with the social values and mission of the

social entrepreneur. By developing these capabilities, social entrepreneurs create social value.

### *Globalization on art tourism*

Research demonstrates that shopping is one of the top tourist activities which generates tourism revenue and contributes to economic development (Paige & Littrell, 2003). In particular, tourists are interested in authentic arts and handicrafts because they involve the artisan, the method and often local materials (authentic art tourism). Souvenirs, on the other hand, are the mass produced items of lesser quality and craftsmanship. The authenticity of a craft is based on its workmanship, aesthetics and utility, uniqueness, genuineness as well as cultural and historical integrity (Littrell, Anderson & Brown, 1993). The characteristics of the shopping experience and the craftsman contribute to the overall authenticity as well. Littrell et al (1993) found that tourists have differing definitions of authentic art based on their age, stage of travel experience and style of tourism, but not on their gender.

Globally fewer and fewer older generations of artisans are passing the art of their craft to the younger generations who are searching for better paying and more consistent sources of income. This phenomena has also been documented in countries such as Brazil, Morocco, Mexico, and Peru. In his study of Third World artisans in Central America, Africa and Asia, Scares (2015) reported that globalization has increased the precarious existence of viable artisan cooperatives due to mass production of crafts, shifts in styles, fashions and tastes and increased global competition. Scares also noted that both government and non-government organizations with the mission of supporting art often have policies and programs that are less than effective. For instance, these organizations tend to overlook the needs of the craft worker, fail to incorporate local knowledge in the employment practices and often show disdain for the marginal workers. Only a few countries, specifically, Germany, the USA, the UK and France, have been successful in the development of commodity chains that link the artisans, wholesalers and department stores.

In this case study, we will be examining A Estrela, an art and handicraft non-profit organization in Rio de Janeiro, a city that continues to be a popular global destination. With recent global exposure due to the hosting of the World Cup 2014 and Olympics 2016, it is expected that there will be a robust market for authentic Brazilian art and handicraft throughout the country yet A Estrela is a struggling non-profit organization facing a number of challenges.

## **History**

In 1965, A Estrela was founded by a female, Brazilian social entrepreneur as a non-profit organization with the mission to preserve art, promote human development and dignity, and encourage the use of hands to achieve autonomy. Also included in its mission is a focus on teaching and sustaining traditional Brazilian handicraft skills to foster

personal engagement and human development. The organization allows women and men of any age who are in need of income to learn the crafts of ceramics, weaving, and painting. They believe that this personal engagement will bring about societal, personal, and technical growth of the people that will spread into their communities. In 1978 A Estrela organized the first meeting of Technical and Crafts Artisans Cooperative representatives from around the country. They have acknowledged their social responsibility and recognized their mission to empower people to work on their hand-crafted artistic techniques and focus on the greater financial and personal investment.

### **Mission**

A Estrela's mission is to "Promote and encourage humanistic development in socially and economically vulnerable people through the education and training in craft techniques, through productive actions in art and culture that allow for the creation of greater opportunities related to work and income." In addition, their goal is "To be, by 2016, the standard for job creation and education in the craft sector."

To achieve their mission, they provide:

- Education in technical craft
- Enhancement techniques and practices of craftsmen
- Product flow in its permanent craft fair / store

A Estrela provides workshops that train students how to produce art and handicrafts. They have a permanent craft fair; mezzanine; inventory; library; administration rooms; meeting room; space for lectures, group activities and meetings; small parking area. A Estrela offers classes in nine (9) different modules which include embroidery, pottery, natural fiber basketry, sewing, drawing/painting, wood cutting, macramé, weaving and wood carving. Based on demand, they also offer jewelry and knitting classes. The goals of the courses are to train residents in craft techniques and encourage creativity with the expectation that residents will be able to generate new and better opportunities for earning income. They encourage the entrepreneurial attitude and also demonstrate how to market, brand and ship products.

### **Situations Analysis**

1. **Competition in the sector.** A Estrela is located in semi-residential area of Jardim Botannica in Rio de Janeiro. It is not on a main thoroughfare and has very little foot traffic. Social entrepreneurship in art and handicraft is common in Brazil. As a matter of fact, there are non-profit organizations using the model of teaching people to make art in many of the favelas. Another example organization called, Asta, purchases handicrafts at a fair price from 60 women in the 33 communities around Rio and then re-sells them to corporate clients online and in their fair trade shop in Laranjeiras. Part of their funding comes from a microfinance company that loans the money up front for the materials needed to make the crafts. Other markets include the Hippie Market in Ipanema, the Babilônia Feira Hype in Gávea,

the Mercado das Pulgas at Largo dos Guimarães in Ipanema, the Feira de Antiguidades at Praça Santos and the Feira Nordestinain the Zona Norte."

One way to identify the competitors of A Estrela is to search tourism guidebooks where authentic art and handicraft shops might be mentioned. A review of the major travel guides online and in print demonstrated that A Estrela only has minimal inclusion in the major travel guides written in English. Fodor's Online Guide to Rio de Janeiro has a listing of neighborhoods with what to do in each specific neighborhood include Ipanema, Copacabana, Centro, Gloria and Catete, Leblon, Santa Teresa and Lapa, Flamengo and Botofugo. However, there was no mention of Jardim Botanica (Botanical Gardens) and A Estrela was not listed under the general tab of Shopping. A Estrela can only be found if you know the name "A Estrela" and type it in the search engine for the site. The address, phone number and map are provided with a link that does not work and goes to a website entirely in Portuguese. Frommer's Guide has no comment about A Estrela in their shopping or in a search of the site. In the Lonely Planet Guide, there is mention of A Estrela under shopping with the following narrative: "A Estrela is run by a non-profit social welfare organization. This delightful store displays the works of regional artists and sells Brazilian folk art in clay, wood and porcelain. It also sells baskets and woven rugs."

**Rough Guide Rio** shows shopping recommendations that mention other markets in Rio, but do not mention A Estrela. "Of Rio's markets, the so-called Hippie Market in Ipanema has nowadays become very touristy; much better is the Babilônia Feira Hype in Gávea, the Mercado das Pulgas at Largo dos Guimarães in Ipanema (second Sat of the month 2–8pm; handicrafts), or the Feira de Antiguidades at Praça Santos (Sun 9am–5pm; bric-a-brac). For arts, crafts and food from Brazil's northeast, there's nowhere better than the Feira Nordestinain the Zona Norte." In its online publication about handicrafts in Rio, National Geographic mentions Casa de Artesanato, showroom for Rio de Janeiro city and state artisans; FUNAI Craft Shop, which is part of Museu do Índio. In Botafogo featuring objects made by indigenous tribes; Cachaçaria Petisco da Vila produces artisanal cachaça (sugar cane brandy); and Marcelo Armstrong's Favela Tour which stops at Feira de Artesanato da Rocinha, the handicraft market inside the Rocinha favela (shanty town); and finally, the Ipanema Hippie Fair outdoor market featuring locally made art and gifts. There was no mention of A Estrela.

2. **Socio-economic environment.** A Estrela is accountable to its mission to produce social good with new and better ways for its students to improve their skills and become entrepreneurs. They have been successful in interacting with related institutions and communities. In April 2012, they started a series of

visits, promoting dialogue and program assessment, necessary for the development of new partners and the preparation and development of two new projects. They participate with institutions, groups and residents of communities from different regions of Rio de Janeiro. A Estrela, the typical handicraft school, hosts a minimum of 240 students and provides them with sufficient materials and transportation. However, to cover these expenses they need a budget 30% higher than their current budget. The lack of funding has resulted in a 30% reduction in the potential 240 students. The Program Coordinator stated that 75% of the profits made on handicrafts goes to the artisans. Another challenge facing A Estrela is the lack of consistent year round sales with Christmas being the peak season. Artisan handicraft production is time consuming. The Program Coordinator said lower sales could be attributed to the fact that many authentic art and handicrafts are being copied, produced in mass and sold at much cheaper prices in other countries of the world.

3. **Partner and stakeholders.** A Estrela has partnered with the following local, state, national and international organizations: Ministry of Foreign Affairs, Ministry of Social Welfare - PAB / Brazilian Handicraft program - Ministry Culture, UNESCO, Rio de Janeiro Botanical Garden, National History Museum, Folklore Museum Edson Carneiro, Museu Casa do Pontal, Indian Museum, the Goeldi Museum, National Museum - UFRJ, CNC / National Confederation of Commerce, SESC / Social Service of Commerce, SENAC / Commercial Training Service, SENAI / National Industrial Apprenticeship Service, Texaco, Klabin Fabricadora Pulp and Paper, Rio Design Center. Other stakeholders include A Estrela's target population, working age young people and adults with low education and living at the poverty line in the many favelas in Rio. Some of the employees and artist teachers are paid, but most of them are volunteers. In the 1995 during one of Brazil's periods of economic stagnation and high inflation, a non-profit named Brazil Institute of Board Members, was organized to set guidelines for the governance of organizations. By 1999, the non-profit organization had changed its name to Instituto Brasileiro de Governanca Corporativa or the Brazilian Institute for Corporate Governance (IBGC). Based on the guidelines, it was recommended that Boards of Directors should have a minimum of five (5) members and a maximum of eleven (11) with at least 20% being outsiders to the organization (Eddis, Grau, Miller, Moglestad & Oskvig, 2013). A Estrela has a Board of Directors and a Management Team. The Board plays the role of a watchdog for the non-profit in that they are responsible for the strategic direction of the organization and the maintenance of its cultural identity. It is comprised of eight (8) people including two

(2) local artists who were friends with the founder, two (2) small business owners, two (2) people who were wealthy philanthropists, one (1) person with accounting and financial background and one (1) of the sisters of the founder of the organization. IBGC also suggests that the Board of Directors organize their work into committee such as the audit committee, the finance committee, the human resources or compensation committee and the sustainability committee (Eddis, et al, 2013). However, A Estrela's Board does not adhere to this suggestion. Basically, as a group, the Board makes decisions on auditing, finance, human resources and sustainability. The Board of Directors is totally voluntary, unpaid and meets only once every financial quarter. The planning is year by year and there is no long term strategic plan. There are three paid employees on the management team: a Program Coordinator and two Assistant Managers. Day-to-day operational planning is done by the management team. They supervise six (6) volunteers who work in the retail shop where they also take inventory. One of the Assistant Managers prices the art and handicraft items and assures that payments are made to the specific artisans for their work and has primary control of the retail shop and sales. The other Assistant Manager is responsible for the art workshops, ordering supplies, scheduling workshops and supervising the 10 art/handicraft teachers who are paid on a per class basis. The control and accountability mechanism is very loose and is the responsibility of the Program Coordinator. There is concern among the founder, Board of Directors and Management Team that the financial health of the organization is at risk.

4. **Cultural environment.** Recent research supports the idea that globalization is having a negative impact on artisan communities because of the global mass production of art objects (2003). Brazil is among the Third World countries where that impact is being felt. The Program Coordinator indicated that A Estrela has had reduced sales due to competition. In addition to the financial threat of competition, there is a cultural threat to future of authentic Brazilian crafts as they are being replaced by manufactured products. In her article on art in Brazil, Barbosa (2002) contends that art education prepares people to not "be strangers" in their own environment and allows personal expression and an opportunity for cultural identification by citing several examples of successful projects involving poor young people and adults. She indicated that although art education was required by law in 1971, it has been replaced with literature as an art in Brazilian schools. According to Barbosa, "In Brazil all the non-governmental organizations (NGOs) that have been successful in their work with disadvantaged residents use art." A Estrela is attempting to not only contribute to the financial wellbeing but also the cultural integrity of Brazilian handicrafts. That attempt is being challenged by lower

priced, less authentic alternative products.

5. **Legal environment.** Because A Estrela is a non-profit organization, it is subject to a different set of standards. Political debates have ensued regarding the role of non-profit organizations in Brazil. It remains unclear as to who is responsible for poverty and improving conditions within society. Research suggests that the non-profit sector has successfully mobilized material resources and has had a positive influence on society. A Estrela receives no funding from the government. No grants are being provided. Primarily the organization serves people who live in the favelas. Unfortunately, the government is responsible for the displacement of many favela residents as it has tried to control the violence and improve living conditions recently in preparation for the 2014 World Cup and 2016 Olympics. Currently, A Estrela offers regular courses in handicraft workshops and production centers to residents who live close by in many favelas including Rocinha, Vidigal, Dona Marta, Garden, and Vila Canoas. The regulatory environment for business in Brazil is deeply rooted in protectionism. However, non-government organizations are subject to a different code entirely. Classifying non-profit organizations in Brazil has been proven to be challenging, as the term “non-profit sector” is not widely recognized. Little information is available on these organizations and their relationship to the government. Five broad categories are recognized. They are as follows: civil societies, associations, charitable organizations, non-government organizations and foundations. These categories are not clearly defined nor are they descriptive. A Estrela could easily fall into multiple categories. In his research on NGOs in Brazil, Torpeu-Saboe (2015) said they began during the military rule in the 1960s and 1970s. They continued to grow during the 1980s and made contribution to the democratic transition in Brazil. In 1993, Brazil had more NGOs than any other country in the developing world. However, he finds through statistical analysis that the higher the number of NGOs in a country the greater correlation with lower government spending on social issues.

### *Opportunities*

Since the 2007 announcement that Rio would be hosting World Cup 2014, there has been an increase of 300,000 tourists annually since then and this growth is expected to continue until 2017, due to the hosting of the 2016 Olympics. In 2015, after the World Cup 2014, an official of the Rio de Janeiro Convention and Visitor's Bureau said “We are not focused on the 2016 Olympics, it is happening. Our focus now is the re-branding of Rio as a major convention and meeting destination to absorb the infrastructure and hotels rooms that we have built for the two mega sports events.” (M. Nagey, personal communication, March Rio Convention and Visitors Bureau, March 20, 2015).

In recent years, the focus on mega sports events in Rio has resulted in billions of dollars being invested in infrastructure for sporting, tourists, security and transportation (Gaffney, 2010) although “social inclusion” has been said to be part of the initiatives, it is often to the contrary. According to Gaffney, large construction projects have resulted in the displacement of many favela residents and the disruption of their social and economic networks.

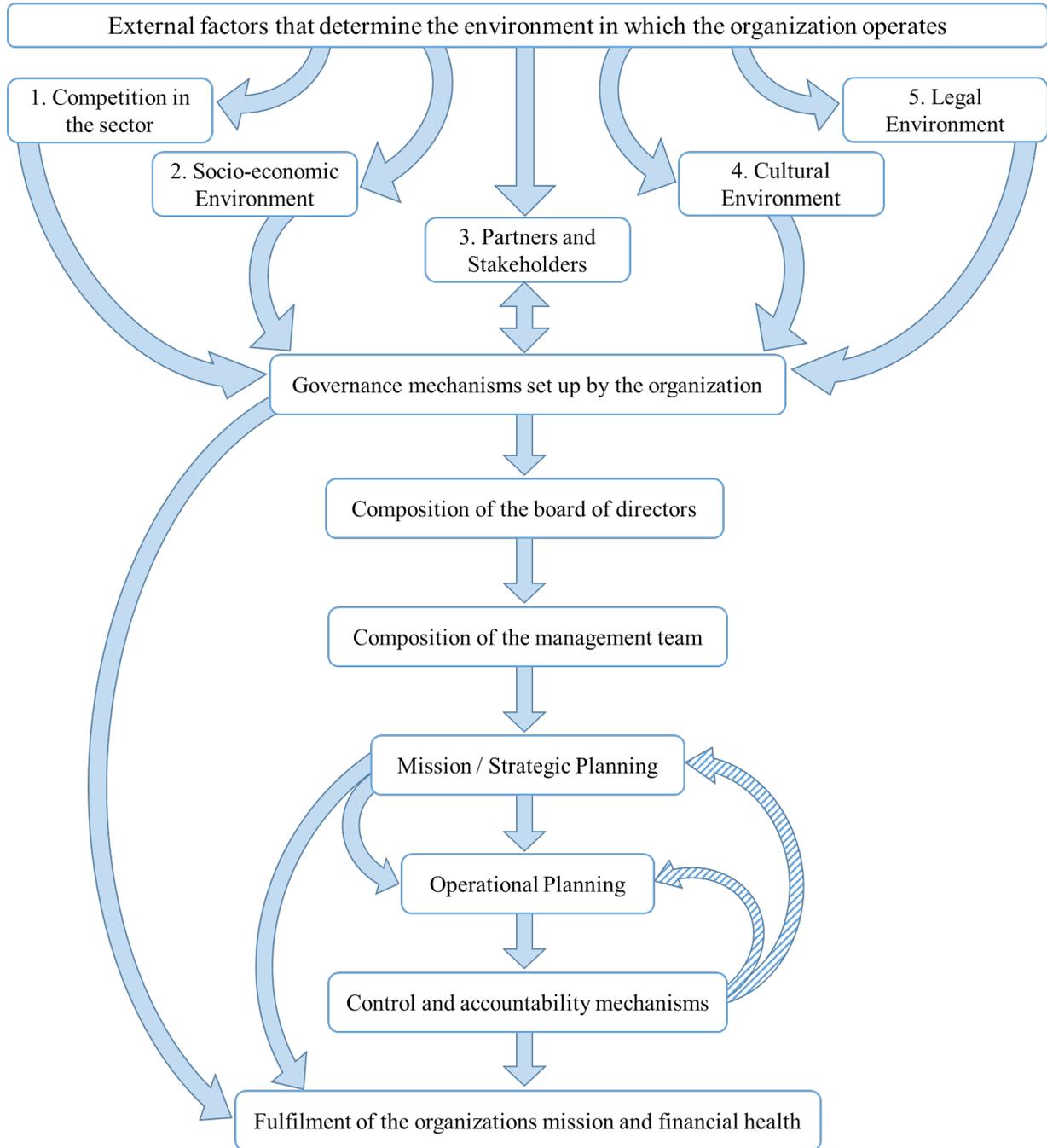
### *Discussion Questions*

- What are the primary differences between for-profit and non-profit organizations?
- What is the “market approach” to understanding social entrepreneurs?
- How does A Estrela demonstrate its corporate social responsibility or create shared value?
- Based on this case, explain the difference between an entrepreneur and a social entrepreneur?
- How should A Estrela address the issue of better marketing? Is marketing the only issue? Explain.
- What other ways could the Brazilian arts and crafts be distributed?
- What are the challenges facing art tourism globally? How should these challenges be addressed?
- How does art tourism support the culture of a country?

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**Figure 1**

**Systematic Framework for Evaluating the Internal and External Environments of Non-Profit Organizations.**



Source: Turbide, 2012