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## **Sustainability of a Community-Based Enterprise through shared value. Case: Mally Communal Company**

### ***Abstract***

The relationship of a community-based enterprise (CBE) and a mining company was reviewed from the perspective of shared value creation. Specifically, through the study of the Mally CBE and its interaction with the Buenaventura mining company, the opportunity to create economic value by creating value for the community was verified. The CBE is an organizational innovation whose management is oriented towards the market, integrating its activities with the operative dynamics of the mining company through the provision of services. CBE focuses on member's economic benefit and the social welfare of the broader community. There are, however, barriers that limit the growth and optimization of the desired impacts caused by this articulation. Despite this, the economic and social value generated is significant and the defined growth model under certain circumstances could be replicable and scalable.

**Keywords:** Community-based enterprise; Shared value; Economic value; Social value; Value chain; Peasant communities

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## Introduction

As referred to by Soviana (2015) and, Orozco-Quintero and Davidson-Hunt (2010), in the last decades CBEs have emerged as an alternative to the paternalistic approach in solving communal issues, such as environmental and poverty problems, in developing countries. CBEs have increased their recognition as a sustainable way of maintaining community autonomy and adapting to economic and political changes (Handy et al. 2011).

Given the potential of the CBE model to create value and be sustainable, it is useful to review its organizational design (Soviana 2015), as well as how cooperation can create economic or sociocultural value for its members. These observations raise some questions that are relevant to academy, policy makers and those responsible for the management of community relations in companies. Is there a detailed research on CBE that shows definitions, its organizational architecture and its critical success factors? Under what conditions could there be a relationship of mutual benefit between a CBE and a mining company? How can the government of a CBE be reconciled with the peasant community?

Certain authors have attempted to construct a conceptual framework of CBE. Among them, Peredo and Chrisman (2006), based precisely on a case in the Andean highland of Peru. As well as, Somerville and McElwee (2011), they reach detailed characteristics of the CBE in relation to its multiple strategic objectives, the improvement of the value created by the community and its critical activities to reach their goals.

Also in Peru, according to the Institute of Common Good (2016), there were 10,529 communities (peasants and natives) that control 63 million hectares of the country's surface (49.1% of the territory) and 35 million hectares of forest (47.3% of the national forest area).

Both are significant magnitudes. Then, of the total communities, 6,230 would be peasant communities, which would house approximately 1'106,690 families and 4'560,000 people.

It is known that these peasant communities are located, especially in the Andean highland, more than 3,000 meters above sea level. They also present the following characteristics: (a) deficiencies in basic services and infrastructure; (b) limited income derived from its main economic activities, such as low productivity and livestock farming, and (c) its population has a poverty level of 49.0% and extreme poverty of 16.5% (National Institute of Statistics [ INEI], 2016).

In contrast, the great mining potential of Peru is internationally recognized. Thus, Behre Dolbear, the prestigious US consultant in his report: *Where to invest 2015*, placed Peru in the sixth place in its ranking of best destinations for mining investment. Similarly, the Fraser Institute, a leading Canadian think tank, in its 2016 *Survey of mining companies* (Jackson and Green 2016) ranked the country 28th out of 104 jurisdictions (countries and provinces) on its list of most attractive places for mining investment. Valuing, among other aspects: (a) mining potential, (b) political stability, (c) environmental regulation and (d) energy costs.

However, the Fraser Institute warned that future investment would be postponed if the government does not uphold the agreed land access agreements between mining companies and communities (Jackson and Green 2016). Furthermore, the publication *PWC Mining Survey 2016 - Perceptions on Risks and Opportunities of Investing in Peru's mining sector* (PWC 2016), identified as the main challenge for the growth and development of the Mining sector in Peru the relationship with the local communities, and the definition of strategies for the management and reduction of social conflicts.

Equally, it is important to mention that, according to the Ombudsman's Office (2017), 144 out of a total of 212 social conflicts identified, correspond to a socio-environmental nature (67.9%). These confronted, basically, peasant communities with mining operations. The fundamental reasons were the breach of commitments, or environmental damages.

On the other hand, the Political Constitution of Peru of 1993 recognizes the autonomy of the peasant communities. Thus, the government grants these people, in an extraordinary way, the status of legal entities. In addition, they are empowered: (a) by the Private Investment Law for the development of economic activities in national territory and at the lands of the peasant and native communities (Law No. 26505, 1995) and (b) through the Supreme Decree N. 045-93-AG (1993) to carry out economic activities through communal and multi-communal enterprises.

In this context, emerge the Mallay peasant community, which is located in the district and province of Oyon, Lima region. It has property titles since 1712 and owns a total area of 6,803 hectares. According to a census carried out by the National Institute of Statistics and Informatics (INEI) in November 2007, the population of the Mallay community was 522 inhabitants, of this amount, about 50 percent were in some state of poverty (extreme or non-extreme). Also, the level of educational achievement was moderate, due to the fact that the majority of settlers only have accessed to basic education. 24 percent of their residents lacked their own housing, and 42 percent of the working-age population (EAP) does not constituted an economically active population (EAP). The main economic activities in Oyon were agriculture, livestock and mining (Muñoz 2012; Figueroa 2016).

For its part, Buenaventura is a major mining company producing precious metals and holder of mining rights in Peru. Since its inception in 1953, it has focused on the exploration and

exploitation of its own operations and through projects developed in partnership with third parties. Buenaventura also has a significant shareholding in Minera Yanacocha S.R.L., the largest gold producer in Latin America (Compañía Buenaventura 2016).

This article aims to clearly identify the characteristics of a CBE (structure, values and critical success factors) and, secondly, in the case of Mallay, discover, through the shared value criteria, those aspects that have achieved develop jointly with the Buenaventura mine that has allowed them to create economic and social value, as well as, barriers to growth and diversification. These questions will try to solve both the theoretical part (section 2) and the descriptive part of CBE Mallay (sections 3 and 4), sections 5 and 6 will detail the opportunity to relate with Buenaventura and the strategy followed from the perspective of shared value. Finally, we will discuss the case and reach certain conclusions (sections 7 and 8).

### **Theoretical Framework for Research**

Regarding the categorization of CBE, Knudsen and Erikson (2002) have suggested that the perspective of organizational economics should be used, in the same sense, Gibbons and Roberts (2012) have recommended using economic logic and methodology to understand existence, nature, design and performance of organizations.

Then, in line with Greenwood and Miller (2010), the types of organizations can be differentiated according to their different purposes, interest groups, strategies and reasons. For their part, Hannan and Freeman (1986) argued that four dimensions reflect the long-term strategy of an organization and, therefore, can be used as a basis to classify organizational forms: (1) stated objectives, (2) forms of authority, (3) basic technology and (4) marketing strategy.

In addition, as pointed out by Puranam, Alexis and Reitzing (2014, 163), organizations always share common features: (a) a multi-stakeholder system with (b) identifiable boundaries and (c)

a set of objectives towards which (d) the efforts of the interested parties are oriented. Now, two aspects would be fundamental to classify an organization, namely the objectives of the organization and the architecture (Soviana 2015).

The evaluation of the CBE models is difficult since a comprehensive understanding of the organizational structure of CBE is quite incipient (Soviana 2015). Consequently, therefore, the support of relevant examples is required, this document will examine the architectural varieties available under the CBE terminology in an attempt to define a model.

Thus, according to Peredo and Chrisman (2006, 310), a CBE would aim to pursue the economic and social objectives of their community, both individually and as a group, in the short and long term. However, the empirical evidence would show a variety of objectives. In this way, some CBEs would aim to achieve multiple objectives. For example, Ugandan CBEs aimed to generate additional income, develop strategic alliances between CBE and external persons, and develop products that respect the environment (FAO 2005).

Meanwhile, CBE of Karnataka in India (Handy et al. 2011) would pursue purely economic objectives and the alleviation of poverty. However, tourism CBEs in Kenya have evolved as an extension of the conservation agenda to increase community cooperation on the development agenda (Manyara and Jones 2007).

However, some CBEs are oriented towards the benefit of their members and others extend their services to the local community in general. Thus, CBE San Juan in Mexico considers forest as a common good, whose exploitation should benefit all members of the community, generating social development by appropriating the economic value of the forest (Orozco-Quintero and Davidson-Hunt 2010). Nonetheless, the Ugandan CBE benefits only the members of the company (FAO 2005).

Like any other company, CBEs would be destined to be sustainable and durable. However, some CBEs achieve their autonomy quickly and for many years and others do not survive without outside help. Such is the case of CBE San Juan, which is profitable and has been for more than 28 years (Orozco-Quintero and Davidson-Hunt 2010). On the contrary, a CBE from Botswana needed donations from collaborating agencies to overcome their break-even point after 16 years (Stone and Stone 2011).

Another characteristic of CBE is to provide, as an additional benefit for its members, education and training. The same ones that are intended to increase the operational capacity of the company. In this way, the Mexican CBEs contract technical and marketing assistance (Humphries et al. 2012), African CBE trains its members in marketing and development (FAO 2005), as well as sustainable management of resources and social organization (Thoma and Camara 2005).

As for the architecture of a CBE, it defines a community as an aggregation of people who share a geographical location, a culture, an ethnic origin or other relational characteristics (Peredo and Chrisman 2006, 315). It can be constituted by some members of the community, in the whole community or by several communities (Handy et al. 2011).

In reference to the participation of the community in the accomplishment of the tasks, this can vary and the members could assume functions of owners, managers and employees of CBE. In the same way, the degree of participation and the type of activities dealt with could vary among the members of the community (Peredo and Chrisman 2006). The organizational structure of the CBE could be similar to that of the community directive (Thoma and Camara 2005) or be clearly separated between administrative and institutional structures (Orozco-Quintero and Davidson-Hunt 2010). The limitations of human capital would force strategic tasks to be carried

out by external persons or local groups of leaders or elites, while the operational tasks would be carried out by the majority of the members of the community (Timsina 2005; Manyara and Jones 2007).

As suggested by Soviana (2015), a CBE model would show certain characteristics: (a) in the first place, it would refer to people who share a common geographic area and culture; (b) then the membership may be open and voluntary for all members of the community; (c) thereafter, a CBE could have one or multiple objectives; (d) the beneficiaries could be only for some members of the CBE or for the community as a whole; (e) the economic participation of the members could consist of financial capital (not very frequent) or share communal assets (usually common natural resources) and, (f) in terms of decision making, this can be complete, when the CBE, is planned and managed in its entirety by the community; with active participation, when the CBE provides community goods and financial capital and resources are foreign.

After describing a CBE, we will present a strategy of growth and diversification for the communal enterprise, the same one that focuses on the development of a supplier relationship with a large company, a mining company, for example, for this purpose will be useful the conceptual framework of shared value, which we will discuss.

As highlighted by Porter and Kramer (2006; 2011), successful companies need a healthy society. In this sense, the educational, health and equal opportunities aspects would be basic elements for a productive workforce, competitive suppliers and an innovative community. The researchers considered that good governance, the rule of law and property rights are essential for efficiency and innovation. In addition, they added that a healthy society would create a

growing demand for the company, satisfying more human needs and growing aspirations (Porter and Kramer 2006).

In relation to extractive activities on poor community lands, it can be inferred that the more closely related a social problem is to the business of the enterprise, the greater the opportunity to take advantage of the company's resources to benefit society (Porter and Kramer 2006). Moreover, if one considers that there is a very wide perception that companies prosper at the expense of the rest of the community and generate social, environmental and economic problems (Porter and Kramer 2011). Along these lines, Sachs (2008) pointed out that the essence of corporate social responsibility is that companies make their technologies available to those who can benefit from them, which is called technological transferences; It also suggested that, in contexts of limited resources and low human capital, activities should be concentrated in order to save money. This will alleviate constraints on skills, management capabilities or infrastructure in the economic sphere.

Similarly, Porter and Kramer (2011) suggested, in turn, that many corporations maintain an obsolete approach to value creation. These organizations prioritize the optimization of short run financial performance, thereby avoiding relevant aspects. These are as follows: (a) the most important needs of customers, (b) the depletion of natural resources vital to the business, (c) the viability of their key suppliers, or (d) The economic poverty of the communities where they produce and sell.

To reiterate, the researchers pointed out that the purpose of the corporation should be the creation of shared value, which implies creating economic value, while generating value for society in addressing its needs and challenges. They affirmed that companies must link business

success with social progress. In this way, the concept of shared value would recognize social needs and not only the conventional economic needs as the determinants of the market.

They also said that the evils of society create internal costs for companies, such as wasteful energy and raw materials, accidents, training needs and low productivity due to inadequacies in education. Therefore, correcting the damages and limitations of society does not necessarily increase the costs of corporations; since it can be innovated through the use of technologies, operational methods and advanced management approaches. This would raise productivity and expand markets.

From the standpoint of the company, Brabeck (2016), chairman of Nestlé, defined the creation of shared value. He proposed it as the long run sustained commitment to create greater shareholder value. To this, social problems are integrated into the business strategy itself.

*Shared value* is defined as policies and operational practices that strengthen a company's competitiveness while helping to improve economic and social conditions in the communities where it operates. It focuses on identifying and expanding the links between economic and social progress. Then, the value is defined by the difference between benefits and costs. It is observed, then, that companies can create economic value creating social value. There are three ways to do this: (a) reconcile products and markets, (b) redefine productivity in the value chain and (c) build support clusters for the sector around the company's facilities. As a result, many ways of meeting new needs, gaining efficiency, creating differentiation and expanding markets are opened (Porter and Kramer 2011).

Recognizing that products and markets, in the line worked by Porter and Kramer (2011), Diaz (2014), Del Valle (2015), Mutis (2011), Bertini and Gourville (2012) and Shared Value Initiative (2014), involves the multidisciplinary work of the areas of research and development,

design, engineering and marketing; by rethinking the product, processes and markets served, marginal and potential. It is executed by evaluating the possibility of making an improvement in some social condition in the community where it is acted. A cost estimator will determine the relevant costs and revenues of the identified alternatives that could comprise different activities of the extended value chain.

Bertini and Gourville (2012) suggested using the pricing policy to generate shared value. These authors affirmed that the value does not originate or belong exclusively to the company. The consumer is no stranger to the process of creating value. In the case of a well-designed discount, for example, not only do sales and referrals increase, but the brand is also promoted and loyalty is built.

From this perspective, different forms of value created in business can be identified. These are as follows: (a) increase in market share through expansion, (b) deepening customer and consumer relationships, (c) expansion of differentiation, and (d) innovative developments. Likewise, there are ways to create value in the social arena: (a) ability to meet a specific need, (b) transform customer valuation through their own needs, and (c) ability to substitute inferior goods for superiors.

Redefining the productivity of the value chain entails the creation of social value for the different companies that are part of the value chain and for society as a whole. This will be achieved through proposals that increase the competitiveness, productivity and profitability of the various participants in the value chain. Likewise, this level promotes synergies between suppliers and the company in the search for greater productivity and the generation of social progress. In addition, value management will involve the use of the Activity Based Costing (ABC) model and its Activity Based Management (ABM) and Performance Based Acquisition

(PBA) variants to predetermine, manage and control the costs of activities. According to Shank and Govindarajan (1995), the strategic management of the value chain costs must comprise, in one hand, the management of the structural costs and, on the other hand, the control of the costs of execution.

In this dimension you can define modalities of creating business value. These are as follows: (a) to ensure timely and quality supply, (b) Integral reduction of costs in the value chain, (c) innovation synergies transferable to the customer and (d) development of competitive advantage through the value chain. Analogously, different ways of creating social value can be specified: (a) transformation of inter-company relations in the value chain, seeking synergies and collective competitiveness; (b) integrated development of the competitiveness of supply chains, distribution and associated services, and (c) sustainability and collective efficiency in the value chain.

The development of clusters with local companies aims to constitute an institutional support that allows them to improve their productivity. Additionally, it will make it possible to address flaws or gaps in the structural conditions that affect the cluster. To this end, programs for the development and strengthening of suppliers are used. The cluster should not only comprise other companies, but also institutions of various kinds, such as schools, universities, chambers of commerce and associations.

In this dimension, the forms of creation of business value are as follows: (a) improvement of the various factors and constraints of territorial competitiveness; (b) guarantee of local supply with quality and opportunity; (c) guarantee of human capital in the long run and consolidation of learning curve and experience, and (d) development of territorial competitive advantage. In terms of creating social value, the alternatives will be: (a) competitive integration of

communities into human capital and the chain of territorial value, (b) training, management and support of projects to develop competitive factors, (c) the territory as client and (d) development of entrepreneurial capacities in the territory (Porter 1998).

Another critical definition is that of *peasant communities*, which according to article two of the *General Law of Peasant Communities*<sup>1</sup> are organizations of public interest, with legal existence and legal status. They are composed of families that inhabit and control certain territories; linked by ancestral, social, economic and cultural ties. These ties are expressed in communal land ownership, communal work, mutual aid, democratic government and the development of multisector activities. Its aims are aimed at the full realization of its members and the country. On the other hand, one of the ways in which peasant communities could exercise their business is the format of the communal enterprise (CBE). This form allows them to use their legal status and organize and manage their economic activities in a business way, through the generation of productive units of communal goods and services. This was explained by the *General Law of Peasant Communities* in its article 26 (Law 24656/1987). Also, in article 28, there is a promotional regime that makes it possible for peasant communities, their communal enterprises and other associative forms to be unaffected by any direct tax created or created to tax land ownership or tenure, as well as tax the rent.

However, according to the Law on private investment in the development of economic activities in the lands of the national territory and of the peasant and native communities<sup>2</sup> (Law 26505/1995), without prior agreement with the landowner, mining rights cannot be established

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<sup>1</sup> Congress of the Republic of Peru, Law 24656/1987. General Law of Peasant Communities.

<sup>2</sup> Congress of the Republic of Peru, Law 26505/1995. Law of private investment in the development of economic activities in the lands of the national territory and of the peasant and native communities.

(Article 7). Thus, the mining company is conditioned to sign a bond contract with the peasant community. It is, in this sense, a very favorable circumstance for the latter.

### **Mallay Community - The opportunity to serve Buenaventura**

Peru is one of the countries with the greatest mining potential. In 2016, it became the world's second largest producer of silver, the third largest producer of copper and zinc, fourth of lead, fifth of tin and sixth of gold. Mining also contributed 57% of total national exports during the period 2001-2015. In addition, in the same period, total investments in the sector amounted to US \$ 57 Billion. Likewise, the sector is present in 17 of the 26 regions of the country. It has contributed more than S / 80 Billion to the national treasury for taxes and royalties. As well as, the portfolio of mining projects in force amounts to US \$ 56 Billion. Then, the mining sector acquires 14% of the total production of the local manufacturing sector and, for each direct job it generates, nine indirect ones created in other sectors (National Society of Mining, Oil and Energy, 2016).

Peru is also the country with the largest silver reserves in the world, concentrating 21% of the estimated precious metal reserves in a total of 570,000 metric tons ("SNMPE: Peru" 2016). Beside to the above attributes, its macroeconomic stability, geological potential and energy cost, the country is truly attractive for investment in metal mining. Hence, it was in the interest of Buenaventura mining company, the main national silver producer (Ministry of Energy and Mines 2016), to exploit the generous reserves of this metal from Mallay's subsoil. Buenaventura is also in a position to formulate a strategy that generates economic value and social value for both its mining operation and for the peasant community and its communal enterprise (Buenaventura mining company 2016).

Mallay, like most of the peasant communities of high poverty in Peru, had deficiencies in infrastructure, health, education and employment; affecting this circumstance in particular to women, children and the elderly (Muñoz 2012; Figueroa 2016). Thus, 91% of the floor of the houses was of land, only 19% of the houses accessed the drinking water network, 56% of the population did not have health insurance, 15% of the population did not have a level of educational instruction and 50% of the population was unemployed. Subsequently, with the entrance of the mine, most of these indicators would improve significantly.

On the other hand, following the approach based on the valuable resources proposed by Collis and Montgomery (2007), it could be said that for Mallay's case, its valuable resources, those that would allow the growth and diversification of its CBE, would be the following (a) the long-term mining reserves in its territory, (b) the fleet of vehicles and heavy machinery (assets), (c) the tax exemption, (d) its consistent capacity to generate income through the services provided to the mine and (e), its ability to add new business units related to mining services. According to Collis and Montgomery, the three characteristics of a valuable resource are: (1) demand, (2) shortage and (3) appropriability.

As mentioned in 2016 by Humberto Ríos, an accountant for the Mallay CBE, a census sponsored by the peasant community was carried out in order to identify certain economic and social impacts as a result of the mining presence in the territory. The results revealed that, although the integral characteristics of the dwellings varied little, the improvement in the sanitation and connectivity was significant. In contrast, the educational and health aspects did not show significant changes, although the most noticeable and favorable evolution was evidenced in the employment indicators.

According to Buenaventura mining company (2016)'s Annual Report, in Malla there would be silver reserves that would justify a mining period of approximately twenty years, with possibilities for expansion as a result of discoveries of new reserves through explorations in the area. This range of time would correspond to the window of opportunity that Malla CBE would have to develop services to Buenaventura, accumulate surpluses, redistribute, develop human capital and diversify its businesses. At present, the negotiating power of the communal enterprise lies in the conditions agreed in the bonded contract signed with the mining company and in the recent findings of new reserves. Both circumstances define a favorable negotiating framework for the improvement of the offer of services to Buenaventura.

### **Malla CBE - the organizational architecture**

Given the presence of the mining company Buenaventura and the opportunity to provide services, General Extraordinary Meeting of March 14, 2010, to establish the CBE with the denomination Malla Communal Enterprise Multiservice, which would be subject to the current legal regulations and their status. Its purpose is to organize and manage the economic activities of the community under a business format, through the generation of productive units of communal goods and services. It must also ensure the well-being of its members and contribute to the development of the community as a whole (Malla CBE Statute 2010).

In addition, as a result of interviews conducted in January 2017 to the main people in charge of organizing the CBE of Malla: Mr. Aníbal Tolentino (President of the Peasant Community during the period 2010-2011) and Humberto Ríos (Counselor and accountant of the CBE ), identified the organizational change that had to take place within the peasant community, in order to progressively improve, from being an organization that managed limited agricultural and livestock resources towards a market-oriented organization. During this transit, it was

possible to develop organizational and dynamic capacities, such as the management of human resources and the negotiation with suppliers and the mining company. Likewise, they were able to improve the conduct of the assemblies and the development of consensus on economic and social aspects of interest to the community.

Now, given the compliance with international quality standards demanded by the Buenaventura company. The CBE had to consider in its initial organization the hiring of a Manager, who should coordinate the operations of the business units, as well as the administrative and accounting ones. The operations derived from the civil works business unit were managed by a resident engineer. Likewise, the activities of the transportation business unit were directly supervised by the Manager, and the accounting and administrative tasks were carried out by an accounting advisor.

As expected, the arrival of foreign professionals and technicians would generate some conflicts, either with the leadership of the peasant community or with members of the community, related to decision-making or to the levels of authority assigned. The limitations to the human capital of the members of the rural community and the requirement of Buenaventura to contract services with suppliers that have qualified work teams were two of the main reasons why the presence of specialized external personnel was accepted. Thus, to provide the transportation service that was provided to the mining company, foreign drivers had to be hired, since the community members did not have a driver's license.

It should be noted that the assets owned by the communal enterprise are valuable resources that facilitate management and income generation. Among these are the communal premises of more than 500 square meters, which houses administrative offices, warehouses and a hall for assemblies. As well as the fleet of vehicles for transport of personnel and cargo, composed of

15 units. The valuation of these assets amounts to US \$ 779,620.00, which have made possible an average annual income of approximately US \$ 807,125.00, and an average annual operating profit of US \$ 181,840.00.

The CBE's main client is Buenaventura mining company - Mallay operations. The enterprise basically provides transportation services to Buenaventura's personnel and services of civil works, which basically consist of the maintenance of roads, the repair of environmental liabilities, caused by the mine and, eventually, civil infrastructure works. The management of these activities is carried out through projects, which are assigned to work teams which are generally composed of a supervisor or foreman, a security officer and a contingent of personnel. In addition, averages of 51 workers work in the CBE. This figure includes administrative and management staff, drivers and operators.

### **Mallay Community - The strategy**

As suggested by the shared value strategy, the communal enterprise will be oriented towards the creation of economic and social value for the peasant community as well as for its stakeholders, in particular for the Buenaventura mining company. There are three ways to do this: (a) relate products and markets, (b) redefine productivity in the value chain and (c) build support clusters for the sector around the company's facilities. In this way, opportunities are opened to meet new needs, gain efficiency, create differentiation and expand markets (Porter and Kramer 2011).

In order to link products and markets, rethinking the products, processes and markets served, marginal and potential, the CBE will be able to improve the products and processes through the following actions: (a) training, (b) hiring professionals and (c) the acquisition of high

performance equipment and machinery. Likewise, a diversification strategy (Collis and Montgomery 2007) will define new business units that will allow access to new markets.

During 2012, a panel of experts<sup>3</sup> was consulted in order to identify constraints to the development of the CBE. In this survey, the low productivity of the communal enterprise and the low participation of the community in the activities of the mine were identified as the main restrictions. Thus, it was recommended the training of community members and their managers in management and planning, so that improvements in income, sanitation and habitat can be obtained. The results would be greater surpluses to redistribute.

Considering that its base of valuable resources has allowed the CBE to provide civil works and transportation services to Buenaventura, and that even its organizational structure could be strengthened in the short term by hiring competent professionals and technicians, there is the possibility of diversification towards a new business unit. With this, the company would develop a synergistic network together with the existing business units; as well as it would share indistinctly to drivers and professional engineers (economies of scope). The strategy would focus on developing in the short term a new business unit to provide services in the Oyon territory and the Lima region. Then, in the medium and long term, it would be included in forestry, agricultural and tourist activities.

In accordance with the coordination made with the previous manager of the mining unit, consulting the opinions of experts in earthmoving and mining, and assuming stability in the levels of profitability reached by the CBE, it is projected that, as of 2017, The acquisition of a

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<sup>3</sup> Engineer Rómulo Mucho (President of the Institute of Mining Engineers of Peru, Former Deputy Minister of Mines), Engineer Isaac Ríos (CETEMIN General Manager, Former Rio Pallanga General Manager), Engineer Noel Barrenechea (Community Relations Coordinator CMBSAA - Operation Mallay), Engineer Alex Hermoza (Vice President of Social and Environmental Affairs CMBSAA), Engineer Nilo Ríos (Mining Expert).

group of heavy equipment machines for earth movements would be carried out. This will consist of a front loader and two dumpers.

These economic initiatives, coordinated in their execution with the mining company, will improve the performance of the CBE services and, therefore, the value created for their clients.

Then, with the improvement in income and the distribution of the surplus, a greater number of needs will be satisfied.

The redefinition of the productivity of the value chain will imply the creation of social value for the different companies that are part of the value chain and for society in general. All this will be achieved through proposals that increase the competitiveness, productivity and profitability of the different participants in the value chain. Therefore, Malla CBE and Buenaventura should promote synergies within the framework of a supplier development strategy, aimed at the search for greater productivity and the generation of social progress. It should be noted that the experts consulted indicated that the CBE had weak technical direction and a limited use of technological tools, technical assistance and technological transfers. It also showed an absence of innovative projects. Due to the operational interdependence between the Malla CBE and the mining company, coordination has been carried out to intensify the technical assistance and technology transfer from Buenaventura to the CBE.

Likewise, the CBE must improve the selection of its technical and managerial cadres in order to assure greater achievements in performance and productivity. In this way, the various activities in the value chain will optimize their contribution to the benefit generated. In addition, the development of clusters with local companies aims to provide support institutions that allow them to improve their productivity, while addressing failures or gaps in the structural conditions that affect the cluster.

Through the Stakeholder Theory of Mitchell and Agle<sup>4</sup> (Mitchell, Agle, and Wood 1997; Agle and Mitchell 2008), it was verified that, among the different interest groups related to the community of Malla, only two stood out. These are as follows: (a) the mining company, and (b) both the Malla peasants and the directors of the CBE.

This circumstance is typical of the Andean communities, generally isolated from urban areas, with weak links with local governments and with different sectors such as health, education, justice, housing, telecommunications, security and the interior, among others. In addition, the presence of NGOs and multilateral projects is minimal. In that context, a desired situation, which contributes to sustainable development, would imply that these institutions, particularly those of the Government (particularly sectorial one's Health and education), have more presence in these areas and provide both services and development projects.

Considering this reality and a remote probability that, in the short term, the government for budgetary and management capacity issues closes these gaps, the presence of a mining company that comes to the territory with a long run investment project. As well as with resources that could improve the income and employability of the Malla peasants. Meanwhile, the community does not have an institutional support, which is why it should be developed. In this sense, recently, they have initiated contacts with Sedes Sapientiae Catholic University (UCSS), CITEMIN (a technical training center in mining), regional and local governments; and pending ties with the various sectors of the government and neighboring peasant communities.

On the other hand, the vast experience of Buenaventura operating a wide portfolio of mines, allows the company to ponder and recognize the importance of involving peasant communities

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<sup>4</sup> The Mitchell Theory allows, through the participation of experts and the use of certain criteria (degree of power, legitimacy and urgency), to classify according to their capacity of incidence and availability to the main actors in a scenario.

that own the land under the mining veins. Thus, after having agreed hundreds of servitude, it has developed a type of strategy that includes not only the payment for these services, but a package of actions. Some are related to the redefinition of the productivity of the value chain; Including: (a) development of supply for the mine, initially with transportation and civil works services to repair environmental liabilities and roads; (b) employment for the Mallayan peasants in the mine and in the contracting companies of the mine, and (c) improvement of the community habitat and the water and sanitation system.

As for the creation of a local cluster, as Roque Benavides, Chairman of the Board of Buenaventura (Institute of Mining Engineers of Peru, 2013) stated, social responsibility must be shared between the State, companies and communities; so each one fulfills its role to achieve common objectives of sustainable development. In this sense, the mining company has developed infrastructure (roads, water) and allocated funds to international cooperation for economic development and procurement programs (PRA Program). Currently, it sponsors the development of a development plan for the peasant community and the CBE.

The achievement of shared value implies adequate leadership by the Mallay CBE and also by Buenaventura. A factor that has to mitigate conflicts within the community has to do with the policy of distribution of the surplus recorded in its statutes. This ensures fixed percentages to be distributed for community training, reinvestment in the business of the CBE, social assistance to women, children and the elderly, and dividends. Considering that the CBE comprises all the active members of the community, the redistributive impact of the dividend policy would be very important (Muñoz 2012; Figueroa 2016).

### **Mallay CBE - Results on business value and social value**

The synthesis of shared value is the creation of economic value and social value for both the company and its relevant stakeholders. Now, this generation of value is obtained through the following actions: (a) reconceiving products and markets, (b) redefining value chain productivity and (c) cluster development.

In terms of reconceiving products and markets, the CBE has developed two business units: civil works and transportation. To this end, they had to hire professional chauffeurs, engineers and technicians from outside the community. With the technical assistance of Buenaventura, processes and sequences have been defined for the different projects to be implemented. In addition, a new Business unit, heavy machinery, it will involve making significant investments. However, they will ensure sustained income throughout the year. Once the new business unit is fully operational, annual revenues will double. Currently billing an annual average of US \$ 807,125.00, the average annual benefit is US \$ 181,840.00.

The CBE is going to fulfill seven years of activity, and by generating income and profits, it allowed to employ an average of 51 people. It has even made it possible to redistribute profits in training, social assistance and reinvestment. In this way, a significant part of the peasant community has improved its consumption and quality of life by attending to a greater number of needs.

Regarding the redefinition of the value chain, the communal enterprise has established itself as a provider of civil works and transportation services. In order to complement synergistically the operations developed by the mining activity, they have had to establish processes and sequences, conforming to the rules and standards of Buenaventura. This has progressively improved performance and efficiency. Thanks to the increased productivity of the communal

enterprise and the absence of conflicts and delays, the mining company has been very effective in its operations. Thus, Buenaventura presented the average annual cash cost of US \$ 9.92 / oz. silver, one of the most efficient of all Buenaventura mines.

This improvement is attributable, among other things, to the following: (a) the availability of human capital and contractors that can be hosted and fed by the peasant community; (b) The correct management of the community relations that gave fluidity to the exploration activities, in this way a new exploration target has been identified, and (c) the 29% increase of the tonnage of ore processed in the plant from Malla, which allows to increase the production of ounces of silver by 27%. This performance was facilitated by the minimal concurrence of conflicts between the mine and the community, as well as the collaboration of the CBE in the maintenance of the tracks (Company of Minas Buenaventura 2016).

As for the social value created, three can be mentioned. First, there is the creation of the CBE, which serves to provide the service provision to the mine and in the medium run diversify its services in products and markets. Second, there is employment generated, which improves income, quality of life and equity. Finally, there is the improvement of the habitat, roads and the water system; which not only provides well-being to the community members, but also to the workers of contractor companies housed in the community.

In relation to the development of the cluster, a starting point is the formulation of the development plan, which in addition to the habitat would include a strengthening of the capacity of supplying the CBE in order to offer services of greater complexity, among them, buildings and civil works. The presence of the mine and the dynamics of its officials, specifically community relations, join and support local institutions in addition to the initiatives of the

mayor, the regional government, communities and neighboring mines, which will progressively mature the territorial cluster.

After the beginning of the operations of the CBE, the economic and social indicators of the community improved significantly, thus, the houses with water in their interior went from representing 19% to 60%; households with bathrooms increased from 3% to 61%, people without health insurance were reduced up to 53% and the population without work was reduced to 30%.

It could be affirmed that the benefits to the interior of the community were translated in improvement of the feminine employment and of the adult men, as well as in their indicators of infrastructure, health and employment, then the CBE developed an organizational learning that allowed them to acquire dynamic and organizational In terms of contributions to the rest of society, the CBE generated employment, more than 50% of its workers are foreigners, it also provided a quality supply to Buenaventura and is progressively doing so to neighboring communities.

Compared with other important communal companies in Peru, such as the Huaraucaca and Rancas CBE, unlike these, the Mallay CBE includes 100% of the community members of the peasant community, seeks to diversify into businesses outside the mining environment and has good corporate governance.

## **Discussion**

The correct implementation of the shared value demands that the managers of the CBE know and adhere to this new vision. Thus, they would assume the necessary sponsor role of this strategy. In the case of Buenaventura, it is not perceived that the company integrates in key

processes the members of the peasant community. According to the review of the presented literature, this should be at the center of decisions.

Regarding the development of suppliers, there is no evidence of a specific program or project, as well as actions aimed at strengthening capacities and replacing suppliers by the communal enterprise. It distorts, in this context, possible maneuvers of intermediate controls of the mining company, which could obstruct these processes by specific questions.

Although the promoters of a major technical training institution for mining (CITEMIN) have close ties with the Mallayan community, no concrete efforts are being made to develop strong connections and define training activities. Likewise, there is no value relationship with universities and research centers, with the exception of a discreet contact with the UCSS, which allowed them to conduct agricultural soil studies and prepare a situational diagnosis. However, security, environment and community relations are adequately managed.

Furthermore, the CBE lacks the proactive and competitive leadership that leads the organization to negotiate with greater ambition services, technical assistance and technological transfers with the mine. However, the economic results achieved have been significant, allowing the redistribution of the surplus through training, social assistance, reinvestments and dividends. In addition, they have agreed a diversification plan for related sectors, such as works with heavy machinery and ecotourism as they have thermal springs on their land.

## Conclusion

The Peruvian case of the relationship between peasant communities and extractive industries shows the collision of cultural and economic dimensions that conclude in social conflicts. These, on one hand, do not finish solving the shortcomings and poverty of the communities.

On the other hand, they do not allow the realization of the business activity and, with it, the creation of economic value.

The shared value proposal, which puts the community at the center, evidences gaps and spaces for improvement in the relationship between companies and communities. This is not given from the perspective of philanthropy or the provision of a portion of the surplus. Rather, it presents itself by jointly building economic and social value, redesigning products and markets, redefining value chain productivity and creating or strengthening territorial clusters.

In the identification of a sustainable CBE model, this document advances knowledge about the organizational architecture of a CBE. The findings of this document show a sustainable performance of the CBE, while improving economic, social and environmental conditions in the Mallayan community. However, in the specific case it is noted that this sustainability depends in the short term on the intervention of external human capital, precisely because of the absence of this in the peasant community.

Given the local gaps, efforts must be made to find the right mix of community and external workers. Thinking for the medium and long term in closing training gaps through training and articulation with universities and training centers.

In the case of the Mallay CBE and Buenaventura mining company, it could be said that shared value initiatives were developed, through the generation of employment, the development of supply with the CBE and the improvement of Habitat, roads and water. In spite of this, the following tasks remain: (a) greater involvement of peasant community leaders with the strategy, (b) improving capacity building initiatives, and (c) endowing the CBE with an executive and operational level, that allows to propitiate and capitalize business in the relationship with the mining company, and even to diversify products and markets.

On the possibilities of escalating the Mallayan experience, it is necessary to consider some critical aspects of success. First is the establishment of a CBE that includes the entire community and that implements a relevant surplus distribution policy. The second includes the training and synergistic work between the leaders of the peasant community and the CBE. The third is the installation of a culture that privileges performance, solidarity and innovation. Finally, there is the willingness of a mining company to create economic value through the creation of social value.

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