Long-term changes through alliances between the public and private sectors

Martina Schäfer

Abstract
Starting from the assumption that complex social-ecological problems cannot, in most cases, be solved either by single policy measures or by isolated technical or product innovations, this paper suggests that alliances between the public and private sectors are necessary for long-term changes towards sustainable economics.

The paper is based on results from the social-ecological research project "Regional Wealth Reconsidered", which analysed the contributions of the German organic agriculture and food sector regarding quality of life and sustainable development. Through the example of this sector, it can be shown that economic activities that are attempting to meet ecological and social requirements are in many cases prompted by an intrinsic motivation of the entrepreneurs. To be able to succeed on the market with more sustainable products and services, however, it is necessary for these businesses to establish societal alliances.

On one hand, those groups of consumers have to be addressed that share similar ecological and social aspirations. The organic agriculture and food sector is very active in communicating about the societal benefits of organic products and – by doing so – is spreading knowledge and experience about environmentally sound agriculture and healthy nutrition. These informational measures and the resulting higher level of transparency can be seen as the first step for a new type of relationship with consumers.

On the other hand, some entrepreneurs are engaged in regional or local associations, networks or grass-roots movements, because they share common interests with these organisations or are interested in taking an active part in regional development processes. The results show that both – the enterprises as well as the local or regional context – benefit from such engagement. This type of alliances helps the entrepreneurs to gain regional acceptance, as a basis for long term sustainable economics.

However, due to economic pressure, entrepreneurs are often confronted with limited financial and time resources that hinder their ability to pursue these new alliances. The paper takes up these difficulties and ends with recommendations concerning how sustainable entrepreneurship can be supported by government and society.
1 Introduction
Since the options that national governments have to establish regulations towards sustainable development are diminishing in a globalised world, a tendency has emerged of directly addressing enterprises concerning their role in this process (Warhurst 2005, Siebenhüner 2006, Ankele 2008). Initiatives like the Global Compact and the Global Reporting Initiative of the United Nations, or the Green Book of the European Union on Corporate Social Responsibility, as well as national initiatives are aimed at convincing business to strive for economic success without neglecting their responsibility for preserving natural and social resources (European Commission 2001; GRI 2001; Hildebrandt 2008; Rat für Nachhaltige Entwicklung 2006; UN 2003). New demands are arising concerning the kinds of products that are generated, the inputs and outputs of production processes, as well as relationships with stakeholders of enterprises like deliverers, consumers and NGOs (Schrader 2003, Beschorner 2005). In short, a change from a pure shareholder orientation towards a broader stakeholder orientation can be observed (Schmid 1996; Kirchgeorg 2002; Freeman et al. 2004; Warhurst 2005).

During the last few decades, pioneers of sustainable economics have emerged in some branches, such as organic agriculture and food, environmentally friendly housing construction and the production of renewable energies. Because of existing regulations (e.g. lack of internalization of ecological and social costs), ‘sustainable products’ are generally still more expensive than conventional ones. Due to this characteristic, the enterprises of these economic niches are forced to seek out direct contact with consumers and to communicate the special benefits of their products (Clausen 2004). Since these enterprises often had their origins in the environmental movement, they also are less reserved about having close relations to NGOs and other stakeholders.

Drawing on the example of the organic agriculture and food sector the following paper seeks to illustrate the new alliances that are developing between the private and public sectors. The paper assesses the benefits of these alliances for the enterprises themselves and their regional surroundings and draws some conclusions concerning the significance of these alliances for long-term change.

The empirical data for this analysis was gathered in the German region of Berlin-Brandenburg in the project “Regional Wealth Reconsidered”, which is introduced in the second section. Section 3 presents the results of the project concerning the motivations of the entrepreneurs for combining economic and societal goals, their alliances with consumers and regional stakeholders and the difficulties they face being engaged in these new alliances. The paper concludes with some recommendations concerning possible support for entrepreneurial activities towards sustainability.

2 The project “Regional wealth Reconsidered”
The main hypothesis of the project ‘Regional Wealth Reconsidered’ was that enterprises contribute towards “sustainable regional wealth” (understood as a combination of sustainable regional development and quality of life) through activities that go beyond the purely economic goal of generating products and services. A special focus was put on activities that
aim at achieving new alliances with consumers or other actors in the regional environment. Key questions included the following: What indicators are capable of capturing the contribution of an economic sector towards ‘sustainable regional wealth’? Which activities engaged in by members of the organic sector contribute towards ‘sustainable regional wealth’ and what are the motives of the entrepreneurs in carrying them out? Are these activities market oriented or non-market oriented? Do the enterprises face difficulties in striving to achieve sustainable economics? How can those enterprises that are heading towards sustainability be supported by adequate policy measures?

The research project developed an analytical framework, ‘sustainable wealth’ (Schäfer et al. 2004), and an indicator set (Schäfer 2004; Schäfer and Illge 2006). Quantitative and qualitative analyses were carried out in 2004 and 2005. Questionnaires were sent to all 1,000 organic farms, processors and retailers in the Berlin-Brandenburg region of Germany, inquiring about structural data (e.g. size, kinds of products, number of employees, trading channels) and the societal activities engaged in by the enterprises. Data was obtained from around one third of the enterprises, being a representative sample of the regional organic sector. In a second step, the motivation of the entrepreneurs, the synergies between economic and societal activities and the difficulties of combining them were studied in more detail through nine qualitative case studies. The case studies included interviews with managers, owners and employees of the enterprises as well as people from the local and institutional surroundings.

3 Results
This section first discusses the motivation of the organic entrepreneurs to combine economic with societal activities (3.1). Then the project’s results concerning new relations with consumers or regional stakeholders are presented (3.2), closing with some impressions concerning the difficulties that the entrepreneurs of this sector are facing by trying to engage in these new alliances.

3.1 Motivation of the organic entrepreneurs
Many entrepreneurs have individual or social goals related to leading an organic enterprise that go beyond ensuring a livelihood or making profits. Some stress their motivation regarding the type of work they are doing and aspects of self-realization; for others it is important to contribute towards environmentally friendly agriculture or healthy nutrition. For many of them, working in the organic sector is a means towards realising their own personal visions or goals. While motives concerning health are especially widespread amongst processors and retailers, environmental motives for working in the organic sector are mentioned by all actors: farmers, processors and retailers.

Regarding the quality of their work, one of the bakers described his motivation as follows: ‘The main goal is not to make a profit. The main thing is to focus on what kind of work we do. That was our motivation for starting this business in the first place.’ Asked about the vision that keeps her enterprise together, the owner of a natural food store responded, ‘to offer a group of people [employees] meaningful jobs and a pleasant working atmosphere.’
Several entrepreneurs stress a strong identification with their work, as the following statement of an organic baker makes clear: ‘I am fully convinced that this is the right kind of work for me - just making money is not my thing. Working with organically produced grains is my heart’s desire.’

Making a contribution to healthy nutrition and sustainable consumption is important for a substantial sector of respondents. A retailer commented, ‘I originally wanted to promote healthy nutrition in the [former] German Democratic Republic.’ For some entrepreneurs, organic agriculture is part of a sustainable vision for society: ‘I do it out of conviction, because I think it is the only way for children to learn how to live sustainably and to pass on other values to them. They should learn about more than just making money, and they can learn this best on an organic farm.’

These results show that at least some of the entrepreneurs in this sector are intrinsically motivated to combine economic activities with various societal goals like the promotion of healthy nutrition, environmental protection, creation of meaningful work etc. Other studies have come to similar conclusions concerning the motives of entrepreneurs in the organic agriculture and food sector (e.g. Müller 2005; Engel et al. 2006).

3.2 New alliances between the economic and public sectors

3.2.1 Alliances with consumers

Organic food is still more expensive than conventional food because environmentally friendly and resource-extensive production results in higher labor costs. The higher quality of the products and the societal benefits that are incorporated in them, are often not visible at first sight. Organic enterprises, therefore, have to address groups of consumers that share a similar set of ecological and social values, explaining to them the specific qualities of organic products. Taking communication measures and providing information as well as first hand experiences with agriculture and food can be seen as a first step towards establishing closer relations with consumers.

If we look at the motives for carrying out different types of communication measures, the aspect of establishing credibility and transparency is often mentioned by the entrepreneurs. An organic farmer explains his motives for carrying out open house days as follows: ‘We depend on a relation of trust to the costumer, that’s one central characteristic of organic agriculture. That’s why we are engaged in establishing this relation of trust from the first day. We already offered an open house day when no one else had.’ A natural food store owner stresses the importance of being able to experience the products: ‘I am present at regional festivities. This is not an occasion to earn money, but rather to attract new clients to the store. I bring a lot of products to taste with me.’

However, beyond economic motives, some of the entrepreneurs want to combat what they perceive to be a historical loss of knowledge in the field of nutrition and agriculture. ‘Twice a year I offer baking courses. By doing so I don’t want to earn money, but I like it when people know how to bake their own bread,’ explains a baker. When engaged in direct marketing, farmers find themselves confronted by a surprising lack of knowledge about agri-
culture among city-dwellers. ‘I offer guided tours on the farm,’ said one farmer, ‘At the beginning I was rather shocked; I thought it couldn’t be possible that the average person can be so far removed from agriculture.’

If we look at the kinds of activities concerned with disseminating knowledge and experience that are carried out by the enterprises, we see that they are mostly informal measures. The consumers and the local environment are addressed through open house days, guided tours, local or regional events or informational flyers and websites. Around one fifth of the enterprises also offer seminars or participate in public discussions. Considerable information is disseminated through informal chatting while selling products in their own stores or at open-air markets. A key element of these communication efforts is that they are not only verbal or written, but also rely on the other physical senses to create ‘hands on’ experiences for (potential) customers, such as through product tasting or bringing customers into contact with animals and plants on the farms. With these practices, the enterprises aim to ‘build bridges’ between city and countryside and strengthen regional identity. Direct forms of marketing, like farm shops, open markets or food-box regimes, are especially appropriate to generate close relations with consumers. Figure 1 presents some typical activities.

![Bar chart showing communication measures of organic enterprises in Berlin-Brandenburg](image)

We can see that the processors – being the intermediaries between the farms and the retailers – are very active in this field. This can be explained by the high number of bakeries in the sample, which mostly have direct contact to consumers in their stores or at open markets. Only some of the farmers are taking communication measures. Since some of them sell their products to wholesale traders or farmers’ associations, they usually don’t have direct contact with consumers.
A number of the enterprises additionally organize or participate in special events which try to address new groups of customers and stress aspects of environmentally sound agriculture or healthy nutrition. Some examples from the Berlin-Brandenburg region include open-air breakfasts with organic products at central locations in the city, the distribution of ‘organic food boxes’ for all pupils beginning school or the organisation of wine and cheese tasting events in natural food stores.

There are some examples of closer alliances, like selling “consumer shares”, which on the one hand allow consumers to participate in entrepreneurial decisions and, on the other hand, make the enterprise less dependent on bank loans for their development needs (see, for example, the Apfeltraum farm in Brandenburg, www.apfeltraum-ag.de).

3.2.2 Engagement in regional networks

Besides establishing alliances with consumers, the relation to the surrounding local or regional context, as well as to regional associations and NGOs, can be decisive for guaranteeing long-term economic success for those offering more sustainable products (Schäfer 2006).

Regional networking can be a starting point for joint projects, such as in the field of regional marketing - including establishing farmers’ markets, organising events for regional restaurants and hotels, publishing regional shopping guides, etc. - which in the long term may lead to economic success. The efforts of organic enterprises in this field are also recognised by local government, as a comment from one district administrator shows: ‘The enterprises organised a big event where regional products were offered to directors from hotels, hospitals, restaurants etc. And I think that it is especially this regional marketing that has to be stressed as being very positive.’

Besides these economic motives for engaging in such activities, one other possible reason, which seems to be especially important for those entrepreneurs who have moved into the region recently, is to gain greater local acceptance and support. Particularly in rural areas, organic enterprises are still confronted by prejudice, as one mayor reveals: ‘The combination of originating from West Germany and doing organic farming - that was something very new for the people here. I think that, for them, it was at first unimaginable. But then the locals sensed the willingness [of the farm family] to make contact with the village and, slowly, the relationship has grown.’ In towns, engagement in local initiatives or associations can help to gain acceptance, as a natural food store owner describes: ‘Engagement with the association for retailers has had the consequence that we are no longer treated as eco-weirdos. Now some local retailers even come and buy in our store. That’s a big form of success in the business world – they are multipliers I want to make contact with.’

Another motive for engaging in regional networks or grassroots movements is that it provides a means to collectively lobby for their own interests (environmentally friendly agriculture, healthy nutrition, regulation of genetic engineering, etc.) with other people who are not necessarily from the organic sector. Actors from the regional context acknowledge this engagement as being important, as a statement of the director of a biosphere reserve shows: ‘Enterprise XY tries to link together different interests in the field of conservation. Once in a
while it holds seminars and is one of the crystallization points for these issues here in the region. They are always in the centre of these activities, are always welcome and, by now, have become a very well accepted partner in the region.'

The research results for the Berlin-Brandenburg region show that more than half of the organic entrepreneurs (farmers, processors and retailers) support non-profit organisations through financial or material assistance. Over a third of the manager-owners are engaged in environmental organisations or village associations, grass-roots movements or networks that are trying to stop, or at least strictly regulate, genetic engineering. In rural areas, some of the farmers and processors participate in regional initiatives like LEADER, a European program for the development of rural areas. Engagement in these networks sometimes leads to joint regional projects in the field of regional marketing, natural preservation or tourism - initiatives which cannot be realised by a single enterprise. The retailers are less engaged in local or regional networks and associations than the farmers and the processing enterprises.

Solidarity between organic entrepreneurs is quite high, with over forty per cent stating that they help other regional enterprises in difficult situations with advice, manpower, material or financial aid. Between the farms there is much reciprocal non-monetary exchange of fodder, dung, products or machines. Along the food production and distribution chain, the enterprises help each other by, for example, leaving payment of bills open. Concerning the vertical relations between the members of the value-added chain, there are examples of initiatives that aim for "regional fair trade" throughout Germany. In the Berlin-Brandenburg region, a group of organic farmers, processors and retailers have committed themselves via a "fair & regional-charter" to fair trading relations amongst themselves as well as social and ecological engagement and transparency for the consumers (www.fair-regional.de).

Table 1: Entrepreneurial and regional benefits of engagement in networks

<table>
<thead>
<tr>
<th>Type of network</th>
<th>Benefits for the enterprise</th>
<th>Benefits for the region</th>
</tr>
</thead>
</table>
| Engagement in grassroots movements or NGOs          | • Effective lobbying for entrepreneurial/ societal interests (e.g. protest against genetic engineering, advocacy of healthy nutrition, organic agriculture)  
• Improvement of the entrepreneurial image  
• Gaining new contacts in the region               | • Strengthening social capital in rural areas, maintaining 'lively' villages; strengthening elements of "grassroots democracy"  
• Diffusion of knowledge; motivating regional discussions about development strategies |
| Engagement in regional "sustainability networks" like LEADER, Regionen aktiv³, biosphere reserves etc. | • Financial support for entrepreneurial development  
• Development of economic projects in the fields of regional marketing, regional tourism, regional gastronomy, conservation efforts etc.  
• New contacts to players in administration, politics etc.  
• Higher acceptance in the region  
• Improvement of entrepreneurial image; participation in marketing strategies like regional labeling | • Promotion of synergetic regional projects that cannot be carried out by single enterprises or organisations  
• Discussion of regional development strategies  
• Achieving synergies between the different fields of rural development (agriculture, regional marketing, tourism, natural preservation etc.)  
• Strengthening regional identity |
The results of the qualitative case studies carried out for the project suggest that engagement in regional networks can be favourable for the enterprise itself as well as for the region. The advantages that can result from different types of alliances are summarized in Table 1.

3.3 Barriers to sustainable entrepreneurship

As has been shown, organic entrepreneurs in Berlin-Brandenburg often pursue ambitious entrepreneurial and social goals and engage themselves in communication measures and network activities. This section explores the difficulties of being engaged in “new alliances” with the public, due to limitations on available time coupled with economic pressures. Although the European organic sector is experiencing a boom, some of the farmers and processors studied are being confronted with severe economic pressure due to recent structural changes. Conventional supermarkets and processors have entered the market; they are not only very efficient logistically, but also import cheaper products from other countries. More diversified, small-scale enterprises are tending to come under great economic stress due to these changes. Furthermore, the prices of organic products are dependent on the world market prices of conventional products and, therefore, sometimes suffer from great fluctuations, adversely affecting small producers the most (Thomas and Groß 2005, 63).

Economic pressure can result in the enterprises drawing back and concentrating on their ‘core business,’ with the willingness to engage in some additional activities being put at risk. On one hand, activities like landscape preservation or habitat conservation, which are financially supported by the agri-environmental programs of the EU, can still be carried out in a difficult economic situation. Meanwhile, other activities which are not financially acknowledged tend to decline or are eliminated altogether, as this farmer explains: ‘In the beginning I carried out experimental cultivation of heirloom grain varieties. But then I gave up everything that didn’t bring in money, because when the business is in the red it doesn’t make much sense.’ Also, activities such as giving lectures or participating in public discussions as well as offering guided tours tend to be reduced or modified in response to financial pressure. While it may be economically rational for farmers to reduce their range of activities and to set priorities, some entrepreneurs are uneasy about tendencies towards increasing specialisation. They have expressed concern that the rationalisation of the organic sector is resulting in a continuous undermining and abandonment of the original ideals upon which the organic movement has always been based. Since the concept of sustainable development aims at an expansion of the number of enterprises that combine economic with societal goals, policies are required to support those enterprises which are pioneers in their attempts to achieve sustainability.

4 Conclusion

The importance of the cultivation of new types of relations between enterprises and their customers or stakeholders is being discussed in various strands within present scientific debates. The discussion about sustainable enterprises or Corporate Social Responsibility stresses the societal responsibility of business and the importance of enterprises in the process of sustainable development. A broader stakeholder orientation is one of the core
elements of this debate (e.g. Majer 2000; Warhust 2005). Further, in the current research on ‘transformative sustainability marketing’ (Belz 2003; Karstens 2005), the integration of stakeholders’ demands is viewed as being essential towards overcoming structural limits and promoting suitable institutional settings for sustainable economics. Another debate which takes up this topic concerns regional or rural development. The importance of establishing relations between actors who have not previously worked in cooperation with each other lies in the generation of new social capital and its role for regional innovation and coordination capacity (Fürst & Schubert 2001; Nischwitz et al. 2001). In comparison to regulation via markets, regional networks between different societal actors allow the generation of trust and reciprocity as well as learning processes towards sustainable development (Majer 2003).

The research discussed here shows that the entrepreneurs from the organic agriculture and food sector are pioneers in trying to establish new relations with consumers and their surrounding local and regional environments. This engagement is prompted by a mixture of economic and altruistic motives which are closely entangled with each other and has positive effects for the enterprises themselves as well as for the local and regional contexts. To support entrepreneurial engagement of this kind, which is endangered by economic pressure, it is possible to take measures at different policy levels.

One important condition for achieving changes in this direction is greater acknowledgement of the societal benefits that result from the mixture of economic and non-economic activities on the part of a range of actors: government, local and regional administrations, individual retailers, and customers. Until now, in discussions concerning political measures for supporting such economic activities, neither the number of people employed thereby nor their effects on natural resources and regional quality of life have been used as critical indicators. Particularly with regard to agricultural policy, a clear signal needs to be sent that only those enterprises contributing towards sustainable regional development, in a broad sense of the term, should be supported by subsidies.

Promoting sustainable economics also means questioning the hard differentiation between market and non-market activities and recognising that entrepreneurs are not only acting as ‘homo oeconomicus,’ but also as citizens with individual social goals that go beyond making profits (Biesecker 2000; Biesecker and Kesting 2003). This acknowledgement of the organic sector’s societal value needs to be accompanied by efforts towards communicating the vision of an economic model that can succeed in being symbiotically embedded in both society and the natural environment. The efforts of pioneering sectors should be supported, being strategically used as ‘good examples’ for other economic sectors.

Greater acknowledgement of the contributions of the organic sector should, however, also result in ‘prices which tell the ecological truth’ (von Weizsäcker 1994). Sustainable consumption cannot be properly facilitated when conventional products, which are responsible for water and soil pollution, as well as the loss of biodiversity, cost much less than organic products. At present, through their taxes, all consumers are paying for the social costs generated by conventional agriculture, regardless of whether they consume organic or conventional food. The internalisation of external costs that are due to conventional agriculture, and their reflection in product prices, has long been a demand directed towards the political realm.
At the regional and local levels, it is possible to support the new alliances of enterprises by *strengthening cooperative structures*. From the project survey, it became clear that the enterprises of the organic sector could play an important role in spreading knowledge and sharing experiences regarding agriculture and healthy nutrition. Organic enterprises could therefore be better integrated into strategies concerning health and environmental education: facilitating cooperation with schools, children’s day care facilities, health insurance organisations or providers of adult education. Integrative networks comprised of enterprises, the public sector and NGOs - all acting towards improving rural or regional development - could also be strengthened through political or administrative measures.

At the level of the individual enterprise, consultants could advise farmers and other actors in the food chain on how to engage in new alliances, bearing in mind the structure of each enterprise and its individual goals. This has good chances of resulting in synergies not only for the enterprise itself, but also for the local or regional context.

Finally, advertising the socially oriented activities undertaken by organic firms via suitable labels could facilitate consumer choice at the point of sale. In several European countries, efforts are being made to indicate additional social aspects of organic products that go beyond existing EU-regulations. One example is labels that are given to enterprises which are involved in ‘fair’ trading relations with their suppliers in a region, including for example fair prices, long term contracts, preferences for raw products from that region as well as additional social or ecological commitments. Labelling products in this way allows consumers to consciously choose organic products that may result in manifold benefits for the region concerned.

If combining economic with societal goals is supported on all of these different levels - by politicians and administrators, via public discourses and adequate communication measures, through regional networks and individual consulting - the chances are good that long term changes through alliances between the public and private sectors can be achieved.

---

1. The research project was carried out from 2002 to 2007 in a cooperative effort between the Centre for Technology and Society at the Technical University of Berlin and the German Institute for Economic Research in Berlin. It was funded through the Social-Ecological Research Program by the German Ministry of Education and Research. For more information, see [www.regionalerwohlstand.de](http://www.regionalerwohlstand.de).

2. More detailed information about the learning processes that may arise on organic farms is available in Boeckmann 2007.

3. ‘Regionen aktiv’ is a national program for bottom-up rural development.
References


11


Schmid, Stefan (1996): Nicht Shareholder-Orientierung, sondern Stakeholder-Orientierung! - Plädoyer für eine Relativierung der einseitigen Ausrichtung am Shareholder Value, Diskussionsbeitrag Nr. 76 der Wirtschaftswissenschaftlichen Fakultät Ingolstadt, Kath. Universität Eichstätt


