



# **Creating sustainable value in the tourism sector: the case of Aldeia da Pedralva.**

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Dissertation submitted in partial fulfillment of the requirements for the degree of MSc in Business Administration  
at Católica Lisbon School of Business & Economics, 2015

Thesis written under the supervision of Professor Tommaso Ramus

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## **Abstract**

Title: Creating sustainable value in the tourism sector: the case of Aldeia da Pedralva.

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The intention of this master thesis is to understand which kind of tensions may arise in organizations operating in the tourism industry that try to balance economic, social and environmental objectives, and how is possible to address them. In particular, the analysis will be focused on the relationship between the company and its stakeholders and how to thrive following a sustainable strategy.

The analysis is based on “Aldeia da Pedralva”, a Portuguese company located in a small village from the most tourist region of the country, and it was abandoned and almost in ruins until a group of entrepreneurs transformed it into a sustainable touristic project.

The master thesis is structured in three main parts: (1) Case Study, where the company is presented; (2) Literature Review, where academic studies regarding the thematic are explored; (3) Teaching Note, providing guidelines to the instructor to analyze the case. Also included in this thesis are a) Introduction - where the topic under study is presented – and 2) Conclusion – main findings to answer the proposed research question.

## **Resumo**

Título: Criação de valor sustentável no sector do turismo: O caso da Aldeia da Pedralva.

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O intuito desta tese de mestrado é estudar os conflitos presentes em empresas do sector do turismo ao tentar equilibrar objectivos economicos, sociais e ambientais e como é possivel gerir tais conflitos. Em particular, a análise focar-se-à na relação entre a empresa e os seus stakeholders e em como ser bem sucedido através da adopção de uma estratégia sustentável.

A análise será baseada na “Aldeia da Pedralva”, uma empresa portuguesa localizada numa pequena vila da principal região turística do país e que foi abandonada, encontrando-se quase em ruínas, até que um grupo de empreendedores a transformou num projecto sustentável.

A tese encontra-se estruturada em três partes principais: (1) Caso de estudo, onde a empresa é apresentada; (2) Revisão literária, onde estudos académicos relacionados com a temática em questão são explorados; (3) Nota de Ensino, em que são dadas ao professor indicações relativas à análise do caso. Também incluídos nesta tese estão: a) Introdução – onde o objecto de estudo é apresentado – e b) Conclusão – principais tópicos de resposta às questões inicialmente colocadas.

## **Acknowledgements**

During my entire master and especially during the thesis semester, I received support from a lot of people, who kindly tolerated my bad mood and listen to my long list of complaints. This text stands small when compared to everything that I was given.

First, I would like to thank to my advisor, Tommaso, who accepted to guide me during these months and helped making the thesis the best part of my master. Thank you for challenging me, for always asking me an extra effort. It was a pleasure to be your student.

Next, I would like to thank to my friends João and Madalena, for all brainstorming, corrections, feedback and complaints we shared during these months. At this point I also have to thank to my friend Catarina, who kindly accepted to add my thesis to her long list of reviewed works.

I also need to thank to my family for listen to my doubts, fears and complaints (I know I complain a lot). I am sorry I have forced you to read this entire work multiple times.

Last but not the least, I have to thank to António Ferreira, CEO of Aldeia da Pedralva, and to apologize for bothering you so much during the past months. Without your collaboration it wouldn't be possible to have this work done.

A final note: although not directly related to this work, I would like to acknowledge in particular some people whose influence shaped me and thus, is reflected in this work. First, my brother, for teaching me that normal is a subjective concept and that the standard is not always perfect. Second, my grandfather Álvaro and my aunt and uncle Maria Beatriz e Mário, who showed me the joy of reading a book and created in me the desire to always know something new.

## Introduction

Over the last 60 years, the tourism industry has faced a continuous growth, with international tourism receipts earned by destinations (worldwide) evolving from US \$2 billion in 1950 to US \$1,245 billion in 2014 and representing now 9% of the world GDP (World Tourism Organization, 2015). In January 2015, UNWTO<sup>1</sup> estimates indicated a 3% to 4% increase in international tourist arrivals to Europe in 2015 (reaching 582 million), with Southern and Mediterranean Europe regions facing a 7% increase.

In Portugal, tourism is considered a strategic sector for the economy, accounting in January 2014 to 46% of the services exports, 14% of the total exports and 10% of the national GDP (AICEP, 2014). Also according to AICEP<sup>2</sup>, tourism is considerate to play an important role when it comes to protect the environment and cultural heritage as well as a driver of economic growth and social development. In the future, major changes in the sector will be related to improving the customer experience, business model innovation and social media & IT utilization (AICEP, 2014).

Since the 1980s, the notion of *sustainability* has been linked to tourism and therefore economic, environmental and social impacts have started to be all considered when talking about it. Therefore, in last years “ecotourism, nature, heritage, cultural and soft adventure tourism (...) as well as rural and community tourism are taking the lead in tourism markets” (UNWTO; UNEP, 2012).

As consequence of the rising popularity of those forms of tourism, more companies have become more *socially driven/ oriented*, considering also sustainability issues – meaning the social and environmental impact of their activities – and not only profitability in their core strategies. Some companies might face difficulties in integrating social and environmental value creation on one hand and wealth generation on the other.

In this work, I present the case of “Aldeia da Pedralva”, a Portuguese company located in a small village from the most tourist region of the country, and that was abandoned

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<sup>1</sup> The World Tourism Organization (UNWTO) is the United Nations specialized agency mandated with the promotion of responsible, sustainable and universally accessible tourism.

<sup>2</sup> AICEP – Agency for the Investment and Portugal’s External Commerce is a public entity that aims to develop a competitive business environment and to promote the globalization of the Portuguese economy.

and almost in ruins until a group of entrepreneurs transformed it into a sustainable touristic project.

The project “Aldeia da Pedralva” was chosen because it operates in an important industry for Portugal (as it was demonstrated above) and due to the media coverage it received in the beginning of its activity, making the project a national reference when it comes to sustainable tourism.

The intention of this master thesis is to understand which kind of tensions may arise in organizations operating in the tourism industry that try to balance economic, social and environmental objectives, and how is possible to address them. In particular, the analysis will be focused on the relationship between the company and its stakeholders and how to thrive following a sustainable strategy.

A literature review will be conducted to support the analysis of the case study and consequent teaching notes. Here it will be explored the concept of sustainable tourism as well as some tensions (performing, organizing, learning and belonging) that can occur in a company such as the one exposed in the case study. Furthermore, it will also be presented in the literature review, some possible approaches to deal with those tensions, in the context of the sustainable tourism thematic.

### *Data Collection*

To produce the present document I used three main sources of information: interviews, academic literature and public reports. The interviews that I performed occurred in November 2015 and were made to Eng. Leonide Carvalho (from Public Construction Department of Vila do Bispo Municipality; 1 interview) and António Ferreira, CEO of Aldeia da Pedralva (2 mail interviews plus 5 phone calls).

**Table 1 – Structure of the collected data**

SOURCE		SUBJECT	OBJECTIVE
<b>Interviews</b>	Phone	António Ferreira	<ul style="list-style-type: none"> <li>- Characterize the project objectives and aspirations and set a timeline for milestones;</li> <li>- Understand the project scale and performance (economic perspective);</li> <li>- Identify the main challenges faced by the organization;</li> <li>- Future objectives.</li> </ul>
	Mail		
	Skype	Eng. Leonide Carvalho	<ul style="list-style-type: none"> <li>- Understand and quantify the participation of Vila do Bispo Municipality into Aldeia da Pedralva project.</li> </ul>
<b>Relevant Literature</b>		-	<ul style="list-style-type: none"> <li>- Understand the phenomenon of sustainability (causes and impacts) and how it can be applied to tourism;</li> <li>- Characterize and understand arising tensions when companies pursue multiple bottom lines;</li> <li>- Provide theoretical insides on how to deal with the mentioned tensions.</li> </ul>
<b>Public Documents</b>		-	<ul style="list-style-type: none"> <li>- Analyze the tourism industry (trends, performance indicators, evolution, policies) globally;</li> <li>- Understand and characterize tourism in Portugal and in Algarve region in particular;</li> <li>- Record public information regarding Pedralva.</li> </ul>

## Case Study – Aldeia da Pedralva

“When I first came to Pedralva I imagined the village completely reconstructed and alive again” says António Ferreira, one of the founders of the project Aldeia da Pedralva. In 2006, Ferreira came to Pedralva looking for a holiday’s house “near beach, close to everything but quiet at the same time”<sup>3</sup>. He didn’t know that the search for such a house would lead to the creation of an innovative tourism project in Portugal, where the respect for the environment and cultural heritage of the place were key elements for the business success.

### The region

Aldeia da Pedralva is located in Vila do Bispo, a small county in the Southwest of Portugal, with 65% of its area part of the Vicentine Coast Natural Park (**Exhibit 1**). The region has both Atlantic and Mediterranean influences, presenting a wide variety of fauna and flora, including several rare species that are endemic of the region (**Exhibit 2**). Also, the Natural Park Coast includes some of the best Portuguese beaches, (e.g., Amado, Arrifana...), being one of the top destinations in Portugal for practitioners of surf, kite surf, SOUP (stand up paddle), fishing or scuba diving (**Exhibit 3**).

With short winters and long, hot and dry summers the traditional economic activities of the region are related to the production of carob beans, figs and almonds and fishing (among others, sardines, soles and various seafood). These products are the basis of the local gastronomy that still carries out the marks of the Arabic heritage of the region.

Until the 1970’s (when it entered in decline), Pedralva Village was known in the region by its “popular dance events and social life. People from the neighboring villages came to Pedralva every Saturday to participate in such events, hosted alternately by two residents”<sup>4</sup>.

Like any other small village in Algarve, Pedralva’s economy was essentially rural. The village used to produce wine, cereals (including corn), vegetables and fruit. Every

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<sup>3</sup> In Diário de Notícias “Aldeia da Pedralva nasce das ruínas para o turismo”, 2007

<sup>4</sup> Agapito, Dora; Mendes, Júlio; Oom do Vale, Patrícia; “The rural village as an open door to nature-based tourism in Portugal: The Aldeia da Pedralva case”; 2011

family had a portion of land to cultivate and exchanged goods within the community. In 2006, the remaining inhabitants of Pedralva were still living under this system.

### **Tourism in Algarve**

Since the 1960's, tourism has gained importance within Algarve's economy, being nowadays its main economic activity (**Exhibit 4** and **Exhibit 5**). In 2013, Algarve received 3.15 million tourists (21.9% of national value), which corresponds to 14.8 million nights spent. Also in 2013, the tourism industry presented an average annual occupancy rate of 44.6% (higher than the national rate of 43.7%)<sup>5</sup> and, for the same period, the total income of hotel establishments corresponded to 609.988 million<sup>6</sup>.

In the second trimester of 2014, the total number of tourists received in Algarve was approximately 1.144 million. The beaches, climate, golf courts and a dynamic tourism sector with relatively low prices make the region popular especially among British (31%), Portuguese (27.7%), German (7.9%) and Spanish (7.4%) tourists<sup>7</sup>.

Algarve's tourism industry is built upon three main areas – Sun& Sea, Golf and Residential Tourism. Gastronomy and Wines, Touring and Health Tourism are considered complementary products and Business, Nature and Nautical (associated with sea and the practice of maritime activities) are faced as products in development.<sup>8</sup>

In particular, *Sun & Sea* are the reasons for 88% of foreign tourists to go to Algarve<sup>9</sup>, being expected to represent 80M€ in travels in 2015 (**Exhibit 6**). Although the region presents a pleasant weather the entire year, tourism suffers from seasonality, with June, July and August being the months with highest demand (both national and international). Considered the best European beach destination by the World Travel Awards (2013 and 2014) and possessing one of the 25 Best European beaches for TripAdvisor, beaches close to major cities or main tourism centers are crowded, being insufficient in periods of high demand.

Regarding *Golf*, Algarve presents 45.9% of the total courts in Portugal, being expected that in 2015 the number of travels to region related to the practice of the sport double,

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<sup>5</sup> Turismo de Portugal, “Plano de Marketing Estratégico para o Turismo do Algarve 2015-2018”, 2014

<sup>6</sup> PORDATA, Fundação Francisco Manuel dos Santos

<sup>7</sup> In “Algarve, Conjuntura Turística”, Boletim trimestral, October 2014

<sup>8</sup> Turismo de Portugal, “Plano de Marketing Estratégico para o Turismo do Algarve 2015-2018”, 2014

<sup>9</sup> Turismo de Portugal, “O sector do turismo no Algarve”

reaching 2M. The revenues generated 350M€, with the daily average expenditure of a tourist set on 260€<sup>10</sup>.

In last years *Nature* based tourism has been increasing its popularity, reaching 22M travels/year. Regarding international tourists that visit Portugal, 41% go hiking, 25.7% go boating, 25.6% visit natural parks and 7.5% do bird watching<sup>11</sup>. Currently, 38% of Algarve total area is considered a protected area.

### **The roots of the project**

In 2006 António Ferreira, an advertising executive, was handling communications strategies for Young & Rubicam and J. Walter Thompson agencies in Lisbon, where he lived with his wife and children. In Ferreira's words "I didn't have control over my life. I found it's fine to have a big car and eat in nice restaurants in Lisbon, but it's not real"<sup>12</sup>. During the search for a holiday's house, Ferreira discovered Pedralva through a hint from a friend - Luis Neiva – who would also become his partner in the project.

At the time, Pedralva village counted only with 9 inhabitants. In the past 25 years, the village had lost more than 100 people and from a set of 50 houses, only 9 presented the minimum conditions to live in.

Initially, the project was focused on surf and it was intended to be a Surf Lodge/ Surf Village. According to Ferreira, the "ingredients were all there - a genuine, authentic village in an unparalleled location between the Natural Park of South-West Alentejo and the Vicentine Coast, surrounded by dozens of beaches, many of which still in their natural "wild" state; and fabulous food"<sup>13</sup>.

Ferreira quit his job on December 2005, moved to Pedralva and together with Neiva and another co-worker at the Marketing Agency, created Surf Hotels (the company that promotes the project) on February 2006. Now with three partners and more available resources, the scale of the project increased to a "Turismo de Aldeia"<sup>14</sup> with surf as one of its components. The vision was "to combine the past and the future by weaving

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<sup>10</sup> Turismo de Portugal, "O sector do turismo no Algarve"

<sup>11</sup> Roland Berger study, 2009

<sup>12</sup> Interview to David Aktinson, MyGuide Community, 2011

<sup>13</sup> Inside Portugal Ventures – Growing Global, January 2014

<sup>14</sup> Turismo de Aldeia (*Village Tourism*) refers to a group of 5 or more houses located in the same village or county and that can be managed together by the same entity

together the culture, community and history of the village and to provide a genuine and authentic holiday experience of village life”<sup>15</sup>. In 2007 another partner, Miguel Mayer Beja, joined the project and became responsible for all the aesthetics and decoration of the village.

Thanks to his experience as an advertiser, Ferreira knew that only with a unique value proposal the project could stand out amongst the enormous tourism market in Algarve. Thus, Aldeia da Pedralva concept was not only centered on the reconstruction of houses for tourism but also put an emphasis on offering to tourists different experiences all related with nature based tourism.

Differently from the majority of the tourism offer in Algarve that are based on *Sun & Sea* and *Golf*, Pedralva focused its value proposition on the West Coast, Algarve’s interior and nature based tourism, promoting the concept of “The Other Algarve” (*Outro Algarve*).

At the time, “The Other Algarve” represented a complete change of paradigm in Algarve and it was met with some suspicion by official entities. In order to advocate for Pedralva, the entrepreneurs invited journalists and tourism operators to meet the project and the concept they’re promoting. 5 years later, the Region of Tourism and ATA<sup>16</sup> have a product manager for nature tourism and go to international fairs related with the thematic.

### **Rebuilding Pedralva**

In 2006 the construction works started with the objective of turning 31 houses (from the total 50 existent in the village) into tourism accommodations and the primary school building into an activities center (**Exhibit 7**). The initial investment of 4M€, necessary to buy the houses and reconstruct them as well as to give the village basic infrastructures it lacked, was raised as a mix of private funds from the partners and banking loans. During the development phase, Portugal Ventures also invested in the project, being the current capital structure the following:

- Surf Hotels: 51% (owner of all real estate);

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<sup>15</sup> In Algarve Blog, 2013

<sup>16</sup> ATA – Algarve Tourism Association

- Portugal Ventures<sup>17</sup>: 49%

Vila do Bispo Municipality invested around 1M€ in major infrastructures – plumbing, sewage, sidewalks and electricity -, being ~75% sponsored by European Funds<sup>18</sup>.

To get funding the project faced two major obstacles:

1. The partners had to give private assets as collateral to get loans since banks didn't accepted ruins as warranty. Moreover, in Portugal projects related to environment, cultural preservation or development of rural areas continue to be undervalued by investors;
2. European Union funds weren't prepared to receive applications from disruptive tourism projects.

In order to buy the houses, it was first necessary to establish contact with all the houses' owners: it took one and half year and was only possible with the help of Pedralva's remaining inhabitants<sup>19</sup>. According to Ferreira "just because they [Pedralva inhabitants] were polite they didn't tell me I was doing a wrong move. They kept saying that they didn't understand why other people, especially from city, would want to go there"<sup>20</sup>. It became necessary to manage carefully the relationship with locals due to pre-existent rifts amongst them and even with former inhabitants that were landowners.

During this period, Ferreira dealt with more than 200 landowners, both Portuguese and foreign. The majority of them hadn't visited their properties in the previous decade and many had forgotten its existence. "A transparent and straightforward approach to owners avoided inflation between the prices of similar houses"<sup>21</sup>, claimed Ferreira.

With the houses purchased, it was time to start the reconstruction phase, which took 2 years to be complete. The construction team tried to use traditional techniques and materials in order to preserve, as much as possible, the original design of the houses: old materials were recycled, second hand roof tiles, doors and furniture were restored

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<sup>17</sup> Portugal Ventures is a Portuguese Venture Capital and Private Equity firm, focusing its investments in innovative, scientific and technology-based companies as well as in companies from the more traditional Portuguese Tourism and Industrial sectors, with significant competitive advantages and export oriented to global markets (<http://www.portugalventures.pt/en/content/about-us>)

<sup>18</sup> Vila do Bispo Municipality, Public Construction Department

<sup>19</sup> <http://www.dn.pt/arquivo/2007/interior/aldeia-da-pedralva-renasce-das-ruinas-para-o-turismo-662459.html>

<sup>20</sup> Interview to António Ferreira, November 2015

<sup>21</sup> Eco23 blog, "Pedralva: das pizzas ao slow travel", March 2014

and used. During this period, many families started to come to Pedralva at weekends to observe the works on their former houses.

### **The first years of the new Pedralva**

Targeting families and individual guests who “want to be at one with the nature”, Pedralva started its business activity in 2010. At that time, 24 houses as well as a reception house, a restaurant and the grocery shop were fully reconstructed. The initial previsions pointed to 48% occupancy rate in the first year, increasing to 65% in next five years. The project was expected to have an impact of 2.5M€/ year in the region’s tourism, creating 10 direct jobs and 30 more indirect<sup>22</sup>.

More than just as a regular “Turismo de Aldeia”, Pedralva aimed to offer guests a holistic experience: “we try not to break the value chain and create conditions to live a unique experience (...), we aim tourists to become active and be part of the village life and not just observers. (...). The project is focused on nature-based activities which are not only physical but also involve learning”<sup>23</sup>. The offer included trekking, biking, bird watching and surfing, in an attempt to create a portfolio attractive to different groups. All activities were available for travelers who stopped by the village and not only for guests.

To help developing the local economy of the region, projects with great impact on it were supported. For the first time since late 1970’s, the local grocery store opened doors with local products, which were also used in the meals served by the local restaurant. In order to interact with local producers and fishermen, guests were prompt to learn from them the best ways to prepare and consume local products. Craft fairs in the streets of the village were created to activate the cultural life in the village and to promote handicraft.

Traditional popular events, such as “Festa do Mastro” (**Exhibit 8**) were recovered and a wide range of workshops given by local artisans was created. Internet access and

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<sup>22</sup> <http://www.dn.pt/arquivo/2007/interior/aldeia-da-pedralva-renasce-das-ruinas-para-o-turismo-662459.html>

<sup>23</sup> Agapito, Dora; Mendes, Júlio; Oom do Vale, Patrícia; “The rural village as an open door to nature-based tourism in Portugal: The Aldeia da Pedralva case”; 2011

television weren't fully available in houses to promote guests' participation on these activities.

Just like any other business, Pedralva faced the “initial pressure to begin the activity and to start having revenues”<sup>24</sup> which led to the postponement of some projects. “I remember we spent a lot of time trying to find an innovative solution to the installment of solar panels but we end up subdued by bureaucracy. I wrote letters during 1 year to have the recycling containers in the village and now we have them. Nowadays, with the project in a more mature phase, it is time to start investing in these kind of objectives that are equally important”<sup>25</sup>, says Ferreira.

### **Growing Business**

“The sea is the greatest asset Pedralva has. The sustainability of the project relies on the combination of country and beach present in the village. That allows high occupancy rates in the summer but also significant rates along the entire year”.

Aldeia da Pedralva began its activity during a period of financial crisis in Portugal<sup>26</sup>, which led to a decrease in the purchasing power of Portuguese population. The tourism suffered from the competition of low-cost offers, preferred by the new generation of tourists.

In 2015, Pedralva received 12,400 guests (10,500 adults and 1,900 children), which corresponds to 3,900 nights spent/house (occupancy rate of 47%) and 800,000€ on revenues (without VAT)<sup>27</sup>. The majority of Pedralva guests came from the Netherlands, Belgium and United Kingdom<sup>28</sup>. As a response to the demand from these countries, the future will be characterized by an investment on promoting the “product” in these markets. According to Ferreira, “stands/visits to trade fairs, door-to-door visits to selected Tour Operators and Travel Agencies will be vital to increase sales”<sup>29</sup>.

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<sup>24</sup> Interview to António Ferreira, November 2015

<sup>25</sup> Interview to António Ferreira, November 2015

<sup>26</sup> <http://www.pordata.pt/en/Portugal/Real+GDP+growth+rate-2298>

<sup>27</sup> Values referent to the period January to November 2015. Source: Interview to António Ferreira, November 2015

<sup>28</sup> Inside Portugal Ventures – Growing Global, January 2014

<sup>29</sup> Inside Portugal Ventures – Growing Global, January 2014

The first years of activity of the project helped the village to regain attractiveness. As Ferreira noticed “now the stimulus is to give continuity to the village function. Indeed, the dynamics of the village might motivate anyone to considerer living here and spur the process of repopulating Pedralva”<sup>30</sup>. The re-establishment of Pedralva’s mail services was illustrative of the successful revitalization process the village experienced.

To protect the environment, the management team established a set of rules to outdoors activities, such as: participation limits in activities (both to decrease the ecological impact and increased the quality of the experience to participants); the use of “catch and release” concept in fishing programs; monitors ensuring that walkers remained in tracks and distribution of ecological bags to carry products.

Local products that started by being sold in Pedralva’s grocery store also went on sale in Lisbon once a week, with the support of Pedralva founders. Some locals took the opportunity to diversify their business to nature-based projects and thus, increase their income. The Pedralva project itself, increased to 12 the number of employees, a tendency to maintain in future.

### **The future**

Aldeia da Pedralva opened a new path for tourism in Algarve and brought back to life a village that was doomed to be forgotten. “This project is a mix of business venture and something deeply personal for me. Sometimes I feel like two people: one makes the business deals, but the other is just happy to do something to help the area”<sup>31</sup>, claimed Ferreira.

Now that the project entered in a more mature phase, new challenges arise. As Ferreira says “after 5 years the balance is positive. But of course I would do some things differently. For example, I would have sold 50% of the houses in the beginning of the project (we had a lot of offers), paid back the debt to the bank and remained managing all houses”<sup>32</sup>.

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<sup>30</sup> Agapito, Dora; Mendes, Júlio; Oom do Vale, Patrícia; “The rural village as an open door to nature-based tourism in Portugal: The Aldeia da Pedralva case”; 2011

<sup>31</sup> David Aktinson interview, MyGuide Community, 2011

<sup>32</sup> Interview to António Ferreira, November 2015

The recognition Pedralva gained, together with the development the region faced as a nature tourism area of excellence, put pressure in the environment as it will become harder and harder to control the impact guests leave. The measures Pedralva implemented in its outdoors activities will have to be re-evaluated to continue effective and allow the business to respond to an increasing demand.

Expansion inside the village might become harder in the future. “In the next 5 years we want to set some partnerships to rebuilt more houses (in the remaining ruins and available land), to start a project in the area of nature tourism training and create another endeavor with artisans”<sup>33</sup>. If in the beginning the difficulty in acquiring houses relied on finding the owners and not in the sale of the houses themselves, now the situation has changed: the development Pedralva faced in last years as well as the public recognition it gained, increased the value of the remaining privately owned houses. Moreover, some families returned to Pedralva and reconstructed their houses for private usage, decreasing their willingness to sell.

Although the model followed in Pedralva is easily replicable to other villages that are abandoned, this is not a riskless solution when it comes to scaling the project. The success of Aldeia da Pedralva rests in its uniqueness as a counterpoint to mass-market tourism whereby the repeated usage of the concept may massify it, leading the founders to follow the path they initially refuse.

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<sup>33</sup> Interview to António Ferreira, November 2015

# Literature Review

## 1. Sustainability

The concept of sustainability has roots in the 1980's "Our Common Future Report", which helped to democratize the concept of sustainable development – the ability to meet present needs without compromising the future generations' ability to meet their own needs. This concept includes two key ideas:

- The idea of "needs", especially the ones of the extremely poor, and;
- The idea that technological and social limitations can constrain the environment's ability to fulfill present and future needs.

A good example of sustainable practices relies on the Australian native forests. These are a source of timber, fresh water and air. They are also the natural habitat of several endemic species and the home of the Aboriginal culture.

Although there is a prolific business around the cut of timber (\$3 billion/year), there is no record of severe damage caused to the local ecosystem. This happens because many factors are considered before cutting trees such as soil type, local species affected and cultural heritage places. Therefore, it is possible to minimize erosion, cultural heritage places and natural habitats are protected and the number of trees necessary to provide seeds to forests to regrow remains untouched (Land Learn NSW, s.d; Forestry Corporation, s.d.).

In 2005 World Summit on Social Development, economic development, social development and environmental protection were formally identified as the three pillars of sustainable development (United Nations General Assembly, 2005). All these three components are not mutually exclusive and benefit from a multiple bottom line approach that includes all of them.

Sustainable indicators are used in order to prevent major economic, social and environmental setbacks as well as to communicate new ideas or values that can be useful to decision-makers. They provide an international framework that can be used to create national policies and to measure national progress towards sustainable development. To be correctly applied and so, to gather comparable information across

countries, indicators need to be clear and unambiguous (United Nations - Economic and Social Affairs, 2007).

In terms of business activity, it is possible to justify the adoption of sustainable strategies based on two purely economic reasons (Elkington, 1997):

- Exploring niche segments – segments non-price sensitive can be a source of revenue to companies in mature markets (i.e. introduction of geo-tourism in the already developed market of Republica Dominicana);
- Adapting to new stakeholders' demand – pressure on companies from external stakeholders to adopt sustainable policies across value chain is growing (i.e. Fair Trade).

### **1.1 Sustainable Tourism**

In recent years tourism players have been exposed to an increasing pressure to minimize the negative impacts of their activities (Mason, 2008). As a response to these challenges, many companies embraced more socially responsible practices. By aiming to “achieve commercial success in ways that honor ethical values and respect people, communities, and the natural environment” (in “Sustainable Tourism Principles and Indicators”), companies aligned themselves with a CSR<sup>34</sup> perspective.

Since the early 1990's, the concept of sustainable tourism has become extremely popular, as it emerged as a counterpoint to mass tourism due to the recognition of the complex direct and indirect connections this industry has with other sectors, interests and activities (Hunter) as well as the impact it has on the local community.

In a 2007 TripAdvisor's worldwide survey, 38% of the respondents declared “environmentally-friendly tourism is a consideration when travelling, 38% had stayed at an environmentally-friendly hotel and 9% specifically seek out such hotels, while 34% are willing to pay more to stay in environmentally friendly hotels” (Pollock, 2007). Other studies suggest that 6% of international tourists already pay extra for sustainable tourism options and 34% would be willing to pay an extra for it (UNWTO; UNEP, 2012).

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<sup>34</sup> Corporate Social Responsibility

Given the diverse interpretations the concept of sustainable tourism has, for the purpose of this work, I chose the definition used by UNESCO and the World Tourism Organization. Therefore, Sustainable Tourism can be defined as “Tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities. It is not a special form of tourism; rather, all forms of tourism may strive to be more sustainable” (Brundtland, 1987).

To become truly sustainable in the long-term, a tourism project should coordinate its activities with other sectors part of the local economy, in order to have all relevant stakeholders pursuing the same objective. The path towards sustainability demands permanent monitoring of impacts in order to apply in time preventive and/or corrective measures (World Tourism Organization).

Focusing specifically in the environmental dimension, in recent years two trends have emerged to explain how it can contribute to a region’s competitiveness. The first advocates the direct investment related to it (United Nations Environment Programme, 2011), since it recognizes a variety of opportunities related to resources management (water, energy and waste) and the “increasing value of biodiversity, ecosystems and cultural heritage” (Moscardo, Konovalov, Murphy, & McGehee, 2013). The second one acknowledges that exists a growing “awareness of environmental issues from the demand side and that this translates into greater interest in destinations which practice a commitment to the environmental dimension” (Moscardo, et al., 2013).

### **1.1.1 Tourism Impacts**

In order to fully understand the concept of sustainable tourism is important to comprehend the notion of *impacts of tourism*: “the effects or influences that tourism has within the region identified as being the destination” (Fredline, Raybould, & Deery, 2005). It is important to notice that in many studies, it is often assumed that “respondents and researchers share the same concepts of tourism and tourists” which may lead to “incomplete picture of the consequences of tourism” (Moscardo, et al., 2013).

According to Fredline, Raybould, Jago, and Deery (2013) that follow Elkington (1998) “triple-bottom line approach” (**Exhibit 12**) it is possible to classify those impacts into different categories that must be balanced in order to achieve long-term sustainability:

1. *Economic*: impact on the local economy, meaning cash flows generated from the tourism activity as well as issues such like employment. Specifically in terms of sustainable tourism, it must ensure that are created long-term, viable economic relations that benefit equally all stakeholders. It can be considered as examples of sustainable economic impacts poverty relief in host communities as well as improvements in infrastructures and social services within those communities (**Exhibit 13**).

2. *Environmental*: impact on the environment caused by tourism activities. Sustainable tourism activities must adopt practices that valorize and maximize natural resources and promote the protection of natural heritage and biodiversity, encouraging the visitors to comprehend and observe, and “contribute to maintaining and enhancing conservation through the return of a part of the revenues towards the protected area” (Dumbraveanu, 2004).

3. *Social*: “changes in quality of life of residents of touristic destinations” (Mathieson & Wall, 1982). To be sustainable, a touristic activity should respect and conserve the socio-cultural heritage of the local community, promote its traditional values and be a sponsor of tolerance and inter-cultural dialogue.

The real magnitude of these impacts on a region will depend on the characteristics of the region itself, such as the nature, flexibility and willingness to change of the community as well as its previous economic situation. The fact that some tourism businesses are based on specificities of some communities, may lead locals to face its cultural identity as a marketable product, as the number of tourists demanding an authentic local cultures increases. Especially in small, isolated communities the sudden foreign interest on them can be a shock, becoming a source of tensions between community and outside entrepreneurs (Richards, 2002).

Although it is not possible to measure all impacts with the same level of accuracy, since the 1990's WTO<sup>35</sup> has been advocating the use of sustainable tourism indicators. Together with Rainforest Alliance and the United Nations Environment Program (UNEP), WTO developed the Global Sustainable Tourism Criteria (GSTC), which

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<sup>35</sup> World Tourism Organization

defines the minimum standards any tourism business should aspire at and are used to create a common understanding of Sustainable Tourism around the world. GSTC are organized under four pillars:

a) *Effective sustainability planning* – e.g. “The organization has implemented a long-term sustainability management system that is suitable to its reality and scope, and which addresses environmental, social, cultural, economic, quality, health and safety issues”;

b) *Maximizing social and economic benefits for the local community* – e.g. “The organization actively supports initiatives for local infrastructure and social community development including, among others, education, training, health and sanitation”;

c) *Enhancing cultural heritage* – e.g. “The organization follows established guidelines or a code of behavior for visits to culturally or historically sensitive sites, in order to minimize negative visitor impact and maximize enjoyment”;

d) *Reducing negative impacts to the environment*: e.g. “Purchasing policies favor locally appropriate and ecologically sustainable products, including building materials, capital goods, food, beverages and consumables”.

Crouch & Ritchie, (1999) identify in the Calgary model five components of a destination’s competitiveness: core resources and attractions; supporting factors and resources; destination management; destination policy, planning and development and qualifying determinants. According to the authors, the environmental component in sustainability is not just present in resources preservation but also assumes a role in the short and medium term activities in the area and “in the destination’s long-term planning strategies” (Pulido-Fernández, Andrades-Caldito, & Sánchez-Rivero, 2014).

### **1.1.2 Scaling business and planning the future**

Back in the 1980’s, when the concept of sustainable tourism emerged, it was related to “small-scale, low-growth alternative tourism” (Dernoi, 1981; Romeril, 1985). Moreover, it was also associated with “virgin or greenfield sites” rather than “mature and declining urban tourism destinations” (Butler, 1999). Authors such as Butler (1990) and Jafari (2001) argued that this perspective only addressed part of the “problems of mainstream tourism”, and proposed a twist to “sustainable mass tourism” (Jafari, 2001).

According to the author, “both mass and alternative tourism” can be “sustainable options under appropriate circumstances” (Jafari, 2001). Also as Weaver (2011) mentions, mass tourism isn’t necessarily related to “absolute levels of intensity” but instead to “intensity relative to local community size – host/guest ratio”.

Although the industry may face some lock-in effects that discourage the adoption of sustainable practices, it can become an “arena of innovation for entrepreneurs and managers” (Butler, 1990), since these policies are an innovative, less-imitable solution to engage consumers (Bhattacharya and Sen, 2004). Hall (2009) highlights the risks of “large-scale tourism for the management” but also acknowledges “positive revenue contributions to long-term survival” (Weaver, 2011).

Albeit operators aim to embrace pro-growth strategies, it is not possible to ensure that in all destinations “local attractions or accessibility are sufficient to sustain a growth trajectory” and many places will face some growth stagnation due to “low attractiveness, accessibility or instability” (Weaver, 2011).

## **2. Conflicts resulting from tourism activity**

Even though many companies already have embraced sustainable practices, many continue to have an old-fashioned approach when it comes to value creation, favoring “short-term financial performance, while ignoring broader influences that determine their long-term success” (Porter and Kramer, 2011).

Traditionally, in the majority of businesses “social issues” are considered out of scope, with corporate social initiatives being the result of external pressures to improve brands’ image. The typical Governments’ approach to social issues, where those problems are mitigated at the expense of businesses, as well as the standard solution to externalities – imposing taxes, laws and other kinds of retributions - decreases even more companies’ willingness to spontaneously engage in CSR activities (Porter and Kramer, 2011).

Although in present days many companies already present some sort of a social agenda, they still approach the thematic in generic ways and thus, engage in activities disconnected from their core business “instead of the way most appropriate to each firm’s strategy” (Porter and Kramer, 2006), not achieving neither the social impact or strengthens companies’ competitiveness in the long-term. Moreover, this situation

impels consumers to question companies' true motivation to engage in social initiatives and decreases their likeliness to positively react to them. The companies' reputation together with the fit between the companies and the causes supported by them, are strong influencers on consumers' response to CSR initiatives (Bhattacharya and Sen, 2004).

In the case of tourism, the concept of CSR is highly recognized and promoted by several industry bodies. However, mainly large-scale players practice formal actions towards sustainability, with smaller companies being completely outside of the area. Furthermore, many countries continue to have a separated agenda for sustainable tourism, instead of including it in the general tourism strategy for the country and thus, failing in engaging and educating players to adopt those kind of policies, which require the capacity to integrate multiple areas within a wide spectrum of human, natural and cultural assets, with a long run perspective (UNWTO; UNEP, 2012).

When planning their future, many companies don't realize that social issues are part (and thus shape) the markets where they are acting in (or planning to) (Porter and Kramer, 2006). In some cases for example, the introduction of a touristic business exacerbates pre-existing inequalities and rifts within the community and creates a value and beliefs chock between the community and outside entrepreneurs (cultural resources are naturally attached to the local community, entrepreneurs control tourist supply and financial capital) (Richards, 2002). As so, many executives continue to considerer sustainable initiatives only an increase in their costs, not realizing that engaging in these kind of activities may lead them to a path towards innovation "by using new technologies, operating methods, and management approaches" (Porter and Kramer, 2011), and contributing to a more efficient use of resources and a better relation with the surrounding community (and thus, improving the business productivity and profits).

Although scholars have been detecting in tourists a pattern towards responsible tourism, leading the industry to introduce sustainable principles within its activity to satisfy their needs (Moscardo, et al., 2013), there are studies arguing that consumers concerns regarding sustainability are just superficial since, in practice, they are reluctant to change behaviors (Carrigan & Attalla, 2001).

Since deliver profits to shareholders is the first objective for for-profit organizations, short-term financial pressures together with increasing competition, leads managers to

pursue essentially economic adjustments when it comes to change the strategy of their companies. Reconstruction of the organizational charts (many times reducing the personnel), relocation of the production facilities, and changes in suppliers are examples of those moves. The results are “often commoditization, price competition, little innovation, slow organic growth and no clear competitive advantage” (Porter and Kramer, 2011). On the other hand, measures such as the transition to renewable energy, exemplify that sustainable practices can deliver positive outcomes both in the short and long terms (Weaver, 2011).

In the case of the tourism industry this is a major issue that businesses face, including the sustainable ones. The industry often follows the idea that short-term financial benefits “require scarifying the sustainability of the region” (Carter, 1995). In highly massified touristic locations, businesses differ little from each other. In order to increase revenues, many operators chose to engage in price wars and at the same time, to disorderly increase the provision of accommodation for tourists instead of innovating and thus, differentiating themselves from competition. This choice puts pressure in the natural resources (locations are obligated to receive and support an amount of people that they aren’t naturally capable of), isn’t sustainable in the long-term (like any other case of an industry following cost leadership strategy) and doesn’t focus on the customer needs, delivering often a product below expectations (Richards, 2002). Authors like Trousdale & Gental (2002) defend that tourism activity should grow at a rate that remains within the community’s capacity to accommodate and restore damaged cultural and natural resources. According to the Tourism in the Green Economy – Background Report (UNWTO; UNEP; 2012), the following are possibilities to mitigate the negative impacts of tourism in communities:

- Local initiative and involvement;
- Building capacity – information and training: different stakeholders (Government, NGOs...) can help identifying the best touristic approach to the region taking into the account the needs and aspirations of the community but also its capacity to manage the endeavor;
- Public and private sector investment: projects with mixed investment sources and shared responsibilities have often helped vulnerable communities;
- Partnerships: it is fundamental to the long-term sustainability of the project to build strong relationships with all relevant stakeholders;

- Develop climate change mitigation and adaptation plans together with relevant entities already involved in the thematic.

When it comes to Sustainable Tourism projects, where economic, social and environmental concerns should be equally balanced, managers are also confronted with the temptation of favoring the economic perspective in the short-term and push to the long run the social causes, not realizing that it may lead the company to face increased costs in the future. This paradigm gains more importance at the beginning of a business activity, when new companies have more pressure from investors/ creditors to deliver results and when financial constraints are more urgent.

From a managerial perspective, it is not only important to evaluate the structure and the implementation of sustainable policies but also to assess the effectiveness of the communication to the market undertaken (Moscardo, et al., 2013) by the company (**Exhibit 14**).

### **3. Socially Oriented Organizations**

Although the primary objective of for-profit organizations is to capture economic value, some of them started to integrate the social outcomes of their activities in their for-profit mission, trying to solve social problems throughout business ventures (Santos, 2012) and thus, becoming more socially driven. As a consequence, they face multiple and, sometimes, inconsistent goals, norms, and values, that may create contradictory prescriptions for action (Besharov & Smith, 2013) and generate ethical and managerial tension, which the leaders of these organizations have to deal with (Dees, 2012; Margolis & Walsh, 2003). Moreover, traditional literature suggests that in order to improve performance companies should focus on “one single objective” (Pirson, 2011) and “organizational survival depends on a clear mission” (Sundaram & Inkpen, 2004).

Therefore, to fully understand how to manage socially oriented organizations it is necessary to understand the nature of those tensions and how to manage them. In order to describe and categorize such tensions, it will be followed Smith, Gonin, & Besharov, (2013), which is based on Smith & Lewis (2011).

### 3.1 Performing Tensions

Performing tensions arise when companies pursue “multiple and conflicting goals or strive to address inconsistent demands across multiple stakeholders” (Smith & Lewis, 2011). The maintenance of both social and business bottom lines within the same company is a case where these kind of tensions may surface as social mission goals, and consequently its stakeholders, are concerned with “making the difference” (Smith et al, 2011) and business mission is associated with “commercial success and profitability” (Smith et al, 2011).

Social goals associated with societal problems and opportunities tend to impact a broader range of stakeholders (communities, employees, customers...). Companies that take a proactive attitude regarding social causes and include them in their basic principles are usually more favorably perceived by consumers (Bhattacharya & Sen, 2004). Although 91% of all U.S.-based business present formal reporting policies related with their social efforts (Lacey & Kennett-Hensel, 2010), measuring progress and impact towards these goals often relies on “qualitative, ambiguous, and non-standardized metrics” (Ebrahim & Rangan, 2010; Epstein, 2008). For example, companies that employ people with disabilities can’t measure their social impact only by accounting the effective number of people hired but also the impact it has on their well-being, self-esteem or family stability (Smith, Gonin, & Besharov, 2013).

On the other hand, quantitative, clear and standardized indicators can evaluate objectives associated with the business performance itself and typically are aimed to a small group of stakeholders, namely investors and owners (Jensen, 2002). As behavioral decision making theory shows, when people face conflicting metrics one tends to dominate. Since “metrics that are more quantifiable, clear, and short-term oriented” are usually preferred by individuals over “more qualitative, ambiguous, uncertain, and long-term oriented” (Levinthal & March, 1993), it may lead an enterprise to value more its business objectives than the social ones (**Exhibit 9**).

This variety of different and sometimes contradictory goals makes defining success a challenge, especially if success in one area is considered an obstacle to success in another (Smith, Gonin, & Besharov, 2013). For example, a microfinance organization having to choose between lending money to projects with higher risk associated (in order help more disadvantaged people and thus, fulfill its social mission) or to focus on

a smaller number of projects with higher probability to succeed (and thus, delivering in the end an higher economic benefit to investors).

### **3.2 Organizing Tensions**

“Organizing tensions emerge through commitments to contradictory organizational structures, cultures, practices, and processes” (Smith & Lewis, 2011). When organizations pursue both social and business objectives, they need employees with different profiles: some of them more socially oriented and some others more market oriented. These diversities often hampers socialization between employees and difficult the hiring process. Scholars tend to considerer these kind of organizations as less stable, with questionable longevity (Battilana, J. & Dorado, S., 2010).

Other source of organizational tensions in those companies is related to the legal form chosen: companies have to choose between a for-profit or not-for-profit legal form (Battilana et al., 2012). Although some companies adopt a legal hybrid forms that recognize the different components of their objectives (Battilana et al., 2012; Haigh & Hoffman), other organizations opt to create different entities, each one directed to a specific kind of goal (Bromberger, 2011).

### **3.3 Belonging Tensions**

“Belonging tensions are the ones linked to identity” (Smith et al., 2011) and arise due to the dichotomy between the social and business objectives. They may create the questions “Who we are?” or “What we do?” among the employees (or even the owners) (Smith et al., 2013).

These tensions are also visible when it comes to manage the relation between companies and stakeholders. Stakeholders that are more aligned with the social mission of a company (such as NGOs) frequently diverge from stakeholders related to the business venture (like customers or investors). Each group of stakeholders tries to link the company to its own particular ideas although all of them value the connection between social and business ventures present on there (Smith et al., 2013).

In order to overcome the challenges created by the different expectations within different groups of stakeholders, companies sometimes choose to emphasize specific

aspects of their missions. This kind of strategy, although effective to isolated encounters with stakeholders, doesn't prove to be effective when the message is public to all groups (Smith et al., 2013).

### **3.4 Learning Tensions**

“Learning tensions emerge from juxtaposition of multiple time horizons, as organizations strive for growth, scale, and flexibility over the long-term, while also seeking stability and certainty in the short-term” (Smith et al., 2011).

An enterprise can assess in the short-term its performance in terms of profit, revenues or costs but its social impact it is only noticed frequently in the long-term (Hoffman, Badiane, & Haigh, 2010).

Scalability and growth are other sources of learning tensions to enterprises, as they aim to growth in order to increase their social impact (Dees, Battle Anderson, & Wei-Skillern, 2004) without noticing that growth can also be a threat to the social mission, once it is easier to manage it in small companies. Organizational growth minimizes the impact of factors such as local ties, communal trust building and founders' values (Haigh, N., et al., 2012).

### **3.5 Theoretical perspectives on how to deal with tensions within socially driven enterprises**

Three different theoretical approaches may help to understand how to identify and address the aforementioned tensions faced by organizations that try to recombine social value creation and wealth generation. They are:

- Institutional Theory - to explain the role of societal influences when managing social and business missions;
- Organizational Identity – differences between normative and utilitarian identities within enterprises;
- Stakeholder Theory – understand how the needs of different stakeholders may pressure companies to attend their mission objectives.

Since this work is focused on tourism and on sustainability, it will also be explored the concepts of Share Value (**Exhibit 15**).

### **3.5.1 Institutional Theory**

“Institutional theory focuses on the relationship between organizations and their environments, thereby offering insight into tensions of performing and organizing within social enterprises” (Smith, W. K., et al, 2013). Authors Greenwood, Raynard, Kodeih, Micelotta, and Lounsbury (2011) affirm that in our society there are available “multiple institutional logics” interacting and competing with each other for recognition and dominance and that, consequently, these logics are often in conflict.

Although different logics are often considered incompatible and conflicting, some studies present the idea that logics can be “combined and reconfigured to create hybrid organizational forms” (e.g. Binder, 2007).

Exploring the way organization gain legitimacy, authors Meyer & Rowan (1977) defend that organizations become legitimate by aligning themselves with “social rules, norms and values” and by “creating internal clarity and coherence within organizations to align with external stakeholders”. Pache and Santos (2010) argue that conflicting demands may differ when it comes to the goals they considered legitimate or regarding the means used to achieve those goals.

Aligned with the opinion of recent authors that claim that the majority of “environments are characterized by institutional pluralism and complexity” (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Kraatz & Block, 2008), external stakeholders (consumers, media, governments...), tend to evaluate organizations considering in particular two main factors: the company’s reputation and the fit between the business activity and the social cause supported (Bhattacharya et al., 2004). Consumers tend to be skeptical about companies with a negative reputation pursuing social objectives close to their business’s activities, since they view them as legitimacy mechanism. On the other hand, companies that take a proactive approach to social causes are better perceived by consumers, being able to create in them a sentiment of attachment or connection (Bhattacharya et al., 2004).

Pache and Santos (2010) propose five different strategies to deal with conflicting institutional demands - acquiescence, compliance, defiance, avoidance and

manipulation -, with choice between one and another coming from “the internal representation of competing demands and on whether tensions between these demands involve goals or means”. Other studies suggest that the creation by organizations of specific metrics for measuring social impact may have an important role in managing pressures to prioritize market demands (Battilana, J. et al., 2013; Ebrahim, A. et al., 2010).

Battilana and Dorado (2010) consider “leadership and managerial discretion” when it comes to explain the response to the mentioned demands. Other studies (Zahra, Gedajlovic, Neubaum, & Shulman, 2009) show that to accommodate divergent demands, companies require leaders with “an exceptional commitment to and passion for the social mission” (Bornstein, 2004; Dees J. G., 2001), “an ethic of care to sustain the focus on social welfare” (Pache, 2013) and “the ability to manage contradictory demands that emerge from multiple logics” (Smith et al, 2012).

In order to respond to divergent urges within organizations, Greenwood et al. (2011), propose two different approaches: strategies and structures.

### **3.5.1.1 Strategies**

According to Pache and Santos (2010), the priority that each logic will receive is proportional of its relative power, making the outcome dependent upon the power structure of the company. Starting with the assumption that organizations interpret and, at some extent, adapt to their own context institutional prescriptions, authors Kraatz and Block (2008) defend that organizations can deal with tensions in four different ways:

- Resist to or eliminate tensions by preferring one or more logics over the others;
- Increase cooperation between different factions, making them to forge links with each other in order to balance different demands;
- Create an independent organizational identity, shielding the company from external pressures;
- “Compartmentalize” different identities. Scholars often considered that compartmentalization only give companies “ceremonial and symbolic commitment to certain logics while preserving a core identity” (Greenwood et al., 2011). A common example of compartmentalization is the adoption of green

or social policies within organizations as an act of legitimization due to external pressures.

### **3.5.1.2 Structures**

This second approach is centered on how different demands are reflected in companies' internal structures and processes. According to Simsek (2009), it is possible to divide organizations by their type of structure in two different groups:

- “Blended hybrids”: attempt to combine practices from different logics within the same organization. Although long-term concerns are arguable, authors often considered that is possible to get endorsement by field-agents and get effective performance.
- “Structural differentiation”: compartmentalization of each logic in different departments with different practices and processes.

### **3.5.2 Organizational Identity**

Organizational identity is related to belonging tensions within companies. It refers to “a perception shared by members of *who we are* and *what we do* as an organization – the central and during characteristics that distinguish this particular organization from others” (Albert & Whetton, 1985).

Socially driven organizations have mixed identities, with a normative identity related to the social mission and an utilitarian one linked to the business part (Moss, Short, Payne, & Lumpkin, 2011), which can prompt conflicts and competition between rival internal groups (Glynn, 2000; Golden-Biddle & Rao, 1997). Moreover, as these organizations usually don't correspond to an “existing archetype”, they cannot rely on a preexistent model to deal with tensions (Battilana & Dorado, 2010). These kinds of tensions may have an impact on the strategic orientation of the company and threaten organizational performance (Voss, Cable, & Voss, 2008).

Since scholars present different opinions on the subject, there are several proposed perspectives on how organizations can manage belonging tensions. To some, the solutions is related to the creation of organization-level strategies that “delete, compartmentalize, aggregate or integrate” multiple identities (Pratt & Foreman, 2000),

as it was described in the previous section. Other authors argue that companies should encourage the expression of different identities among subgroups and at the same time foster a “unified identity at organization-level” by emphasizing multi-level strategies (Ashfort, Reingen, & Ward, 2013), which is visible in Pratt & Kraatz (2009), where is defended that organizations should create an “organizational self” to coherently integrate multiple identities.

Battilana and Dorado (2010) argue that organization can follow one of two different approaches when it comes to hire collaborators:

- “Mix-and-match”: focused on the capabilities each individual has, with the new organization benefiting from their past experience and training to grow faster. However, those individuals embody the logic they represent, which may become a source of tensions.
- “Tabula-rasa”: it prioritizes socialization and therefore, adopts a strategy of relying in individuals who “not steeped in either of the logics”. Although this approach may facilitate the construction of a common organizational identity, it may be an handicap when it comes to face high market pressures.

### **3.5.3 Stakeholder Theory**

By acknowledging that companies “operate within and are accountable to a broad ecosystem” (Smith, W. K., et al., 2013), stakeholder theory provides insights into performing tensions that can arise in organizations. The existence of multiple stakeholders with different demands raises questions about “who and what really count” (Freeman, 1984). Usually, scholars offer three approaches to answer to those questions – descriptive, instrumental and normative - (Donaldson & Preston, 1995).

*Instrumental* studies evaluate the economic impact that fulfilling social and ethical needs have on a company’s financial performance (Agle, Mitchell, & Sonnenfeld, 1999; Berman, Wicks, Kotha, & Jones, 1999; Ogden & Watson, 1999). They suggest that at minimum, a stakeholder approach doesn’t cause more prejudice than a shareholder approach, which can be articulated with a more *normative* approach (Donaldson & Preston, 1995). Authors Mitchell, Agle, & Wood (1997) propose an integrating model of both normative and instrumental approaches, where stakeholder claims are identified and evaluated according to three criteria:

- a) *Urgency*: time sensitive claims;
- b) *Power*: a stakeholder's influence under another;
- c) *Legitimacy*: “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman, 1995).

Although much of the existing research relates socially driven organizations to a descriptive approach (emphasizing the increasing number of institutions and organizations) (Boyd, Henning, Reyna, Wang, & Welsh, 2009), it is also possible to follow a combination of both instrumental and normative perspectives to address the topic. Haigh & Hoffman (2012) suggest that a success factor for these enterprises are the relations created between the different stakeholders, since these organizations promote community integration and “display trust, compassion, and cooperation with broad groups of stakeholders, creating positive benefits across all stakeholders”.

#### **3.5.4 Shared Value**

Given the symbiotic relationship that exists between companies, communities and environment it is not possible one to create value at the expense of the other without damaging consequences in the future. The efforts made in last years by companies in the area of social responsibility are often fragmented over different causes, many of them unrelated with the business itself.

The solution that has been advocated in recent years and that has been gaining importance relies on the concept of Shared Value in opposition to the Corporate Social Responsibility one. Shared Value can be understood as “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” (Porter, Michael E. et al., 2011) (**Exhibit 10**). Since it includes social impact at the center of the overall strategy, this approach no longer focuses on mitigating a social problem but instead on strengthening the corporate strategy of the company (Exhibit 10). Moreover, shared creation can help companies to “rebuild trust, stay competitive and increase legitimacy” (adapted from Pirson, 2011).

In order to create Shared Value, companies should assess within the boundaries of their own businesses, which are the societal issues more likely to have a negative impact on them and which ones the companies are best equipped to solve. Companies that are able to create a strategy that integrates both social claims (addressed from a value creation perspective and thus, measurable) and economic imperatives will differentiate themselves from competition by starting a path towards innovation.

According to Porter and Kramer (2011) there are three different ways to create Shared Value: “redefining products and services; reconceiving the value chain, and building supportive industry clusters at company’s locations”.

In opposition to natural resources or companies’ capacities, human necessities are endless. In order to create the best way possible to use their available resources, creating the higher possible value, companies should assess which are the underserved markets and how they can deliver a product/ service that addresses their societal needs.

In terms of the Tourism industry, product differentiation can be achieved through branding in a social cause and by promoting a change in standard habits. Instead of exhausting a region resources’ in a way to create economic value that isn’t sustainable in the long run, a sustainable project can take leverage on the conservation of the resources themselves and thus, increase the pool of beneficiaries of the project while guaranteeing its future.

Rwanda is an example of how tourism can enhance local development, with its large population of mountain gorillas playing an important part. In 2008 were accounted 17,000 tourists visiting Volcanoes National Park (VNP) to see gorillas (in opposition to 417 in 1999). 5% of VNP revenues applied into community projects (education, water usage, food security...) and employment opportunities within the park are also offered to community members (UNWTO; UNEP, 2012). According to Nielsen & Spencely (2012) nearly \$428,248 has been invested directly or indirectly in community projects, including building 10 schools, 32 water tanks and 3,000 households receiving bed night fees.

The development of a local cluster is not only a way for firms to gain the support of the community (by prompting economic and community development) but also brings operational benefits across the value chain.

The improvement on local communication channels (such as roads and support infrastructures but also internet or mobile phone coverage) can bring direct economic benefits for companies since both the access to necessary resources and the outflow of final products becomes easier. In the case of Tourism, not only it becomes easier for tourists to reach place but it also gains attractiveness and the local community suffers an improvement in its relations to other places (which brings both economic and social impacts).

The relation with local suppliers is also a key element. By relying in local suppliers whenever it is possible, companies achieve savings in transportations costs and cycle time and boost innovation and development in the area. In the Tourism case, the use of local products in its activities and their consequent marketing, increase the awareness of outside people to what the region has to offer, triggering on them the desire to know it. Furthermore, operators can use this fact as a marketing strategy and the community will have an incentive to preserve and develop its traditional activities and products, simulating jobs creation and the development of the region itself (Porter & Kramer, 2011).

## **Teaching Note**

### **1. Introduction**

The case study traces the history of Aldeia da Pedralva, a small village in the southwest of Portugal, and describes the creation and first years of activity of a new touristic business within the same village. Thanks to its strong commitment to social and environmental causes, the company was able to differentiate itself from competition and provide customers with a unique touristic experience.

The issues highlighted in this case and that are important for discussion are related with the tensions that may arise from the inclusion of social and environmental issues in a for-profit mission and how it is possible to manage them and, at the same time, to be profitable and to grow. Finally, it is also important to discuss whether this business can be considered a sustainable one or not.

### **2. Learning Objectives**

Students will be asked to reflect upon the impact such dimensions have across different stakeholders and on business performance. Also, students should examine the way these challenges were addressed by the company and theorize about its application to other industries.

Given the subject of the case study, it may be relevant as a teaching material to courses such as Business Ethics, Social Innovation and Social Entrepreneurship and Entrepreneurship.

#### **2.1 Sustainability and the tourism industry**

Tourism is nowadays one of the fastest-growing industries in the global economy, with UNWTO forecasting 1.8 billion international tourism arrivals by 2030. However, if not managed properly it can be a source of negative externalities such as loss of biodiversity or water shortages.

In 2014 UNEP elected tourism as one of 10 key industries “best able to contribute to the transition to a sustainable and inclusive green economy” (Global Action for Sustainable Consumption and Production, 2014) and in the same year at the 3<sup>rd</sup> Global

Summit on City Tourism, participants stressed the importance of meeting sustainable objectives within new business models in the sector in order to make destinations enjoyable to everyone and to spread the benefits from the activity.

The case study provides students an example of an innovative project within the context of tourism in Algarve that chose to construct its business model around sustainability. It stands as an opportunity to students to examine the pros and cons of incorporating elements of social/environmental missions within a for-profit mission by choice and not as a response to legal demands.

Due to its proactive approach towards sustainability, Pedralva differentiated itself from competition and established itself as leader when it comes to nature based projects. Thus, the case offers the opportunity to discuss sustainability as a differentiation strategy for for-profit companies, not only in the tourism industry.

### **3. Assignment Questions**

1. Do you think that it is possible to create sustainable value? Is Aldeia da Pedralva a sustainable project?
2. Identify the tensions presented in the case study.
3. How did Pedralva's management team address those tensions? Would you proceed differently? How?
4. Which are the main lessons from this case study and how can they be used as benchmark for other industries?

### **4. Class discussion**

The following teaching plan is constructed for a 110 minutes (approximately) class discussion.

Introduction: *5 minutes.*

Question 1. *(35 minutes)*

Question 2 *(15 minutes)*

Question 3 *(20 minutes)*

Question 4 (20 minutes)

Conclusion and wrap-up: 10 minutes

#### **4.1 Do you think that it is possible to create sustainable value? Is Aldeia da Pedralva a sustainable project?**

The instructor could start by asking students why Pedralva is different from the remaining touristic offer in Algarve and what is innovative in its business model. The objective of this initial discussion is to lead students to reflect upon the balancing of economic and social/environmental goals present in the project and that are necessary to create sustainable value.

The next step is exploring if there is or not purely rational arguments that justify the adoption of sustainable practices from an economic perspective. Students can provide two different arguments that are sustained in a theoretical perspective (Elkington, 1997):

- Exploitation of niche segments;
- Adaptation to new consumers' demands.

Other argument that can be used is that sustainability can work as differentiation strategy and an alternative to price wars in locations where the competition is fierce.

It is possible that students argue that in case of tourism and in special in the Portuguese context, the economic benefit from focusing in such niche is minor than conventional tourism and that even considering an increase in the demand in the future, the economic benefit would always be below the one from conventional tourism.

The instructor might collect and arrange students' possible answers to the question in a table as the following:

**Table 2 – List of pro and con arguments regarding sustainability**

Pro	Con
<ul style="list-style-type: none"> <li>-Consumers show a pattern towards sustainable tourism;</li> <li>- Innovative business models are less inimitable by competition;</li> <li>- Focused on a niche segment which allows companies to charge a premium price;</li> <li>- Helps companies to gain legitimacy;</li> <li>- Reduces the risk of conflict with host community;</li> <li>- Measures like investment in green energies deliver both short-term and long-term benefits;</li> <li>- Enhances local development and complementary activities which makes the host location not only more dynamic and appealing to locals but also more attractive to tourists.</li> </ul>	<ul style="list-style-type: none"> <li>- New concept, different from industry standard, with more risk associated;</li> <li>- Harder to get investors due to innovative characteristics of the projects;</li> <li>- Focused on a niche segment, non-exploring the full potential of a destination and other segments that may be larger and more profitable;</li> <li>- Resource allocation to areas that are not the core business;</li> <li>- Environmental and social concerns can be a constrain to scalability and growth of the projects;</li> <li>- Difficulty to apply the concept to all locations, especial in urban areas.</li> </ul>

Focusing in the case of Pedralva, the project targets nature/outdoors lovers who want to get out of the stress of day to day life in cities and, at the same time, keeps up with the global trend of nature based/ conscious tourism, which is aligned with the arguments provided above.

The project analyses' can be performed by looking to the performance of the business in each of three pillars of sustainability.

- a) *Economic*: at November 2015 the project presents an occupancy rate (47%) higher than the average of the Algarve region (44.6%, 2014 data). It is also focused on a niche segment, presents positive revenues, has international projection and received media coverage from reputed magazines and newspapers such as The Guardian and The New York Times;
- b) *Environmental*: given the increasing number of costumers, the team implemented measures such as limiting the number of participants in outdoor activities, assuring people stayed on tracks and use ecological bags and applying the concept of “catch and release” to fishing programs. It is important to mention that some projects with environmental impact and whose implementation was schedule to the beginning of the business activity, were

- postpone to a more mature phase of the project due to bureaucracy issues. The management team includes these projects as one of the challenges for the future;
- c) *Social*: from early stages of the project, the management team acknowledged the importance of managing its relation with an important group of stakeholders: the host community. Instead of keeping them apart from the project, the team recruited Pedralva's remaining inhabitants to help in search of the owners of the houses, maintained a transparency policy regarding the business transactions of the houses and offered help to do small reparations and improvements into the locals' houses. Moreover, the project tried to preserve the local identity of the village by maintaining the typical architecture of the area as well as re-boosting local festivities, traditions and activities (like handcraft and fishing). For the future are also planned a project related to local artisans.

Looking at the above facts, one can affirm that although there is room to improvement, Pedralva project is a sustainable one and thus, it is possible to create sustainable value.

Students that are against a sustainable value creation approach may argue that the project spent unnecessary amounts of money with environmental and social activities and that involved too much the community within the business. They can also argue that Pedralva's location and a good marketing strategy could be enough to be financially successful without having to engage in a project with characteristics that can be considered riskier by investors. Although this may be considered a valid solution, it would imply a change into Pedralva identity and would no longer be possible to consider the project sustainable, as its triple bottom line would be inexistent.

#### **4.2 Identify the tensions presented in the case study.**

Using the previous question as a starting point, students should notice that the maintenance of different bottom lines within the same project might be a source of tensions.

Focusing on the case study, *performing tensions* and *learning tensions* are the most salient ones.

The difficulty the team felt to get funding is an example of the conflict between purely economic stakeholders (in this case investors) - whose main concern were the return on

investment and did not consider environmental/social based projects as profitable as “regular” business models –, stakeholders that identify themselves both with the social components and the for-profit nature of the project- the management team and stakeholders who only relate themselves to social and environmental aspects – public bodies and the community.

Other source of tensions lays in the different time horizons of each bottom line objectives’. In the short-term are easily assessed by investors metrics such as revenues, profit and occupancy rates while it is only possible to evaluate the impact of social and environmental projects in the long run.

Now that the project is reaching a stable point, the management team aims to boost projects with social and environmental impact. Although from a purely economic perspective it makes sense engage in such projects in a more developed phase of the project, the scale and growth of the project itself may be a constraint to social and environmental impacts, as these bottom lines are easily managed in small companies.

This dichotomy between different bottom lines within the project is reflected in Ferreira’s statement “This project is a mix of a business venture and something deeply personal for me. Sometimes I feel like two people: one makes the business deals, but the other is just happy to do something to help the in area”.

From Ferreira’s sentence it is possible to notice some level of conflict of identities amongst the managers themselves, which may be an indicator of *belonging tensions*. This may confer instability to the business as its mission becomes less objective and clear and may be a source of conflict between the team and economic stakeholders, as the priority given to subjects may differ amongst them.

Notice that it is possible students argue that belonging tensions are inexistent and the mix feelings towards the project expressed by Ferreira are just part of PR strategy to engage customers with the project.

*Organizing tensions* are not so clear to identify. At this point there is no insights about conflicts between employees that are related with the different bottom lines of the project or if the management team has been noticing any kind of issues when it comes to recruit new employees.

### 4.3 How did Pedralva’s management team address those tensions? Would you proceed differently? How?

Continuing the previous question rationale, students should start by identifying the critical stakeholders of the project. Given the strategic approach of the work, I focused on external stakeholders only.

**Table 3 – External Stakeholders Analyses**

<b>Stakeholder</b>	<b>Claim</b>	<b>Power</b>	<b>Urgency</b>	<b>Legitimacy</b>	<b>Critical Stakeholder</b>
<b>Investors</b>	- Maximize return on investment.	High	High	High	YES
<b>Host Community</b>	-Improve life conditions; - Break isolation.	Low	Low	High	YES
<b>Public Bodies</b>	- Cultural heritage and natural resources preservation.	Medium	Medium	Medium	YES
<b>Customers</b>	- To have a pleasant stay in touristic establishment, whose philosophy is aligned with their beliefs.	Medium	High	High	YES
<b>Media</b>	- To have access to an interesting story, interviews and new data.	Low	Low	Low	NO

Next, students should match each stakeholder’s claim to the value the project is expected to create to them.

**Table 4 – Critical Stakeholders Management**

<b>Stakeholder</b>	<b>Claim</b>	<b>Value created by Pedralva</b>	<b>Suggestions</b>
<b>Investors</b>	- Maximize return on investment.	- Economic - Environmental	- Pursue investors that prefer projects related to sustainability.
<b>Host Community</b>	-Improve life conditions; - Break isolation.	- Social - Economic	- Create partnerships between Pedralva, community and public bodies that stimulate not only local development but also integrate all stakeholders into the project and work as positive PR to Pedralva.
<b>Public Bodies</b>	- Cultural heritage and natural resources preservation.	- Social - Environmental	
<b>Customers</b>	- To have a pleasant stay in touristic establishment, whose philosophy is aligned with their beliefs.	- Social	- Advertise Pedralva in channels related to sustainable tourism; - Seek accreditation and referrals from well-known influencers in the area.

As it is possible to observe, Pedralva stakeholders’ present divergent claims and they assess the value created in different ways. Looking at the management team past decisions’, the key factor to manage tensions was the team ability to compromise and reach understandings with all parts. This approach is notorious in the postponement of environmental projects that although important weren’t imperative and might have acted as bargain to other important moves.

Other courses of action are also possible to be implemented: the management could considerer either to shift to stakeholders whose claims are aligned with the characteristics of the project (i.e. choosing sustainable investors) or try to align the expectations of the current stakeholders with the project (i.e. communicate, explain decisions and involve stakeholders on them).

**4.4 Which are the main lessons from this case study and can they be used as benchmark for other industries?**

Taking into account the previous questions, it is possible to considerer the following as the main lessons from the case study. It is also possible to considerer that all of the following points are applicable to the majority of industries:

- Sustainability can be a differentiation factor for projects especially in areas where competition is fierce;
- Relationship with stakeholders is key to a project success. Not only is important to engage and include in the project stakeholders like the community but is also important to understand the needs and concerns of economic stakeholders, like investors. Capacity to understand them and compromise is a key success factor;
- Social and environmental projects must be aligned with the business activity itself and/ or the area where it is established. Otherwise it is possible that costumers face with suspicion such activities and understanding them just as PR;
- To be truly sustainable a project should be able to create value to all its stakeholders and at the same time, do not inflict damages to the local ecosystem. The growth of the project should be weighted according to the capacity of the regions and local environment to accommodate such changes and compensate eventual damages.

## Conclusion

The present work made me reflect not only upon the challenge that represents to establish a project such like Pedralva but also on sustainability as future imperative across different industries.

It was possible to identify performing and learning tensions as some of the main challenges a for-profit organization with multiple bottom lines has to face. In practical terms, these tensions translates in short-term financial pressures against long-term oriented social/environmental projects and an increased difficulty in getting funding, as multiple bottom line projects are considered riskier and are undervalued by investors.

The case of Pedralva is an example of how is possible to create economic value while pursuing social and environmental objectives. The project leveraged on Pedralva's natural resources, culture and history to differentiate from competition in a region where competition is fierce and where the main stream of revenues (Sun& Sea Tourism) reached maturity. Moreover, Pedralva's triple bottom line allowed the project not only to gain legitimacy amongst customers (in opposition to traditional tourism industry in Algarve that is connoted with destruction of natural resources in the name of profit) but also proved to be a successful marketing strategy for the company.

Also from Pedralva, it possible to take further lessons applicable to other industries, namely the relationship with critical stakeholders and the alignment of social/environmental projects with the business activity. Not only is important to acknowledge different stakeholders and their claims but is also important to include them into the decision-making process and to have the ability to compromise.

In terms of future research, it would be interesting to analyze if Pedralva will be able to keep growing and scaling the business without compromising any of its bottom lines. Moreover, it would also be interesting to explore if the example of Pedralva could be used as a benchmark to rehabilitate locations in similar conditions to Pedralva's initial ones.

## Exhibits

### Exhibit 1 – Aldeia da Pedralva Geographic Location



Source Luso Viagens

## **Exhibit 2 – Bird watching in the Vicentine Coast Natural Park**

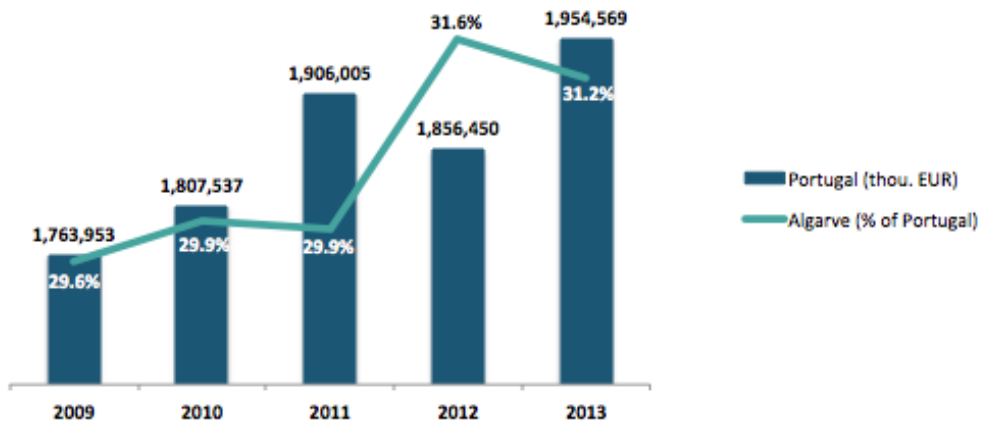


*Source: MACS ADVENTURE Blog*

## **Exhibit 3 – Praia do Amado (Amado Beach)**

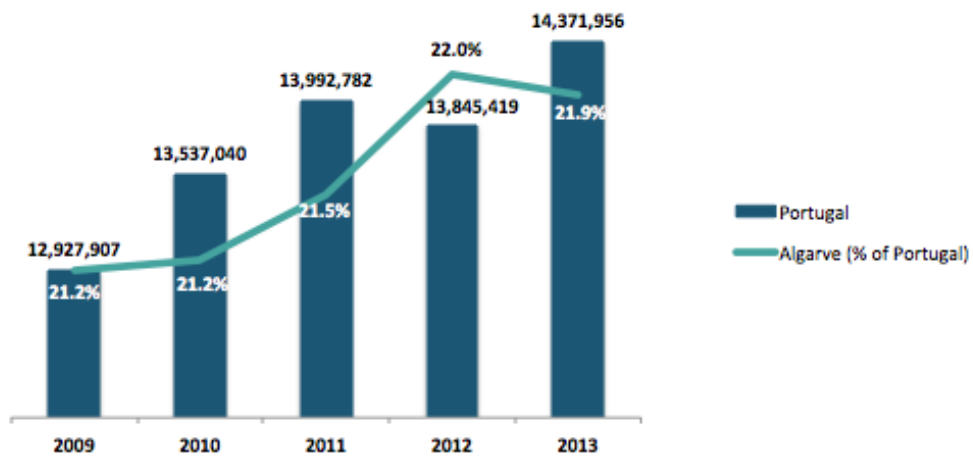


### Exhibit 4 – Total Income of Hotel Establishments



Source: PORDATA

### Exhibit 5 – Guests in Hotel Establishments



Source: PORDATA

**Exhibit 6 – Sun & Sea Tourism in Algarve**



Dona Ana Beach, Lagos, Portugal



Rocha Beach, Portimão, Portugal

## Exhibit 7 – Aldeia da Pedralva Evolution



*Village square: Before (left) and after (right)*



*Houses: Before (left) and after (right)*



*Village view: Before (left) and after (right)*

Exhibit 8 – Cultural Events at Pedralva

11. Junho 2011  
Pedralva  
a partir das 15<sup>00</sup>

# Festa do Mastro

combinado com a Feira dos Artesãos

Petiscos  
Caracois  
Frango grelhado

Baile  
Canções  
Acordeão  
„comes e bebes“



Câmara Municipal de Pedralva  
Vila do Bispo  
ALDEIA DA PEDRALVA  
contactos:acdpedralva@yahoo.com Tel.282639342

## FEIRA DE ARTESÃOS

NAS RUAS DE ALDEIA DA PEDRALVA

11. JUNHO 2011  
15:00 - 23:00

COMBINADO COM A FESTA DE MASTRO

MÚSICA AO VIVO  
PETISCOS  
PASSEIOS DE BURRO  
DOIS RESTAURANTES ABERTOS



contactos:acdpedralva@yahoo.com Tel.282639342

## **Exhibit 9 – Script of the interview to António Ferreira**

**1.** You've mentioned in some interviews that the moment you saw Pedralva, you knew it presented a unique potential. Why exactly did you think that? Which were at the time the points that made Pedralva different from other similar villages?

**Objective1:** Understand which were the factors that triggered the creation of the project as well as identify the village's differentiation factors.

**2.** How was the concept of “Aldeia da Pedralva” created? Did you know from the beginning that it would be based on the premise of a “reconstructed village”? The environmental concerns and the care about the cultural identity of Pedralva were part of the project from the beginning or it was something that came from the evolution of the concept?

**Objective2:** Understand the creation and evolution of the concept of “Aldeia da Pedralva”.

**3.** The first time you went to Pedralva was in 2006, right? How much time it passed between going to the village for the first time, deciding to start the project and moving from Lisbon to Algarve? Did your partners entered in the project all at the same time? Why was just you António that moved to Algarve?

**Objective3:** Set a timeline of the project and understand how was created “Surf Hotels”.

**4.** How was defined the capital structure of the company? Did you approach external investors? If yes, which kind of investors? The project's focus on environment and cultural identity of the village constituted an advantage or a disadvantage to obtain funding? Which were the major challenges you've faced to get funding? Which were the initial estimated of investment that you had?

**Objective4:** Understand how the company got funding and the major challenges it had to get it (identify possible sources of tensions).

5. How did you initially approach the local inhabitants? And how did you approach the owners of the remaining houses? Which was their initial reaction towards the project? Did any change occur over time in their feelings towards the project? Which were the major challenges/ obstacles that you have faced related Pedralva's community?

**Objective5:** Characterize the relationship of the project with the community over time.

6. Regarding the environmental concerns the project has, which were the major challenges/ obstacles that you have faced in the beginning of the business? How did you solve them? Do they still persist today? Did new ones appear? How are you dealing with them?

**Objective6:** Understand how the company is managing the environmental dimension of the project.

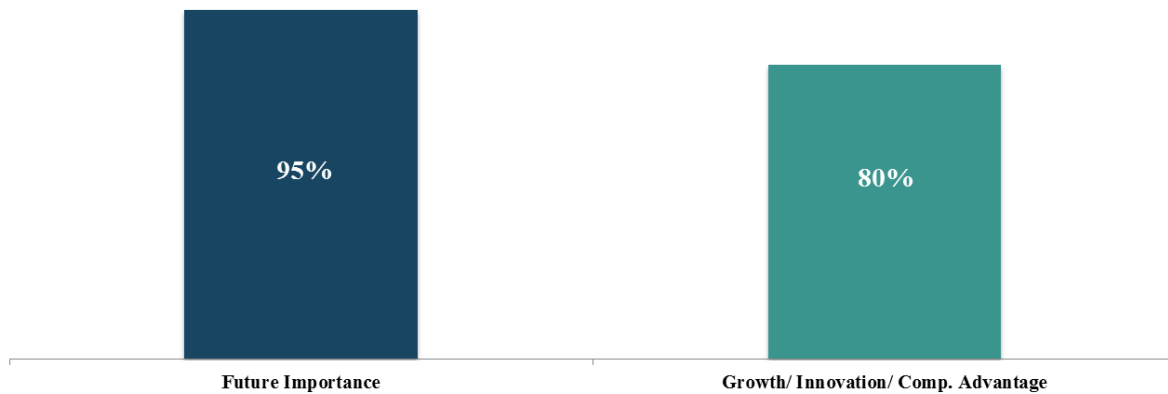
7. "Aldeia da Pedralva" began its activity in the middle of the Portuguese economic crisis. Which was the impact the crisis had in the project? Were your initial projections impacted? How? How did you manage your investors in the light of the new economic situation?

**Objective7:** Understand how the company was able to deal with stakeholders related to the economic dimension during an adverse period of time.

8. After 5 years of activity, what is your evaluation of the project? Did it worth to "dropped everything behind"? Which is your plan for the next 5 years? Which are the major challenges you expect to have?

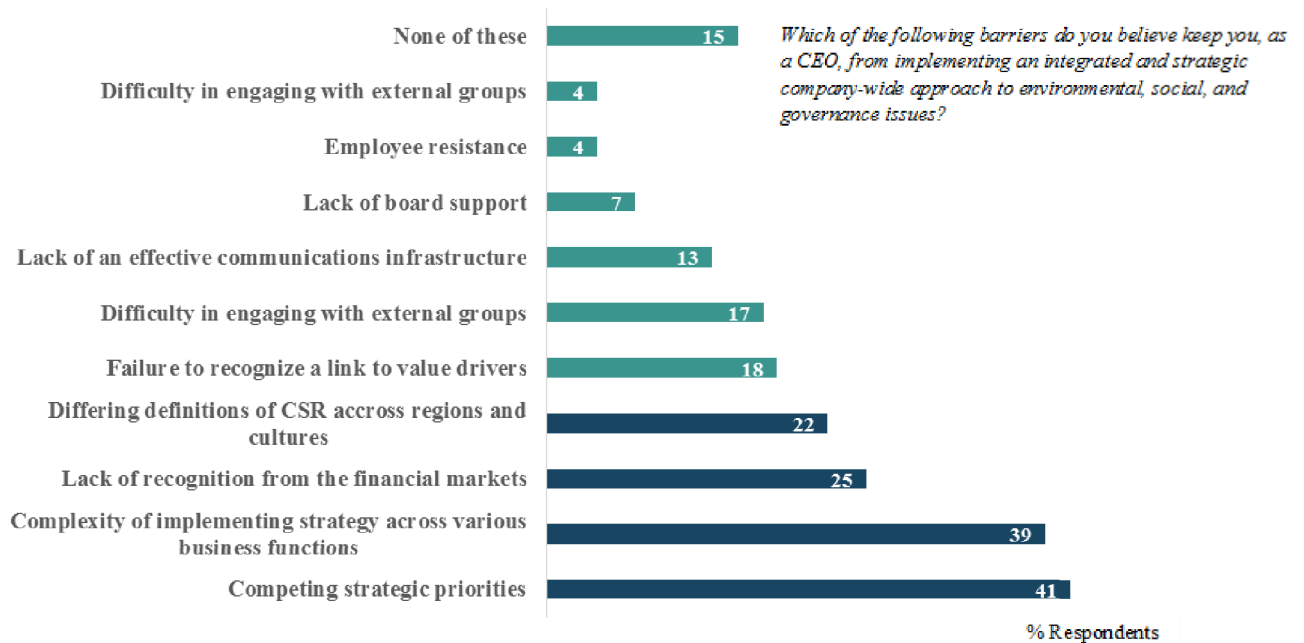
**Objective8:** Understand which are the next steps for the project.

## Exhibit 10 – CEOs: sustainability is good business



Source: The UN Global Compact – Accenture | CEO study on sustainability (2013)

## Exhibit 11 - Barriers to CEO engagement to social mission



Source: McKinsey survey to 391 CEOs whose companies participate in UN Global Compact

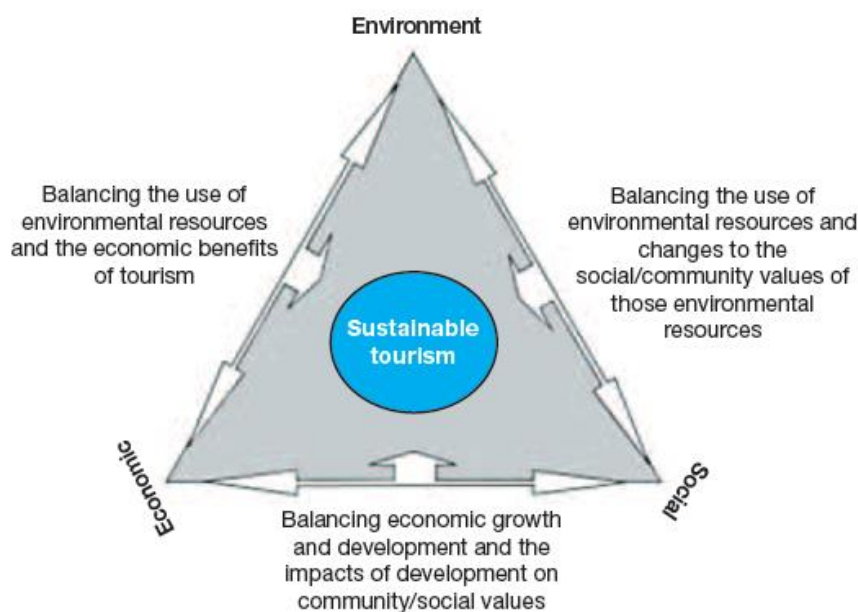
## Exhibit 12 – Performance Gap

Which of the following activities should your company implement to address environmental, social, and governance issues as part of its core business strategy?



Source: McKinsey survey to 391 CEOs whose companies participate in UN Global Compact

## Exhibit 13 – Facets of Sustainable Tourism



Source: Sustainable Tourism 2012 & Greens Economy and Trade

## Exhibit 14 – Conflicts faced by socially driven organizations

<b>Conflict</b>	<b>Description</b>
<b>Integration of a Social Mission</b>	<ul style="list-style-type: none"> <li>- Social issues continue to be considered out of scope by the majority of companies and so, the activities pursued a generic and disconnected from the firms' activities;</li> <li>- Long-term social impact and the companies' future competitiveness are difficult to achieve;</li> <li>- Companies have difficulty in gain legitimacy among consumers.</li> </ul>
<b>Long-Term perspective vs. Short-Term perspective</b>	<ul style="list-style-type: none"> <li>- Short-term financial performance continue to preferred over other influences that may determine long-term success;</li> <li>- For-profit companies have difficulty to explain to business related stakeholders the adoption of measures whose results are long-term oriented and have an impact difficult to measure.</li> </ul>
<b>Dealing with the Host Community</b>	<ul style="list-style-type: none"> <li>- The introduction of a new business may exacerbate pre-existent rifts among the host community and create a dispute with entrepreneurs over the control of resources and distribution of economic benefits resultant of the activity.</li> </ul>

Source: Adapted from Richards (2002), Porter and Kramer (2006)

**Exhibit 15 – Theoretical perspectives on how to deal with tensions within socially driven enterprises**

<b>Theoretical Approach</b>	<b>Tensions Addressed</b>	<b>Important Take-offs</b>
<b>Institutional Theory</b>	Performing Tensions Organizing Tensions	<ul style="list-style-type: none"> <li>- Selective coupling of practices from each logic can enable organizations to sustain both logics;</li> <li>- Compartmentalization may give companies ceremonial and symbolic commitment to certain logics while preserving a core identity;</li> <li>- Managerial and leadership styles are important when dealing with different demands.</li> </ul>
<b>Organizational Identity</b>	Belonging Tensions	<ul style="list-style-type: none"> <li>- Due to their innovative profile, social drive organizations cannot rely in preexistent models to deal with conflicting identities;</li> <li>- Possible to integrate multiple identities by creating an independent “organizational self” that aggregates all of them.</li> </ul>
<b>Stakeholder Theory</b>	Performing Tensions	<ul style="list-style-type: none"> <li>- An organization’s success relies on its capacity to deal with multiple stakeholders, with different demands;</li> </ul>
<b>Shared Value</b>	Performing Tensions	<ul style="list-style-type: none"> <li>- It is not possible for companies, communities and environment to create value at the expense of the other without damaging consequences in the future;</li> <li>- Shared value can help companies to “rebuild trust, stay competitive and increase legitimacy”.</li> </ul>

Source: Adapted from Smith, Gonin and Besharov (2013) and Porter and Kramer (2010)

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