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Alliances in SMEs and cooperatives involved in business with low income sectors in Latin America

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LAS ALIANZAS DE PYMES Y COOPERATIVAS QUE HACEN NEGOCIOS CON SECTORES DE BAJOS INGRESOS EN LATINOAMÉRICA

RESUMEN: El artículo reporta los hallazgos de un estudio exploratorio para evaluar la naturaleza de alianzas intersectoriales que realizan tanto Pymes como cooperativas que hacen negocios en sectores de bajos ingresos en Latinoamérica. Las alianzas intersectoriales fueron clasificadas en términos del modelo de colaboración definido por J. Austin en el año 2000. Los resultados indican que la proporción de cooperativas que establece al menos una alianza es mayor que la de las Pymes, y el tipo de alianza intersectorial es predominantemente de naturaleza transaccional. La organización aliada parece jugar un rol importante en el montaje de cadenas de valor para los emprendimientos de las cooperativas, no siendo así en el caso de las Pymes.

PALABRAS CLAVE: alianza, cooperativas, organizaciones sin fines de lucro, Pyme, Latinoamérica.

LES ALLIANCES DE PETITES ET MOYENNES ENTREPRISES ET DE COOPÉRATIVES FAISANT DES AFFAIRES AVEC LES SECTEURS DE RESSOURCES PEU ÉLEVÉES EN AMÉRIQUE LATINE

RÉSUMÉ : L'article présente les résultats d'une étude exploratoire d'évaluation des alliances intersectorielles réalisées par les petites et moyennes entreprises et par les coopératives faisant des affaires dans les secteurs de ressources peu élevées en Amérique latine. Les alliances intersectorielles ont été classées d'après le modèle de collaboration défini par J. Austin en 2000. Les résultats indiquent que la proportion de coopératives établissant au moins une alliance est supérieure à celle des petites et moyennes entreprises et le type d'alliance intersectorielle prédominant est transactionnel. L'organisation par alliance semble jouer un rôle important dans le montage de chaînes de valeur pour les coopératives, ce qui n'est pas le cas pour les petites et moyennes entreprises.

MOTS-CLEFS: alliance, coopératives, organisations sans but lucratif, petites et moyennes entreprises, Amérique latine.

AS ALIANÇAS DE PME E COOPERATIVAS QUE FAZEM NEGÓCIOS COM SETORES DE BAIXA RENDA NA AMÉRICA LATINA

RESUMO: O artigo reporta as descobertas de um estudo exploratório para avaliar a natureza de alianças inter-setoriais que realizam tanto PME como cooperativas que fazem negócios em setores de baixa renda na América Latina. As alianças inter-setoriais foram classificadas nos termos do modelo de colaboração definido por J. Austin no ano 2000. Os resultados indicam que a proporção de cooperativas que estabelece ao menos uma aliança é maior que a das PME, e o tipo de aliança inter-setorial é predominantemente de natureza transacional. A organização aliada parece ter um papel importante na montagem de cadeias de valor para os empreendimentos das cooperativas, não sendo assim no caso das PME.

PALAVRAS CHAVE: aliança, cooperativas, organizações sem fins lucrativos, PME, América Latina.

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ABSTRACT: The paper reports the findings of an exploratory study to assess the nature of alliances that businesses and nonprofits have developed with SMEs and cooperatives operating in low income sectors in Latin America. Cross-sector alliances were categorized according to Austin's collaboration continuum framework (2000). The findings indicate that the proportion of cooperatives engaged in at least one alliance with businesses or other non-profit organizations is higher than that of SMEs, with cross-sector alliances falling predominantly into the transactional category. Allied organizations appear to play an important role in orchestrating value chains for cooperative business ventures but not for those of SMEs.

KEYWORDS: Alliances, cooperatives, nonprofits, SME, Latin America.

SMEs and cooperatives have long been regarded as major players in employment generation, poverty alleviation and economic growth. In particular, advocates have argued that SMEs are more flexible, possess a greater capacity to respond to consumers' demands and are exceptionally innovative, giving them an advantage over larger firms attempting to enter low income markets (Marquez & Reficco, 2006). However, not everyone shares this positive view of SMEs. Some consider that the evidence in favor of the "small is beautiful" paradigm is scant, and that policies that foster indiscriminate, generalized support for small and medium sized enterprises should be revisited (Parker, 2000). Recent international evidence points to a strong relationship between economic growth and the size of the SME sector—with prosperous SMEs being a feature of flourishing economies—but Beck, Demirguc-Kunt, & Levine (2005, p. 227) conclude in their study that "cross country comparisons do not indicate that SMEs exert a particularly beneficial impact on the incomes of the poor."

Still, even if experts disagree about the benefits of cooperatives and SMEs and the advisability of SME development subsidies to accelerate growth and reduce poverty, the fact remains that over 90 percent of the businesses in Latin America are micro, small and medium-sized enterprises (Zevallos, 2003). For a major part of the population living in the region—particularly lower income segments—a job in a large multinational company is not a viable option; therefore, other venues must be found to make a living. For these groups, SMEs can act as a vehicle—though often a less than ideal one—for obtaining needed income in exchange for labor.

Small and medium sized enterprises traditionally have been considered economically weaker and less efficient than large firms for several reasons, including their limited size, organizational structure, form of ownership, limited knowledge and skills base and low level of technology (Dallago, 2000). Several factors may contribute to the fragility of SMEs. First, an owner may open a business with a good business idea but not necessarily a good business plan. Many participate in the informal economy as self-employed individuals, or start a micro or small business simply because they cannot find a job and have no other choice. Therefore, to distinguish between "opportunity" and "necessity" entrepreneurs when studying SMEs is advisable (Meyer-Stamer & Haar, 2006). In addition, SMEs are often owned, managed by, and operated by a workforce derived mainly from the lowest socio-economic segments of the population (Fan, Criscuolo & Ilieva-Hamel, 2005). Businesses launched without the requisite skills, education, financial capital and social capital will likely result in failure (Acs, 2007). Finally, entrepreneurs from low income communities often lack business contacts and networks (Bates, 1993), meaning that even if they begin with a good business idea, they may find it difficult to obtain credit and develop managerial know-how.

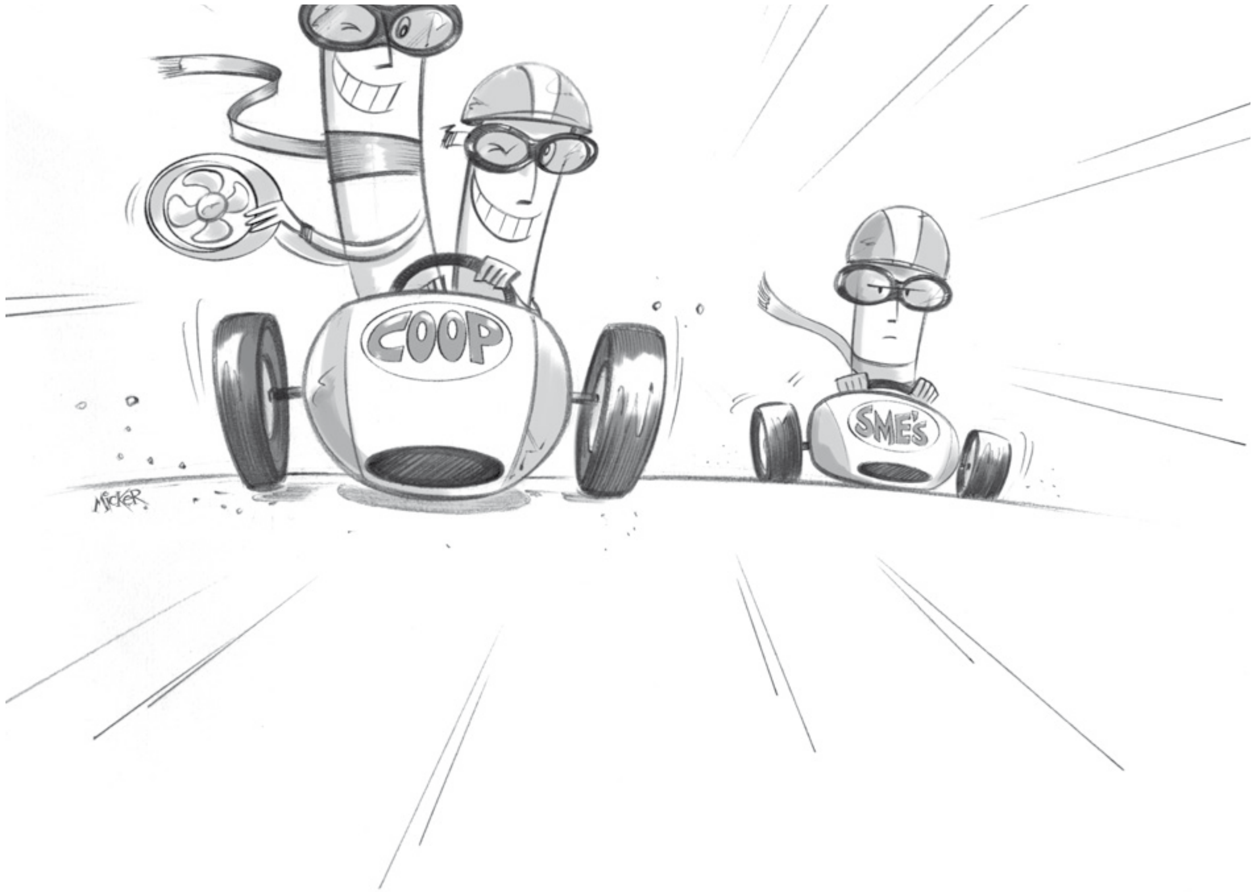
SMEs involved in business with low income sectors in Latin America face the same challenges to securing financial resources as those in developed countries, often with the added difficulty of unfavorable business environments owing to macroeconomic turbulence and inadequate regulatory and legal frameworks. Still, even under such unfavorable circumstances some SMEs in the region are able to develop and grow while others become stagnant, and collapse. Many variables associated with business survival and demise have been reported in the literature. Factors singled out as relevant for the success of SMEs in Latin America include access to funding, information technologies and human resources (Zevallos, 2003). Cooperatives, like SMEs, face challenges to their sustainability. The success of a cooperative, like that of any other business endeavor, depends on capable management and governance, and the ability to adapt to prevailing business conditions. A recent report identified three main threats to cooperatives: problematic cooperative regulation and legislation, a lack of quality training and a lack of access to financing (UN Report of the Secretary General, 2009). The last two of these are also common problems of SMEs.

To counterbalance these deficits and thrive, small businesses are often advised to develop relationships with external organizations that can assist their business development, survival and growth (Street & Cameron, 2007). Such advice appears wise, particularly considering that in developing countries between 50 to 75 percent of new SMEs go out of business within three years, and only 10 to 20 percent survive to the end of the fifth year. For decades, experts have noted that newer firms have higher failure rates than established firms. They have offered different explanations to account for this increased fragility (Baum, Calabrese & Silverman, 2000).

The role that alliances and networking play in allowing new SMEs to acquire and develop the resources and capacities they need to succeed in the current business environment is well established (Herrera, 2009; Hitt, Ireland, Camp & Sexton, 2002). Small firms seem to benefit from alliance proactiveness; such alliances contribute more to the overall performance of small firms than large ones (Sarkar, Echambadi & Harrison, 2001). Furthermore, although alliances appear to provide positive effects for SMEs that pursue them, the SMEs that most need those alliances are not necessarily the ones that build alliances (Arend, 2006).

Interest in creating partnerships has expanded to include cross-sector alliances between companies and nonprofits. Austin (2000, p. 1) affirms that "the twenty-first century will be the *age of* alliances... [where the] collaboration between nonprofit organizations and corporations will grow in frequency and strategic importance." Some work has been done on the nature, motives and strategies of collaboration between businesses and nonprofits in Latin America, but little is known of the types of alliances that SMEs in the region establish. SMEs are often advised to develop relationships with external organizations that can aid their business development, survival and growth. Although there is considerable debate about the risks versus benefits of building commercial relationships with other organizations, few would disagree that forming and managing alliances is an important strategy in small business development (Street & Cameron, 2007). And although scant references on cross-sector partnership are available, to assume that the benefits of alliances would apply also to these types of collaboration seems reasonable. Indeed, cross-sector collaboration may be a key issue for the sustainability of small business ventures and cooperatives, which may take advantage, for example, of corporate foundations that strengthen management skills among SMEs and cooperatives, particularly in developing countries.

The purpose of this study is to explore the type of cross-sector alliances that SMEs and cooperatives have adopted with other businesses in Latin America. The analysis



is based on a convenience small sample of SMEs and cooperatives that are engaged in business with low income sectors in Latin America that have been in business for at least three years and are allied with nonprofits. The study is exploratory and is guided by the following questions: Do SMEs and cooperatives doing business with the low income sector engage in alliances? If so, what type of alliances? Do cooperatives and SMEs display differences in the frequency or type of alliance they engage in?

Definitions of SME, cooperative and alliance

We must clarify the concepts of SME, cooperative and alliance as ther a variety of definitions are in current use. The concept of alliance, for instance, is often used in the literature along with associated concepts such as collaboration, cooperation, partnership and external relationships; moreover, these terms are frequently used interchangeably.

Broadly, SMEs have been defined as "independent businesses that are managed mainly by their owners and that have limited access to finance from formal financial markets" (Malhotra, Chen, Criscuolo, Fan, Ilieva-Hamel & Savchenko, 2007). Still, defining SMEs is not an easy task because different countries use different criteria, such as employment, sales or investment, to define small and medium enterprises. As Ayyagari, Beck & Demirguc-Kunt (2005) put it, even where countries use the same given criterion, they may deploy that criterion in different ways.

Thus, one country may define an SME as an enterprise with less than 500 employees, while another may define the cutoff to be 200 employees. To avoid inconsistency in the use of criteria among countries, we opted for the definitions currently used by the SME Department of the World Bank. Thus, a microenterprise is a firm with up to 10 employees, total assets up to US$10,000, and total annual sales under US$100,000; a small enterprise can have up to 50 employees and total assets and total sales of up to US$3 million; and a medium sized enterprise can have up to 300 employees and total assets and total sales up to US$15 million (Ayyagari et al., 2005).

Cooperatives are another breed of business initiative that often develops among low income sectors; in these, members organize themselves to pursue common business goals and share the costs, benefits, and risks of doing business in equal proportion to the interest held. In contrast to SMEs, defining what constitutes a cooperative is relatively straightforward: a jointly owned and democratically controlled enterprise (Zeuli & Cropp, 2004).

Cooperatives are defined by the International Cooperative Association (ICA) as autonomous associations of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise (ICA, 2009). The seven principles that cooperatives subscribe to are: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, educational training and independence, cooperation among cooperatives and concern for the community. The first four of these are core principles without which a cooperative would lose its identity (ICA, 2009). For cooperatives, collaboration is ingrained in the original blueprint. The principle of cooperation among cooperatives is considered a business strategy without which these entities would remain economically vulnerable (Birchall & Ketilson, 2009, p. 11). However, whether this guiding principle is attained in practice is not always clear. Cooperatives in some parts of the world are still in the process of learning ways to implement the cooperative principle (Brown, 1997), while those in other places have a long tradition of cooperative ventures.

Tax incentives and the sheltering of markets have supported the development of cooperatives in some parts of the world, where some of these entities have evolved into "second degree cooperatives" or "cooperative groups" by joining together to undertake common functions. Such second degree cooperatives have evolved in nations such as Italy, France and Spain that have a more advanced cooperative system, and serve as a means to achieve economies of scale by facilitating joint services, marketing, and purchasing supplies (Dickstein, 1986; Dickstein, 1991). Second degree cooperatives can be envisioned as a form of alliance operating under the principle of "cooperation among cooperatives."

An alliance has been defined loosely as "a close collaborative relationship between two or more firms, with the intent of accomplishing mutually compatible goals that would be difficult for each to accomplish alone" (Spekman, Isabella, & MacAvoy, 2000, p. 37). This definition can encompass not only relationships between two or more firms but also those among any type of organization, whether a business, nonprofit or government. As stated earlier, firms of all sizes—even micro-firms—are increasingly teaming up with other firms, sometimes even their direct competitors, in search of "collaborative advantages" (Das & Teng, 2001; Jaouen & Gundolf, 2009). They are also collaborating with nonprofits to obtain competitive advantages such as building a positive and trusted brand image with customers, potential customers, regulators, legislators, and community groups (Austin, 2000).

Traditionally, collaboration between large businesses and nonprofits consisted of "check-writing" relationships in which interaction rarely went beyond monetary donations. Nowadays, with many nonprofits pursuing business endeavors as part of their fundraising strategies, other modes of collaboration are emerging that involve broader and deeper forms of interaction. While philanthropic donations are one major form of collaboration, the donor-recipient commitment is usually tenuous.

Emerging forms of collaboration which can be properly referred to as alliances involve more and more varied types of bilateral resource flows, which generate greater value for businesses and nonprofits (Austin, 2000). In this type of collaboration, interactions between partners require the deployment of core capabilities beyond simple funds transfers. Austin (2000) refers to this type of relationship as transactional alliances, which can encompass activities such as cause-related marketing programs, event sponsorships, collaboration on special projects and employee volunteer activities such as training, advice-giving, and support of staff in the partner organization. An even higher order of cross-sector collaboration is what this author calls an integrative alliance, which is a partnership that involves a "meshing of missions, a synchronization of strategies and a compatibility of values" (Austin, Reficco, Berger et al., 2004, p. 5). In this type of alliance, the integrated allies interact frequently and engage in joint activities, and core competencies are not merely deployed but operate in concert.

These newer forms of collaboration that go beyond traditional philanthropy may be important for the success of start-up SMEs and cooperatives that do business with the poor, particularly for necessity entrepreneurs who lack the basic skills for developing an efficient business initiative. This limitation, which has been labeled "amateurism" in the context of leaders of civil society organizations (Brown & Kalegaonkar, 2002) may be readily applied to necessity entrepreneurs as well: "Many founders ... have little experience in organizing and managing organizations that grow past the point of informal coordination [and] lack the financial, managerial and organizational skills required by organizations that are scaling up their operations (p. 235)." Alliances may serve to strengthen individual and organizational capacities and help to overcome deficits in the management of business initiatives. Partnerships can also mobilize resources and valuable know-how for organizational development, but these spaces for collaboration usually need to be created and nurtured. To achieve this, an organization within the value chain may take the lead, acting as liaison or bridge among NGOs, businesses, government agencies and other actors who could play a role in fostering the effectiveness and success of private and social initiatives (Brown & Kalegaonkar, 2002).

Method

Data collection procedures

This study used secondary data from field-based case studies that were collected between 2005 and 2007 in the context of international research by the Social Enterprise Knowledge Network (SEKN)[1] to study a variety of socially inclusive business initiatives in Latin America and Spain. The list of case studies included 33 initiatives developed by large multinational and local companies, SMEs, cooperatives and NGOs.

The analysis was limited to twelve cases of business initiatives having alliances with nonprofits (See Appendix for a brief description). Additional information on these initiatives was collected by the authors in 2008 to update and corroborate the figures in the database and to expand the financial information required for analysis. Six of the initiatives were developed by small and medium-sized cooperatives and six by SMEs. Eight Latin American countries were represented in the sample cases: Argentina (1), Colombia (1), Costa Rica (1), Brazil (2), Chile (2), Peru (2), Bolivia (1) and Venezuela (2).

Measures

Each case was reviewed to establish the venture's financial status and the presence of alliances. In some cases, organizations did not provide enough financial information on the grounds that they did not have reliable data to provide. Given the scant financial data available, a decision was made to use a dichotomous indicator of financial success—whether the business reported profits or losses over the past twelve months. The presence of past and current SME and cooperative alliances was retrieved and coded into categories—philanthropic, transactional and integrative—according to the typology proposed by Austin (2000). Additional variables that were obtained included access to loans, donations and subsidies, and organizational leaders' educational background and managerial know-how.

Lastly, we designed an instrument to capture the role that the allied organization played in fostering the value created by the alliance by coordinating the entire value chain process. This resembles the virtual value chain orchestration concept developed by Hinterhuber (2002). Bringing together different supply chain actors and managing organizational networks is particularly important for SMEs and cooperatives that do business with poorer segments, as traditional business models do not perform well in this context (Anderson & Markides, 2007). For worker cooperatives, the presence of a "support organization" or "shelter organization" to provide resources, advice and assistance can accelerate growth and development (Dickstein, 1986). Moreover, the support of allied organizations can buffer the frailty of small ventures that often have a limited capacity to acquire internal capabilities for specialized functions such as strategic planning, marketing, and research and development, all of which can have an impact on the sustainability of the initiative. Unlike conventional firms, small-size business endeavors face difficulties in obtaining basic inputs of capital and managerial talent. The choice of an appropriate ally can be instrumental in securing these capabilities.

Two raters independently coded the cases on each of the variables selected for analysis. On those occasions where discrepancies occurred, the differences were resolved by requesting the opinion of the case authors and, in a few cases, by directly consulting the business leaders themselves. The twelve cases were analyzed to assess the role

[1] SEKN is an international network of leading business schools in Latin America and Spain, the Harvard Business School and Avina Foundation. Its aim is to advance the frontiers of knowledge and practice in social entrepreneurship through collaborative research. For more information, see, www.sekn.org. The authors wish to thank M. Luisa Melero for her diligence and help in compiling the information required for this study, and the two anonymous reviewers for their constructive comments.

that external relationships, particularly alliances, played in the sustainability of the business venture.

Data analysis

The data were analyzed using descriptive and inferential statistics (t tests and Fisher's exact test; Siegel & Castellan, 1988) to compare cooperatives and SMEs for the selected variables. Owing to the small sample sizes analyzed and the limitation this poses for testing hypotheses, the alpha level was set at .10 for null-hypothesis testing. For t-tests we also report the magnitude of the effect sizes by computing omega squared (Olejnik & Algina, 2003). The guidelines used to interpret omega-squared are those espoused by Kirk (1995), where .01, .06 and .14 represent a small, moderate and large degree of association, respectively. The calculation of omega square is relevant since small sample sizes can lead to strong and important effects being non-significant (i.e. a type II error is made). Thus, estimating the magnitude of effect complements statistical testing by providing information on how strongly two or more variables are related or how large the difference between groups is (Abelson, 1995).

Results

Descriptive statistics

The cases included in the sample competed in diverse economic sectors, though a majority operated in manufacturing and production (n = 8) and the rest in service provision (n = 4); their number of employees ranged from 5 to 150; and years in operation from 4 to 25. Table 1 summarizes comparative data for variables selected for SMEs and cooperatives.

As we can see from Table 1, none of the *t*-tests detected statistically significant differences between SMEs and cooperatives, but calculations of omega-squared showed small to moderate effects associated with three variable: years in operation, number of employees and current capital. The calculation of omega-squared indicated a moderate effect associated with years in operation and number of employees. In terms of years in operation, SMEs in the sample were "younger", with a mean of 11.5 years compared to 18 for cooperatives. In terms of number of employees, the mean was substantially higher in SMEs than in cooperatives. The computation of omega-squared indicated a small effect associated with current capital, with SMEs reporting a higher score than that of cooperatives. For the rest of the variables in Table 1, although mean differences between cooperatives and SMEs appeared sizable, within-group variability was considerably larger than between-group variability, and consequently the statistical tests were non-significant.

From a qualitative perspective, in terms of financial information, to note that only three of the six cooperatives in the sample could provide information on start-up capital, compared to all six SMEs, is interesting. Cooperatives and SMEs in this sample also appeared to differ in several other variables of interest, as is shown in Table 2.

Not all initiatives reported earnings beyond the break-even point for the last year of operation: 80 percent of the cooperatives and 67 percent of SMEs reported a profit, but there was no significant difference by type of organization. Additionally, cooperatives and SMEs did not differ in the amount of loans or subsidies received.

SMEs and cooperatives did differ significantly in terms of donations, alliances, ally as value chain orchestrator, and having a leader with a college degree or managerial know-how. All cooperatives reported having received at least one donation, compared to only one third of SMEs.

TABLE 1. Descriptive statistics of sample cases

	Years in operation	Number of employees	Start-up capital (US$000)	Current capital (US$000)	Current annual income (US$000)
Cooperatives					
Mean	18	11	14	147	399
SD	6.0	15.4	22	126	455
Valid *n*	6	6	3	3	6
SMEs					
Mean	11.5	45	244	530	602
SD	9.6	57.4	546	611	586
Valid *n*	6	6	6	5	6
t-test value	1.41	1.39	0.60	1.04	0.67
Omega-sq.	.08	.07	0	.01	0

Source: The authors.

TABLE 2. Percentage of cooperatives and SMEs that responded having...

	Profits	Loans	Donations	Subsidies	Alliances	Ally as value chain orchestrator	Leader with a college degree	Leader who studied business
Cooperatives								
Percentage	80	33	100	33	0.83	67	20	0
Valid *n*	5	6	6	6	6	6	5	5
SMEs								
Percentage	67	50	33	0	0.17	0.00	83	67
Valid *n*	6	6	6	6	6	6	6	6
Fisher's Exact Test *p*-value	1.0	.85	.03*	.23	.04*	.03*	.08*	.06*

Source: The authors.

The professional background of enterprise leaders also differed between the two types. Most leaders of SMEs held a college degree with a major in business administration or a related discipline; in cooperatives, however, only 20 percent of leaders held a college degree and none had business training.

In terms of alliances, SMEs and cooperatives also displayed different patterns. Alliances were more common among cooperatives, with 83 percent reporting at least one compared to only 17 percent of SMEs. The type of alliances reported by cooperatives was predominantly transactional, and in 67 percent of cases the partner institution played a role as a value chain orchestrator.

Discussion

In this exploratory study, consisting of a secondary analysis of a small sample of cases, cooperatives reported significantly more alliances than SMEs. What can explain this difference? One possible explanation may be simply that cooperatives require the support of an external organization to survive, being more vulnerable than SMEs because they are run by leaders with little or no formal training in business administration, who launched their business out of "necessity" rather than to pursue a business opportunity. Even though some cooperatives studied had been operating for several years, their leaders could not provide basic business information because they did not keep track of it. Under such circumstances, support from allied organizations such as other nonprofits or foundations may actually be an adaptive mechanism that aids sustainability. The SME leaders in this sample had considerably more formal education and managerial training. Their operations were predominantly "opportunity" rather than "necessity" driven ventures, and thus were better positioned to achieve success.

The results of this exploratory study show that cross-sector alliances were predominantly transactional, with partners generating value for each other and engaging in relations that go beyond mere philanthropic donations. Although all cooperatives reported receiving donations, these were not the only assets associated with their alliances. In many cases, the ally organization appeared to play a key role in supporting weak points in nascent endeavors. For example, some partners acted as value chain orchestrators, connecting cooperatives with other institutions (public and private), giving them access to management training and support for leaders and staff. Others helped the cooperatives sell their products by serving as client-producer bridges or liaisons. Cross-sector alliances thus appear to have promoted competitiveness by reinforcing and enhancing basic management skills among leaders and staff of these business ventures. Indeed, the alliance emerged as a key element for at least some cooperatives in the sample, playing a crucial role in developing the business model, its strategy and ultimately its sustainability.

It is intriguing, given the benefits of alliances for nascent endeavors, that comparatively fewer cross-sector alliances were reported for SMEs. To better comprehend this, additional information was requested from some business leaders. Two business leaders openly expressed fear of opportunistic behavior as a major hurdle in establishing alliances. "It is better to be alone than in bad company" summed up one interviewee's opinion about establishing alliances. Another observed "partners can either be a big help or a big headache... the hard thing is to tell them apart." Their arguments emphasized the risks entailed in collaborative endeavors. As widely reported in the literature, a high level of trust is a major factor in enabling the establishment of alliances (Mitsuhashi, 2002). In the absence of trust, that alliances can be forged is unlikely. Further studies should be conducted to assess whether the dearth of alliances found in this small sample of business ventures represents the situation in the larger SME population, and whether the presence of alliances is related to characteristics of the leaders of business endeavors or to other variables.

The findings of this exploratory study also indicate that, although cooperatives and SMEs in business with low income sectors in Latin America share some similarities, they appear to differ in some key characteristics, such as the professional background of their leaders and the availability of donations. At least in some cases studied, lack of professional expertise appears to be compensated for by the presence of an ally organization that helps to coordinate the supply or value chains.

Finally, the findings reported here offer a starting point for clarifying the role that alliances play in the success of cooperatives and SMEs that do business with low income sectors, and raise questions for future research. Can these findings be generalized to the larger population of SMEs and cooperatives operating in Latin America? A larger and more diverse sample of SMEs and cooperatives per country would allow the assessment of how specific countries' institutional, legal and economic contexts hinder or favor the forging of alliances.

At this point, the extent to which the findings can be generalized is still an open question, since the cases constitute a convenience sample (i.e. they were not selected via random procedures) and are probably not representative of "typical" SMEs or cooperatives in the region. This is reinforced by the high percentage of SME leaders in the sample who have a college degree and a business background. A related issue that merits further exploration is whether the difference observed in alliance formation is a function of the type of endeavor—cooperative or SME—or if it is instead associated with the degree of amateurism of leaders. Future research should therefore seek to answer the question: Is alliance formation more likely to occur when leaders of SMEs and cooperatives possess less formal training in business management? Are orchestrators key actors in the success of cooperatives? Given the potential of SMEs and cooperatives engaged in business with the low income sector in Latin America to improve the living and social conditions of this group, more research should be encouraged to increase our understanding of alliance formation between businesses and nonprofits, to enhance the success and profitability of these initiatives.

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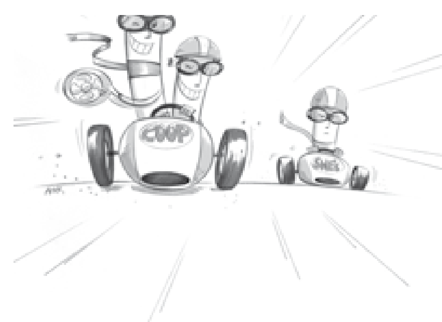

APPENDIX: CASES

Activo Humano (Chile) is a private labor intermediary created in 2005 for the unskilled job market. The initiative is intended to promote employment for non-skilled workers through neighborhood recruitment programs using recruiters who reside in the same area.

Asmare (Brazil) is a 250-member cooperative that collects paper, cardboard and other recyclables. It offers training workshops and other benefits to its members.

Centro Interregional de Artesanos (Peru) is a venture created by artisans to market their crafts in international markets and other business ventures. The group has established a tourism company and a credit coop that serves the needs of artisans.

Comunanza (Venezuela) offers financial services to individuals from low income sectors in Caracas who would otherwise be ineligible for loans in the traditional banking system.

Coopa Roca (Brazil) is a cooperative that produces arts and crafts and designs items for the fashion industry. Its members include 100 women from a poor neighborhood in Rio de Janeiro who generate household income by working from home.

Cooperativa de Recicladores Porvenir (Colombia) is a cooperative that collects, processes and stores solid waste. Then Porvenir sells it under more favorable conditions. It also provides cleaning services to hospitals and businesses with special waste management needs, and collects and stores cardboard, plastic, paper, glass and some metals.

Coordinadora Regional de Recolectoras y Recolectores de la Región del Bío-Bío (Chile) is a business organization created in 2004 to market wild fruit gathered by members of 8 communities. Since its creation, its 70 or so members have branched out from picking raw produce to processing and selling it directly to national agro-businesses and international markets.

Costa Rican Entomological Supply (Costa Rica) is a business venture that opened the first butterfly farm in Latin America to export neo-tropical species. It breeds its own butterflies for export and also markets the goods produced by approximately 100 low-income farmers.

Cruz Salud (Venezuela) is a business venture created in 2004 to offer prepaid medical services to people from low income sectors in Caracas.

El Ceibo Recuperadores Urbanos (Argentina) is a cooperative of informal collectors of solid waste (paper, cardboard, glass and plastic) created in 2001. They work with apartment building janitors and community residents and have built a chain for the collection and handling of waste, which they then sell to recyclers.

Irupana (Bolivia) is a business venture that markets organic crops produced by indigenous farmers to local and international markets.

Llachón Tours (Peru) is a business venture that offers adventure tours to Lake Titicaca. It involve local families as guides and providers of room and board.