

Configuration and Development of Alliance Portfolios: A Comparison of Same-Sector and Cross-Sector Partnerships

Roberto Gutiérrez¹ · Patricia Márquez² · Ezequiel Reficco¹

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Abstract Management of different types of partnerships plays a decisive role in company performance. Complex business ventures, such as those created to serve low-income populations, usually include both cross- and same-sector partnerships. However, the initial diversity featured in these alliance portfolios diminishes as companies take their ventures up to scale. This article develops theoretical propositions about the evolution and configuration patterns of portfolios that include both cross- and same-sector partnerships. Two longitudinal case studies serve to illustrate the theoretical framework developed for alliance portfolios that include both types of partnerships. Companies that create such portfolios adopt partnership strategies that follow paths also identified in the evolution of portfolios only made up of partnerships with other private firms: i.e., an evolution from adapting to shaping and exploiting strategies.

Keywords Alliance portfolios · Partnership strategies · Cross-sector partnerships · Strategic alliances · BoP markets

Introduction

Partnerships are credited with providing access to resources and new prospects that can be explored with limited risk and later be exploited (Eisenhardt and Schoonhoven 1996; Hagedoorn and Osborn 1997).¹ Partnerships can also act as buffers and help firms face environmental uncertainties (Powell 1998; Wernerfelt and Karnani 1987). In sum, a firm can improve competitiveness through a pair or network of relationships with other firms (Dyer and Singh 1998).

Same-sector partnerships (known in the literature as strategic alliances) are “interfirm cooperative arrangements, involving flows and linkages that use resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm” (Parkhe 1993, p. 794). As partnerships between firms become commonplace, research has expanded to study portfolios (Hoffmann 2007; Lavie 2007; Ozcan and Eisenhardt 2009), and to explore their emergence, configuration, and management (Wassmer 2010). Portfolios can be defined as the set of bilateral partnerships maintained by a focal firm (Doz and Hamel 1999). As they came to be seen as sources of competitive advantage, portfolios’ configuration and evolution have become strategic issues (Gulati 1998, 1999; Gulati et al. 2000).

Since the turn of the century, another strand of research focused on partnerships spanning across sectors emerged (Austin et al. 2004; Berger et al. 2004; Seitanidi and Ryan 2007; Seitanidi and Crane 2009; Selsky and Parker 2005, 2010). Two parallel trends propelled the proliferation of

✉ Patricia Márquez
pmarquez@sandiego.edu
Roberto Gutiérrez
robgutie@uniandes.edu.co
Ezequiel Reficco
e.reficco@uniandes.edu.co

¹ Universidad de los Andes, Bogotá, Colombia

² University of San Diego, San Diego, CA, USA

¹ While these authors—and a good portion of the literature—use the term “alliances,” in this article we will use “partnerships” instead. We will only keep the term when referring to “alliance portfolios.”

cross-sector partnerships. On the one hand, many firms found that such partnerships could be useful to fulfill ethical and social responsibility obligations towards society (Austin 2000; Seitanidi and Lindgreen 2010), and could also strengthen firm reputation and social capital (Millar et al. 2004). On the other hand, not-for-profit organizations found that cross-sector partnerships could enable access to valuable knowledge and resources (Austin 2000; Austin et al. 2004). In recent years, as the potential and usefulness of interactions across sectors—public, non-profit, and business—is recognized, partnerships have intensified in a variety of constellations (Seitanidi and Lindgreen 2010).

The newly found interest by large corporations in exploring commercial opportunity at the “base-of-the-pyramid” or “BoP” (Prahalad and Hammond 2002; Prahalad 2005) has only increased interest in cross-sector partnerships (Budinch et al. 2007; Prahalad and Hart 2002; Reficco and Márquez 2012; Weiser et al. 2006). As a result, most firms commercially engaged with low-income sectors rely on a portfolio of both same- and cross-sector partnerships. The proliferation of cross-sector partnerships drew attention to the challenge of managing heterogeneous² portfolios, composed by same-sector and cross-sector partnerships (Austin 2000; Clarke and Fuller 2010; Gutiérrez et al. 2004).

In the literature, no study to date has explored alliance portfolios that combine same- and cross-sector partnerships. These heterogeneous portfolios differ from portfolios exclusively conformed by inter-firm partnerships. Therefore, the focus of this article is to understand the evolution patterns of heterogeneous portfolios, configured to simultaneously achieve business and social goals. To that end, it compares their paths and patterns to those of homogeneous portfolios developed by firms focused on the pursuit of profits (Hoffmann 2007). More specifically, this article specifies the coordination challenges and structural dimensions of heterogeneous portfolios of firms developing BoP ventures.

This article contributes to the literature by looking into the management of heterogeneous portfolios, in the context of business ventures that seek BoP customers previously underserved. We identify configuration patterns and developmental dynamics that depart in significant ways from the prescriptions of the BoP literature (Simanis and Hart 2009), where co-creation and business model intimacy are expected to prevail.

² The adjective “heterogeneous” denotes differences in sector (i.e., for-profit and non-profit) among the organizations that participate in an alliance portfolio. Of course, same-sector partnerships and portfolios do include organizations that differ in important dimensions—size, industry, market positioning, among others. Even recognizing the relevance of those differences, portfolios that only include for-profit partners will be called “homogeneous” in this paper.

Theoretical Framework

The position of a focal firm in a portfolio depends on the number of partnerships, on the strength of the individual inter-organizational relationships (i.e., linkage intensity), and on how spread and redundant these partnerships are. The relational and structural (i.e., dispersion and redundancy) characteristics of an alliance portfolio are considered its configuration (Hoffmann 2007).

Like other authors in this field, we combine theoretical lenses to examine heterogeneous portfolios. Specifically, we focus on structural and relational characteristics of portfolios that determine the quality and quantity of external resources to which a firm has access (Gulati 1998), and use contingency theory (Hoffmann 2007; Miller 1981) to describe processes that maintain the fit between structure and strategy with context and internal resource endowment (Drazin and Van de Ven 1985).

From the perspective of competitive strategy, an alliance portfolio only includes partnerships related to a particular business, as opposed to a corporate strategy perspective that includes all partnerships of a diversified firm. Both of these levels can have corresponding portfolio strategies, but alignment of partnership activities with company strategy is mainly achieved at the business level (Hoffmann 2005). Therefore, we focus on the business level for the delimitation and study of alliance portfolios.

Evolution in Strategies of Alliance Portfolios

Partnership strategies are derived from business strategies, and “determine the goals of all alliances of a business unit (e.g. developing a new technology or entering a new market) and the configuration of the business alliance portfolio” (Hoffmann 2007, p. 830). Based on different strategies used by firms to cope with complex environments (Ansoff 1965; Wernerfelt and Karnani 1987), Hoffmann (2007) identified developmental paths in the homogenous (i.e., same-sector) portfolios established by for-profit firms. These portfolios included partnerships with suppliers, complementors,³ customers and competitors.

In these cases, portfolios evolved from exploring to exploiting strategies depending on the level of strategic uncertainty (i.e., perceptions of the regulative, technological, market, and competitive uncertainties) and the firm’s resource endowment (Hoffmann 2007; March 1991). These two contingency factors determine the choice of partnership strategy.

³ Complementors may be defined as partners whose outputs or functions increase the value of the company’s own innovations. (Munksgaard and Freytag 2011).

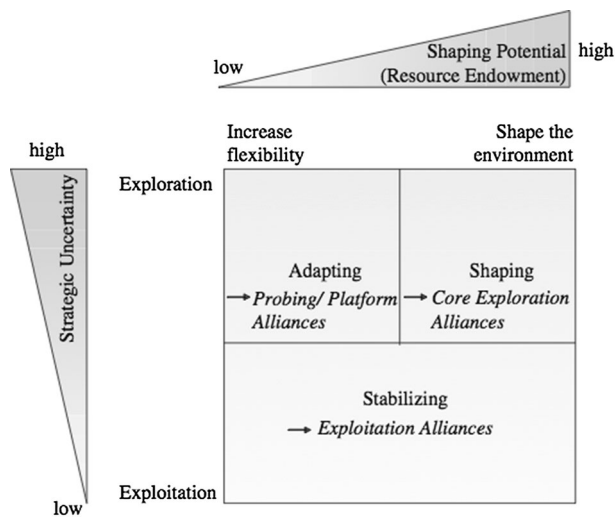


Fig. 1 Types of strategies (source Hoffmann 2007, p. 832)

Portfolio strategies evolve in two dimensions: from low to high resource endowments as adapting strategies become shaping ones and from high to low strategic uncertainties associated with the evolution from exploration to exploitation strategies (see Fig. 1). However, as Hoffmann (2007) points out, changing circumstances may force companies to reevaluate their strategies and reorient them or adopt a hybrid strategy.

In exploration stages, firms reactively adapt to the environment and use probing partnerships to uncover opportunities without costly commitments, but they also actively shape their environment by a focused expansion of their resources through partnerships. As resources increase, firms tend to use partnerships to shape the space in which they compete, accepting that sizable returns come in the distant future (Koza and Lewin 1998). In the exploitation stage, firms will sink resources and deploy capabilities to build and maintain competitive advantages, as they perceive lower strategic uncertainty. Firms with a relatively homogeneous portfolio can revert to an exploration stage if strategic uncertainty increases. The evolution of these portfolios is contingent on uncertainties, available resources, and strategic choices (Hoffmann 2007).

For any firm to start a new business venture, it takes some time to gather the resources and develop the appropriate capabilities for it. If the new business targets the BoP segment, the task is even more complex, as the poor are often geographically disperse (except for urban slums) and culturally heterogeneous, which makes this segment costly to serve. These traits, coupled with acute limitations in the poor’s purchasing power and a lack of trust towards firms, make these markets difficult to tap profitably (Karnani 2007; Simanis 2011). Those determined to succeed at the BoP must garner the resources and capabilities to make

their products acceptable, attractive, affordable, and available to underserved populations (Anderson and Markides 2007).

To that end, partnerships can be very helpful. For example, cross-sector partnerships can provide valuable market intelligence about the BoP segment, which is simply unavailable to those operating in the formal economy (London and Hart 2004). Alliance portfolios in these contexts are heterogeneous in their membership (Reficco and Márquez 2012). Probing partnerships, such as those between firms and community organizations, are conducive to trust building. Earlier research suggests a division of labor in heterogeneous portfolios, where cross-sector partnerships focus on achieving acceptability and awareness, while same-sector partnerships focus on affordability and availability (Schmutzler et al. 2013).

When focal firms seek to leverage complementary resources through their heterogeneous portfolios, they show great interest in strategic flexibility and only limited need for control (Williamson 1991). Once internal activities are reconfigured to effectively serve the BoP segment and the environment is stabilized, the potential of the focal firm to shape the environment increases substantially. As it happens with homogeneous portfolios, focal firms will gravitate towards a more focused way of exploration (i.e., a shaping strategy). On the other hand, in heterogeneous portfolios issues of fit among different types of organizations (private, civil society, or community-based organizations) become paramount for the next steps (Austin et al. 2004). Since strategic, structural, and cultural fit⁴ is associated with partnership success for small and medium-sized enterprises (Hoffmann and Schlosser 2001; Swoboda et al. 2011), one can expect that for-profit firms will tilt their portfolio towards same-sector partnerships, preferring similar partners to shape their environments. This is expressed in the following theoretical proposition:

Proposition 1 *After using both same- and cross-sector partnership to increase their resource endowment flexibly in a context of high strategic uncertainty, companies will use same-sector partnerships to increase the efficiency and control of their focused exploration.*

Since few companies venture to compete in low-income marketplaces, where most interactions go under the radar of regulation, these environments have low competitive and regulatory uncertainties (de Soto 2000; Prahalad and Hammond 2002; Prahalad and Hart 2002). On the other hand, market uncertainties are high under these

⁴ Strategic fit is related to the congruence of strategies and objectives between partners. The organizational design of a partnership that includes control mechanisms, conflict handling and exit barriers, is at the basis of structural fit. And cultural fit refers to the fit between partners’ values, openness, and risk orientation (Swoboda et al. 2011).

circumstances: as Simanis (2011) points out, at the BoP firms mainly compete against *non-consumption*, and their main concern is finding a viable market to tap. If and when these initial hurdles are overcome, and firms figure a way to tap low-income segments profitably, we should expect them to move decisively into the exploitation stage.

As uncertainty decreases, the value of cross-sector partners is likely to decrease, as the company has absorbed the market intelligence it needed and used it to build a viable business model. On the other hand, same-sector partners will be more attuned to the focal firm's needs: scaling up requires increased attention to resource efficiency and control (Bloom and Chatterji 2009). We should expect same-sector partners to take over portions of the focal firm's value system previously entrusted to cross-sector partners. To the extent that the latter remain valuable, they will be confined to cosmetic (i.e., marketing or public relations) roles, as the initiative's "friendly face." In sum, the focal firm's efforts to lower strategic risks are closely associated with the evolution of alliance portfolio strategies, from exploration to exploitation (Hoffmann 2007).

Proposition 2 *As strategic uncertainties decrease in business-related environments, companies focus on exploiting the newly discovered opportunities with same-sector partners, and only develop cross-sector partnerships for marketing purposes.*

Patterns in the Configuration of Alliance Portfolios

As for the patterns adopted in the configuration of portfolios, extant research has concentrated on size (i.e., number of partnerships), and structural dimensions such as breadth or dispersion (i.e., partners from different industries), and redundancy or partnership overlapping (Wassmer 2010). Studies also point to a relational dimension at the individual partnership level of analysis with parameters such as linkage intensity (i.e., strength and participation over time) (Rowley et al. 2000).

In *homogeneous portfolios*, partnership strategy influences the parameters chosen for their configuration. Adapting strategies favor large number of partnerships with high dispersion, low linkage intensity, and low redundancy to increase the breadth of resources and improve strategic flexibility (Brown and Eisenhardt 1997; Rowley et al. 2000). As the need for in-depth access to resources increases, shaping strategies emerge and typically decrease the number of partnerships with less dispersion, but with higher linkage intensity and redundancy compared to portfolios structured by an adapting strategy (Rowley et al. 2000). Within the stabilizing strategies that characterize an exploitation stage, partnerships tend to be limited to small numbers in stable and densely connected industries. The

lowest dispersion with the highest linkage intensity and redundancy is associated with stabilizing strategies (Hoffmann and Schaper-Rinkel 2001).

Both weak and strong linkages play a role in the different strategies of *homogeneous portfolios*. Weak and non-redundant ties provide access to various information sources and resources; focused explorations and exploitation require close and stable relationships that provide quality resources and reliable information. Low stability and commitment predominates in probing partnerships, while high stability and commitment are important for alliances in exploitation stages (Hoffmann 2007).

Heterogeneous portfolios, on the other hand, exist because cross-sector partnerships play a fundamental role in providing focal firms selling to BoP segments with "native capability"—the capacity to become truly embedded in the local landscape (Hart and London 2005). The mere inclusion of cross-sector partnerships in portfolios increases their dispersion, as partners spread over different industries and sectors (London and Hart 2004). Partnerships at the BOP are characterized by their wide dispersion, their redundancies, and the prevalence of embedded, face-to-face relations (Rufin and Rivera-Santos 2008).

While one can expect less redundancy and familiarity to economize alliance resources (Burt 1992), diversity serves as a basis for greater adaptability and allows focal firms to act as brokers who connect different organizations and groups (Burt 2005, 2008). At the same time, the pervasive "institutional voids" that characterize the BoP (Mair and Marti 2009) make arms length relations ineffective, creating strong incentives to develop embedded, high intensity face-to-face relations.

The focal firm's need to connect with different communities, and the high linkage intensity that characterizes cross-sector partnerships, condition the configuration of heterogeneous portfolios to have a high dispersion all along their evolutionary paths. On the other hand, redundancy of partnerships remains low in each of the stages of evolution. A more general statement about heterogeneous portfolios can be derived from the aforementioned theories and empirical studies.

Proposition 3 *Heterogeneous business-related portfolios are characterized by high dispersion, low redundancy, and high linkage intensity.*

Methods and Data

Research Strategy

In order to describe and explain the developmental paths and patterns of heterogeneous portfolios, we derived three

propositions from established theories and empirical studies. We then investigated them through two longitudinal case studies. This multiple case design is well suited for the study of complex inter-organizational processes, and allows us to illustrate and extend existing theories about the evolution in the configuration of alliance portfolios (Eisenhardt 1989; Yin 2003). Since studies of heterogeneous portfolios for business purposes do not exist, our aim was to take advantage of in-depth analyses of their evolution and to explicitly consider their rich context (Lee 1999).

Data Collection

We chose two cases for empirical study that correspond to businesses targeting low-income consumers. These cases have moved beyond a pilot phase, achieving considerable scale in terms of geographical reach and numbers of customers within Colombia. Both companies have been subjects of on-going studies, in the context of a multi-year project; one-off papers not embedded in ongoing research projects are sometimes problematic (Gephart 2004, p. 459). Years of study and observation of these two cases have resulted in a wealth of information and insight. One company created a business line to make and sell tile products to economically underprivileged populations; the other is a utility company that created special programs for low-income families after expanding the natural gas infrastructure to new regions. These two cases were chosen for three reasons: first, both companies decided to create new business models in situations of high market uncertainties; second, partnerships were fundamental in reaching low-income populations and in the changes needed to make the businesses work; and third, both businesses achieved a considerable scale—an uncommon attainment among BoP ventures (Bruni Celli et al. 2010). In the process, they made important changes to the configuration of their alliance portfolios.

Between 2006 and 2012, we studied the emergence and development of both alliance portfolios. We collected abundant qualitative and quantitative data to capture the richness of the evolutionary processes of the partnerships and of the environments where they unfolded. This included figures on sales, credit repayment, venture growth, and other key financial indicators, as well as the perspectives of key informants—both inside the focal company and their key partners. In both cases, we had the advantage of having already done research about the inclusive business model they had created. After reviewing the literature, we expanded previous fieldwork with nine targeted and semi-structured interviews, and all of them were recorded and transcribed. Transcripts were condensed into the variables and constructs identified in our theoretical framework

(Miles and Huberman 1994). Previous analyses of the primary information were also used to identify patterns and themes related to the alliance portfolios that both companies established. We then contrasted these patterns and themes with the theoretical framework we developed for heterogeneous portfolios.

Analytical Techniques

Using the theoretical framework developed and the longitudinal data gathered, we performed within-case and cross-case analyses (Miles and Huberman 1994; Yin 2003). We identified the issues relevant to changes in the partnerships, both cross-sector and same-sector ones, through an exploration of patterns in the data collected (Strauss and Corbin 1998). To describe and analyze the evolution of each portfolio, we used the typology of strategies presented in Fig. 1 (Hoffmann 2007). The findings from these analyses were then contrasted with the three theoretical propositions mentioned above.

We used several procedures to aim for valid and reliable findings. The use of multiple sources of evidence (i.e., interviews, company documents, industry publications, archival data, and direct observation) and data triangulation reinforced construct validity. Additionally, we were familiar with these cases because we had used them to study other topics (as part of a collective multi-year research project), written a teaching case, a book chapter and an academic article about them, and checked cited facts and interpretations with at least three executives in each company. For reliability, we used an elaborate case study protocol and updated case study reports, which were checked by other researchers and served as documentation for our analyses.

Results

Alliance portfolios in both analyzed cases initially developed in 2005. Important events in chronological order (i.e., Table 1 highlights events in the birth and demise of the main cross-sector partnership of the first portfolio described below) and main features of these two portfolios (i.e., Tables 2 and 3 highlight environmental, action—strategy choices and configuration characteristics—and outcome categories) are presented in Tables 1, 2 and 3, respectively.

A Manufacturer of Construction Materials

A Colombian manufacturer of home products, Corona, faced increasing competition from local companies as well as other multinationals, and decided to develop a pilot project directed at low-income homeowners in 2005. This

Table 1 Birth and demise of the main cross-sector partnership in Corona's portfolio

Year	Corona's actions	Joint actions	NPO actions
2003	Corona develops a new line of products with a better performance ratio (i.e., a small decrease in quality with a large decrease in price)		
2004	Corona contacts Ashoka in search of a social entrepreneur to help introduce a new line of products to low-income consumers		
2005	Corona executives visit the low-income neighborhood in Bogotá where the pilot project will take place	Different proposals for the elements of a new distribution channel for Corona are discussed and trials start	Kayrós, the newly created NPO, selects women from the community and trains them to sell tiles. They visit the plant where Corona manufactures the new line of tiles
2006	First sales through the model jointly developed	Co-creation of an operations model for the distribution channel to low-income consumers; other parties are invited (e.g., small hardware stores, universities)	Kayrós selects community organizations within Bogotá to support and supervise "community promoters" (i.e., saleswomen for Corona)
2007	Corona creates a credit line to increase sales and opens a Service Center in the outskirts of Bogotá where the low-income neighborhood is located	The model is tested in Cali, the second largest city in Colombia	Kayrós selects local NPOs in other large cities to expand the project. They select and support promoters, and decide about social investments within the communities where products are sold
2008	Corona decides to transform the program led by Marketing into a channel coordinated by sales	Although the model still needed refinement, the channel opened in five other large Colombian cities	Kayrós supports the establishment of the first community bank in Bogotá and later takes this technology to three other cities
2009	Corona evaluates the local NPO participation in the model and assumes the decisions related to social investments	Five local NPOs still hire and support the sales personnel in each of the cities where the channel is present	
2010	Corona decides to give the selection and support of sales promoters to a private company, thus terminating the partnership with the NPO created by the Ashoka fellow		New talks with other companies that manufacture different construction materials develop as the partnership with Corona comes to an end

Table 2 Characteristics in the evolution of Corona's alliance portfolio

Partnership strategy	Main features of alliance portfolio	Type of partnership	Partnership life
Exploring-adapting: learning partnership to access tacit knowledge	Alliance with Ashoka fellow for acceptance within communities	Cross-sector	2005–2010
Exploring-adapting: alliance to reinvest in community (3 %) and in their organizations (3 %)	Partnerships with community-base organizations to develop an appropriate business model	Cross-sector	2006
Exploring-adapting: alliance for product distribution	Local hardware stores are the final link in the "last mile" until Corona decides to have direct contact with clients	Same-sector	2005–2006
Exploring-shaping: alliance to strengthen ties with communities	NPOs hire saleswomen from the communities, and provide legal and psychological support	Cross-sector	2006–2010
Exploring-shaping: alliance for marketing purposes	Churches offer Corona products in their communities	Cross-sector	2007 to present
Exploring-shaping: alliance for marketing purposes	Construction companies and employee savings funds offer an improved value proposition	Same-sector	2008 to present
Exploring-shaping: alliance to provide credits for low-income populations	Utility companies partner for billing and collecting processes	Same-sector	2009 to present
Exploiting-shaping: alliance for managing sales force	Human resource firm replaces most activities done by NPOs	Same-sector	2010 to present

Table 3 Characteristics in the evolution of Promigas' alliance portfolio

Partnership strategy	Main features of alliance portfolio	Type of partnership	Partnership life
Exploring-adapting: establish alliances to subsidize connection	The Dutch Embassy and World Bank (WB) fund pipeline connection for low-income housing	Cross-sector	2005–2010
Exploring-shaping: search for new partners in different operational aspects	State-owned oil company sponsors technical, economic, and environmental studies, and funds pipeline connection for low-income housing	Cross-sector	2005–2010
Exploring-shaping: increase alliances to subsidize connection	Global partnership on output-based aid (GPOBA) to expand pipeline connection for low-income housing	Cross-sector	2007–2009
Exploring-shaping: increase project legitimacy	Audit company called in for the BPOBA project	Same-sector	2007–2009
Exploring-shaping: alliances to document health benefits	Two universities study the positive health impacts of using gas as an energy source	Cross-sector	2007–2011
Exploiting-stabilizing: marketing alliances to exploit “hidden assets”	Stores carry products that can be bought through a pre-approved line of credit	Same-sector	2007 to present
Exploiting-stabilizing: marketing alliances to exploit “hidden assets”	Sales group increases the use of credit for purchases by low-income consumers	Same-sector	2007 to present
Exploiting-stabilizing: alliances to control overdue payments	Insurance companies support consumer credit program	Same-sector	2007 to present

was an unknown market segment for Corona; it was clear to them that they would require help—in the form of a bridge or a “translator” that could help them to understand the views and needs of the poor. Social entrepreneurs can provide a valuable function as “translators” (Montgomery et al. 2012) between the worlds of private business and grass-root communities, assisting the former as they develop native capability (Hart and London, 2005).

In late 2003, Corona representatives contacted global NPO Ashoka, which provided positive references about the work of one of their fellows, Haidy Duque, a social entrepreneur with longtime experience in low-income neighborhoods and connections with local community leaders. Duque and Corona agreed to work jointly on the development of a pilot, in the form of a hybrid value chain to be tested in the Usme neighborhood, in the outskirts of Bogotá. 6 months later, Duque created Kayrós, a NPO created for the purpose of enabling and formalizing such work with Corona. While initially this NPO existed solely on paper, eventually it became an effective organization. Based on the partnership with Corona, Kayrós went on to sell its “bridging” services to other corporations interested in tackling BoP markets, to create business and social value.

Those 6 months, where the Ashoka Fellow interacted with Corona as an individual, are of theoretical interest. From an orthodox standpoint, that was merely the *prelude* to a cross-sector partnership, which was born with the signing of a MOU between Corona and Kaiyrós. That relationship between Duque and Corona introduced the logic of cross-sector work inside the company, and it was certainly more than an arms-length, short-term transaction.

Very often, particularly in the developing world, some NPOs are little more than a social entrepreneur armed with a legal statute, with no payroll or physical assets to speak of. In the social sector of emerging countries, the difference between an “individual” and an “organization” is tenuous or simply a matter of time: many cross-sector partnerships seek precisely to build an organization around a charismatic social leader through the support of a private partner (Austin et al. 2004). The emergence of a fully fledged NPO can be the output of the cross-sector partnership, which is exactly what happened to Kayrós.

Acknowledging this reality, some empirical studies have come to accept that there can be “cross-sector partnerships” between an individual (social entrepreneur) and a corporation (Austin et al. 2004; Schirmer 2013). Collective action is ingrained in the very concept of social entrepreneurship (Austin et al. 2006); paramount among these forms of collective action are cross-sector collaborations between social entrepreneurs and private or public organizations (Montgomery et al. 2012). Although short-lived, in this case the relation between the Ashoka fellow and Corona proved crucial to assess the potential of the BoP business and launch the pilot.

Most of the literature on partnerships, both same- and cross-sector, defines them as inter-organizational. The Corona case suggests that there might be good reasons to expand the definition of cross-sector partnerships, which takes for granted the connection between two organizations, so as to make room for this “anomaly.” In the developing world, cross-sector dynamics very often crystallize between a social entrepreneur and a public or private organization.

By August 2004, Corona and Kayrós jointly established a procedure to select members of the community as sales personnel. Additional cross-sector partnerships with community organizations were established soon afterwards. In return for administering a locally staffed sales force, community organizations kept 3 % of sales; an additional 3 % was allotted to social investments in the area, with priorities set by local leaders.

Cross-sector partnerships helped the company address their lack of native capability. Corona could have opted to develop that capacity on its own, but it would have been much harder and costly—as per Corona’s managers’ own admission. Partnering allowed Corona to quickly establish effective working relations with the local community, a step without which testing the business model would have been extremely difficult in an environment characterized by informality and distrust of firms. A strong commitment to project success by Corona and its partners proved helpful, since the objective differences among them (e.g., goals and means to achieve them) did not make for an easy fit. Corona’s upper management was determined to support the pilot’s success. They showed “patient innovation” (Márquez et al. 2010) in order to adjust several links of the company’s value chain to the specificities of the BoP segment.

During the first year, Corona’s strategy consisted in *probing* and cross-sector partnerships with community organizations proved to be central. These partnerships facilitated Corona’s learning process and entrance into a new market without sinking substantial resources. Later, as the firm gained knowledge about BoP customers and their environment, Corona decided to *shape* it. The accumulated knowledge made the company confident enough to strengthen its grip over various processes of the extended value chain. As a result, the number of cross-sector partnerships and intensity of the interactions decreased. Community organizations, that had hitherto hired and administered local sales women, were replaced by local NPOs as the project expanded to five other major cities beyond Bogotá (i.e., Cali, Barranquilla, Cartagena, Medellín, and Pereira). The original relation, which (at least formally) was based on consensus building among independent organizations, evolved towards a more vertical, command-and-control style of decision making, where Corona made all relevant decisions and the non-profit partner implemented them.

Wide access to the community was assured through partnerships—with churches, construction companies, and employee savings funds—but none of them had any direct role in the value system that delivered products and services. These partnerships served to stabilize the environment and lowered operating costs as they grouped and organized demand.

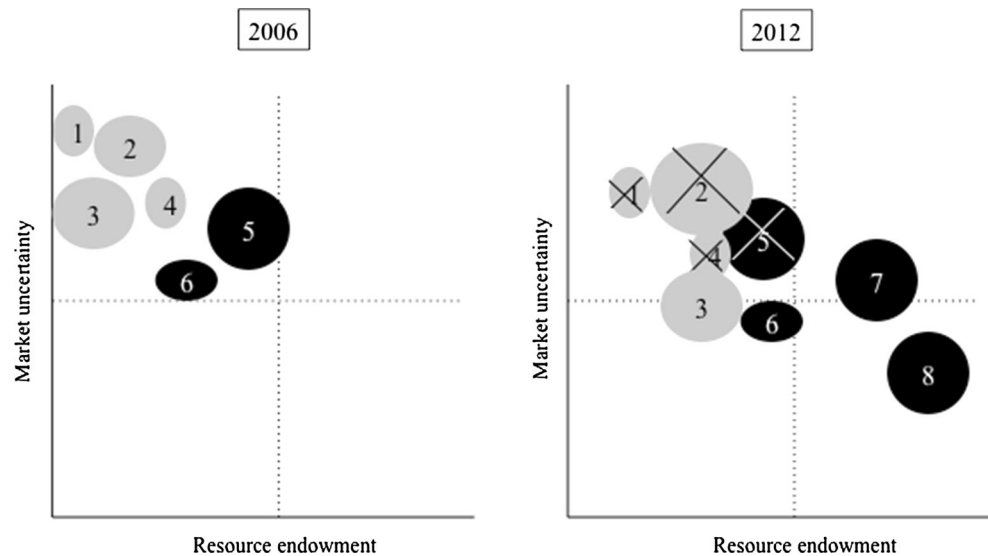
Cross-sector partnerships with community and non-profit organizations enabled awareness and acceptability for Corona’s product lines, as highly credible local leaders sponsored them. This proved of crucial importance in the initial “proof of concept” stage. The difficulty of entering this market pushed for a high dispersion and high linkage intensity in the alliance portfolio. On the other hand, when it came to making its products affordable and available on a wider scale, Corona relied on same-sector partnerships. Initially, Corona partnered with local hardware stores for distribution, but eventually managers found out that the targeted low-income customers were willing to pay for direct distribution to their homes. Corona then internalized the whole distribution process, which further increased the company’s control over the last mile. Providing credit, needed to circumvent the constraints in cash flows of community members, evolved differently. The company offered credit until overdue payments became a problem that threatened to close the project. In search of partners, Corona chose utility companies to hand them over the billing and collection processes in 2009. Since the company wanted to retain partial control of this function, it continued to disburse 20 % of the credit.

During the pilot phase, Corona was able to align goals and strategies with those of its partners, despite different institutional logics and languages. By early 2010, as new management team came into take the project to scale, the initial emphasis on patient design and participatory processes faded. The new team reassessed Corona’s strategy for reaching the BoP. This entailed assessing which partnerships would still make sense as part of their portfolio, as they sought to better exploit the opportunities ahead (*stabilizing* strategy). From Corona’s perspective, its strategic needs and new priorities (i.e., expanding in Bogotá and Colombia’s major cities) were not being served by what NPOs had to offer. By then, Corona’s top priorities were program growth and cost control. In 2010, total sales amounted to 6319,000 dollars when sales had been 1355,000 dollars during 2007.

A human resource firm, specialized in individuals with basic education and some sales experience, replaced all partnerships with NPOs. After hiring 170 sales promoters in 2011, top management gave the directive of tripling this number. Also, Corona took over the coordination of social investments made in the context of its BoP venture with a percentage of sales, which hitherto had been managed by local NPOs. Managers realized that assuming this task would make it clearer to communities who the donor was.

Figure 2 shows the evolution of partnerships in the portfolio along two different points in time. The comparison between both graphics shows two clear trends. The first goes from the upper left quadrant to the upper right. After a successful probing effort, Corona continued to

Fig. 2 Development of the alliance portfolio for Corona's low-income venture. *Civil society organizations*: 1 community-based, 2 local non-profits in other cities, 3 churches, 4 NPO created by Ashoka fellow. *For-profit firms*: 5 small hardware stores, 6 construction companies, 7 human resource services, 8 utility companies



build its resource base with a more focused exploration, as perceived uncertainty declined. The second goes from the upper right quadrant to the lower right. In time, Corona developed a partnering capability that served it well to make products affordable, available, acceptable, and attractive to a growing variety of BoP communities throughout Colombia's main cities. In this new portfolio, same-sector partnerships tended to replace cross-sector ones.

In the exploitation phase that began in 2010 under new management, Corona's same-sector partnerships were formalized through contracts. Routines, procedures, and structures for these partnerships were institutionalized from the outset. This marked a clear contrast with the practices that had prevailed so far: until then, no formal inter-organizational structure had been created to manage partnerships with NPOs or community-based organizations; these remained informal and were highly dependent on the "personal chemistry" (affinity, empathy) of those involved. While this strategy worked well at the beginning with high linkage intensity and face-to-face interactions, which sought to align the company with the institutional logic of NPOs, this lack of formalization became a hindrance as it reached the exploitation phase. In this context, interactions and partnerships that had proven crucial in the initial phase lost strength and were discontinued.

In the early stages of the venture, Corona accepted and promoted organic processes in its cross-sector partnerships, which provided the flexibility needed to explore the environment. Social interactions and partnerships with community organizations contributed to create awareness and acceptability of the product. However, as the context was stabilized and company shifted into exploitation mode, the need for "mechanistic processes" emerged, involving specialized, differentiated tasks, and well-defined responsibilities. Organic processes

are best used when conditions are unstable and difficult to predict, when adaptation and change is required. Mechanistic processes are best used when conditions are predictable, and when improvement, efficiency, or reliability is the goal (Burns and Stalker 1961).

A Gas Utility Company

Promigas, a company that transports and distributes natural gas, had 2.5 million customers throughout Colombia by 2012. Its growth was achieved by expanding pipeline infrastructure through partnerships facilitated by the national government. Since the mid-1980s, Promigas took advantage of public policies aimed at promoting the use of natural gas. Public-private partnerships for extraction and transport of gas were established, and 50-year exclusive concessions for distribution in six regions were granted. Partnering with Promigas, the government-owned oil company financed technical, economic, and environmental studies for an infrastructure expansion program. The company invested 36 million dollars to construct 686 km of lines that connected 145 municipalities into the gas network between 1988 and 2004. Funds for the expansion came from a small increase in charges for gas transport, negotiated by the company with the regulatory office responsible for gas and energy tariffs.

The main barrier to the expansion of the gas network to millions of potential low-income consumers was a connection fee of about US\$ 650. Promigas decided to use its own funds to provide credit for residential lines and sought additional funds from international development organizations to ease payment conditions. The World Bank and the Dutch Embassy became financial partners to expand service into low-income households. At this stage, the dispersion of Promigas' portfolio of partnerships was low.

After a short period of initial exploration of the market to service low-income customers, Promigas adopted a shaping strategy for its partnerships. At that stage, after the successful expansion of the gas network to remote municipalities, managers were confident about their capacity to develop native capability in low-income markets. In total, international funds amounting to 6.5 million dollars were matched with 8.5 million from a fund created by a 3 % surcharge on gas transportation costs and 4.3 million from government funds. These funds reduced the credit needed for a residential connection to US\$ 480. With average monthly payments of ten dollars, loans were paid off in 72 months. Between 2005 and 2010, a total of 246,300 low-income families started receiving service. Promigas obtained two out of three new customers through this credit program during this period.

The relationship with the World Bank opened the doors to its Global Partnerships on Output-Based Aid (GPOBA). An important type of partnership for utility companies, the GPOBA program connected 35,000 low-income customers between 2007 and 2009. Other Promigas' partners were two local universities that documented the health benefits of the program. An independent auditing firm was also brought in. A focused exploration, concentrated in less intense partnerships with specific purposes, characterized the shaping strategy adopted by Promigas during these years.

The success of the credit program for connection charges spurred interest within Promigas to continue offering credit to low-income customers. Based on its previous experience, the firm decided that it would try to continue capturing that 10–14 dollar “share of wallet” that customers had used to pay for their gas connection. The

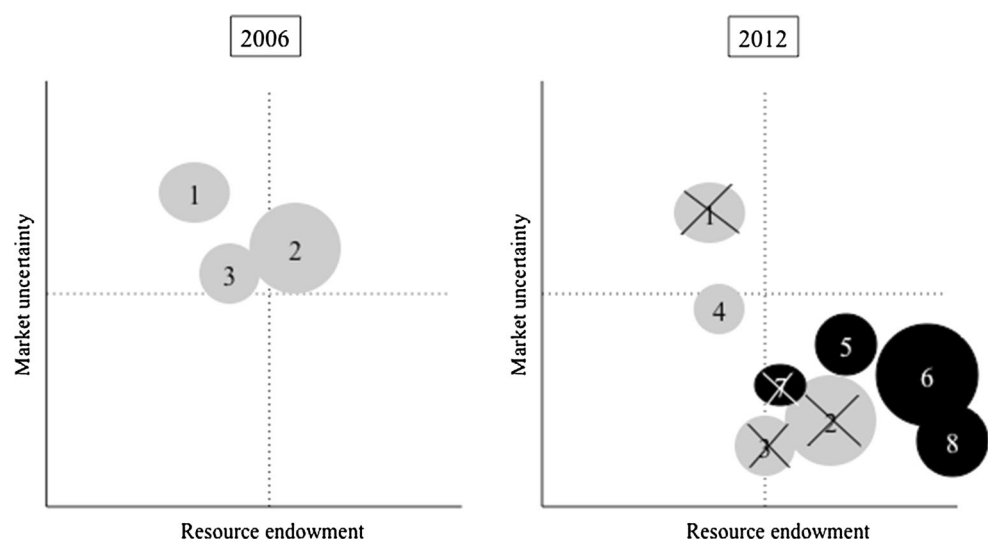
company surveyed 2000 customers and found out that they would be willing to use a new line of credit for home improvement and appliances. In 2007, Promigas launched a pre-approved line of credit for construction materials, gas and electric appliances, and furniture, targeted to customers without late payments.

To exploit capabilities such as the logistics for billing and collection, Promigas established new partnerships (stabilizing strategy). A larger portfolio of partnerships was needed to allow customers to use their loans to purchase products from a variety of stores. Promigas marketed massively among its clientele a catalog filled with products offered by partnering companies. Additionally, a sales organization and an insurance company partnered in the consumer credit program. The dispersion in the portfolio did not increase much with these same-sector partnerships and, certainly, there was small redundancy at a low cost.

Clients of Promigas responded enthusiastically to the program. During 2007, 125,000 credits were approved. 4 years later, this program had reached 470,000 clients; 15 % of them got a second credit and 65 % were low-income citizens with average loans of 500 dollars and only 1.3 % overdue payments. The company benefited in three ways: credit charges, a lower rate of overdue payments for gas bills, and customer satisfaction and loyalty.

Promigas took advantage of every opportunity to expand gas lines to new territories and lower access barriers to its service. Its success led them to add a credit business in a related diversification move. The company increased the efficiency of its logistics infrastructure to provide an appreciated service with high economic returns in a favorable environment. Concretely, market uncertainties had dissolved, competitor uncertainties did not exist,

Fig. 3 Development of the alliance portfolio for Promigas's low-income ventures. *Not for-profit: organizations 1 state-owned oil, 2 World Bank, 3 Netherlands Embassy, 4 Universities. For-profit firms: 5 sales company, 6 stores, 7 audit company, 8 insurance companies*



technological uncertainties were minimum, and regulative uncertainties were small due to the close ties of the company with regulatory agencies. Such small strategic uncertainties are associated with the stabilizing (exploiting) strategy of Promigas. Figure 3 shows the evolution to a stabilizing strategy in their portfolio.

Discussion

Partnership strategies change to align resources and capabilities with business environments. The two cases illustrate these changes throughout the development of their BoP ventures (see Figs. 2 and 3). A comparison offers both similarities and differences. It is possible to see in both figures the movements identified above. In both cases, resource commitments for partnerships increase as part of a focused exploration, and then as the exploration phase gives way to exploitation. In the process, cross-sector partnerships (prevalent in the probing phase) are replaced by same-sector ones.

On the other hand, there is a stark contrast between the environments each company faced. While Corona confronted high market uncertainties, Promigas' previous experience with low-income customers lowered perceived uncertainty; while the former had some competitor uncertainties, the latter enjoyed a regulated monopoly and had good relations with regulatory agencies. Another contrast was their initial stock of resources and capabilities: Corona knew nothing about low-income markets in 2005; Promigas had been getting close to these markets since 1988. One final difference is related to their value proposition since Corona's goal was to develop a market where there was low consumption for tiles and home improvement materials, while Promigas provided a basic service for which demand existed. Due to costly investments in infrastructure, Promigas' portfolio initially included partnerships with national government organizations and regulatory agencies, as well as with multilateral and international cooperation organizations. While Corona's heterogeneous portfolio was purely structured by non-profit and business interactions, in Promigas' case, interactions between government and business were prominent. In the last years, government-business partnerships have become an increasingly important form of cross-sector partnerships (Seitanidi and Lindgreen 2011). This is particularly true in the case of utilities and BoP markets (Márquez and Rufin 2011).

These differences account for the divergent paths in the evolution of their portfolio strategies. While Promigas did use cross-sector partnerships in its probing efforts, none of these involved civil society or community-based organizations. This utility company needed fewer partnerships

than Corona did, in a project many times larger, and none of them was meant to contribute market intelligence or native capability. As opposed to Corona (who ventured into completely unfamiliar terrain), Promigas used its previous experience with regional pipeline expansion to set up a venture that made good use of previously laid infrastructure. While Corona had to envision how to stabilize its environment and create demand for its products, Promigas faced familiar terrain from the outset and adopted an exploiting strategy with its consumer credit program.

As for the propositions we are examining, we first approach the evolution of strategies for heterogeneous portfolios and then analyze their configuration patterns. The first part of Proposition 1 states that companies use same- and cross-sector partnerships to increase their resource base. Corona's case shows how the company acquired commercial competence and native capability through partnerships. Corona moved to a more focused exploration by replacing some cross-sector with same-sector partnerships, and by internalizing some of the functions performed by civil society organizations. The overall number of partnerships in their portfolio did not decrease, because while some were discontinued, others were created. As the second part of Proposition 1 states, the need to increase efficiency and control were the reasons behind the changes in Corona's alliance portfolio. Interestingly enough, Promigas was spared this trimming and consolidation of its portfolio because it already had knowledge and experience in low-income markets. Not only was the initial resource endowment higher, but the initial external uncertainty (both competitive and regulatory) was extremely low. This lowered the need for probing strategies (marked by high dispersion and redundancies, and low linkage intensity), thus making later trimming relatively unnecessary. From the outset, Promigas established just a few cross-sector partnerships that later disappeared when management created a program to exploit their standing in these markets—and same-sector partnerships became prominent.

The cases analyzed suggest that entry into a BoP market does require heterogeneous portfolios, but once the venture is ready to scale, efficiency requirements increase and companies are pressed to trim their alliance portfolios. In a firm, early acceptance of exploratory, organic processes is replaced by a focus on standardized, mechanistic processes functional to growth and resource exploitation. Cross-sector partnerships tend to be phased out, and those that survive fulfill marketing functions, as Proposition 2 states. By comparison, the survival rate of same-sector partnerships is much higher. Our data suggest that same-sector partnerships are better suited for exploitation stages. When Corona found that it had gathered enough experience and knowledge about the new market, cross-sector partnerships were

confined to a marketing role in the value-chain. On the other hand, same-sector partnerships became the pillars of its shaping strategy.

Proposition 3 presented a general statement about the configuration patterns of heterogeneous portfolios: since cross-sector partnerships introduce diversity by their very existence, and because of the low efficacy of arms length transactions at the BoP, we expected high dispersion, few redundancy, and high linkage intensity in these portfolios. The evidence presented in the Corona and Promigas cases does not support a general statement. The evidence from these cases suggests that configuration patterns will differ depending on environmental conditions and strategy in heterogeneous portfolios. Our findings in the variation among configuration patterns are in line with those of homogeneous portfolios (Hoffmann 2007), despite some differences in the direction of the variation that we will point out below.

In the initial stage of both ventures, their heterogeneous portfolios featured high dispersion, high redundancy, and high linkage intensity. High dispersion has been found in both heterogeneous and homogeneous portfolios at this stage. As focal companies moved into shaping their environment, dispersion decreased, as many cross-sector partnerships disappeared and were replaced by same-sector ones with specialized partners. The same evolution was identified in homogeneous portfolios (Hoffmann and Schaper-Rinkel 2001).

The differences appear when redundancy and intensity are considered. In the exploratory stage, we observed high redundancy in heterogeneous portfolios—a departure from what has been reported for homogeneous portfolios. Specifically, in Corona's portfolio redundancy was greater than in Promigas', as it needed to probe unfamiliar terrain. As its strategy evolved, redundancy remained present in Corona's portfolio for control reasons, while it faded for efficiency reasons in the case of the limited number of exploitation partnerships of Promigas.

It is in linkage intensity where we find the largest divergence between homogeneous and heterogeneous portfolios. Their initial levels are different and, as environmental conditions change and strategy evolves, they vary in opposite directions. In the passage from probing to shaping strategies in the heterogeneous portfolios examined, linkage intensity *decreased*, as face-to-face relations were replaced by arms-length, mechanistic processes. This runs contrary to what has been reported in the case of homogeneous portfolios. Arms-length relations with commercial distributors did not feature the rich, two-way information exchanges that were prevalent in the initial cross-sector partnerships. Once the company gathered enough market intelligence, it unilaterally established the model's *modus operandi*, and formalized it in contracts.

As stated before, no general pattern can be formulated for heterogeneous portfolios. As has been found for homogeneous portfolios, configuration patterns vary according to the uncertainties faced and to the strategy adopted by the focal company.

Conclusion

This study advances the relational view of strategic management (Dyer and Singh 1998; Gulati et al. 2000) by illustrating how firms can use partnership strategies to access resources outside their boundaries. It expands knowledge about developmental paths and patterns in the evolution of homogeneous alliance portfolios (Hoffmann 2007). Two longitudinal case studies of heterogeneous portfolios show that the evolution of their strategies follows similar paths to those of strategies for homogeneous portfolios; namely, evolution from adapting to shaping and exploiting strategies according to the levels of strategic uncertainty and the firm's resource endowment. Since no increase in strategic uncertainty happened during the period under study for these two cases, their partnership strategies did not revert from exploitation to exploration stages.

Lack of familiarity with BoP markets calls for diversity in alliance portfolios: cross-sector partnerships are usually established at the exploration stages of a business strategy targeted to the poor, as companies need to develop native capability and gather market intelligence. Heterogeneous portfolios are created as focal firms develop *ad hoc* business models that serve low-income populations. This supports the findings of those who have looked into the value of cross-sector partnerships for BoP ventures (Weiser et al. 2006).

On the other hand, our findings show that—contrary to the prescription of the BoP literature—cross-sector partnerships have a dwindling presence in portfolios, as companies succeed in understanding and exploiting BoP markets. If and when companies have gathered enough experience and knowledge about these markets, they will try to standardize processes and gain control to increase scale, either by internalizing portions of the value system or keeping their portfolios as homogeneous as possible.

As the reviewed cases show, partnership-based co-creation proved useful during the early exploration phase of these BoP ventures, but it tended to disappear and be replaced by market-based exchanges as stabilizing strategies were adopted. The low survival rate of cross-sector collaborations runs counter to the BoP literature, which has a clear prescriptive stance on the need for horizontal partnerships between companies and non-profit/grass roots organizations in all stages of the venture, to assure

“business intimacy” (Simanis and Hart 2009) and the creation of “mutual value” (London et al. 2010; London and Hart 2010; London 2007). Our findings frame and put in context the relevance of establishing “business friendship” (Reficco and Vernis 2010; Uzzi 1997) or “business intimacy” (Simanis and Hart 2008) through embedded, long-term relations with the communities served.

As important as the contributions of cross-sector partnerships were at the initial stages of both cases, they were replaced by other type of partnerships, which seemed to better fit the strategic needs of focal firms. Business growth seems to require the focused concentration of homogeneous portfolios.

Limitations and Other Reasons for Further Research

This empirical study illustrates the developed theoretical propositions, but is not a robust test. A two-case dataset has clear limitations, but our aim was to provide an analytical generalization. The cases do support two of the stated propositions, but generalizations from these findings can only be done with great caution. Therefore, the first opportunity for further research is to study the evolution and patterns of heterogeneous portfolios in a wider sample of firms venturing into the BoP segment.

Another limitation of this empirical study is its focus on large companies. Start-ups rely more on partnerships for their operations than do larger firms (Rothaermel and Deeds 2004). Thus, yet another research opportunity is to compare partnership strategies between companies of different sizes. The social orientation of some small and medium-sized enterprises may lead them to configure heterogeneous portfolios that might evolve in different patterns than those we have reported. NPO could also be seen as focal organizations in alliance partnership portfolios; putting the focus on them would change the reference point for cross-sector and same-sector partnerships. Furthermore, this study was done from the standpoint of the focal firm in an alliance portfolio without consideration of the strategies of its partners. Understanding the effect on decisions and outcomes from the interplay between partnership strategies can be illuminating.

Finally, our study did not connect configuration patterns with performance outcomes of heterogeneous portfolios. The effect of such portfolios on the performance of a company is a key issue for strategic management. Besides measurement issues, future research can explore value creation by these portfolios and value appropriation by very different partner organizations. A value-based approach will be a great contribution to the study of cross-sector partnerships, in general, and to the study of portfolios that include them, in particular.

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