



2004

# Knowledge Flows and Economic Development Through Microenterprise Collaboration in Third- Sector Communities

Raymond M. Jones

*Loyola University Maryland, rjones@loyola.edu*

Roger J. Kashlak

*Loyola University Maryland, rkashlak@loyola.edu*

Audra M. Jones

*Inter-American Foundation, ajones@iaf.gov*

Follow this and additional works at: <http://digitalcommons.sacredheart.edu/neje>

 Part of the [Entrepreneurial and Small Business Operations Commons](#), [Growth and Development Commons](#), and the [International Business Commons](#)

## Recommended Citation

Jones, Raymond M.; Kashlak, Roger J.; and Jones, Audra M. (2004) "Knowledge Flows and Economic Development Through Microenterprise Collaboration in Third-Sector Communities," *New England Journal of Entrepreneurship*: Vol. 7 : No. 1 , Article 7. Available at: <http://digitalcommons.sacredheart.edu/neje/vol7/iss1/7>

This Article is brought to you for free and open access by the Jack Welch College of Business at DigitalCommons@SHU. It has been accepted for inclusion in New England Journal of Entrepreneurship by an authorized editor of DigitalCommons@SHU. For more information, please contact [ferribyp@sacredheart.edu](mailto:ferribyp@sacredheart.edu).

# Knowledge Flows and Economic Development Through Microenterprise Collaboration in Third-Sector Communities

Raymond M. Jones  
 Roger Kashlak  
 Audra M. Jones

*“The U.N. once dealt only with governments. By now we know that peace and prosperity cannot be achieved without partnership involving governments, international organizations, the business community and civil society. In today’s world we depend on each other.” Kofi Annan, UN Secretary (1999).*

As emphasized by Secretary Annan’s quote, the global community is increasingly concerned with economic development and promotion of democracies is focusing on developing programs to stimulate partnerships among three distinct sectors: government sector, civil society and private sector, including locally based and international entrepreneurs. The modern organization is becoming increasingly informed in its strategies and practices by the concepts of learning and knowledge. Modern organization theory utilizes an organization as an idiosyncratic set of knowledge capabilities that are continuously enhanced and modified by unique learning routines. Thus, the prospect for success of host country community-based projects and third-sector communities already involving

the local governments and civil society organizations, including NGOs and development agencies, could be enhanced by tapping into the knowledge management resources of private firms and entrepreneurs.

Following Grosse and Behrman’s (1992) suggestion that a better understanding of the many and diverse interactions between the various governments, local private firms, and international entities be more heavily incorporated into both management and international business research, this article investigates (1) how enterprises create and sustain international development, and (2) the combined role that governments, civil society, and private firms play in this process. Thus, the primary purpose of this research is to establish the linkage among these three critical entities in business and economic development of emerging economies and the associated benefits that may accrue. Incorporating both knowledge management and economic reciprocity, we explore various case examples from Latin America and illustrate the growth of small business ventures there. Paralleling the research on incubators and intrapreneurship, we suggest that the stronger the cooperation, reciprocity, and knowledge flows among

the local governments, private entrepreneurial enterprises and civil society in microenterprise initiatives, the more economic development will increase. Subsequently, economic development will help to sustain other economic initiatives that these countries and communities have begun. Figure 1 presents a model which illustrates the relationships among the various constructs.

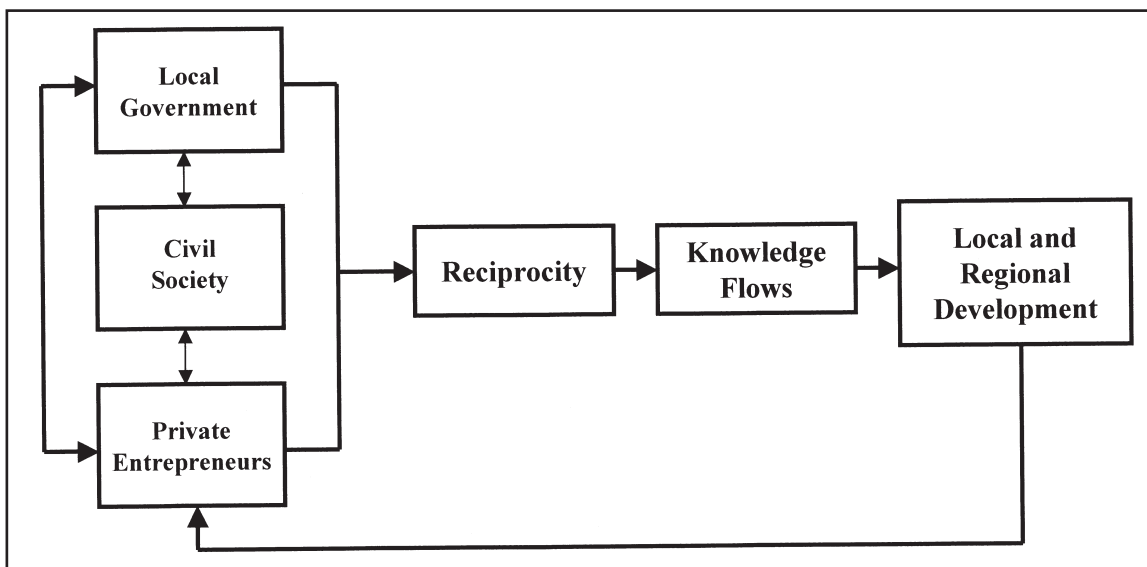


Figure 1. Triad Collaboration and International Development

### **Reciprocity, Knowledge Management, and Third-Sector Communities**

Kogut (1989) identified reciprocity as fundamental to the achievement of long-term cooperation among business partners because of its potential to reward and penalize behavior among the transacting partners. Parkhe (1993) included reciprocity along with forbearance, trust, and opportunism as core requirements of international alliances. In many international alliances, the local government may be the reciprocating partner (Kashlak, Chandran, and DiBenedetto 1998). As illustrated in Figure 1, an increase in reciprocity among the partners will lead to an increase of knowledge and technology transfer. Subsequently, the knowledge flow will lead to an increase in local and regional development in the host country, which stimulates further entrepreneurial interests in collaborative initiatives.

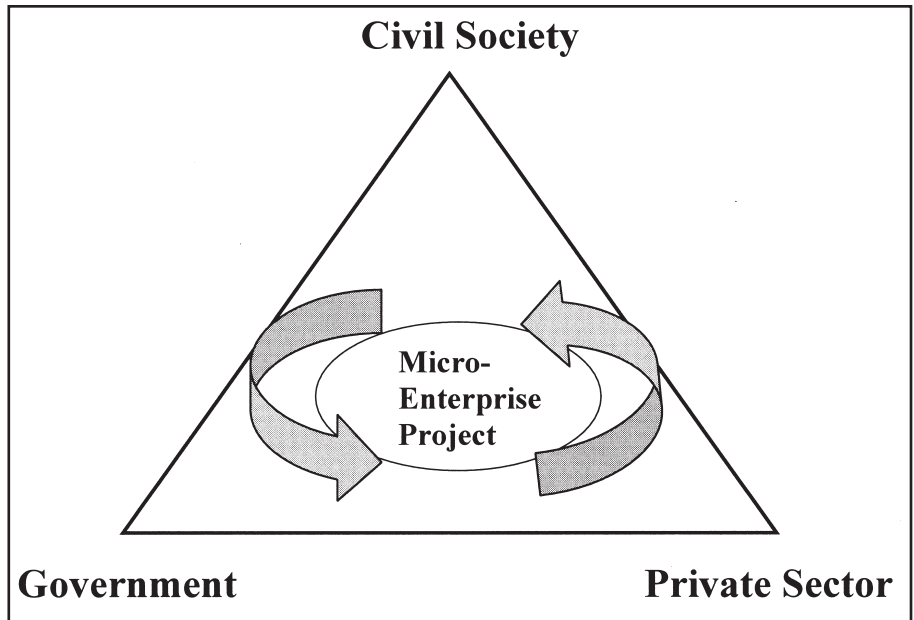
Regarding the government as a partner, national capabilities and government policies play a strong role in establishing a competitive advantage for firms from developing countries. For instance, the importance of networks and interactions among firms, universities, research centers, and government organizations in creating international competitiveness has been continually emphasized (Bartholomew 1997; Freeman 1987, 1994). Within this thinking, government policies that are aimed at the provision of an environment conducive to business (including small-business) growth play a critical part in enhancing the competitive advantage of firms in a particular country (Aoki, Kim, and Okuno-Fujiwara 1997). How conducive the external environment is to growth depends on how well the national systems of innovation for the promotion of knowledge and technology are developed and the extent to which this system allows the various players in the economy to interact and benefit from interfirm cooperation (Porter 1998).

At the foundation of this country-level approach to competitiveness are the various project- and sector-based approaches within the developing countries. It is at these levels where third-sector communities may benefit through knowledge management and the subsequent transfer of specific technologies and skills when developing microenterprise projects. Specifically, both the knowledge management and organizational learning paradigms may be utilized to leverage the success of host country community-based projects at two distinct levels: micro-

level and the macro-level.

At the micro-level, project-based knowledge management suggests that partners succeed collectively, as well as individually, by learning from one another's historical competencies. Subsequently, the partners will learn from the new collective competency that has been and continues to be created in the collaboration. Figure 2 represents the project-based knowledge management framework.

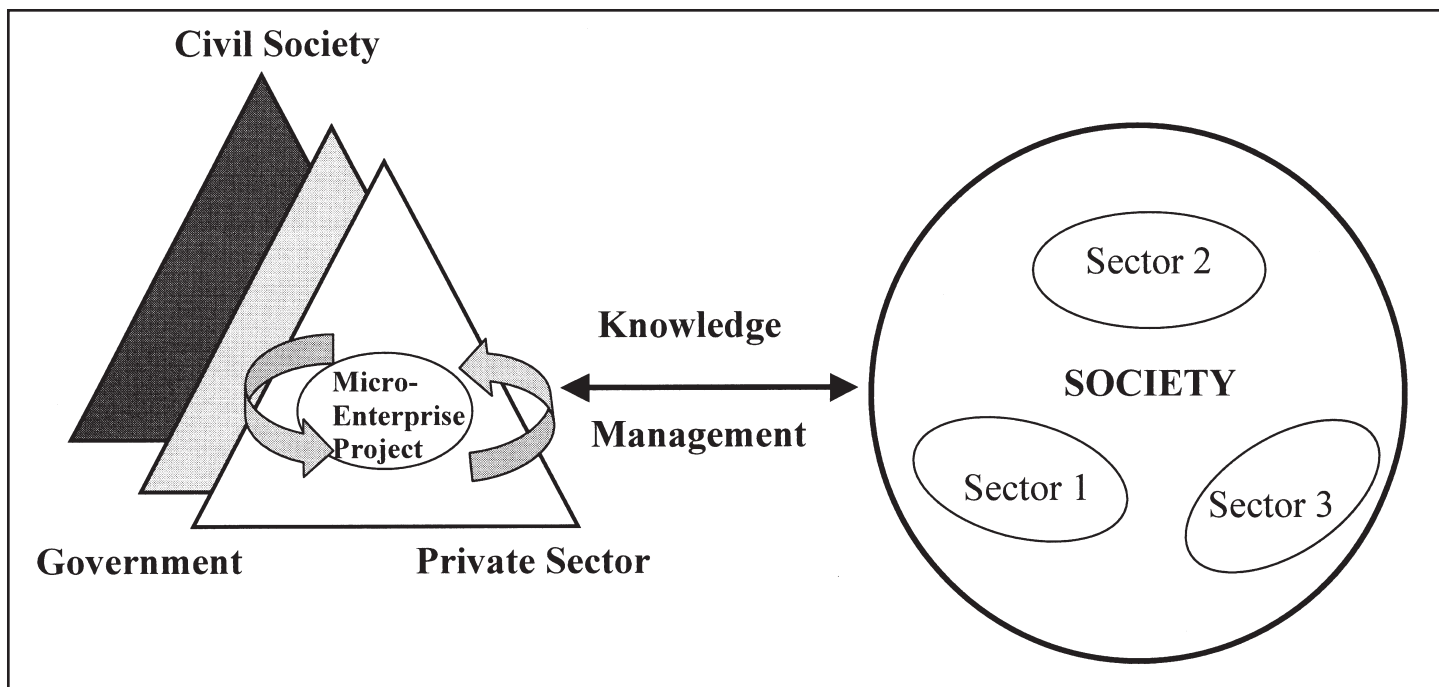
In addition to the learning dynamics of the individual project knowledge transfers among participants, a separate learning may occur when sets of projects are reviewed, analyzed, and appropriately clustered, for example, at the sectoral level. Thus at this macro-level, sector-based knowledge management is evident. At the sector level of knowledge management, the partners' respectively position themselves to succeed in community-based projects by learning from a single project or a cluster of projects in which they may or may not have participated. Figure 3 illustrates this phenomenon.



**Figure 2. Project-Based Knowledge Management Framework**

### **Global Development, Poverty Reduction, and International Entrepreneurs**

The World Bank has advocated a new paradigm for poverty reduction, one visualized as a partnership among the state, business, and civil society, that is, non-profit and non-governmental organizations. Its arguments for business participation have elements of both self-interest and social capital. A self-interested example would be that of a private firm having the pick of the labor crop due to its favorable reputation created by its participation in a local microenterprise initiative. Social capital, for example, in



**Figure 3. Sector-Based Knowledge Management**

the increase in generic organizational skills created in those individuals involved in the community project, may also be enhanced.

Present-day corporate social responsibility owes much to Private Management and Public Policy: The Principle of Public Responsibility (Preston and Post 1975). Although Adam Smith had embedded the concept of self-interest within a framework of social reciprocity (Tribe 1999), it took the revolution of the 1960s—civil rights, environmentalism, consumer advocacy—to actualize a generally accepted corporate response to its social environment (Preston 1990). Preston and Post (1975) pointed out the route to legitimacy for business' responsible involvement in society's affairs (Lad 1996). They utilized the concept of "interpenetrating systems" to highlight the reciprocal "acting and being acted upon" nature between the business subsystem (e.g., firm, trade association) and the other societal subsystems (e.g., regulatory body, consumer watchdog group, world trade organization).

Management's involvement in "multiple simultaneous interactions" with other elements of the global society leads to the use of the stakeholder analysis. The stakeholder approach (Freeman 1984, 1994; Freeman and Evan 1990) enlarged management's vision beyond shareholders to include the interests and claims of others in society who had an interest in the activities of the firm. The multinational firm creates more stakeholders from its international activities than would be found in a purely domestic operation (Johnson 1995). Waddock (1996) advocated that

the treatment of stakeholders, including the communities and the environment, is to be considered part of the fundamental purpose of the firm. Such advocacy naturally raises the questions of stakeholder identity and salience (Mitchell, Agle, and Wood 1997).

These difficult questions are legitimately sidestepped by Kanter's (1999) observations that some firms have moved beyond the concepts involved with the corporate social responsibility paradigm to those of a corporate social innovation model. Firms, such as IBM and Verizon, are seen as utilizing the societal-sector problem as research laboratories for evolving and strengthening their own core competencies. While this approach requires more dedication of both the firm and the stakeholder, there exists greater payoffs for all parties than have been traditionally found in the "feel good" projects. Although Kanter (1999) has a domestic focus, the private firm could also have a global perspective.

The corporate social responsibility focus intellectually fits with the strategic management approach that emphasizes value creation versus value appropriation in a firm's strategic implementation. This is true both internally and externally (Ghoshal, Bartlett, and Morgan 1999). This resource-based concept with its emphasis on knowledge growth, both individually and organizationally, ties nicely to Kanter's laboratory approach to societal-sector problems. Intertwined, this joint theoretical justification to corporate involvement in global poverty-reduction projects appears to be compelling. If so, the resultant benefit would



be an enhanced managerial capability plus an economically enriched local community.

### ***Triad Collaboration and Reciprocity in Latin America***

We suggest that (1) microenterprise initiatives and the resulting economic development in a developing country arising from the collaboration and reciprocity among local governments, civil society, and private firms will benefit the community, extended communities, and the firm; (2) a concern of and proactive involvement in reducing global poverty will benefit the community, extended communities, and the private firm; and, (3) both the triad of collaboration and the global social responsibility buy-in will help to reinforce democracy initiatives in a community, region, or country. The following section illustrates four case examples from Latin America developed by the Inter-American Foundation (IFA) (Jones 2002). All of the examples fit into the three-party collaborative efforts emphasized in this article. All exhibit government support at the local and national levels. All also illustrate a degree of partner reciprocity that Parkhe (1993) suggested as essential to the success of strategic alliances. Subsequently, there is an increase in the proactive involvement of the partners regarding global poverty reduction and the stimulation of economic development and democracy through microenterprise collaboration. Furthermore, as suggested in the model presented in Figure 1, each initiative below has led to further entrepreneurial initiatives in the respective countries.

#### ***Case 1: Minetti (Argentina)***

Juan Minetti, SA was founded in 1930 in the city of Córdoba. Today, Grupo Minetti has Argentina's second-largest production capacity of cement and concrete. The Minetti Foundation was created in 1987 to support microenterprise programs that facilitate the self-help development of individuals and their organizations, and to improve the standard of living of low-income populations. Since then, it has donated cement for community construction projects, provided training and other resources to unemployed workers and community organizations, and promoted corporate social responsibility (CSR) among other Argentine corporations.

The Minetti Foundation is considered a leader in CSR. It is a member of Argentina's prestigious Group of Foundations that includes Bunge and Born Foundation, YPF Foundation, Telefónica Foundation, Bank Boston Foundation, Kellogg Foundation, and ARCOR Foundation. As a result of its partnership with IAF, the Minetti Foundation now plays an even larger role than

funding grants in the community. It is an example for Argentine corporations looking to improve their CSR programs. Between 1997 and 2001, the Minetti Foundation and the IAF contributed \$285,000 each to create the "Building Bridges Fund," which provided grants to 28 microenterprises in the province of Córdoba. While the focus of this fund was primarily informal education, the guiding principle was that of building relationship capital for Grupo Minetti and for the grant recipients. More impressive, however, is that there were nearly 250 participating organizations that mobilized a total of \$884,000 in cash and in-kind resources which was 150 percent more than the actual financing awarded through the Building Bridges grants. As a result of the track record established by Building Bridges, in 2001 the Minetti Foundation leveraged \$120,000 from Spain-based Telefónica Foundation to complement its \$170,000 for a technical assistance fund for community organizations.

In 2002, U.S.-based Hispanics in Philanthropy matched that \$290,000 dollar for dollar. As part of its continuing leadership, the Minetti Foundation also held a workshop for several businesses in the province of Buenos Aires. The majority agreed on the benefits of adopting the Minetti Foundation's philosophy and methodology (i.e., shifting from simple donations to financing projects that strengthen local organizations). Already, five companies have joined forces to support a local educational project and plan to provide monitoring and other follow-up. While the Minetti Foundation was created to "do good" in the community, these are examples of the returns it has produced, especially from creating its first grant-making fund, Building Bridges.

Like Grupo Minetti, the Minetti Foundation takes calculated risks that yield high returns on a small investment. For example, "Building Bridges" provided a grant of 15,000 pesos to La Merced Housing and Service Cooperative in a semi-rural community both impoverished and isolated—physically, economically, socially, and culturally. Both adults and children suffered high rates of illiteracy because the written word was virtually absent: no street signs, no sign indicating the name of the school, and worse, no books. With support from Building Bridges, a group of concerned parents, educators, and social workers initiated a program of educational support for at-risk students that evolved into an ongoing, youth-led project involving 80 children. Youth involved in "The Kids Place" tutor their younger peers and develop other extracurricular activities that help both groups stay in school—and succeed there. A follow-up grant was made to the organization that emerged from the project, Protagonism for Community Activities (PROCOM).

After three years, the progress has been significant. For instance, two 12-year-old librarians hunch over a notebook, writing slowly and carefully as they sign books in and out of a community children's library. The "Kid's" community center is covered with colorful posters listing the group's objectives and achievements, and each cubby and pencil holder is carefully labeled with a handwritten sign. Furthermore, visitors are given a copy of *Little Workers*, the youth's literary magazine filled with their own stories and poems. According to project coordinator Adriana Alanis, "More than just the money, it was the encouragement that we received in our visits from the Minetti Foundation, the training, and the opportunity to learn from other groups, such as how to start our library, step-by-step. The money is important, but the other is just as critical." One of the most dramatic project results is that the community has come together to make it sustainable. Ms. Alanis reports, "There are many urgent needs in this community, even hunger, so we've begun producing food. If we secure outside help, we will be able to respond more quickly. If not, we will still succeed, just more slowly. But the commitment and protagonism are there. That's what's new." La Merced is often showcased as a model for community development—and has received unsolicited donations for its work. According to Ms. Alanis, "One woman who read the book called to say she wanted to help but wanted anonymity. So twice a week we go by and the manager of her apartment building hands us what we need to provide nutritional snacks to the children at The Kid's Place. Others provide scholarships for the students. Support from Building Bridges has also given other grantee organizations the experience and track record that has allowed them to mobilize public and private resources, local and nationally.

### ***Case 2: La Fundación Proyecto Paria (Venezuela)***

La Fundación Proyecto Paria (FPP) is a microenterprise experiment in Venezuela. FPP operates in Sucre, one of Venezuela's poorest states and has a special focus on the "Vuelta Larga-Puipuy" axis. All of FPP's programs in the area are part of a proposal to bring together business and social sectors in strategic alliances. The foundation was started by a group of businesspeople who wanted to spur local economic growth through microenterprises. Today, FPP's mission is "to promote the enhancement of quality of life for the population of the Paria region of Sucre, by formulating and supporting projects and actions which, in harmony with the natural setting and with the active participation of local actors, contribute to the region's development and the sustained realization of the population's economic, social, and cultural rights."

In 1988, a group of local development pioneers conceived of a project that would transform the Paria region by promoting local tourism. The initiative grew to include development of local agriculture as well. It was later refined to reflect the necessary balance between the quest for local economic success and equitable improvements in the living conditions and quality of life for the people in these communities. Ultimately, through a process of continual searching and creative discussion, FPP formulated its growing conviction that, to help promote sustainable development in the region's rural sector, FPP must promote the development of businesses that are identified as having the most potential to increase the incomes of local communities in need.

FPP discovered that cacao, one of the region's ancient crops, could be a multiplier for human and economic growth in the area. Currently, Venezuela controls 17 percent of the market for fine or aromatic cacao. FPP's cacao project falls into this niche. This market access coupled with cacao's association with tradition, respect and hard work, make the crop a natural focus for one of FPP's economic development projects. With this in mind, FPP began to revive and plant land suitable for organic cacao. Under the cacao program, FPP has made significant gains: five associations of small producers were established; 424 producers were trained; 88 loans were granted to small producers; and the community has been reacquainted with an activity all its own, cacao growing. Productivity during the first three years of the program exceeded the goal of 600Kg/hectare, reaching 825Kg/hectare. The goal of restoring 75 hectares of crops was exceeded up to 82 hectares; and approximately 120 additional hectares are being restored. In 2001, FPP opened a cacao manufacturing plant.

Within its cacao project, FPP has continued to tie its productive strategy with a broader local development vision to include considering its impact on education, health, and the local economy. Under an eight-year, cofinancing agreement, the IAF and Petroléos de Venezuela (PDVSA), financed FPP's comprehensive program, taking into account cacao's potential vis-à-vis basic needs in the area. Respecting local cultural and contextual boundaries, the FPP, IAF, and PDVSA realized that the productive, community, and technological resources needed to ensure the project's success would not be easy to apply or easy for the community to accept. So, FPP developed a methodology to disseminate and implement teaching tools that guaranteed, in simple language, the local communities' abilities to profit from their hard work harvesting organic cacao.

In 1992, the IAF and PDVSA formalized an agreement to cofinance projects that reflected sustainable, innovative

development solutions to the complex situations facing some of Venezuela's most disadvantaged populations. The IAF's value-added included its knowledge of working with and commitment to participatory community development. As a result of the agreement, PDVSA established a centralized social investment program which awards grants to community groups with self-help development projects. Currently, IAF and PDVSA remain active in the same community development arena and cooperate as the country's largest donors.

FPP's project was cofinanced by IAF-PDVSA in 1999. The project is an opportunity for the company to foster a stable society, which ultimately helps it move forward with its business activities. Regarding sustainability, FPP has a long history of cooperating with the public and private sectors to promote development in the state of Sucre. For FPP, diversification of its funding sources has been fundamental to ensure the organization's well-being. From the outset, FPP had private-sector funding sources, specifically CORPOMEDINA, the region's major financier of business development projects involving tourism and real estate development. PDVSA continues to support FPP and most recently awarded the foundation a grant toward FPP's program "Promotion of the comprehensive development of the cacao producing communities of Paria."

Similarly, Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) has also contributed to that local development process. With regard to multilateral cooperation agencies, FPP has received contributions from the United Nations Population Activities Fund (UNPAF), the Inter-American Development Bank (IDB), and the Andean Development Corporation (CAF). This project has given the local community an opportunity to learn, demonstrate, expand, and turn its abilities into a tool for sustainable development. This project result ensures that community and the companies doing business in the area are satisfied that more public-private sector alliances in the region are strengthened, and that the communities' own values are reinforced.

### ***Case 3: Viva Rio (Brazil)***

Viva Rio's mission is to promote a culture of peace and justice in Rio de Janeiro. To that end, the organization works in the areas of human rights, education, sports, environment, and community development. Viva Rio works with close to 400 low-income communities in 34 municipalities in the state of Rio de Janeiro. It also has an innovative series of microenterprise programs related to Internet, technology, microcredit, and fair trade that are proving extremely successful in linking low-income communities to new markets.

Through its partnership with Globo Organizations (O Globo), Viva Rio has worked to bring Internet access to low-income communities through the installation of "Future Stations" in favelas throughout the city. O Globo is a media conglomerate that includes broadcast, cable, and satellite TV networks, newspapers, a publishing company, a radio network, and an Internet portal. In 2002, the network boasted revenues in excess of US\$2.5 billion. The company ranks among the top ten media companies in the world. The partnership between Viva Rio and O Globo demonstrates that successful partnerships have both institutional and individual commitments. The relationship between Viva Rio and Globo is solid and consistent. The company, corporate foundation (Fundação Roberto Marinho), and the founder and president, Roberto Marinho are committed to the programs undertaken with Viva Rio. Specifically, O Globo has supported the development and maintenance of the website through its Internet company, Globo.com. In addition, O Globo contributed more than \$1 million to the creation and maintenance of the vivafavela.com website, and is contributing resources to the development of the virtual store.

Both Roberto Marinho and Margarida Ramos, director of Social Responsibility for Globo Organizations, are on Viva Rio's board of directors. Likewise, the director of Viva Rio, Rubem Fernandes, is on the board of the Roberto Marinho Foundation. There is a consistent level of communication and commitment between partners that greatly facilitates collaboration on projects.

In addition to providing low-income communities with Internet access, Viva Rio facilitates the exchange of information between the favelas and the "Internet community." Specifically the two partners are developing the first websites to post articles written by and for low-income communities. Viva Rio also provides a variety of credit and financial literacy programs to micro-entrepreneurs and low-income community members. VivaCred, Viva Rio's flagship credit program has provided more than US\$5 million in low-interest loans. The VIVASEGURO program informs community members about insurance and savings as well as providing life and health insurance services.

Coupled with its efforts in technology and microenterprise development, Viva Rio established a fair trade initiative. The initiative links products made by low-income communities into national and international markets. Business clients include Lojas Americanas, Hermes, and the World Council of Churches. One of the most visible relationships the initiative brokered in 1992 was with women microentrepreneurs. On behalf of these women, Viva Rio negotiated a major contract for the manufacture of T-shirts for the world's largest outdoor concert, Rock in



Rio, which was sponsored by O Globo.

In an effort to expand of the success of the Rio Rock Concert deal, the IAF made a grant to Viva Rio to further develop the potential for women-led sewing cooperatives. While Rio Rock was an enormous first step, women clothing manufacturers continue to face obstacles in managing their production in synch with seasonal demands for their products. Viva Rio is now helping the marketing efforts of six women-led sewing cooperatives through a dynamic partnership including the private and public sectors that will develop a virtual store. The store will sell products made in the favela communities. By opening these entrepreneurs to the global markets rather than restricting them to local ones, members of the sewing cooperatives as well as the larger favela community will have a more stable source of income. The store will also create the opportunity for these entrepreneurs to create a network by which to bid for larger contracts. The site will use the "Viva Rio Fair Trade Brasil" brand name for community-made products.

Viva Rio realized that the sewing cooperatives would also need technical assistance in order to grow with increased demand for their products. As such, the grant will allow these sewing cooperatives to purchase equipment and receive specific training. Ten industrial sewing machines will be purchased to improve the quality of production. Courses in marketing and business development will be given by Viva Rio. Based on initial efforts under the grant, several retail shops have been opened in local malls, airport kiosks, and booths in outdoor fairs to sell cooperative clothing and T-shirts.

Viva Rio is also tying in its Future Stations program by constructing three new stations in low-income communities. These stations will act as business centers providing a variety of computer and business management classes. Additionally the stations will provide access to Viva Rio's credit, insurance, and commercialization services. Finally, the IAF grant introduces a unique evaluation system that is client driven and based on feedback. Focus groups will be conducted in which participants will provide their thoughts on whether the services they are receiving are relevant and beneficial so that Viva Rio can then better tailor services to meet community member needs. This type of marketing methodology applied to community development work is revolutionary and illustrates the type of crossover benefits that can occur in multisector partnerships.

Both partners have benefited from their history of collaboration. Viva Rio has increased visibility for its social campaigns as O Globo brings well-known personalities to Viva Rio events. For O Globo, Viva Rio is a reference point in community development work, and the partnership is a

natural fit since the organizations share a common objective of promoting a culture of peace and bettering the lives of members of disadvantaged communities. It is also an efficient CSR program in that it is closely related to O Globo's core business of communications. As a result of the virtual store project, both Viva Rio and O Globo see new opportunities for more mutually beneficial collaboration. A program to allow community radio stations to formally spend time at O Globo radio stations will provide exposure to professional broadcasting for favela community members and improve local broadcast in the favelas; additionally the exchange will introduce new broadcast material for O Globo listeners.

#### *Case 4: BanhCafe (Honduras)*

Although traditionally one of Honduras' largest exports, the coffee sector has been devastated in recent years by the continuing fall of prices as well as the aftereffects of Hurricane Mitch. In 2001, coffee prices reached an eight-year low, with prices falling below US\$ .50/lb. The sector that generated more than US\$350 million of revenue in 1995 brought in only US\$89 million in 2001. This has had a tremendously negative effect on the overall economy, and is felt most strongly by the country's small coffee farmers. One financial institution, BanhCafe, is working to revive the industry by increasing the well-being of its smallest suppliers.

The eighth largest private bank in Honduras, BanhCafe is a coffee bank that was created in 1981, partially as a result of the coffee boom on the late 1970s and early 80s. Shareholders of the bank included coffee producers and exporters. Sixty percent of the bank's capital came from producers, which has helped to define BanhCafe as a financial institution with a democratic capital base. In Honduras, 70 percent of the coffee sector is composed of small farmers who produce less than 10,000 pounds of coffee each. Of these, 40 percent produce less than 2,000 pounds each per year. BanhCafe was designed to fulfill the specific needs of producers and exporters in the coffee industry. It is the only bank in the country that provides industry-specific services including branch offices in the remote, hard-to-reach communities where coffee is grown; direct access to financial services; and the punctual credit needed by producers and exporters.

By the mid-1980s it was evident that the bank's services were not reaching the smallest and poorest of the farmers, who, although not profitable customers from the bank's perspective, constitute the majority of Honduras' coffee industry. The bank considered reaching these farmers through not-for-profit projects but could not undertake social programs due to financial industry regulations as



well as institutional capacity. In response, BanhCafe created a foundation, the Fundación Banhcafe, with a mission “to contribute to bettering the conditions in which men and women with low income levels in coffee farming communities live, facilitating a process of development that is sustainable, ecological, and equitable with a participatory and cooperative focus.” Though its mission statement is unchanged, the foundation’s programmatic emphasis has shifted. It is no longer interested solely in ways to make the coffee industry work better for poor farmers but has placed greater emphasis on social progress.

One reason for the effectiveness of the foundation and its appeal to the IAF as a development partner is its ties to the coffee bank. This relationship has strengthened the work of both the foundation and the bank in several ways. Strategically, for the bank’s shareholders the concept of creating value is important. Part of that value is the ability to reach all members of the coffee industry who may be future customers. The foundation is a vehicle to reach a broader portion of the target market, regardless of income. Another component is the reputation and image of the bank. Honduras has 22 banks, some of which have failed in recent years. That Banhcafe was able to avoid this financial instability has earned it the trust of the general public. Fundación Banhcafe is strongly associated with Banhcafe, which provides funding and has a stake in ensuring that projects are carried out. With this credibility and commitment, an alliance with the bank can lead to strategic partnerships with other institutions, both national and international. Fundación Banhcafe has undertaken joint projects with the European Union Bank Fund and the Honduran government. Finally, the bank has already developed physical and human infrastructure in coffee communities of which the foundation can take advantage while the foundation’s microenterprise programs benefit from staff who formerly worked for the bank.

Ideally, the IAF seeks cross-sector partnerships that tap expertise in three broad areas: community development methodology, organizational capacity to carry out projects in low-income locales, and strategic planning capabilities. The former two are traits integral to the operations of civil society organizations while the latter is more characteristic of business organizations. Because of its institutional ties, history, and mission, Fundación Banhcafe is a hybrid of all three areas. The merit of partnering with this type of organization is evidenced by the partnership’s response to the Hurricane Mitch crisis. After Mitch, the IAF-Fundación Banhcafe alliance allowed for rapid and responsive funding to communities most in need as the foundation was prepared operationally and strategically to receive and implement an emergency program. Just as

importantly, in the long run it allowed for the continued development of sustainable programs, which attests to the versatility of the partnership.

Though Fundación Banhcafe manages a variety of programs across many thematic areas, the IAF participation is focused on providing funding for the microcredit and educational credit programs. Access to credit continues to be a challenge for small farmers in the agricultural sector and coffee farmers are no exception. Indeed, given the current coffee crisis, the need for credit is greater than ever. Groups of 12 people, each representing one family, are formed to receive micro-loan disbursements. The group comes together to elect officers and to receive training; however, each individual is responsible for his or her own loans and the performance of each individual also affects the credit worthiness of the group as a whole. Part of the way in which the micro-lending program adds value for the community is a savings component whereby whole families open savings accounts with Banhcafe. The savings component of the program has a 10 percent savings requirement with accounts for each person opened at the local Banhcafe offices. There are no restrictions on how the money is used. Some members choose to continue their traditional farming activities that are more sustainable with regular access to credit, while others try new income-generating endeavors such as small shops. Besides developing customers for the bank, the program teaches financial literacy and practical personal financial management of debt.

Another challenge faced by poor Hondurans is access to education. Most of the coffee community families do not have the financial resources to allow their children to participate in higher education, whether it is vocational, technical training, or college/university studies. In response, Fundación Banhcafe developed a student loan program available to the young people of coffee-producing communities. The Educational Credit Program loans money to students pursuing studies in two areas—vocational training and university studies. Courses of study in technical areas include automotive mechanics, sewing and textiles, carpentry, and nursing. At the university level, students pursue degrees in tourism, international business, systems engineering, and pharmacy. One of the secondary benefits of this program is that it is encouraging economic diversification among the younger generation of communities dependent upon coffee.

### ***Conclusions and Future Research Initiatives***

As illustrated in each of the case studies, strategic cooperation and collaboration among local governments, private sector firms, and civil society organizations has led to

increased development initiatives. Furthermore, when the private sector takes an interest in microenterprise development and subsequently global poverty reduction, a potentially powerful positive economic effect will accrue to the community as well to the private firm. It is proposed that the strategic collaboration and subsequent development effects will lead to an increase in economic initiatives. Thus, future research endeavors may look to further operationalize the linkages suggested in Figure 1 and develop empirical support for the more formal propositions that will evolve from this research. Linking

literature from studies on incubators and intrapreneurship will also provide a particularly viable research approach in the future. A future research agenda may also include comparative analyses across regions and cultures of microenterprise collaboration among local governments, private firms, and civil society organizations. Finally, the concepts of reciprocity and trust among the partners of these microenterprises may be further explored over a longer time period to study the linkages of these concepts and the economic development of third-sector communities.

## References

- Aoki, M., H-K. Kim, and M. Okuno-Fujiwara. 1997. *The role of government in East Asian economic development: Comparative institutional analysis*, Clarendon Press, Oxford.
- Bartholomew, S. 1997. National systems of biotechnology innovation: Complex interdependence in the global system. *Journal of International Business Studies* 28(2): 241–266.
- Freeman, R. 1984. *Strategic management: A stakeholder approach*. Boston: Pittman.
- Freeman, C. 1987. *Technology policy and economic performance: Lessons from Japan*. London: Frances Pinter.
- Freeman, C. 1994. *The economics of technical change: A critical survey*. Cambridge Journal of Economics 18: 463–514.
- Freeman, R. 1994. The politics of stakeholder theory: Some future directions. *Business Ethics Quarterly* 4: 409–421.
- Freeman, R. and Evan, W. 1990. Corporate governance: A stakeholder interpretation. *Journal of Behavioral Economics* 19: 337–359.
- Ghoshal, S., C. Bartlett, and P. Moran. 1999. A new manifesto for management. *Sloan Management Review* 40(3): 9–20.
- Grosse, R. and Behrman, J. 1992. Theory in international business. *Transnational Corporations*, February: 93–126.
- Johnson, J. 1995. Public affairs and internationalization: How multinational firms implement strategies to manage their stakeholder environment. *1995 International Association for Business and Society Annual Proceedings*: 247–254.
- Jones, A. 2002. *Making sense of corporate social responsibility*. Inter-American Foundation ([http://www.iaf.gov/grants/-downloads/csr\\_eng.pdf](http://www.iaf.gov/grants/-downloads/csr_eng.pdf)), September.
- Kanter, R. 1999. From spare change to real change: The social sector as beta site for business innovation. *Harvard Business Review* 77(3): 122–132.
- Kashlak, R., R. Chandran, and A. DiBenedetto. 1998. Reciprocity in international business: A study of telecommunications alliances and contracts. *Journal of International Business Studies* 29(2): 281–304.
- Kogut, B. 1989. The stability of joint ventures: Reciprocity and competitive rivalry. *Journal of Industrial Economics*, December: 183–197.
- Lad, L. 1996. The context. *Business and Society* 35(4): 439–443.
- Mitchell, R., B. Agle, and D. Wood. 1997. Toward a theory of stakeholder identification and salience. *Academy of Management Review* 22(4): 853–886.
- Parkhe, A. 1993. Messy research, methodological predispositions and theory development in international joint ventures. *Academy of Management Review*, April: 227–268.
- Porter, M. 1998. Clusters and the new economics of competition. *Harvard Business Review*. November–December: 77–90.
- Preston, L. 1990. Corporation-society research: Retrospect and prospect. In L. Preston (ed.) *Corporation and Society Research: Studies in Theory and Management*. Greenwich, CT: JAI Press, 1–25.
- Preston, L. and J. Post. 1975. *Private management and public policy: The principle of public responsibility* Englewood Cliffs, NJ: Prentice Hall

Tribe, K. 1999. Adam Smith: Critical theorist? *Journal of Economic Literature* 37(2): 609–632.

Waddock, S. 1996. Strategy, structure and social performance: Implications of the W-form enterprise. *Business and the Contemporary World* 8 (1): 43–51.



### About the Authors

**RAYMOND M. JONES** (rjones@loyola.edu) is chair and associate professor of management and international business at Loyola's Sellinger School of Business and Management. He received his Ph.D. in strategy from the University of Maryland and his current research interests include global organizational strategies, corporate social strategies, and international business pedagogy.



**ROGER J. KASHLAK** (rkashlak@loyola.edu) is professor of international business and management at Loyola's Sellinger School of Business and Management. He received his Ph.D. in international business at Temple University and his current research interests include international reciprocity, cross-national alliances, corporate governance, and international entrepreneurship.



**AUDRA M. JONES** (ajones@iaf.gov) is a representative with the Inter-American Foundation and an adjunct professor of international business at Loyola College's Sellinger School of Business and Management. Her recent research initiatives have included microenterprise development and international social responsibility. The case studies presented in this article were prepared under her supervision and direction for IAF.