

Bridging the Institutional Divide: Partnerships in Subsistence Markets *

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ABSTRACT

The paper analyzes the impact of institutions on the structure of partnerships in subsistence markets (SMs). Grounded in institutional theory and transaction cost economics, the reasoning suggests that partnerships will adapt to the co-existence of SM-specific and external institutions in SMs. SM partnerships will include multiple partners from multiple sectors, each compensating for different institutional gaps in SMs. They will replace governance mechanisms discussed in the literature, such as formal contracts and equity, with substitutes better suited to SM contexts, including informal contracts, in-kind contributions, and gifts. The importance of these mechanisms will depend on the institutional distance between SM-specific and external institutions. Finally, different governance mechanisms will co-exist within the same partnership, as partners originating in the SM will rely on SM-specific institutions, while partners originating outside the SM will prefer to rely on external institutions where possible.

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Bridging the Institutional Divide: Partnerships in Subsistence Markets

As an important strand of the literature that explores the potential for business to alleviate poverty, the subsistence markets (SMs) literature has grown rapidly over the past few years. Among its main findings, SM scholarship has emphasized the importance of cross-sector partnerships, defined as partnerships between firms, non-profits and/or public actors, for businesses seeking to establish a presence and have a positive impact in subsistence markets (e.g., Crawford-Mathis, Darr, and Farmer, 2010; Dahan, Doh, Oetzel, and Yaziji, 2010; Johnson, 2007; London, Rondinelli, and O'Neill, 2006; Seelos and Mair, 2007; Simanis and Hart, 2008). In parallel, many SM scholars have highlighted the uniqueness of the institutional environment in SMs, typically emphasizing the importance of normative and cognitive, rather than regulative, institutions in these markets (e.g., De Soto, 2000; Rivera-Santos and Rufin, 2010; Webb, Kistruck, Ireland, and Ketchen, 2010), amid calls for greater scholarly attention to the role of institutions in emerging economies (Teegen, Doh, and Vachani, 2004).

Despite the recognized uniqueness of institutions in SMs, and the established link between interorganizational relationships and their institutional environment (e.g., Williamson, 1985), no study to date has systematically explored the potential impact of SM institutions on the structure of SM partnerships. This analysis seems particularly important, as mismatches between the local environment and the structure of SM ventures seem to represent a major challenge for practitioners and may actually lead companies to abandon SM partnerships (Karamchandani, Kubzansky, and Lalwani, 2011).

The purpose of this paper is to start filling this gap by answering the following research question: *How do SM-specific and external institutions impact partnership structures in*

subsistence markets? Grounded in institutional theory and transaction cost economics (TCE), the paper develops propositions regarding the impact of the co-existence of different sets of institutions on the structure of partnerships in SMs. While the paper's approach is conceptual, examples from the literature serve to illustrate the paper's propositions. The analysis suggests that, in response to the co-existence of potentially conflicting institutions in SMs, partnerships will typically include multiple partners from multiple sectors, to compensate for institutional gaps and substitute for missing market actors. To mitigate opportunism risks, they will replace the governance mechanisms typically discussed in the literature, particularly equity and contracts, with substitutes that are better suited to SM-specific institutions, including in-kind contributions, gifts, and informal contracts. The importance of these substitutes will depend on the institutional distance between the institutions prevailing in a given SM and the institutions prevailing outside the SM. Finally, different governance mechanisms will co-exist within the same partnership, as partners originating in the SM will rely on SM-specific institutions, while partners originating outside the SM will prefer to rely on external institutions where possible.

The paper makes three main contributions. First, the study contributes to the Subsistence Market and Base-of-the-Pyramid (BoP) literatures, by developing a framework of SM partnership structures that recognizes both the uniqueness of SM-specific institutions and their relationship to external institutions. Second, the paper contributes to the broader partnership and alliance literatures, by exploring the role of normative and cognitive institutions in settings where regulative institutions are weak, and by analyzing the implications of the co-existence of several institutional environments for interorganizational relations. Third, the framework can help practitioners overcome the mismatch between local environments and governance choices, which often hinders the effectiveness of SM partnerships (Karamchandani et al., 2011).

The next section analyzes SM institutions, highlighting the prevalence of normative and cognitive institutions and the typical co-existence of SM-specific and external institutions in SMs. Building on these insights and on findings from the SM partnership literature, a subsequent section develops propositions and proposes a framework analyzing the impact of SM institutions on the structure of partnerships, including the partners and their activities, and the governance mechanisms set up in SM partnerships. The paper concludes with a discussion of the implications of the analysis for future research.

INSTITUTIONS IN SUBSISTENCE MARKETS

Both the alliance and the broader management literatures have emphasized the impact of institutions on alliance and partnership structures (Williamson, 1985). Understanding the uniqueness of the institutional environment in subsistence markets, defined as markets in which consumers barely have sufficient resources for day-to-day living (Viswanathan, Sridharan, and Ritchie, 2010), is therefore a necessary step before exploring the structure of SM partnerships. Table 1 summarizes the main differences between SM and non-SM institutions, highlighting the uniqueness and the complexity of SM contexts.

Insert Table 1 about here

Institutional theorists distinguish between three main (sub)types or “pillars” of institutions (Scott, 2001): regulative, which comprise “rule-setting, monitoring, and sanctioning activities” (p.52); normative, which “introduce a prescriptive, evaluative, and obligatory dimension” (p.54); and cognitive, defined as the “shared conceptions that constitute the nature of social reality and the frames through which meaning is made” (p.57). Regulative institutions

largely correspond to what other scholars have called formal institutions, while normative and cognitive institutions are closely associated with informal institutions (De Soto, 2000; North, 1990). Normative and cognitive institutions prevail in subsistence markets (De Soto, 2000; Rivera-Santos and Rufin, 2010), while regulative institutions play a much smaller (or negligible) role, which typically grows as part of the process of economic and political development from subsistence markets to more developed markets (Cheater, 2003; Mair, 1962). This prevalence of normative and cognitive institutions in SMs results from a combination of weak regulative institutions and strong normative and cognitive institutions. Severe institutional gaps, defined as the lack of regulative institutions to support economic activities (Khanna and Palepu, 1997), low enforceability of formal laws and regulations (Ricart, Enright, Ghemawat, Hart, and Khanna, 2004; Viswanathan et al., 2010) and little legal protection (World Bank, 2000) characterize SMs. By contrast, SM-specific normative and cognitive institutions are particularly strong and substitute for the weakness of regulative institutions to a certain extent (De Soto, 2000), although they often contradict regulative institutions (Arnould and Mohr, 2005; Johnson, 2007; Scott, 2005). Operating through the traditional ties, such as non-specialized kinship, age-group, religious, or other intra-group ties, which bind communities in SMs (De Soto, 2000; London and Hart, 2004; Rivera-Santos and Rufin, 2010), these normative and cognitive institutions are significantly stronger within the community than between communities, leading to localized structures with few bridges across communities (Arnould and Mohr, 2005).

The prevalence of normative and cognitive institutions leads to business transactions governed by informal, rather than formal, mechanisms, and to business ecosystems characterized by a higher prevalence of structural holes, as regulative institutional gaps prevent the development of supporting industries, such as finance or distribution (Rivera-Santos and Rufin,

2010; Viswanathan et al., 2010; Wheeler, McKague, Thomson, Davies, Medalye, and Prada, 2005). In turn, the government, non-profit, and community sectors take on a particular importance in business ecosystems, as they replace missing actors or supporting industries in SMs.

To summarize, normative and cognitive institutions prevail over regulative institutions in SMs, with important implications for business transactions. At the same time, subsistence markets do not exist in a vacuum and are affected, at least to a certain extent, by the broader set of regulative institutions prevailing outside SMs, particularly at the national level. The co-existence of SM-specific normative and cognitive institutions and external regulative institutions thus characterizes SM institutional environments. In turn, the degree of institutional distance, defined as “the extent of similarity or dissimilarity between the regulatory, cognitive, and normative institutions” (Xu and Shenkar, 2002: 508), between SM-specific and external institutions determines the potential for conflict that may arise between these two sets of institutions (Arnould and Mohr, 2005; Rivera-Santos and Ruffin, 2010; Scott, 2005). This divide between SM-specific and external institutions will influence the structure of SM partnerships, since governance mechanisms rely on, and adapt to, their surrounding institutions (Rivera-Santos and Ruffin, 2010).

INSTITUTIONS AND PARTNERSHIP STRUCTURES IN SMs

Building on the previous analysis of institutions in SMs and on insights from institutional theory and transaction cost economics, this section develops propositions on the impact of SM institutions on partnership structures. The SM literature has highlighted the role of cross-sector partnerships in subsistence markets. Prahalad (2005), for instance, explains that partnering with a non-governmental organization (NGO) is necessary for a BoP initiative to succeed. Seelos and

Mair's (2007) study of the role of partnerships as an integral component of business models at the BoP analyzes resource creation and acquisition through alliances. Kolk, van Tulder, and Kostwinder (2008), in their analysis of cross-sector partnerships for development, study the activities conducted through these partnerships. Rondinelli and London (2003) assess the necessity of cross-sector collaboration and highlight the difficulty of partners with different governance structures to communicate, echoing discussions from the broader partnership literature (Rivera-Santos and Rufin, 2011).

While emphasizing the importance and specific challenges of partnerships in SMs, the literature has not explored the link between SM institutions and partnership structures, although several studies have highlighted the uniqueness of SM institutions. Dahan and co-authors (2010), for instance, emphasize the need to adapt business models and partnerships to "local markets' cultural, economic, institutional and geographic features" (p.326), but focus on value creation and resource complementarity rather than partnership structure. Similarly, Webb and co-authors (2010) analyze SM institutions and the type of resources that NGOs can bring to SM partnerships, but focus on entrepreneurial initiatives by multinational enterprises (MNEs) rather than partnerships. Finally, Rivera-Santos and Rufin (2010) analyze, among other things, the relationship between institutions and collaboration at the BOP, but focus on networks and ecosystems rather than partnerships.

There is therefore a need to build on these insights to understand the impact of SM institutions on partnership structures. Because partnerships in SMs are extremely varied, potentially ranging from philanthropy to market expansion, it is important to clearly define the boundaries of the analysis. This study takes the perspective of the focal firm and focuses on partnerships combining economic and social goals; with focal activities based in an SM; and

created between an established firm originating outside subsistence markets and entities active in SMs, such as NGOs, community organizations, government agencies, and other firms. Such entities can originate from the SM, but can also originate outside the SM and be active in the SM. The rest of this section develops propositions on the partners and their activities, and on the governance mechanisms in SM partnerships, building, together, an overall framework of SM partnership structures.

Partners and their activities

The first major impact of SM institutions on partnerships concerns the partners and what they bring to the partnership. As noted earlier, SM institutions are almost exclusively of a normative or cognitive nature (De Soto, 2000), contrasting with non-subsistence markets, in which strong regulative institutions exist (e.g., Williamson, 1985). This prevalence of normative and cognitive institutions leads to a greater role for non-market actors in business ecosystems (Anderson and Markides, 2007; Rivera-Santos and Rufin, 2010; Wheeler et al., 2005), as they substitute for regulative institutional gaps and missing market actors. Each sector (profit, nonprofit and public), compensates for different institutional gaps, meaning that no single actor and, most importantly, no single sector is able to provide the complete set of institutions needed to support economic activity.

Firms can thus become a conduit for contact with the government or with other regulative institutions (Petersson, 2011), thereby playing an institutional role typically not needed where strong regulative institutions exist. Contrasting with firms, for which institutional roles are typically outside the organization's core mission, NGOs explicitly seek to fulfill important institutional roles and compensate for institutional gaps in SMs, and are often active in community participation, the supply of education and health care, and contacts with government,

among others (Doh and Teegen, 2002). Similarly, governments, particularly at the national level, can ensure institutional protection against unpredictable changes in regulations (Rufin and Arboleda, 2007). Finally, local populations, through Community-Based Organizations (CBOs) or other representatives, can provide access to local networks and acceptance from the powers established by the community's normative and cognitive rules.

The partnership will need a variety of actors from multiple sectors not only because they provide different institutional roles and connections, as mentioned above, but also because they bring different resources to the partnership, as noted in the cross-sector partnership literature (e.g., Berger, Cunningham, and Drumwright, 2004; Selsky and Parker, 2005). Paralleling the previous argument about institutional roles, firms can provide business resources such as capital, managerial expertise, or technology; NGOs can provide access to potential customers, facilities, and support capacity not directly accessible through traditional means; governments can provide access to otherwise unavailable resources, such as financing, and help grant security; and CBOs can provide access to local consumers and producers, as well as local knowledge (Kolk et al., 2008; Seelos and Mair, 2007; Simanis and Hart, 2008). The fact that the different partners come into the partnership with very different objectives will further increase the breadth of activities that each partner contributes to the partnership, as each partner will ask for resources that contribute to its own objectives. NGOs, for instance, have objectives that often do not directly relate to business (Doh and Teegen, 2003), and they can ask the other partners to contribute resources to help them pursue their own goals in the partnership (Rivera-Santos and Rufin, 2010). In short, firms, NGOs, government agencies, and local communities can all provide business resources, resources related to the objectives of the different partners beyond pure business objectives, and institutional resources to the partnership.

Partnerships in SMs will thus need to involve multiple partners from a variety of sectors, leading to a prevalence of tripartite or quadripartite partnerships. When SC Johnson decided to establish a BOP venture in Kibera, Africa's largest slum in Nairobi, Kenya, for instance, it partnered with an NGO, Carolina for Kibera, and with local community-based organizations to be able to distribute its products in the slum. In turn, the NGOs and the community asked SC Johnson to help teach local youth how to start entrepreneurial ventures (Johnson, 2007). Similarly, in the Paraisópolis *favela* (slum) in São Paulo, Brazil, with a population of about 55,000, the electric utility AES Eletropaulo conducted more than 13,000 initial and follow-up visits over a one-year period, thus partnering not only with NGOs but also directly with the community to gain approval for a program to regulate access to the electricity grid (Petersson, 2011). In Barranquilla, Colombia, water utility AAA worked with poor communities and NGOs not only to improve water supply, its main objective in the partnership, but also to support local sports teams, which these communities highly valued (Rufin and Arboleda, 2007).

This need for multiple partners from multiple sectors will grow as the institutional distance between SM-specific institutions and external institutions increases, since more regulative institutional gaps will exist. When the cell-phone company Celtel Nigeria expanded into rural markets, for instance, it had to partner with NGOs, communities, and traditional kings, not only to get their approval to build towers, but also to be allowed to recruit local entrepreneurs as distributors and ensure safe passage for its staff (Anderson and Kupp, 2008). This reasoning leads to the following proposition:

P1: The greater the institutional distance between SM-specific and external institutions, the more SM partnerships will involve multiple partners from multiple sectors, each filling different regulative institutional gaps.

Governance Mechanisms in SM partnerships

The literature on alliance and partnership governance mechanisms, strongly influenced by TCE, argues that the partners' desire to mitigate opportunism, defined as self-interest seeking with guile, is the primary determinant of governance (Brouthers and Hennart, 2007; Teege et al., 2004). Governance mechanisms influence the partners' behavior by increasing the cost of opportunism and aligning the interests of each partner with the success of the alliance (Brouthers and Hennart, 2007). The first question to ask before analyzing governance mechanisms in SM partnerships, therefore, is whether these partnerships entail a significant risk of opportunism for the partners.

TCE scholars argue that three characteristics of the investment lead to high opportunism risk: asset specificity and information asymmetry, internal and external uncertainty, and frequency of interactions (Brouthers and Hennart, 2007). Investments in SM partnerships are necessarily highly specific, since they are localized, meaning that a firm typically cannot leverage an investment outside a given SM (Johnson, 2007; Simanis and Hart, 2008). Information asymmetry is also acute, as it is difficult for a firm originating outside subsistence markets to fully understand SM-specific institutions. Second, both the external and the internal uncertainty surrounding the investment is high, because of a typical lack of stability in SMs (Viswanathan and Rosa, 2007), combined with the firm's difficulty to interpret local partners' behaviors (Johnson, 2007; Simanis and Hart, 2008). Finally, the frequency of interactions necessary for a typical SM transaction is very high (Rivera-Santos and Rufin, 2010). The risk of opportunism for firms in SM partnerships is thus high, but the significance of this opportunism is still not obvious. The typical small size of SM markets (Johnson, 2007; Simanis and Hart, 2008)

is likely to result in a small financial impact of opportunism. The relevant unit of analysis, however, is the activity conducted through the partnership, rather than the firm as a whole. Investments are large relative to the returns they can typically provide in SMs (Anderson and Markides, 2007; Rivera-Santos and Rufin, 2010), suggesting that both the actual risk and the significance of opportunism for firms in SM partnerships are high.

The other partners also face significant opportunism risks in SM partnerships. NGOs, which rely on legitimacy for their activities (Doh and Teegen, 2003), face the risk of losing this legitimacy if one of their partners behaves opportunistically. Similarly, governments face the risk of accusations of selling out to corporate interests in SM partnerships, particularly if it is not successful or if there is controversy over the allocation of benefits (World Bank, 2008). Finally, CBOs also face significant opportunism risks, as their typical powerlessness and voicelessness (World Bank, 2000) means that they cannot rely on external protection if one of the partners behaves opportunistically.

Since the firm and its partners all face high opportunism risks in SM partnerships, TCE provides an adequate theoretical lens to analyze the governance of partnerships in SMs. Governance comprises a set of distinct yet interrelated mechanisms, particularly contracts (e.g., Reuer and Ariño, 2007) and equity (e.g., Brouthers and Hennart, 2007). The rest of this section explores how SM institutions impact these governance mechanisms. The reasoning suggests that, in response to the co-existence of different sets of institutions in SMs, partners will replace formal contracts and equity with different, locally enforceable, substitutes that rely on SM-specific institutions rather than external institutions, resulting in unique governance configurations in SM partnerships. The importance of these substitutes will vary depending on the institutional distance between SM-specific institutions and external institutions. Taken

together, this reasoning leads to a framework of SM partnership structure, represented graphically in Figure 1.

Insert Figure 1 about here

The alliance contract is one the most important governance mechanisms in alliances and partnerships (Reuer and Ariño, 2007; Williamson, 1985). An alliance contract typically specifies the commitments, contributions and benefits accruing to each partner, as well as conflict resolution mechanisms, such as arbitration clauses or lawsuit provisions (Reuer and Ariño, 2007).

The weakness of regulative institutions in SMs will make the enforcement of formal contracts difficult, leading partners to seek substitutes better suited to SMs, the more so the greater the institutional distance between SM-specific and external institutions. The microfinance literature, which has a long tradition of analysis of contracts in SMs, suggests that, when formal contracts are unavailable or unenforceable, actors resort to a variety of group-based contracts, such as Grameen Bank-style group contracts and “village banks”, in which the enforceability of the contract relies on SM-specific institutions (Cull, Demirgüç-Kunt, and Jonathan, 2007). The micro-finance institution (MFI) Belita, active in rural Eastern Tanzania, for instance, asks for the explicit approval from the village chief before it grants a loan to any micro-entrepreneur (Lutege, 2009). Similarly, SM partnerships are likely to seek enforcement of commitments through recourse to the community’s normative and cognitive institutions, replacing formal contracts by informal agreements. The partnership may make use of written contracts, but such contracts are largely symbolic (Lutege, 2009), as the institutional distance between SM-specific and external

institutions will make these contracts difficult to enforce. This analysis leads to the following proposition:

P2: The greater the institutional distance between SM-specific and external institutions, the more SM partnerships will use informal, rather than formal, contracts as a governance mechanism.

Because of the impossibility of identifying all the contingencies of a relationship as complex as an alliance or partnership, however, contracts cannot provide full protection against opportunism when the risk of opportunism is very high, leading partners to prefer equity to govern the relationship in such cases (Brouthers and Hennart, 2007; Williamson, 1985). In equity-based agreements, equity plays the role of a “hostage” (Williamson, 1983) and increases the cost of opportunistic behavior for the partners. Although equity is often equated with “hostages” in the alliance literature, equity is only one of the types of “hostages” that exist (Williamson, 1983).

As mentioned above, the weakness of regulative institutions in SMs results in weaker enforceability of contracts, including property rights and equity ownership (De Soto, 2000). Since equity, even when available, entails property rights that can only be enforced by a sophisticated set of regulative institutions, equity will generally be less desirable for the partners. At the same time, although the distance between SM institutions and external institutions may be great, subsistence markets are connected, at least to some extent, to external institutions. Thus, the lack of enforceability of equity-related property rights by SM-specific institutions does not necessarily mean that equity owners cannot enforce their ownership rights through regulative institutions. In extreme cases, a government can use force to enforce formal ownership rights at

the expense of the traditional owners of a given asset (Kjosavik and Shanmugaratnam, 2007). The reputational implications of such enforcement practices would make these extreme measures undesirable for SM partners, however. Furthermore, the absence of specialized business actors and intermediaries in SM business ecosystems means that local partners' access to sources of financing exist will be very limited in any case (Viswanathan et al., 2010; Weidner, Rosa, and Viswanathan, 2010). In short, equity as a hostage will be both less desirable and less available in SMs, depending on the institutional distance between the SM-specific institutions and external institutions.

By contrast, non-financial hostages, such as contributions in kind, access to constituencies, or reputation, are more readily available in SMs relative to other settings (Cheater, 2003), and normative and cognitive institutions can more easily maintain and enforce their value. Indeed, a common form of pre-commitment in SMs is the exchange of gifts, in which the act of giving or accepting a gift carries more weight than the value of the gift itself (Mauss, 1990 (1922)). As a consequence, in-kind contributions and gifts can substitute for equity in the role of partnership "hostage". Furthermore, because the lack of specialization is a major characteristic of normative and cognitive institutions, these in-kind contributions and gifts may be unrelated to the purpose of the partnership itself (Cheater, 2003; Mauss, 1990 (1922); Viswanathan and Rosa, 2007). In the Paraisópolis *favela*, for instance, AES Eletropaulo replaced 9,588 incandescent bulbs by compact fluorescent bulbs, and 497 old refrigerators by new, energy-efficient ones, free of charge, as a gift to show commitment and as a way to increase its reputation within the community. It also rewired the internal electrical cables and fixtures of 496 homes, and placed 505 lights for street lighting, further signaling its commitment to the

community beyond the simple distribution of electricity (Petersson, 2011). This logic leads to the following proposition:

P3: The greater the institutional distance between SM-specific and external institutions, the more SM partnerships will substitute equity by in-kind contributions and gifts that may not directly relate to the purpose of the partnership.

The previous analysis suggests that SM partnerships will rely on normative and cognitive institutions more heavily than on the regulative institutions typically discussed in the literature, and that the importance of these substitutes will increase as the institutional distance between SM-specific and external institutions increases. As such, SM partnerships constitute a type of partnerships that rely primarily on normative or cognitive institutions, contrasting sharply with alliances in which such normative- or cognitive-based governance mechanisms, such as trust, play a secondary, albeit important, role (Poppo and Zenger, 2002). This discussion shows that, in environments in which normative and cognitive institutions prevail, the type of informal mechanisms that become available to the partners will be richer and more complex than inter-partner trust, the traditional proxy for informal governance mechanisms discussed in the literature.

Governance mechanisms in SMs and the Institutional Origin of the Partners

The reasoning above assumes that partners will base the governance of their transactions on the institutions of the SM in which the partnership is active. Not all partners in an SM partnership necessarily originate in SMs, however. A multinational firm and an international NGO, for instance, can set up an SM partnership. Contrasting with locally-based partners, partners originating outside subsistence markets have access to the institutions that prevail

outside SMs as much as to SM-specific institutions. As a result, whereas local businesses, local NGOs, local governments, and SM communities will ground their relationship in SM-specific institutions, partners that are not based in SMs can choose from two sets of mechanisms to govern their relationship: one relying on SM-specific institutions and one relying on external institutions. As the literature on institutions suggests, regulative institutions provide fuller and less costly protection against opportunism than normative or cognitive institutions (De Soto, 2000; North, 1990). As a consequence, partners originating outside subsistence markets will tend to rely on external institutions, rather than on SM-specific institutions, to govern their relationship. Partners originating outside subsistence markets will thus structure their specific relationships in the way they would outside the SM. Of course, these regulative institutions will only be available for relationships between partners that have a base outside subsistence markets, and these partners will still need to use SM-specific institutions to govern their relationship with purely local actors within the partnership.

This duality will lead to partnerships in which a partner with a base outside the subsistence market uses mechanisms relying on external institutions to structure its relationship with other externally-based partners, while using SM-specific institutions to structure its relationship with 'subsistence' partners. The co-existence of both types of governance mechanisms within one partnership is unique to SM partnerships, suggesting that these partnerships create a bridge across the institutional divide between SM-specific and external institutions. Starbucks, for example, signed a Memorandum of Understanding in 2004 with the U.S. Agency for International Development, or USAID, and Conservation International, an environmental NGO, to increase the incomes of coffee growers in subsistence markets while

minimizing their environmental impact (Seattle Post-Intelligencer, 2004). This reasoning leads to the following proposition:

P4: SM partnerships between partners with a base outside subsistence markets will structure their relationship on the basis of external, rather than SM-specific, institutions, even when an SM is the main location of the partnership activities.

DISCUSSION AND CONCLUSION

Grounded in institutional theory and TCE, the conceptual framework developed in this paper points to SM partnerships uniquely bridging the divide between SM-specific and external institutions. The paper's logic suggests that SM partnerships, contrasting with more traditional alliances and partnerships, will involve multiple partners from multiple sectors, leading to a prevalence of tri- and quadripartite partnerships. To mitigate opportunism, partners will substitute governance mechanisms, such as equity and formal contracts, which rely on regulative institutions, with alternative governance mechanisms, such as informal contracts, in-kind contributions and gifts, which rely on normative and cognitive institutions. The paper's logic further suggests that, as the institutional distance between SM-specific and external institutions increases, the importance of these substitute mechanisms will also increase. Finally, the reasoning suggests that different sets of governance mechanisms will co-exist, as partners originating outside the SM will prefer to rely on external institutions, rather than SM-specific institutions, to govern their own relationship with the SM partnership. Thus, the analysis makes three main contributions to the literature. It contributes to the Subsistence Market and Base-of-the-Pyramid (BoP) literatures, by proposing a novel framework of SM partnership structures. It contributes to the broader partnership and alliance literatures, by analyzing the implications for

governance structures of contexts in which regulative institutions are weak, or in which several sets of institutions co-exist. Third, the proposed framework can help practitioners avoid mismatches between governance choices and SM environments, which may explain why firms abandon these markets (Karamchandani et al., 2011).

This paper is conceptual in nature, meaning that the analysis is not based on additional empirical research, but relies on existing theory to develop stylized propositions, and on examples from the SM and BoP literatures to illustrate, rather than prove or disprove, the theoretical argument. The most important future extension of the paper is therefore the empirical testing of its propositions. In-depth case studies across various types of SMs could provide at the same time detailed data for each case and variation across cases (Eisenhardt and Graebner, 2007). Alternatively, a network analysis of a few SM partnerships could lead to important and more quantitative insights into the relationship between SM institutions and partnership structures.

The foregoing analysis leaves a few questions out of the scope of the paper, which represent important avenues for future research in the SM and BOP literatures. First and foremost, this paper deliberately avoids analysis of differences across SMs in order to limit the complexity of the arguments. However, some recent papers (e.g., Rivera-Santos and Rufin, 2010; Viswanathan, Rosa, Gau, and Chaturvedi, 2009) call for a deeper understanding of variations across SMs. Anthropological research has shown that traditional communities differ in their political institutions along a continuum, from “acephalous” communities” where regulative institutions are largely absent, to “monarchical” communities, where regulative institutions are embedded in religious or other cultural norms, and which are thus much closer to the Western pattern of highly specialized regulative institutions based on explicit “social pacts” or

constitutions (Cheater, 2003). This continuum suggests that SM-specific institutions in some SM communities may actually include some kind of regulative institutions, leading to the intriguing possibility of interactions between SM-specific regulative institutions and external regulative institutions, which are outside the scope of this paper. A logical next step for the research undertaken in this paper is thus to examine how SM partnerships are impacted by institutional differences along this continuum.

Another extension of this paper concerns the exploration of the generalizability of the propositions developed in this paper to other types of SM partnerships, such as philanthropic ventures, market expansions, or partnerships between purely local actors. This analysis could help better understand the differences and similarities that may exist between SM partnerships with different goals. Additionally, the paper's focus on institutions leaves for future research the analysis of the impact of other important dimensions, such as rural vs. urban locations, highly unstable vs. more stable environments, and extreme vs. relative poverty. Finally, the dynamic analysis of the relationship between regulative, normative, and cognitive institutions as markets develop is also sure to provide important insights into how firms and their SM partners structure their relationship over time.

More broadly, this analysis suggests avenues for future research in the broader alliance and international business (IB) literatures. The alliance literature has focused its analysis of informal governance mechanisms on trust (Poppo and Zenger, 2002). This paper suggests that a variety of other informal mechanisms relying on normative and cognitive institutions are available, particularly in contexts in which regulative institutions are weak. Consideration of various normative and cognitive institutions shows that a rich range of possibilities may exist in addition to trust for alliance scholars to explore. The IB literature, on the other hand, has paid

increasing attention to normative and cognitive institutions and their variation across locations. The research presented in this paper expands the analysis of the role of normative and cognitive institutions on firms' market entry strategies by applying it to unfamiliar settings like SMs, thus opening interesting avenues for research on the relationship between normative and cognitive institutions and firms' strategies. This paper also expands the concept of institutional distance (Xu and Shenkar, 2002) by applying it to the distance between SM-specific and external institutions, rather than to the distance between different countries. This study thus recognizes that important institutional variations can exist within countries and may be particularly important for markets that are characterized by their isolation from the rest of the economy like SMs (De Soto, 2000; Rivera-Santos and Rufin, 2010), thus starting to respond to Scott's (2005) call for a better understanding of within-country institutional variations. This work should thus encourage other scholars to pursue the exploration of how a deeper understanding of subsistence markets can help inform the broader theories and frameworks used in management disciplines.

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TABLE 1

<p align="center">Non-SM institutions (external environment of SMs)</p>	<p align="center">SM-specific institutions</p>
<p><i>Institutional characteristics:</i></p> <ul style="list-style-type: none"> - Primacy of regulative institutions, with few gaps in the range of activities under their control - Specialization of institutions - Impersonal and transactional relationships 	<p><i>Institutional characteristics:</i></p> <ul style="list-style-type: none"> - Prevalence of normative and cognitive institutions, with severe gaps in the scope of regulative institutions - Lack of specialization of institutions - Personal relationships
<p><i>Source of authority:</i></p> <ul style="list-style-type: none"> - Based on the authority of the state - Punishment for misbehavior through courts 	<p><i>Source of authority:</i></p> <ul style="list-style-type: none"> - Based on social capital, with no well-defined authority structures, or on the authority of a single person or small group of persons (e.g. council of elders) - Punishment for misbehavior through exclusion from the community or through the judicial power of the central authority
<p>Subsistence markets can vary substantially in terms of the institutional distance between SM-specific institutions and external institutions.</p>	

FIGURE 1

