



Chapter 3

The Quality of Relationships When Business Association Is a Prerequisite to Obtain Benefits From Public Institutions: Evidence From the Apparel Industry of Tungurahua, Ecuador


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ABSTRACT

The objective of this chapter is to measure the levels of relational coordination and their impact on partners' satisfaction and perceived benefits at business associations belonging to the apparel industry of Tungurahua, Ecuador, that receives benefits from public institutions. For this purpose, two business associations from a footwear local fair and two associations from a textile and apparel fair were analyzed. Interviews were conducted with the presidents of these associations, and a survey was applied to their partners. Results show that these business associations must still work on the improvement of their relational coordination levels, especially on shared knowledge. Relational coordination has also been found to be positively correlated with satisfaction and perceived benefits. The results of this research have implications for business associations and public institutions that want to develop social capital through associativity with the aim of improving the competitiveness of SMEs of the textile and apparel industry.

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INTRODUCTION

SMEs represent about 90% of businesses and generate 50% of jobs worldwide (World Bank, n.d.). Their contribution is even higher in developing countries, as about 80%-90% of worldwide SMEs are located in low- and middle- income countries (International Labour Organization, 2015). In these countries, SMEs contribute with about 40% to the GDP and with 70% to job creation (World Bank, nd.). However, because of their size, SMEs have limited human, physical and financial resources, competences and margins for their actions. In developing countries, the size problem is even higher, as among SMEs there is a high number of informal micro-businesses that do not grow and are not contributing to the creation of additional jobs (International Labour Organization, 2015).

Because of their resource constraints, SMEs must rely on relationships with other organizations in order to have access to vital resources (Sharma, Lindsay & Everton, 2015). Some of these relationships are established in the form of business associations, which are a mechanism that organizations use to unify efforts and resources with the purpose of being more competitive in the market, while preserving their legal independence and managerial autonomy (Melo Torres, L.I., Melo Torres M.M. & Fonseca Pinto, 2017). However, associations are not only established to sustain competitiveness in the market, but also for the necessity of meeting mandates from high authorities, such as government agencies (Oliver, 1990).

Latin America is the second region after East-Asia (81%) with the highest share of informal & non-employer SMEs (71%) (International Labour Organization, 2015). In this region, one of the countries, where business associativity has become part of the policy agenda of the Government, is Ecuador. Since 2009, the country's National Plans (Senplades, 2009, 2013, 2017) mention business associativity as a strategy for the improvement of productive chains. Ecuador has a productivity problem, having one of the lowest rates in the region of the contribution of Total Factor Productivity to the GDP (Rubalcaba et al., 2017). The productivity of the production factors in the Ecuadorian manufacturing industry is highly dependent on the price of the barrel of oil and on the size of the firms, large and medium firms having a higher productivity (Camino-Mogro, Armijos-Bravo & Cornejo-Marcos, 2018). Ecuador makes no exception of the region's problem of the predominance of a high number of micro-business (90.78%) and very few large (0.46%) and medium (1.55%) businesses (National Institute of Statistics and Censuses – INEC, 2018). Furthermore, the entrepreneurial activity in Ecuador in the wholesale/retail sector is much more higher than in the manufacturing sector (GEM, 2018). According to the Global Entrepreneurship Monitor Ecuador 2017 (GEM, 2018), the entrepreneurship activity of the country is characterized by low profitability and competitiveness, limited use of technology and low levels of innovation. The lack of interest on establishing association processes is an additional factor that affects negatively the productivity and competitiveness of the Ecuadorian manufacturing sector (Ecuadorian Ministry of Industry and Productivity - MIPRO, 2014).

More than a decade ago, the Ecuadorian Government made a shift on the policies regarding business associativity, by including it in the policies for the development of the Popular and Solidarity Economy. The first step was the recognition of the economy of the country as a social and solidarity system and the inclusion of associativity as a form of organization of production in the Constitution adopted in the year 2008 (Asamblea Constituyente, 2008). Later on, in 2009, the National Institute of the Popular and Solidarity Economy (IEPS) was created within the Ministry of Economic and Social Inclusion (Portal de Economía Solidaria, 2009). In 2011, the law of Popular and Solidarity Economy was promulgated (Coraggio, Laville & Cattani, 2013), in which the term association and its functions are defined.

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