Strategic alliances for SMEs

Strategic alliances have become highly popular in the business world as they provide important advantages related to cost, convenience, and integration, normally difficult to achieve through other strategic options. For example, Tata Sons and Starbucks Corporation formed a joint venture, which is a form of strategic alliance, to open coffeehouses in India.

Starbucks, headquartered in USA, did not possess the market knowhow essential for operating by itself in the Indian marketplace where cultural dimensions are unique. Entering such a market by itself would have meant significant upfront investment, with heightened exposure to risk of failure.

Thus, partnering with a firm such as Tata Sons, known for integrity and possessing significant knowledge on Indian consumer behavior, was a safe bet. For Tata Sons, a greenfield move would require significant resource deployments in order to develop the brand identity in coffee housing segment. Rather, both firms could combine their complementary skills and derive joint profits by partnering with each other.

A strategic alliance, thus, represents a pragmatic win-win situation. In an Indian context, the popularity of alliances can be gauged from the fact that many foreign firms which became market leaders in India- such as Honda or Suzuki- enter into this strategic option.

Now for such big firms it is relatively easy to form alliances as they possess reputation and resources which can be considered valuable. Small and Medium Enterprises (SMEs) have a pressing need for these resources- such as manufacturing facilities, technological knowhow or good reputation, which they often do not possess due to their small size.

Developing these resources internally or acquiring it from other firms entails high costs and time delays. So best option for them is to form a strategic alliance to gain access to such resources they may need and thereby compete in the marketplace. Microsoft, when it was trying to establish itself in the early 1980s, formed an alliance with IBM, an established player in the market then, for providing operating systems software, and thereby gained recognition in the minds of consumers. Many biotechnology firms, essentially small in nature, depend on contractual alliances with large established pharmaceutical firms for marketing and distribution of their products. Thus, the benefits of alliances for small firms are too obvious to be missed.

However, despite these seemingly obvious competitive benefits, not all SMEs form strategic alliances. To understand why, we conducted a study on manufacturing SMEs in India, whose contribution to Indian GDP and overall manufacturing output has consistently fallen in recent times, as they especially lack the necessary resources.

The results of the study were obtained through 4 exploratory case studies and surveys of key respondents in 127 manufacturing SMEs in Goa. It was primarily found that only those SMEs which possessed valuable resources of some form or the other- such as technological knowhow or manufacturing capability- would be in a position to form alliances.

We also observed that though the resource-poor SMEs had a greater need for alliance formation as they could gain access to the necessary resources possessed by partner firm, they were found to be less likely to form alliances as they did not possess resources which partner firm could consider valuable enough. Thus, the study established the need for complementarity in business relationships- you need to possess something valuable in order to gain something valuable!

Furthermore, it was also found that SMEs that are entrepreneurial in nature- those which always aim to be market leaders despite their small size- were found to exhibit higher alliance formation tendencies. The result seems easy to understand given that entrepreneurial SMEs need more resources, such as technology and capital, in order to compete in the marketplace.

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