ALLIANCE DECISION-MAKING OF SME: PHASES AND INFLUENCE FACTORS

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ABSTRACT. Experience of some countries shows how alliances have helped SME (small and medium enterprises) to be successful; however, this strategy is still not very popular in many other countries. Managing alliances is no more difficult than deciding to enter into such a cooperative relationship. Many researchers, particularly in the advanced countries have studied strategic alliances with special emphasis on large enterprises and focused as a way of internationalization but there is still a gap of references to understand how this decision is taken from the SME: what makes SME to be engaged in alliances? which factors are playing an important role into this decision? The innovation of this research is to provide a framework of alliance decision-making process based on five phases as well as the identification of key factors that make SME to be engaged on alliances. The proposal is based on different perspectives from the social capital, mainly social exchange, and economic development into the alliances decision making particularly in SME. This research could be especially attractive to the different actors involved in SMEs: government; large enterprises, universities and Non-government organization in order to focus their effort on those weak phases or factors that may be potentially developed in a new way of joint working.

The empirical data comes from a sample of Mexican SME. The preliminary results show that the perception of the enterprise competence and the identification of potential partners are critical phases into the alliance decision-making process. Although most of the entrepreneurs desire to be involved in alliance, the lacks of possession of information about alliances issues as well as the lack of trust are key factors that limit this decision.

Key words: Alliances, decision-making, phases, influence factors.

JEL Classification: D01

1. Introduction

Many sectors from developing countries are succumbing to new competitive pressures, and many firms, especially the small and medium size enterprises are finding the global marketplace a very hostile territory. These firms, as well as the social actors that are affected by their performance, are clamouring for assistance. To solve this dilemma, the search for new way of working is

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required, in which government, enterprises, universities and nongovernmental organization could take the decision to work together. Only few firms have all of the resources needed to be competitive. Experience of countries such as: Japan, Italia and Korea, for example, shows how alliances have helped SME to be successful in today’s fast changing environment; however there are many examples, particularly in developing countries like Latin America, in which this strategy is still not very popular; how can these economies promote this strategy that has enjoyed great success in other countries?, what makes SME to be engaged in alliances?, which factors are playing an important role into this decision? This paper provides a framework of alliance decision-making of SMEs, and proposes different phases and key influence factors which SME may experiences before deciding to be engaged.

Alliances are defined, in this paper, as a co-operative agreement between independent firms based on business contracts to enhance medium or long term benefits, involving exchange, sharing or co-development of products, technologies or services.

Managing alliances is no more difficult than deciding to enter into such a cooperative relationship. There has been much discussion of the reality that state-led strategies have enjoyed great success in some developing countries in East Asia, but few scholars have suggested new alternatives for the post liberalization stage in those countries that failed in their original attempts at state-led development, like most of Latin America countries (Casaburi, 1999). Many researchers, particularly in the advanced counties have studied strategic alliances with special emphasis on large enterprises and focused as a way of internationalization but there is still a gap of references to understand how this decision is taken from the point of view of SMEs as well as the factors that influence on them in undeveloped economies.

In order to be able to find answers to help understanding the current alliance decision-making that are facing SME mainly in non advanced economies, this research bases its proposal on the social capital literature, particularly in the field of economic development and social exchange because of three main reasons:

1.- The literature on social capital and economic development, mostly associated with Ronald Burt (1992, 1997, 1998), Alejandro Portes (Portes and Sensenbrenner 1993; Portes 1995, 1997, 1998), Douglas Massey (Massey and Espinosa 1997, Massey 1998) and Marcel Fafchamps (Fafchamps and Minten 1999), identify in perspectives the role of groups and organizations, it is recognize two key propositions. First, social capital is a double-edged sword. On the one hand, it can provide a range of valuable services for community members, ranging grooms baby-sitting and houses-minding to job referrals and emergency cash; but, on the other hand there are also costs, in that those same ties can place considerable non-economic consequences. Second, the sources of social capital need to be distinguished from the consequences derived from them. Imputing only outcomes may
be attained at another groups expenses, that five outcomes may be sub-optimal or that desirable outcomes attained today come at the price of significant cost tomorrow.

2. -The theories of economic development and social exchange incorporate on one hand, economic variables such as profit, growth, and development, and on the other hand, social variables such as interaction, cooperation, and cultural. Both variables are always presented in alliances strategies and the combinations of them impacted strongly on alliances decision.

3. - The social capital argues that the vitality of community networks and civil society is largely the product of the political, legal and institutional environment. This view argues that the very capacity of social groups to act in their collective interest depends crucially on the quality of the forma institutions under which they reside (North 1990), and that emergent qualities such as high levels of generalized trust in turn correspond to superior rates of economic growth. It also stresses that the performance of states and firms themselves depends on their own internal coherence, credibility and competence and their external accountability to civil society.

This proposal is also based on successful experience of alliances from some countries in Europe and Asia which provide interesting elements to be analysed; for example: in Baden-Wurtenberg, a region located in Germany, is characterized by successful engagements. The Co-operation among SME in Italy follows three models: High technology focus to exportation in the north of Italy, traditional industry of micro and small enterprises (south) and the called “the third Italy” in central and northeast of the country. The governmental programs to promote long-term co-operation among SME in Norway has reduced cost between 20% and 30% and they have increased their knowledge. These programs have been successfully reproduced in Australia, New Zealand and Canada. (Secretaría de Economía, 2008).

Since 1936 the government of Japan promotes alliance engagement between SME and LE (large enterprises). The electronic and car industries, characterized by subcontracting, are a good example of this way of engagement. Korea and Taiwan provide also good examples of co-operation and inter-relationship among SME. (Secretaría de Economía, 2008)

The Experience in México.

In Mexico, there has been during the last twenty years, different ways of promotion focusing on the micro, small and medium enterprises. Many of them have had poor results. Since ten years ago, the government had begun to promote different ways of inter-organization such as cooperatives, agriculture unions, credits unions, most of these ways of associations were characterized by associations of one activity sector (mainly agricultural) and even some of them were very success at that time, they are now decreasing.
As results of the different trade treatments among Mexico and EUA, Chile, Venezuela, Colombia and other countries in Latin America and Europe, the Mexican government has had to develop different programs to promote the micro, small and medium enterprise in order to take advance of the opportunities of these treatments but without losing their structure, they could continue being small but they must be enough competitive and highly efficiency to be able to participate in this new challenge.

This challenger is producing now a new paradigm “Joining to be competitive” consequently in 1993, a new legal society was introduced in Mexico under the name of “Empresa Integradora” (Integrated Enterprise).

This way of inter-cooperation is defined as enterprises of specialized services that integrate in a business unit, individual entrepreneurs or groups of SME in order to be more competitive. (Secretaría de Economía, 2008).

The proposed Model

Alliance decision-makers are no longer assumed as completely rational — rather, they are believed to have limitations in reasoning capacity. As Anderson and Paine (1975) note, “strategy formulation is subject to many subjective (behavioural, political, emotional) forces which influence its ultimate form”.

A fair number of scholars have studied strategic decision-making in alliances, typically aiming at understanding the perception and decision context that form the basis of the partner’s decision. However the decision to be engagement of SMEs goes beyond to choose a “good partner”. The current literature does not provide a clear scheme of the whole decision-making process and the key factors into this process.

The essence of this approach lies in the prominent role assigned to identify different phases and factors that have influence on the alliances decision-making of SMEs.

This study propose a scheme integrated by five phases: the initiative of alliance’s strategy phase, the competence perception phase, the identification of potential partners phase, the risk-control perception phase and finally the evaluation and decision phase.

One entrepreneur, before being in roll in a new strategy will take into consideration all the benefits his company could get from this strategy. The growing interest in strategic alliances has begun to provide us with significant research insights. Most major perspectives attempt to answer the question “Why strategic alliances?”
Phase 1. The Initiative alliance’s strategy

Many theories provide enough information trying to answer this question:

a) The transaction costs theory argues that an organization should organize its boundary-spanning activities in order to minimize the sum of its production and transactions cost (Beamish & Bank (1987), Dyer (1997), Faulkner (1995); Hennart (1988), Hill (1990), Madhok & Tallman (1998), Parkhe (1993), Thorelli (1986), Williamson (1975)).


c) The Learning theory suggests that the main benefit through inter-organizations is focused to absorb as much knowledge as possible form partners, thus increasing organisational competencies and ultimately adding value to the organizations (Doz (1996), Gulati (1999), Hamel (1991), Inkpen & Crossan (1995), Lane & Lubatkin (1998); Larsson, Bengtsson, Henriksson & Sparks (1998), Mowery, Oxley & Silverman (1996), Kumar & Nti (1998), Simonin (1997), Powell, Koput & Smith-Doerr (1996)).

The identification of economical benefits is, therefore, a factor strongly engagement to the initiative of any strategy. According to the Irish economist Richard Cantillon, in 1732, entrepreneurship is identified as the willingness of individuals to carry out forms of arbitrage involving the financial risk of a new
venture. Since then, economist such as Mill (1870), Say (1857), Knight (1921), Schumpeter (1934), and Kirzner (1973, 1997) have been among the most influential contributors to our understanding of entrepreneurial behaviour and its related processes.

A clear example to help to illustrate the importance of leadership into the alliances strategy could be found in the experiences which came from the fast growth of SMEs in Italy, mainly in Prato, Toscana; the existence of a leader enterprise to be in charge of promoting and coordination with other enterprises has became one of the most important force to develop these enterprises (Secretaría de Economía, 2008)

**Phase 2: Competence perception**

SME are always full of contrast; on one hand the simple structure that many SMEs have, provide a vast pool of creative energy distributed in small way of production that are more inclined to innovate and more able to implement changes than is likely in large but on the other hand, they, particularly in Mexico, face structural problems; many of enterprises are family-business in which the conventional methods have been used generation by generation, many entrepreneurs argument: This way of operation has worked in the past, why should we change our way of working?"

The global markets provide competitive pressure, and individual entrepreneurs provide the creativity and energy necessary to face adjustment challenges, each individual SME alone lacks capacity, resources an scale to compete successfully. In the industrial district or dynamic sectors, SMEs overcome individual limitation through collective efficiency (verschoor, 1994) achieved in three different ways: interfirm co-operation, public –private collaboration and supportive public policies. These three forms provide the organizational forms under which the small firms can combine its advantages of flexibility and the support that came from larges networks (Pyke and Sengerberger, 1990, p. 4).

The entrepreneur, as protagonist of the decision-making, could have different perceptions of the company’s competence. Knowledge is a factor that has influence on the entrepreneur’s decision making.

Knowing the different association available and how to engage on them can be difficult and time consuming. (Roos, J. 1997) argued that employee generate Intellectual Capital through their competence, attitude, motivation and intellectual agility. Relational capital represents the knowledge embedded in the relationships with the outside environment. It’s the potential an organization has du to ex-firm intangibles. Many researchers content that Intellectual Capital greatly assists enterprises in promotion competitive advances.

The capacity to manage alliances and absorb knowledge on alliances is a distinct management capability: the alliance capability. Possession of information
regarding to different issues makes people to be more confident and to have more possibilities to decide their business strategies.

**Phase 3: Identification of Potential Partners**

The relative size, resources, and market power of the partners affect the decision of being engagement in an alliance. Alliances between equally strong, equally weak or unequal partners can be dramatically different in their alliance motives and structuring process. Oliver (1990) observes that partner asymmetry – which allows one partner to exercise power and control over another partner, is one of the key alliance motives. Bleeke and Ernst (1995) suggest that many stronger partners enter into an alliance with the hidden agenda of “capturing” the weaker one. They also contend that alliances between unequal partners are unlikely to be successful. In line with Oborn and Baughnüs (1990) argument that small firms are more vulnerable to their partners’ opportunistic behaviour, we reason that a small partner firm will be even more vulnerable to a larger firm.

Partners’ trustworthiness influences the conduct of the partners in all stages of alliance development. Ngowi suggests that there are some factors that are considered in selecting a partner: complementarily, resources relative to their value, status similarity, direct prior alliance experiences, indirect prior alliance experiences and prestige. This Study suggests especially attention to be engage in an alliance, the expected characteristic that an entrepreneur wanted to find in a partner and the trust of being engagement. This last one plays a key role, particularly in developing countries whose economics are fragile and highly vulnerable.

Trust is influenced by cultural background. Various studies point out the role of cultural beliefs in the performance of work organizations, evaluate and carry out their work (Hofstede, 1980; Trompenaars, 1994). The construction of stereotypes related to the culture of a country affect the way of doing business. Octavio Paz, the Mexican who was awarded the Nobel Prize of Literature in 1991 contributes to the current national and international debate about Mexican culture in the work place.

**Phase 4: Risk-Control Perception**

Scholars suggest that, we need to give special attention to uncertainty and risk perception (March and Shapirio, 1987). Anderson and Paine (1975) argue that there are two key sets of managerial perceptions: the perception of environmental uncertainty and the perception of the need for strategic action.

A risk perception is a term to refer to those ambiguities, as perceived by prospective alliance partners, about the future events that may negatively impact on the performance of the alliance. Ring and Van de Ven (1992, pp 92-93) identify two distinct sets of uncertainty in strategic alliances: “uncertainty regarding future stares of nature” and “uncertainty whether the parties will be able to real on trust”.

Proceeding along similar lines, it can be differentiated between relational risk and performance risk in strategic alliances (Das and Teng, 1996, 2001 in press a). According to the literature reviewed, this study aware the importance of control and risk as a pre-conditions to be engaged on alliance strategies.

Alliance researches have emphasized the importance of both output and process controls in determining the success cooperative agreements (Geringer and Hebert, 1989). The literature suggests that control is a key source of confidence in partner cooperation (Gulati, 1995, Parkhe 1993). While strategic alliances present new opportunities with risks that can be shared, they often limit the discretion, control, and profit potential of partners, while demanding managerial attention and other resources that might be directed toward the firm's mainstream activities (Hitt et al., 1996). Howarth, Gillin, and Bailey (1995) argue that strategic alliances also present costs and risks to partner organisations because of their organisational form, and they associate these with organisation's loss of autonomy and flexibility accompanied with possible relegation to an inferior position in the alliance.

The following figure illustrates the phases of the decision-making process as well as shows the key factors that influence in each phase the final decision.

2. Method

Most developing countries are facing economic policy dilemmas; they have experienced several variations of state-led development strategies in the past, with disappointing results. Imperfect markets, poor infrastructure, deficient
educational systems and weak governments are making the transition to open and competitive economies very painful. One of the most vulnerable sectors is the small and medium sized enterprises (SMEs). (Casaburi, 1999). Mexico is a good example of these countries. There are more than 3 million units of micro, small and medium enterprises operating in Mexico. They provide more than 16 million employments and contribute with 52% of the GDP (INEGI, 2008).

Particularly in Mexico, enterprises have on one hand structural and cultural limitations to let them to decide to be engage but on the other hand it is an important number of successful experiences of inter-organizations. These two paradoxes provide relevant data to try to answer the question of this study: What makes SME to be engaged in alliances? which factors are playing an important role into this process?

Sample

One of the reasons than motives this research is the gab of information regarding to alliance of SME with other sectors: Universities, Government, Non governmental organizations, etc. There is not official information of the total number of enterprises who are now working under this scheme in Mexico (not even in Latin America). There is an estimation by UNAM (Universidad Nacional Autonoma de Mexico), who is the most important Public University not only in Mexico but also in Latin America, that mention that there are between 2000 and 2500 project per year in which UNAM is working together with enterprises of different sectors in order to develop products, improve services, etc. but there is no information available regarding, particularly to SME.

In order to be able to collect important data to analyze the framework of the alliance decision-making of SME it was defined the following two criteria:

a) One group of SMEs who have, now, or have been experienced the alliance decision–making

b) One group of SMEs who have never experienced this decision of engagement.

Veracruz represents, in accordance with these criteria, the most important state of Mexico. According to the data from the SHCP 2009, 70% of the enterprises under the concept of “empresa integradora” are located in Veracruz. It also represents the first state of the south-east zone of Mexico with more business units classified as micro, small and medium enterprises. (Contacto PyME, 2007).

This research is now leading to the empirical data collection of a sample 150 enterprises, 50% with alliances experiences and 50% without.

In order to access to information of these two groups. Three important research partners provide different facilities to be able to interview and apply questionnaires to these SMEs. One of this partner concentrate more than 80% of the total enterprises under the concept of “Empresas integradoras” the other two partners provide us access to enterprises which haven not experienced any alliance so far.
The sample of this study has the following characteristics:

- They are located mainly in the State of Veracruz
- They are small, and medium enterprises
- They belong to different sectors: agricultural, manufacture and services.

**Measurement**

The empirical data collection of the phases and key factor of alliance engagement of SMEs is measured using 11 variables under one to two dimensions; existence of alliance proposal, identification of economical benefits, enterprise competence perception, possession of information regarding to alliance, flexibility, identification of partners, expected partners characteristics, trust, risk and control perception, identification of risk and identification of control. For quantitative measurement between the variable and the alliance decision-making of SMEs is measured using the linker scale of 3 and 5 options.

An especially questionnaire to this study was designed with two sections:

Section A: This questionnaire has 47 items and it is conducted to those enterprises who had been involved in alliance decisions and

Section B: This questionnaire has 35 items and it is conducted to those enterprises who hadn’t been involved in alliance decisions at all.

The answers of this questionnaire are being collected through three means: personal interviews, phone interviews and by e-mail.

**3. Results and Discussion**

The empirical data comes from a sample of Mexican SME. It is still too early to present the final results, there are interesting findings so far. The preliminary results show that the perception of the enterprise competence and the identification of potential partners are critical phases into the alliance decision-making process.

There is a high tender of the successful alliance-decisions to spend enough time evaluating their enterprises potentialities as well as weakness in order to evaluate the potential partners.

Especially interesting is the fact that the economic benefit seems to be no one of the most important factor to take the decision to be involved in alliances decision making.

Because of the current status of the study in which is now the collection of empirical data, it is not yet possible to present many detail of the key factors, most of the entrepreneurs desire to be involved in alliance but the lack of possession of information about alliances issues as well as the lack of trust are key factors that are limiting this decision.

**4. Conclusions**

Many sectors from developing countries are succumbing to new competitive pressures, and many firms, especially the small and medium sized enterprises are
finding the global marketplace a very hostile territory. To solve this dilemma, it is required the search for new ways of working, in which government; enterprises, universities and non governmental organization decide to work together. This paper provides a framework of alliance decision-making of SMEs, and proposes different phases and key influence factors which SME may experiences before deciding to be engaged.

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