

Hi-tech SMEs and asymmetric alliances: towards a conceptual model for managers

Richard Cotman - Executive summary of MBA research

Summary

Globalisation has made access between world markets faster and easier for all types of business. Small and medium enterprises (SMEs) in the hi-tech sector, whose route to success involves exploiting niche competencies in specialised areas, often find domestic markets too small to sustain growth. In an increasingly globalised environment, international markets become an unavoidable part of many SMEs early development.

These “born global” SMEs, not possessing some of the resources or the knowledge necessary to internationalise on their own, often aim to build partnerships with large multinational companies (MNCs) in order to develop new products for global customers and build distribution channels

Our research found that for hi-tech SMEs, these “asymmetric” alliances pose particular challenges:

- articulating the true value proposition of the smaller partner
- identifying and managing risk within alliances
- understanding and identifying partners with the “right fit”
- internal resistance due to culture and communication issues within the SME

Our research concluded that a simple visual model for conceptualising and communicating alliance value could be a useful tool for SME managers for knowledge transfer and assessing alliance value.

Methodology

The study looked at the current state of research into alliances among small and medium enterprises, as well as the internationalisation strategies employed by “born global” companies to internationalise¹.

The theoretical research was used to develop a set of qualitative interview questions to use in field interviews. Three hi-tech SMEs working in international markets within the healthcare sector were selected, and managers identified who were active in management of alliances. The sample SMEs represented three separate stages of development – a 1 year-old start-up, a 6 year-old small technology supplier with 21 employees and a 16 year-old enterprise of 250 employees worldwide.

Outcomes:

A Conceptual Model of Value and Risk

Our research revealed that personal relationships and networks (particularly at senior level) remain crucial in forming and managing alliances. However as an SME grows and the number of “points of contact” between the SME and the larger partner multiply, internal buy-in and communication across the SME becomes a challenge. All managers we spoke to recognised the importance of articulating a common understanding of an alliance's value proposition and its potential risks across the SME.

3 Key Themes:

Market needs, partner value, risk profile

The model we suggest developed from three main themes that emerged during interviews. The managers interviewed mainly spoke of alliances as bilateral relationships. Therefore, the model we have developed focuses on inter-company behaviours that are principally bilateral, rather than multilateral in nature.

Market Orientation: Without a good understanding of how an alliance creates a unique offering that meets a target market's needs, an alliance is valueless. Among the sample group, the asymmetric alliances studied were all “market” oriented – aimed at distribution or creation of new joint solutions for clients.

Partner Value: a key theme in all the interviews was the importance of identifying, describing and communicating value – both in terms of the SME's perceived value to the larger partner, but also in terms of how the alliance created value for an identified customer group. At the same time, an open and honest evaluation of the MNC's value to the SME must also be communicated within the SME's organisation.

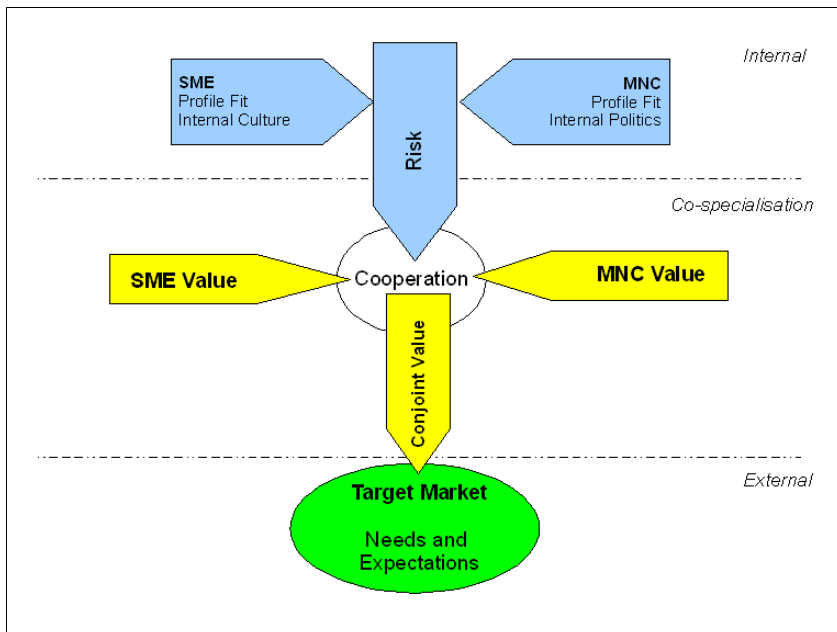
Risk Profile: it's a hard road finding the perfect partner. Having a good understanding of the profile of the MNC partner (revenues, history, location, internal politics) assists in identifying the relational risk involved in an alliance. At the same time, academic research indicates that the right choice of alliance structure (joint venture, exchange of capital, contract-based) may help mitigate the risk of unplanned alliance collapse².

1 Freeman, S. Edwards, R. Schroder, B, 2006: « How Smaller Born-Global Firms Use Networks and Alliances to Overcome Constraints to Rapid Internationalization » *Journal of International Marketing* Vol. 14, No. 3, 2006, pp. 33–63

2 Puthod, D et Thévenard-Puthod, C., 2006 «Coopération, tensions et conflit dans un réseau d'innovation construit autour d'une PME » dans *Revue française de gestion*, No. 164, 2006

Building a Simple, Useful Model

In order to ensure that the alliance model we propose (illustrated below) is practical and can be immediately applied by SME managers, we have kept our model relatively simple. However, by their nature, theoretical management models must be somewhat reductive. They deal with complexity by illustrating generalities. In the model below, market needs are illustrated in green, risk factors in blue, and partner value in yellow.



Using the Model: Assessment and Communication

We see our model being applied in two specific areas of alliance management where managers identified challenges: firstly rapidly assessing the value of potential alliances, and secondly, communicating the value and nature of alliances across their organisation.

Alliance Assessment Tool: one thought experiment used during the interviews was the scenario of a “chance meeting” in an airport departure lounge of an SME manager with a potential partner. If the SME manager knows little about the other company, how does he rapidly assess the potential value and risk of an alliance? By focusing conversation on the factors illustrated in our model: market needs, partner value and risk; the manager can rapidly build a picture of the usefulness of continuing negotiations.

Internal Communication Tool: the three factors of our model can be used to structure internal discussions within the SME around the value and potential of alliances. Encouraging a common model and “common alliance vocabulary” across the company may also aid in knowledge transfer within the SME, and reduce the potential for internal resistance.

Limitations

As noted earlier, our model focuses on conceptualising value and risk in *bilateral* alliances, rather than *multilateral* alliances. This reflects the perspectives generally expressed by the managers in our study sample. We see however no reason in principle why the same key factors could not be used as starting points in modeling value and risk in multilateral alliances.

Our research was based on a small sample of hi-tech SME managers working within one industry vertical – healthcare technology. Care should be taken in extrapolating our results to other sectors, however we believe that the main axes of our model are likely applicable horizontally across SMEs working in many hi-tech industries.

In addition, the model concentrates on qualitative aspects of alliance relationships, rather than quantitative measures of value, risk and success.

Further Research Opportunities

Our project indicates several possible lines of approach for future researchers, including:

- the role of geographical proximity in mitigating perceived alliance risk;
- the perspectives of MNC managers;
- the interplay between personal relationships and formalised structures in alliance management;
- the cultural and organisational orientation required internally within an SME to successfully implement an alliance strategy

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