

Improving the outcomes of SME alliances

Detective Hercule Poirot, the title character of Agatha Christie's famed novels, remarks to the barber in one of the televised episodes: "A haircut is a strategic alliance, I bring to it my hair and you the undoubted skills."

It can be well understood from this example that for a strategic alliance to attain the outcome that can satisfy both partners, it is paramount that they trust each other and put their best foot forward. However, businesses are often run in complex and turbulent environs, and things rarely go as planned, thereby threatening the successful running of the alliance.

Dissatisfied alliance partners often have no other option but to get involved in litigation to ensure that the sticking point of the partnership gets ironed out. The recent dispute between McDonalds and its Indian business partner Connaught Plaza Restaurants provides

further credence that strategic alliances may provide the alluring prospect of profits through complementary skills of partners, but very often they may result in losses arising out of differing viewpoints. Indeed, the failure rates globally have been estimated to be around 50-70%.

For an SME, chances of alliance failure are more pronounced, as they can be easily arm-twisted given that they often do not have the resources for contractual enforcement. In a detailed study of 86 alliances of Goan manufacturing SMEs, we came across a case where an excavating machine had been sent to a foreign country with expectation of greater rent, but the asset was lost owing to it being appropriated by the foreign partner. The small Indian partner could not enforce the contract due to the high costs involved and rather than the benefits it was supposed to get through

this international collaboration, it ended up even losing its asset. Another well-documented case has been that of Sendo, which was a small firm engaged in manufacturing of mobile phones and had bagged an alliance with Microsoft, wherein the software giant had invested for a minority stake in the company. It was thought at that time that Sendo would really benefit from the capital and experience of Microsoft. However, Sendo went into administration after the alliance was formed and Microsoft was able to get access to the Z100 proprietary technology of Sendo by exercising a contractual clause. Thus, all-in-all, alliances represent a double-edged sword for an SME.

So how do SMEs ensure that their alliances turn out to be successful? Firstly, it is extremely essential that the objectives of both partners are in harmony. For example, if the aim of one partner is to gain

access to the technology of the other which the latter is not willing to provide, the alliance will end up in failure. After the alignment of objectives, a background check on the firm and its working culture must also be done. Too often, cultural differences hinder the working dynamic between partners. From an international perspective, the Japanese, for instance, have a high regard for authority, while the Israelis tend to be direct in their conversations. Thus, especially in international alliances, an understanding on the cultural dimensions of the alliance partner is extremely important.

Our study further revealed that the presence of behavioral factors, in the form of trust, commitment, communication, and conflict, had a significant impact on alliance outcomes. For example, alliances characterized by high trust, commitment, and communication, were found to exhibit better outcomes.

Trustful, committed, and communicative partners have a greater tendency to work toward achieving the grander goal of alliance success, rather than working for selfish reasons. Most importantly, such alliance partners ensure that each other's vulnerabilities are never exploited. Conflicts between partners give rise to suspi-

cion and partners may withhold contribution of resources, owing to fears of appropriation, thereby affecting alliance outcomes.

If alliance partners go through the pre-formation and post-formation checklist in sufficient detail, the hazards associated with alliance failures can be mitigated to a sufficient extent.



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