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Strategic alliances of small and medium-sized enterprises in the knowledge-based economy

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STRATEGIC ALLIANCES OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE KNOWLEDGE-BASED ECONOMY

Introduction

Small and medium-sized enterprises enter into strategic alliances to obtain necessary funds, larger market shares, develop activities on foreign markets, as they do not possess such resources and possibilities alone. Many times, strategic alliances allow them to improve their own competitive position on the market. The partners to an alliance are to guarantee the possibility of lowering the prices, improving the availability of products, outlet markets, technical or marketing expert reports. The intentional selection of cooperators, optimally designed functions, structures, tasks and knowledge management principles in a strategic alliance decide about its success. However, the success of an alliance between two definitely different organisations, concluded on the economic level during a crisis is definitely more difficult to achieve. Despite the appropriately designed and realized cooperation, the enterprises being the alliance partners often fail to accomplish the planned goals .

This elaborate presents selected results of strategic alliances between a small company and a large organisation. The author will try to answer the questions raised in the following way: What can be the scope of action and the scope of the impact of strategic alliances with large companies on the competitive position of small organisations?

The scope of activities of strategic alliances

European enterprises, at the background of the US and Japanese competition, are characterized by a low level of innovation. This relatively low level

made the European Commission to recommend the business relations as an element of the stimulation of the development of new enterprises, especially micro-, small and medium-sized companies. Supporting enterprises through government incentive actions such as lending, establishing international contacts, granting non-returnable grants is to make the situation of Europe, especially the position of Poland on world markets, to improve. According to the report of the European Union from 2004 titled *Raising EU R&D Intensity*, as well as pursuant to the suggestions of the World Bank (2004), Poland should take advantage of direct and indirect instruments stimulating innovative activities, through which micro-, small and medium-sized companies will be able to offer their new possibilities to large partners. Such instruments include:

- tax privileges and reliefs;
- loans;
- guarantees;
- public procurements;
- the funds of venture capitals.¹

In Poland, government institutions have been engaged in supporting the private activities for a few years now. They have been implementing, among other things, aid programmes such as:²

- SOP ICE (2004–2006) submeasure 2.2.1, 2.3,
- Technology Credit Support;
- Operational Programme Innovative Economy (2007–2013).

Table 1 presents strategic alliances of small organisations with large economic institutions established in modern industry branches (within the domain of the knowledge-based economy). Their faster development and economic success of a small organisation is the result of such activities.

¹ I. Bremmer, *State Capitalism Comes of Age*, „Foreign Affairs”, May/June 2009, s. 40.

² P. Tamowicz, *Licencja jako droga poprawy innowacyjności i konkurencyjności polskich przedsiębiorstw. Analiza stanu istniejącego oraz istniejące bariery (analiza wykonana na zlecenie Ministerstwa Gospodarki)*, Gdańsk 2006, s. 36.

Table 1. The development of companies through strategic alliances.

Company name	Parties to the alliance	Cooperation principles	Industry
Innogenetics	– GlaxoSmithKline Biologicals – Roche Group of Companies, – Sanofi-Aventis – Simens Medical Solutions (former Bayer Healthcare LLC)	Cooperation in terms of the licence, distribution and marketing, including HIV vaccine	Biotechnologies, pharmaceutical industry
Plextronics	Solvay	The cooperation in terms of the production of organic solar cells, conductive cells, organic paints	Chemical industry, electronics
Quintiles	Clinical Data Inc.	In the first years of operation, providing statistical data to pharmaceutical companies, and further clinical research. Today: Quintiles supported the acceleration of the process of marketing 30 best selling medicines in the world.	Biotechnologies
Marine Acoustics	US Army	The cooperation in terms of building the mobile simultaneous interpretation system	Military industry

Source: www.art.army.mil (12.10.2009), www.plextronics.com (03.09.2009); www.bioportfolio.com (08.08.2009); www.innogenetics.com (02.03.2009); www.quintiles.com (04.05.2009).

The international connections presented in the table above made small companies, commencing the cooperation with international organisations, to treat them as a leverage for its development. Today, the majority of them has wide economic relations and their present turnover may be treated as qualifying them to the group of large organisations. Quintiles is an example of success; through strategic alliances it is already a company employing 19,000 people. The company is successful all over the world, also in Poland (in 2009, it was assessed as the best employer in Poland).

Marine Acoustics is a small entrepreneur who took advantage of the programme of the development of small companies in the USA. The programme is related to the armaments industry and is called: *Small Business Innovation Research* (SBIR). The programme is addressed at small organisations which are more innovative, more flexible and may develop new technologies through the cooperation with large organisations for the benefit of the US army. Many companies implementing modern production solutions, including optical sensors, mobile radars (21st Century System), precision and optical materials (II-IV Inc.), the construction of light-weight mobile power generators (Coleman) and many more, took advantage of SBIR. The companies commencing the cooperation in the form of a strategic alliance under SBIR have the opportunity to obtain, within the research they conduct (depending on the advancement of works), financial support and, at the time of accomplishing the positive outcome, help in the project commercialisation and in orders.

Synergy effect

The research conducted by L.D. Segil in 2008 presents the bad situation of strategic alliances. 60% of alliances fail (or accomplish only the minimum objectives) just after the launch, 55% go bankrupt within three first years.³ Segil proved that the fail of strategic alliances was not caused by an erroneous management process or bad strategy, but by the lack of correct communication between partners. Due to the differences in organisational cultures of small companies and their partners – large organisations, the accomplishment of the synergy effect or of assumed objectives seems to be very difficult.

Building or improving the competitive position of micro-, small and medium-sized enterprises is associated with the knowledge management process. The information held by enterprises – alliance partners may affect their market value in the case when it is transformed into the knowledge in the learning process, i.e. interactions between companies.⁴ The exchange of information and creating knowledge depends on the interest of the parties – alliance partners, absorption possibilities, the will to cooperate with a large partner who obtains

³ L.D. Segil, *Making Business Alliance Work*, „Management Quarterly”, Summer 2008, 49, no. 2, s. 30.

⁴ J.M. Saiz Alvarez, M. Garcia-Ochoa y Mayor, *Externalizacion de servicios y alianzas estrategicas. En la nueva economia del conocimiento*, „Economia Industrial”, 370, 2008, s. 79.

knowledge – information, communications methods and knowledge transmission, integrity and transparency in such an action. Obviously, not all alliance partners hold the same learning capabilities and knowledge assimilation. Small enterprises, to take advantage of the possibilities created by a strategic alliance with a large company, must establish processes, structures and the policy related to the new, joint action. According to the research conducted by Segil, a correctly designed strategic alliance between a micro-, small or medium-sized enterprise and a large organisation allows a small company to develop 20% faster than its competition and generate sales higher by 11%.⁵

The model of building the synergy effect in the strategic alliance was presented in Fig. 1. The model presents two various levels: (1) the level of an individual company, the direct creation of values in the process of the interaction in each company; (2) the level of both organisations, through the process of the creation and improvement of the specific knowledge of the companies. These measures can be defined as regular interactions between companies that facilitate knowledge transfer, re-combinations and/or creation.⁶

⁵ L.D. Segil, *Making Business...*, *op.cit.*, s. 32.

⁶ F.G. Gomez, M.J.D. Manzanares, J.D. Sanchez de Pablo Gonzales del Campo, *Utilizing Information Technology in Developing Strategic Alliances Among Organizations*, in: *Sharing Knowledge in Strategic Alliance to Build Collaborative Advantage*, Hershey 2006, s. 103.

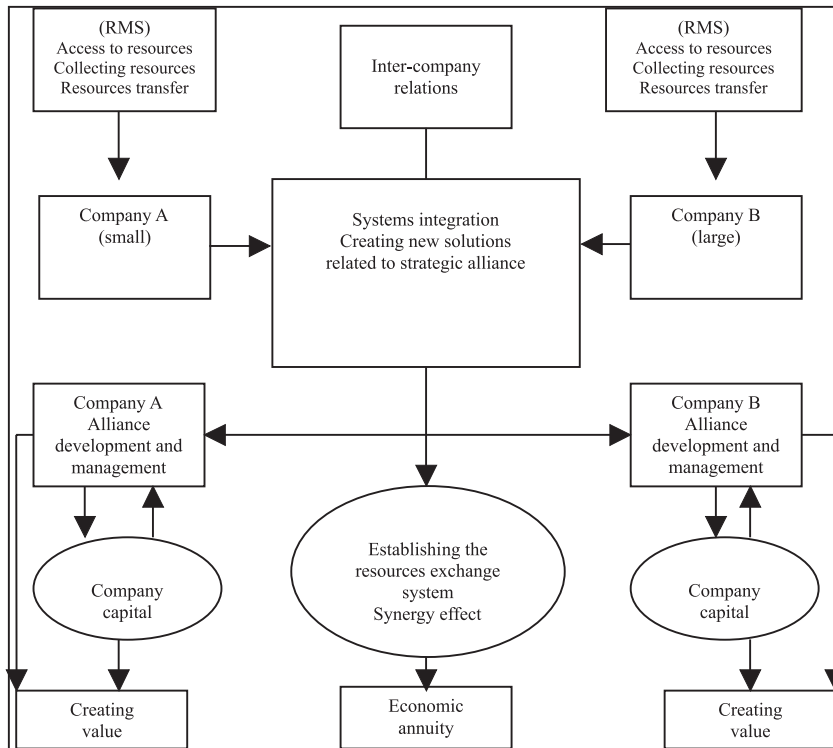


Figure 1. Building the synergy effect in a strategic alliance in the Resources Management System (RMS)

Source: own research based on F.G. Gomez, M.J.D. Manzanares, J.D. Sanchez de Pablo Gonzales del Campo, *Utilizing Information...., op.cit.*

The analysis of strategic alliances indicates that the objective established by partners, i.e. the synergy effect from the strategic alliance of a micro-, small or medium-sized company may be accomplished, but one should apply at least the following rules:

1. The building and maintenance of the internal agreement concerning: the selection of the partner, the objective of the alliance, people and tools that should be used in the alliance. The internal agreement allows for the communication of unanimous (within one organisation) messages to the alliance partner.
2. Building strong principles of the functioning of the future alliance by people responsible for preliminary negotiations concerning the agreement;

3. Differences in the corporate culture of partners, differences in the style of conducting operations, differences in the values and attitude towards business should be systematically the object of talks and negotiations of alliance partners;
4. Managing the process of the development of a strategic alliance during its existence should be adopted to the life cycle of the strategic alliance;
5. The management of a strategic alliance should be entrusted to the Alliance Management Manager whose remuneration should be strongly related to the accomplished results; the Alliance Manager should handle the relations between the alliance partners, possess appropriate managerial capabilities which involve, among other things, conflicts and problems solution; he also should competently assess the situation from the point of view of each alliance participant;
6. Taking care of the knowledge transfer principles; securing knowledge resources in particular organisations forming the alliance, both during and also after the end of the cooperation, should be the subject of a detailed agreement concluded at the beginning of the collaboration.

Conclusion

The establishment of strategic alliances by small organisations should not only be limited to companies of similar size, but also large organisations should be taken into account. The present world crisis and the period to follow create such a situation on the international market that companies apply or will apply new methods of improving their competitive position, and Polish enterprises must remember about it.

Skilfully used resources may significantly affect the realisation of pro-innovative investments of alliance partners. The existing relations supporting entrepreneurs in countries outside Poland often have a huge implication for the development of business. However, the state aid as well as other intermediary institutions is not sufficient to establish alliances of significance for global markets that would be strategic alliances, with the participation of Polish enterprises. Therefore, it seems justified to undertake decisive actions in this respect, whose scope was described below:

- rousing the awareness of the need to establish international strategic alliances in Poland to improve the competitive position (the present findings of the rese-

arch of various research centres do not show such a need among Polish entrepreneurs);

- seeking intermediary companies (including lobbyist companies) to provide aid concerning the establishment of a strategic alliance to finance investments (also through investments of sovereign wealth funds), the transfer of technical knowledge, sourcing new outlet markets, and new and cheaper sources of development financing;
- active and permanent collaboration with national centres such as: Polish Information and Foreign Investment Agency (PAIiIZ), foreign diplomatic establishments to find new opportunities to develop export and import activities.

International relations being strategic alliances are bound to improve the competitive position of Polish enterprises. It results from differences in the technological development of Polish companies as compared with foreign enterprises, including American and Japanese ones. Through the above-mentioned measures, Polish companies have a chance to compete on the global market:

- the transfer of technical knowledge, new technologies (licences, leasing, purchase);
- the improvement of the processes in enterprises such as: human resources management, the implementation of new structures, quality standards;
- lowering operating expenses through the expansion of the scale of activities, the optimisation of processes;
- the expansion of the production, commercial and services offer with more attractive, competitive and innovative solutions;
- reducing the risk of the operations through the change in the form of the control over the operations of a company.

Domestic companies, taking advantage of the skills and supporting its resources with appropriate relations with the strategic alliance partners improve their competitive position. In addition, the competitive position of the strategic alliance may be changed (improved or deteriorated) by investments implemented by sovereign wealth funds, actions of lobbyist companies. Therefore, being aware of the risk, alliance partners should also remember about new elements of the market competition.

ALIANSE STRATEGICZNE MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW W GOSPODARCE OPARTEJ NA WIEDZY

Streszczenie

Małe i średnie przedsiębiorstwa wchodzą w alianse strategiczne, aby uzyskać niezbędne fundusze, większe udziały rynkowe, rozwinąć działalność na zagranicznych rynkach, samodzielnie bowiem nie posiadają takich zasobów i możliwości. Artykuł prezentuje problem zawierania skutecznych aliansów strategicznych pomiędzy małymi firmami a dużymi organizacjami. Z uwagi na różnice kulturowe, organizacyjne partnerów aliansu, należy zwrócić szczególną uwagę na sposób podjęcia współpracy, zarządzania porozumieniem, a następnie zakończenia wspólnego działania. Alians strategiczny dla małej organizacji może stać się okazją do szybszego rozwoju stwarzając jej nowe, dodatkowe możliwości w walce o obniżkę kosztów, nowe rynki zbytu, działania marketingowe.

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