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STRATEGIC ALLIANCE OF MALAYSIAN SMES TO COMPETE GLOBALLY: ENDOGENOUS AND EXOGENOUS PERSPECTIVES

This study addresses the concept of strategic alliance amongst different industries of SMEs in Malaysia and attempts to create a regulatory framework for it from the holistic view. Technically, strategic alliance is a systematic approach to share resources, acquire more capabilities and, finally, create cooperative and competitive advantages. It is the case study based on the survey conducted on 100 SMEs, involving CEOs and business developers of SMEs working in Selangor, Malaysia. The total of 60 responses were received, representing the response rate of 60%. The findings of the study show that, in conducting a strategic partnership program, the first step is to select a potential partner and this process requires a full understanding of partners in two dimensions: 1) resources and capabilities; and 2) cost and risks. In addition, it is also found that learning and sharing knowledge resources is a critical factor for the success of any strategic alliance.

Keywords: strategic alliance, small and medium enterprises (SMEs), resource-based view (RBV), partner selection, measuring performance.

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СТРАТЕГІЧНІ АЛЬЯНСИ МАЛАЙЗІЙСЬКИХ МАЛИХ І СЕРЕДНІХ ПІДПРИЄМСТВ, ЩО ВИХОДЯТЬ НА СВІТОВИЙ РИНОК: ВНУТРІШНІ І ЗОВНІШНІ ПЕРСПЕКТИВИ

У статті розглянуто концепцію стратегічного альянсу між підприємствами малого і середнього бізнесу в Малайзії, зроблено спробу узагальнити нормативні положення. З технічної точки зору, стратегічний альянс — це системний підхід до обміну ресурсами, розширення можливостей і створення кооперативних і конкурентних переваг. Дослідження засноване на опитуванні директорів 100 малих і середніх підприємств у Селангори (Малайзія), отримано 60 відповідей з рівнем відгуку 60%. Результати дослідження показали, що при створенні програми стратегічного партнерства перший крок — це вибір потенційного партнера, і цей процес включає розгляд їх у двох вимірах: 1. Ресурси і можливості і 2. Витрати і ризики. Також показано, що для успіху стратегічного альянсу необхідне навчання і обмін знаннями.

Ключові слова: стратегічний альянс, малі та середні підприємства, ресурсно-орієнтований підхід, вибір партнерів, вимір продуктивності.

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СТРАТЕГИЧЕСКИЕ АЛЬЯНСЫ МАЛАЙЗИЙСКИХ МАЛЫХ И СРЕДНИХ ПРЕДПРИЯТИЙ, ВЫХОДЯЩИХ НА МИРОВОЙ РЫНОК: ВНУТРЕННИЕ И ВНЕШНИЕ ПЕРСПЕКТИВЫ

В статье рассмотрена концепция стратегического альянса между предприятиями малого и среднего бизнеса в Малайзии, сделана попытка создания обобщающих нормативных положений. С технической точки зрения, стратегический альянс — это системный подход к обмену ресурсами, расширению возможностей и созданию сотруднических и конкурентных преимуществ. Исследование основано на опросе директоров 100 малых и средних предприятий в Селангоре (Малайзия), получено 60

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ответов с уровнем отклика 60%. Результаты исследования показали, что при создании программы стратегического партнерства первый шаг — это выбор потенциального партнера, и этот процесс включает рассмотрение их в двух измерениях: 1. Ресурсы и возможности и 2. Затраты и риски. Также показано, что для успеха стратегического альянса необходимо обучение и обмен знаниями.

Ключевые слова: стратегический альянс, малые и средние предприятия, ресурсно-ориентированный подход, выбор партнеров, измерение производительности.

Introduction. Significant industrialization and economic development are seen in the context of Malaysian market after the country's independence in 1975. The data demonstrate a considerable growth in Malaysian economy with the important role of SMEs. Malaysian National SMEs Development Council (MNSDC, 2006) states that globalization and economic transformation taking place in Malaysia brings new opportunities and challenges for domestic SMEs. Similarly, in another report (MNSDC, 2010), the role of SMEs in a country's economic development is revealed. SMEs make up over 99% of total establishments but contribute only 32% of the gross domestic product (GDP) in comparison to over 40% GDP contribution in other regional economies, such as Thailand, Taiwan and Korea - suggesting big opportunities for domestic SMEs to expand their role. Thus, SMEs in Malaysia need to recognize the on-going economic transformation and rise to the challenge of having the capability, capacity and flexibility to meet the changing patterns of demand.

From theoretical and practical points of view, SMEs are considered as a crucial element of economic and industrial development. Systematically, SME development and superior performance come from organizational resources and capabilities. These resources are limited but distributed variously and widely in an unequal way. One of the most common recognized approaches to acquire more resources is establishing an alliance with other forms in order to share resources. This alliance should be designed and conducted competitively and intelligently to achieve its main objectives. Since larger organizations normally have more resources in a broader scope, systematically, their strategies and policies toward alliance differ from SMEs in terms of both formation and management. However, strategic alliance is not a narrow concept and has been addressed in different dimensions from finance to management perspectives. Strategic alliances are considered as a way to grow product and service offers, develop new markets and control technology and R&D, achieve market power and market entry strategy, both domestically and internationally. Due to its importance, deep and broad understanding of strategic alliance is necessary and it should be considered by executives more efficiently than ever.

Literature Review. According to Hitt et al. (2006), technically, strategic alliances are regarded as a primary type of cooperative strategies. Therefore, strategic alliance is defined as a cooperative strategy in which firms share some of their resources and capabilities to create a competitive advantage. This definition has been also supported by David (2007). Technically, competitive advantage, created by cooperative strategy, is known as collaborative or relational advantage that is pursued mutually by participating firms.

Because of the rapid technological changes at the market, firms are following cooperative and collaborative strategies to create new competitive advantages as well as strengthen and upgrade existing strategies. It has been said that (Hitt et al., 2006), cooperative strategies are considered as those strategies in which enterprises work together to achieve a shared objective by creating value-exceeding cost. Thus, strategic alliance can also be termed strategic coalition (Porter and Fuller, 1986) or strategic network (Jarillo, 1988, 1993).

Kotler et al. (2006) add that companies should be creative in finding partners that might complement their strength and offset their weakness; therefore, well-managed alliances enable firms to obtain better sales at less costs and better times as well as efficiencies. To keep strategic alliances thriving, enterprises have swift to organizational structure to support them and have come to view the abilities to form and manage partnerships as core skills. This system is known as partner relationship management or PRM. From the international business point of view, scholars and researchers (Shenkar and Luo, 2004; Gareth and George, 2008; Khin, 2011b) have taken strategic and marketing alliances into consideration as a major market entry venue. Such alliances allow a firm quickly establish itself at a foreign market through a mutual process. For SMEs, one solution to establish a prospering alliance is mutualisation and local alliances rather than international ones because SMEs, normally, may not have requisite economies to justify expenses and facilities.

The development of competitive SMEs is a crucial task for creating a thriving economy and, in this sense, growth and development of SMEs in Malaysia have markedly contributed to employment creation and, through it, poverty reduction (UNDP, 2007). According to the report published by SMIDEC (Small and Medium Industries Development Council, 2007), in Malaysia, over 90% (or approximately 330,000) of companies are SMEs, which are defined as those with an annual turnover between RM200, 000 to RM25 mln., or having 5 to 150 employees. Yet, when compared to the overall performance of larger national firms, SMEs in Malaysia have clearly not reached their full potentials. SMIDEC (2007) also indicates that SMEs in Malaysia have been distributed across 3 economic sectors, namely manufacturing, agriculture and service, in which service sector contains more enterprises.

According to theoretical findings of this study, strategic alliances can assist SMEs in Malaysia to improve their competitiveness and enable them to deal with competitive challenges more effectively through the development of managerial skills, development of human capital, improvement of financial and technical capabilities, improvement of market share and access to market as well as reduction of the intensity of domestic and international competition.

After reviewing these findings, an integrated illustration demonstrates the main aspects of alliance to be further applied in this study. This illustration is made upon conceptual notes of literature review and can be divided into 4 consecutive sections, which are:

1. Scope of alliance;
2. Type of alliance;
3. Capabilities pursued in alliance;
4. Scope of alliance (market).

Research Method.

Sampling Procedure (size and process).

Based on Malaysian Bureau of Statistics and the latest report by SMIDEC (2007), the census on establishments and companies in Malaysian reveals that, in Malaysia, a total number of 547,307 SMEs are concentrated across 3 main economic sectors. In this study, the sampling method used is random sampling, and the total number of 100 SMEs, that are located in Selangor; and Wilayah Kuala Lumpur, are chosen and the number of executives and business developers of SMEs, are asked to participate in the survey. The research questionnaires were mailed to SMEs executives through via emails addresses that are obtained from SME info and SME bank two authorized agencies.

Research Hypotheses.

H1: Acquiring technical know-how is the most important strategic objectives pursued by SMEs in Malaysia through strategic alliances.

H2: Executives of SMEs in Malaysia are pursuing alliance with other SMEs that are complementors.

H3: SMEs in Malaysia are pursuing alliance with big firms that are competitors.

H4: Strategic alliances among SMEs in Malaysia are basically equity based.

H5: Strategic alliances among SMEs in Malaysia and big firms are non-equity based.

H6: Malaysian SMEs form marketing alliances with both SMEs and big firms.

H7: Executives of SMEs in Malaysia are eager to develop horizontal complementary alliances and, therefore, play a critical role in industrial linkages.

H8: Executives of SMEs in Malaysia are eager to develop vertical complementary alliances and, therefore, play a critical role in industrial linkages.

H9: Executives of SMEs in Malaysia use transaction costs-theory in selecting their potential partners for domestic alliances.

Statistical Method. This research uses categorical and nominal scales which, in return, enable the researchers to obtain clear information from a variety of executives through a simple and understandable close-ended questionnaire. This approach opens a way to explore and explain the data effectively as it is addressed in the next sections.

Data analysis in this study is done through frequency distribution test, and Chi-square test, the results which of are shown in bar charts for better clarification. Frequency distribution test is done to determine, which item for each question has received more responses and accordingly which concept has been paid more attention by counting the number of responses of each category for each question. In addition, Chi-square test is done for determining the compatibility of the observed result with a stated null hypothesis.

Results. Frequency distribution tests and Chi-square tests are used to hypothesize the hypotheses in the current study.

The results for H1 show that 28% of the managers mention technical learning as their objective for making in alliance, 22.7% of the managers point that market access is their objective alliances 21.3% of the managers choose market power and competitiveness as their third objective and, finally, only 16% of them state that developing managerial capabilities is their aim in developing strategic alliance. Chi-square test

for this hypothesis provides a p-value of 0.022, which is less than 0.05. Therefore, this hypothesis cannot be rejected.

Table 1. Malaysian SMEs' Objectives

		Frequency	%	Valid %	Cumulative %
Valid	Market power and competitiveness	32	21.3	21.3	21.3
	Market access	34	22.7	22.7	44.0
	Technical learning	42	28.0	28.0	72.0
	Developing managerial capabilities	24	16.0	16.0	88.0
	Others	18	12.0	12.0	100.0
	Total	150	100.0	100.0	

The results for H2 demonstrate that 65.3% of the executives prefer complementor SMEs for alliances and 34.7% of them choose their competitors into consideration for alliances. The chi-square test gives a p-value less than 0.05 (0.00) indicating that this hypothesis cannot be rejected.

Table 2. Considerable Partners for SMEs in Malaysia for Making Alliances (among other SMEs)

		Frequency	%	Valid %	Cumulative %
Valid	Complementor	98	65.3	65.3	65.3
	Competitor	52	34.7	34.7	100.0
	Total	150	100.0	100.0	

The H3 results reveal that 45.3% of SMEs preferred to develop strategic alliance with complementing big firms rather than competitive ones, and the portion of 54.7% among these enterprises favoured alliances with big firms, which are competitors. The chi-square test produced the p-value of 0.253, which was more than 0.05 indicating that this hypothesis cannot be accepted.

Table 3. Considerable Partners for SMEs in Malaysia for Making Alliances with Big Firms

		Frequency	%	Valid %	Cumulative %
Valid	Complementor	68	45.3	45.3	45.3
	Competitor	82	54.7	54.7	100.0
	Total	150	100.0	100.0	

The results for H4 show that the majority of SMEs in Malaysia allot a specific amount of capital to possess a particular percentage of the established alliance (53.3%) and the rest (46.7%) do not allocate any specific amount of capital. Chi-square test presents a p-value of more than 0.05 (0.414), and, therefore, this hypothesis cannot be accepted.

Table 4. Malaysian SMEs Equity Based Strategic Alliance

		Frequency	%	Valid %	Cumulative %
Valid	Yes	80	53.3	53.3	53.3
	No	70	46.7	46.7	100.0
	Total	150	100.0	100.0	

The results for H5 illustrate that 50.7% of the enterprises make alliances with big firms through joint ventures. For 20% of these enterprises, the structure of their

alliances with big firms is through both joint ventures and non-financial resources based ventures. Finally, 29.3% of SMEs in Malaysia choose alliances structure that is non-equity based ventures for strategic alliances with big firms. Chi-square test gives a p-value of 0.00, which is less than 0.05, and, therefore, this hypothesis cannot be accepted.

Table 5. Alliance Structure for SMEs in Malaysia with Big Firms

		Frequency	%	Valid %	Cumulative %
Valid	Non financial resources	44	29.3	29.3	29.3
	Joint ventures	76	50.7	50.7	80.0
	Can be both	30	20.0	20.0	100.0
	Total	150	100.0	100.0	

The results for H6 demonstrate that 42.7% of SMEs form marketing alliance with big firms, while the portion of 32% formulate their marketing alliance with both other SMEs as well as big firms and the rest (25.3%) target other SMEs. Chi-square test represents the p-value of 0.032, which is less than 0.05, therefore, this hypothesis cannot be accepted.

Table 6. Alliances Partners for SMEs in Malaysia towards Fortifying their Marketing Capabilities

		Frequency	%	Valid %	Cumulative %
Valid	Other SMEs	38	25.3	25.3	25.3
	Big firms	64	42.7	42.7	68.0
	Can be both	48	32.0	32.0	100.0
	Total	150	100.0	100.0	

The results for H7 show that the total of 38.7% of SMEs develop their alliances with other firms performing in other industries (vertical alliance). 33.3% of them make their alliances with other enterprises in the same industry (horizontal alliance). On the other hand, 28% prefer to have alliances both vertically and horizontally. The Chi-square test gives p-value of 0.278, which is more than 0.05. Therefore, this hypothesis cannot be rejected.

Table 7. Developing Alliance in Same Industry

		Frequency	%	Valid %	Cumulative %
Valid	Yes	50	33.3	33.3	33.3
	No	58	38.7	38.7	72.0
	Some yes, some no	42	28.0	28.0	100.0
	Total	150	100.0	100.0	

The results for H8 illustrate that 29.3% of SMEs enter both new market and new industry for making new alliance, and 22.7% of the managers do not mention any item and, in this sense, more studies in order to explore the details are needed. Based on Chi-square test (p-value= 0.665 >0.05), this hypothesis cannot be rejected.

For H9, the results reveal that 53.3% of SMEs managers consider financial and operational resources in selecting an appropriate partner. 29.3% of the managers take intangible resources and competitive capabilities, like know-how and brand, into their consideration while choosing partners. The rest of the managers (17.3%) pay attention to the overall costs of alliance vis-a-vis sole development of a resource in selecting partners. The Chi-square test gives the p-value of less than 0.05 and, therefore, this hypothesis cannot be accepted.

Table 8. Eagerness of SMEs Executives in Malaysia to Develop Vertical Complementary

		Frequency	%	Valid %	Cumulative %
Valid	Market	36	24.0	24.0	24.0
	Industry	36	24.0	24.0	48.0
	Both of them	44	29.3	29.3	77.3
	None of them	34	22.7	22.7	100.0
	Total	150	100.0	100.0	

Table 9. Selection of Potential Partners by SMEs in Malaysia for Domestic Alliance

		Frequency	%	Valid %	Cumulative %
Valid	Intangible resources	44	29.3	29.3	29.3
	Financial and operational resources	80	53.3	53.3	82.7
	Cost	26	17.3	17.3	100.0
	Total	150	100.0	100.0	

Conclusion. This study attempts to provide a comprehensive view on strategic alliance for SMEs in Malaysia and develop a regulatory framework. As it can be seen, the concept of strategic alliance is both an interdisciplinary and multidisciplinary issue that consequently embraces many interrelated factors from leadership to finance, strategy, marketing and also internationalization and underlines the complexity of an integrative approach. Hence, logically, the inclusion of all concepts and factors synoptically in a model or conceptual framework omits many important aspects of an alliance as a whole field of inquiry. Therefore, though this study is designed to contrive a model for analysing strategic alliance between SMEs in Malaysia and develop a simple schematic framework to be served as a regulatory map into this domain, this study excavates some gaps still existing in literature and are yet to be bridged by other studies. Finally, this study is designed to remove knowledge gap in the body of alliances among SMEs in Malaysia.

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