STRATEGIC ALLIANCES BY SMALL- AND MEDIUM SIZED FIRMS: AN EXPLORATIVE STUDY AND A CONCEPTUAL FRAMEWORK

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ABSTRACT
This article seeks to provide a deeper understanding of strategic alliances by SMEs and to develop a conceptual framework in this field. A case study method is used to thoroughly examine different alliances adopted by four Swedish SMEs particularly in respect with exchange of resources, learning and network. Few propositions are drawn through the interaction between the existing theories and the data collected from the case studies. For future research, both case study approach and survey method have been proposed, but for different purposes.

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1. INTRODUCTION

In the field of internationalization, many researchers have studied different aspects of strategic alliances, which are cooperative agreements between two or more organizations for attaining mutually beneficial goals. These studies almost exclusively deal with large multinational firms because only these firms have been believed to be capable to engage in alliances (see Lorange and Roos, 1993; Faulkner, 1995; Bleeke and Ernst, 1995; and Medcof, 1997). Past research on international joint ventures has concentrated on issues relating to joint ventures of large firms (D’Souza and McDougall, 1986). In my view strategical alliances are equally important for small- and medium-sized enterprises (SMEs) as they usually are in shortage of complementary resources (see also Coveillo and Munro, 1997). These vital resources can be procured by a SME through collaboration with other firms without investing its own capital alone. For small firms, significant increase in efficiency can be gained through alliances (Baird et al. 1994a).

International marketing is not an area only for large firms, even SMEs fit quite well in it. In a survey study of Ontario based exporters, Calof (1993) concludes that SMEs are capable of entering the same markets as are the large firms. The only difference is that large firms with more resources are able to seek out more international opportunities and they appear to do so with greater frequency than do SMEs (ibid.). In this paper, I argue that more and more SMEs will find international involvement will be a necessity for survival and growth rather than a mere adventure for only few of them. As competition across national boundaries intensifies, alliances become an important strategic option for SMEs moving abroad (Hu and Korneliussen, 1997; Baird et al. 1994b). Historically, research on the internationalization process has tended to focus on large manufacturing firms (Coviello and Munro, 1997), therefore a few studies on the internationalization of SMEs can be identified. As export is considered as the initial stage of internationalization (Johanson and Wiedersheim-Paul, 1975), most of these studies concern exporting activity (Kaynak et al.,
1987; Namiki, 1988; Hansen et al. 1994). One good exception to this trend is the work of Baird et al. (1994b) which deals with the choice of international strategies by small business. One important conclusion of the study is that export oriented small firms view exporting, foreign alliances and foreign equity investments as a single international strategy. But strategic alliances are long-range collaborative arrangements and far from traditional export or financial investment by a single firm. This is an important explanation for treating strategic alliances separately in the larger firm literature. This literature is helpful but not sufficient to describe and analyze strategic alliances in SMEs because small businesses are not just smaller versions of big businesses (Baird et al. 1994a). As Calof and Viviers (1995), and Shuman and Seeger (1986) argue that they have unique needs, advantages, problems and dynamics. Shuman and Seeger have quoted Welsh and White (1981, p.18) who go one step ahead:

We would argue, though, that the very size of small businesses creates a special condition which can be referred to as resource poverty - that distinguishes them from their larger counterparts and requires some very different management approaches.

The need for different management approach is more applicable for alliances because SMEs enter into collaboration arrangements across national borders and they differ from larger firms on so many aspects such as competence, experience, risk preference and resource constraints. In comparison with larger firms, two critical shortages may affect smaller firms: capital and management time (Buckley, 1979). Together with resource needs, the SME partners would seek to learn from each other to enhance their competence (e.g. Lyles, 1994; Hamel, 1991) and to develop contacts to secure smooth functioning of the relationships (e.g. Bell, 1995; Coviello and Munro, 1995). The purpose of this study is to generate further understanding of international strategic alliances by SMEs. More specifically, this work attempts to describe the background and functioning of SME-alliances, particularly in relation to exchange of resources, learning, and formation and development network relationships. Another
purpose is theory development for the SME-alliances through an interplay between the explorative study and the existing literature in the field. More specifically, the second purpose is to focus whether the findings of the study matches or miss-matches with the literature and to develop concrete propositions, whenever relevant as a part of theory extension.

2. SMES AND STRATEGIC ALLIANCES

In many countries, industrial policy makers have given different definitions of SMEs, which in most of the cases do not agree with each other. The Commission of the European Union has given a recommendation in 1991 concerning the definition of SMEs (96/280/EC). According to the recommendation, a SME has less than 250 employees, ECU 40 million turnover and ECU 27 million balance-sheet total. However, for political reasons, it has not been possible to accept the definition of SME by the EU members and OECD countries. In Sweden and other countries, it is a common practice to use information about companies that is based on a classification on the number of employees (Swedish Industry and Industrial Policy, 1996). Firms employing less than 50 are small firms and those who have employees between 50-199 are medium-sized firms, according to the definition of the Swedish Ministry of industries (NUTEK, 1996). It means firms having less than 200 employees belong to SMEs. For this study, we will use the Swedish definition and the number of employees will be used as the only criterion for defining SME.

SMEs in general suffer from several disadvantages concerning technical competence, shortage of qualified employees, capital and international experience. Even a SME in many cases can be innovative, but in many cases it lacks technical capacity and necessary competence for product development and find new products for sustained competitive advantage. Forrest (1990) argues that these firms often lack the resources, both financial and human, and expertise to bring their products to market. Nielsen (1994) asserts that SMEs need solutions and technology with long term perspectives but these firms are more dependent on short term profit
and result. It is often the chief executives of the SMEs who are responsible for export (Lindmark, 1996) but they usually have little time to systematically think about internationalization. This view is also supported by Buckley (1989), and O’Farrel and Hitchins (1988) who argue that small firms confront with limited capabilities and limited management resources. Calof (1993) referring past research, identifies three major problems of SMEs, i.e. improper strategies, negative attitudes toward exporting and lack of experience for internationalization.

SMEs size is said many times as a major hinder for internationalization, especially in connection with competition with larger firms. However, in an empirical study of firms’ export behavior, Cavusgil (1976) finds that size was only a significant factor where the firm was very small but beyond some point exporting was not correlated with size. In many cases, small size can be an advantage because of its less formal and dynamic structure. Easy decision making process is helpful to find market niche and make quick adaptation. Small firms possess unique skills, products and expertise which can be successfully applied in foreign markets (Calof, 1993). As past research has shown, foreign markets offer small and medium-sized companies opportunities for long-term growth and profitability (Hester, 1985; Hardy, 1986). It means resource scarcity which is a common characteristic of SMEs is not always problematic if they only know what they can do real good and where they have limitations. It is advantageous for SMEs when they execute international strategies which are consistent with their resource capabilities (Calof, 1993).

In broad term, strategic alliances are collaborations between firms for attaining some strategic objective. Varadarajan and Cunnigham (1995) define strategic alliances as the pooling of specific resources and skills by the cooperating organizations in order to achieve common goals, as well as goals specific to the individual partners. Newman and Chaharbaghi (1996) argue that the key parameters surrounding strategic alliances are opportunism, necessity and speed. Firms will be attracted to cooperate when they need complementary resources from others to avail the opportunities. Specially in the international business, competition is tough,
thus resource accumulation must go quickly. Strategic alliances are formed for a variety of reasons, which include entering new markets, reducing manufacturing costs, developing and diffusing new technologies rapidly (Walters et al. 1994), learning new management and partnering skills (Medcof, 1997) and sharing risk and defending against competitors (Elram, 1992).

At one extreme, a strategic alliance between two firms can encompass all of the functional areas such as marketing, product development, manufacturing, R&D, etc. and at the other extreme, it may be limited in scope to a single functional area or value activity (see Varadarajan and Cunnigham, 1995). A strategic alliance can therefore take different forms depending on the need of resources and intensity of collaboration between the partners. Three common types of alliances are licensing, contracting and joint ventures. In licensing two parties enter into a contractual agreement in which a license-giver (licensor) gives right to the other partner to use some facility such as know-how, trademark, drawings, etc. in exchange of commission and/ fees. Forrest (1990) argues that small technology based-based firms will be interested in inward technology licensing whereby an organization is granted access to another organization's patents or technology.

Contracting includes contract manufacturing and management contracting. In the former case a firm relies on the foreign manufacturer to produce certain products while keeping the responsibility for marketing and distribution in its own hand. In management contracting the local investor provides the capital while the international firm supplies the necessary know-how to manage the company. A joint venture is a separate entity which is jointly owned by two or more partners who agree to commit resources to it for mutual benefit. Other types of alliances which include joint R&D, joint marketing, reciprocal marketing, joint product development, cross distribution agreement, etc. usually have short duration and are formed for a very specific purpose. As a part of their international strategy, SMEs can consider any type of strategic alliance (Lindmark, 1996; Golden & Dollinger, 1993).
3. SOME VITAL ISSUES

In an interorganizational relationship like a strategic alliance, three issues, namely exchange of resources, learning and network will be important for the collaborating partners. Mainly the need for complementary resources, mutual learning and getting benefited from each other’s contacts are vital factors in forming and continuing with these type of relationships. In this section, these three issues are therefore discussed.

3.1 Resources

In many studies of inter-organizational collaboration, researchers have focused on the criticality and complementary characteristics of the resources for successful formation and operation of such relationships. In a recent study on collaborative arrangement, Hu and Korneliussen (1997) emphasize on resource exchange and argue that it is important for the parties to allocate appropriate resources for cultivating personal ties, as well business ties, with each other.

Barney (1991) asserts that resources can be classified into three categories: physical, human and organizational capital resources. The first category includes physical technology, a firm’s plant and equipment, and its access to raw material. Human capital resources concern the human element in the organization. The final category includes a firm’s formal reporting structure, planning, controlling, etc. This classification is elaborate but does not consider marketing effort and marketing ability of the partners as important aspects in establishing alliances. Hyder and Ghauri (1989) have applied five resource categories, i.e. input, capital, manpower, technology and market, in describing exchange of resources in joint venture. I find the latter classification more usable for this study. The first three resource categories are of course important for SMEs but more exchange is likely to take place in respect with technology and marketing in strategic alliances. By a conceptual study Varadarajan and Cunningham (1995) have listed 12 possible motives underlying alliance formation, and all of them are either related to market or product development.
Technology is the package of product designs, production and process techniques and managerial systems which are used to manufacture particular products. This resource category is important at the time of planning, negotiating and forming an alliance which will engage in manufacturing. Access to new markets and market-related support are usually considered as two of the vital reasons in forming alliances (Medcof, 1997). By complementing a firm’s internal resources, strategic alliances ease its access to other markets (Lewis, 1990). Market access can provide a competitive advantage, which is more durable than most technological resources, especially where the technology changes rapidly.

3.2 Learning
There is a necessity of learning from each other, otherwise there is virtually no need to form an inter-organizational relationship. As Kanher (1994, p.107) puts, "In fact, learning and borrowing ideas from partners is part of realizing the full value of the relationship". Strategic alliances are an innovative means for firms to increase their learning (Osland and Yaprak, 1995). Alliances expand the value of learning because the close inter-firm ties they foster create more opportunities to find technology, marketing and other information than many other outside contracts (Lewis, 1990). The degree of learning, however, varies from partner to partner depending for the most part on the ambition, organizational size, complexity and learning capacity of the partners. Lyles (1994) argues that the joint venture formation process is influenced by the parent firm’s desire to learn from the other parent. SMEs will learn best from firms of similar sizes because they possess comparable competence and have easier to understand each others’ opportunities and limitations. Larger firms will try to acquire small firms’ technology (Hamel et al., 1989) and therefore it will not be an easy task for SME to learn in such a situation.

Hamel (1991) argues that firms learn form their past experiences and transform these experiences into useful knowledge that will make them more competitive in the future. Past experience of having strategic alliance may not be that common for SMEs, but once it is gained can be utilized
over time and be transmitted to a partner who have never been engaged in an inter-firm relationship. It is not always easy to decide in advance what is to learned from the collaboration as knowledge of material, technology, market, etc. can change or even the situation in which the learning to take place may change. Thus dynamism is an important characteristic of learning and it is a continuous process that builds on the past events and attempts to create value of these experiences (Lyles, 1994). Learning can be viewed as processes and as outcomes (Osland and Yaprak, 1995), therefore it will have an impact on the overall alliance. Cooperation thus helps or hurts, depending on how a firm learns compared to its partners (Lewis, 1990). It is self-evident: to learn, one must want to learn (Hamel et al. 1989).

3.3 Network
A network involves sets of two or more connected exchange relationships (Axelsson and Easton, 1992). Network is concerned with exchange relationships among firms operating in the market (Johansson and Mattson, 1988) and with other organizations and individuals who have interest or can play some role for the development of the business. Cook & Emersson (1978) and Granovetter (1982) discuss about social networks which are built on social relationships. Social exchanges can develop into social bonds (Cunningham & Turnbull, 1982) and these bonds can facilitate and promote various types of business exchanges. In industrial marketing, networks are viewed as sets of connected exchange relationships among actors who control industrial resources and activities (see e.g. Johanson & Mattsson, 1988; Håkansson & Snehota, 1990). The industrial network refers to the exchange of various resources and the activities performed in the exchange process, whereas the social network refers to actors and their social relationships (Abraha & Hyder, 1997). I find both the relationships are important and complement each other in developing long-term business relationships in the market. However, in many cases the social relationships in SME-alliances play a vital role as very few people including chief
executives get involved in initiating and further developing such relationships.

After a review of small firm network researches, Coviello and Munro (1997) conclude that most researches focus on general network influences on firm behavior and certain studies highlight the potential role of networks in small firm internationalization. The present study is more close to the latter group of studies, which focus on the dynamic characteristic of network development. Once a network is developed, the work is not finished rather a firm continue to develop further relationships depending on the existing one and continuously revise the efficiency of the older networks. As resource accumulation is an important purpose for alliance formation (Barney, 1991) and as network involves resource exchange among its different members (Sharma, 1993), a firm requires to build up network relationships with important actors for extending business areas and business volume, and at the same time to reduce dependence on single actors.

4. METHODOLOGY

A case study approach is the appropriate method to conduct this research work because it seeks further understanding of SME alliances and involves in theory development. Case studies offer a holistic view of the phenomenon and explain the reasons why certain decisions were made, how they were implemented and with what result (Chetty, 1997). This approach deals with events as they occur over time, and not focuses on fragmented events at a certain point of time. Case studies as methods for theory building has been for the first time advanced and defended by Glaser and Strauss (1967). Eisenhardt (1989) concentrates on the practical application of the case study method and offers guidelines how to build theory from case studies. In grounded theory, literature and data collected from the study are constantly compared as in the case studies in developing theory (Chetty, 1997). Eisenhardt (1989) points out that the final product of building theory from case studies may be concepts, a
conceptual framework or propositions or possibly mid-range theory.
In this study, a close fit between theory and data has been sought in
developing propositions through comparison between theory and data. A
similar method has been used by Madhok (1995) who has developed a
conceptual model, based on opportunity and trust in joint venture
relationships.

Only manufacturing firms were sought because strategic alliances were
more common with these types of firms. To select a firm, the number of
employees and whether the firm had been involved in some alliance were
checked. If a firm was very small or had more that 199 employees, it was
not included in the study. During selection, ownership was carefully
examined. For example, if a firm met all other criteria but was found to be
a member of a large concern, was not also considered. Selection of cases is
an important aspect of theory building from case studies (Eisenhardt,
1989). Four small and medium-sized Swedish firms involving in
international collaboration from three different industries had been
thoroughly studied by the help of in-depth interviews. In all the cases,
managing directors or the top executives were interviewed. The data was
collected during 1997-98 and both face-to-face and telephone interviews
were undertaken. Main interviews were tape recorded and the respondents
were allowed to talk freely. The written material was later sent to the
interviewees for their comments to avoid misunderstandings and to
increase the reliability of the data. Along with the interview material, other
documents and company prospectus/booklets, whenever available were
used.

5. FINDINGS

All the firms studied, were of Swedish origin and each was engaged in at
least one international alliance. Firm PARK was established in 1955 and
had 75 employees at the end of 1997. It was functioning in the engineering
industry and its turnover for the year 1997 reached 105 million SEK.
ORTHO was established in 1986 and was engaged in manufacturing
orthopedic supporting instruments for disabled persons. The total number of employees was 80 and the sales volume was 50 million SEK by the end of 1997. The third company BRUK with a turnover of 95 million SEK, was established in 1959 and was operating in the mechanical industry. It employed 103 people in 1997. LEGO was engaged in contract manufacturing and did not have any own product. This company also belonged to the mechanical industry and its sales went up to 35 million SEK by the end of 1995 with a total workforce of 45.

5.1 About the collaborations

Behind the establishment of all the collaborations, the Swedish SMEs worked as the driving forces because the initiatives more or less came from them. LEGO, the smallest SME, was very active to seek the international collaboration. When the Swedish entry into the European Union became uncertain during 1989/90, this firm was eagerly looking for a partner to get a foothold in the European market. When it found that Spain could be an interesting country for collaboration, it started to seek a partner there by the help of Swedish Export Council at Madrid. As an outcome of a thorough search, a list of seven interested local companies working in the same field could be prepared. After direct sittings and repeated discussions, a local partner was finally selected for collaboration. It took for the SME almost two years to finally come up with a collaboration agreement. The situation was completely opposite in the case of ORTHO, where the idea of collaboration came as a matter of chance. In other two cases, although the Swedish firms took the initiatives, the first contacts with the collaborating firms went through other contacts.

All SMEs were careful about the size of their partners while entering into the agreements. LEGO, who went through a rigorous search procedure, sought from the beginning a partner with similar size, structure and aim. In selecting foreign distributors all over the world, BRUK emphasized the need of finding firms of equal or small sizes but with the capacity to solve general technical problems and requirements of the customers. The only
exception was PARK who had a German dealer much bigger than itself. The relationship however ceased in 1990 as the local dealer developed a similar product to compete with PARK.

Intensity and type of collaboration varied among the SMEs due to scope, requirement and finally, nature of business. In case of PARK and LEGO, joint venture type of collaboration was adopted through the establishment of new, separate business organizations. Both the SMEs and their local partners jointly owned the new company by holding shares. BRUK was the only SME who was engaged in manufacturing on license and also offered another company license to manufacture its own products. The most common type of collaboration of the SMEs concerned product development thus the purpose for establishing strategic alliances was very specific. But irrespective of the types of collaboration, the financial and physical involvement of the SMEs were limited. Joint ventures, which usually cause substantial investments and more risk assumption by the partners compared to other interorganizational relationships, attracted the SMEs’ least involvement. The joint venture of LEGO was simply a joint sales company and none of the partners invested any capital in the venture. All costs for business initiatives taken by the partners within the jurisdiction of the venture were carried individually by the partners.

5.2 Resources
In general all the SMEs had shortage of financial resources, thus all the collaborations involved modest financial involvement. There was also shortage of efficient manpower in the field of technology and marketing. Products of PARK were complicated and quite advanced. It was in acute need of development engineers but had difficulty to find such people for recruitment. BRUK, another SME, required to establish sales offices in South East Asia and Europe to support their distributors but lacked both manpower and resources to materialize it.
All the SMEs entered in the collaboration for complementary resources. Three relatively larger SMEs either required technology for production, or both technology and support for product development. These firms had own research facilities but were insufficient to solve all technical problems. However, the need of these SMEs was not the same, therefore dependence on the alliance partners varied. BRUK received licenses to manufacture certain products, and at the same time developed further applicability of the products to better match with the local environment. Even the licensor was benefited by the experience of this SME. The other two firms PARK and ORTHO had not received any ready-made technology from their partners, rather the original idea came from these SMEs. In the first case, PARK was engaged in collaboration with a German technology-based company for development of the former's core technology. PARK was therefore very much dependent on this alliance and the foreign company. This alliance partner even recently solved certain problems in some other products of the SME which were sold in countries like France, Australia and Canada. Another alliance of PARK was a joint venture which was owned by it together with three German distributors. The purpose of the joint venture was to coordinate the marketing activity in Germany and also to supervise the product development project with the other German company. Even PARK actively participated in the second function from Sweden. The case of ORTHO also concerned product development because it needed material technology and knowledge about international component manufacturers to develop supporting orthopedic instruments for disabled persons.

Situation with the fourth company LEGO, the smallest one, was quite different from the other SMEs. As mentioned, it had not had own products, therefore was not concerned with any product development. It was rather interested in marketing its services within Europe but lacked competent people to sell the concept. It therefore needed foreign collaboration as a part of its international marketing strategy. However, it faced difficulty to use the joint platform as it had only possibility to sell its competence not the product.
5.3 Learning

For all SMEs, learning from the alliance partners was important but the degree of learning varied considerably due to differences in scope and learning capacity of the firms. Maximum learning took place on the part of ORTHO and BRUK. But again, the type of learning was not the same. In the first instance, the relationship was totally based on mutual understanding and the strength of the partners was their capacity to complement each other. In the course of time, partners learnt how they could contribute in the relationship and what knowledge they might use in their own businesses. ORTHO was in a very good position to learn because it had already been working with both research and manufacturing. By the help of the EU project, the SME came to know about the material technology and its pattern of functioning in combination with production and research. On the part of BRUK, learning took place through continuous relationship with the licensors. BRUK had already learnt the technology and could manage the whole manufacturing independently. Further it was involved in product development, thus new application areas and adaptation of the products were tried by the help of information and knowledge from the collaborating partners.

In the case of LEGO, the learning was very general because they never discussed any specific problems such as marketing or manufacturing of a certain product. This firm learnt a lot about the international business, Spanish business culture and the capacity and strength of the other partner. In the beginning, the LEGO management thought its own technological standard was higher but it showed afterward that the local partner used the same kind of machines, the same type of qualified technicians and had the same product quality. The alliance had been helpful to learn how to cooperate with a foreign partner having a different social and cultural background.

The need for learning was however, acute for PARK because one of the collaborations directly concerned its core technology. The component
developed by the collaborating partner played a major function in manufacturing of its final products. The SME had been very much interested in acquiring the technology, but the scope and its learning capacity was quite limited. This alliance was established in 1990 and PARK had only learnt that its dependence on the relationship was growing over time. Through the joint venture, PARK, however, gathered valuable knowledge about the German market and thereby guaranteed better control on the marketing activity in the country.

5.4 Network
Collaboration with the local partners had been in most cases helpful to establish new contacts. BRUK was very much successful in this context. It came in contact with one of the two licensors in USA through its Canadian distributor. This distributor had a license from the US company for manufacturing the same machine in Canada. The product was also quite new in USA and marketed there for the first time in 1991. The product was still in the development phase. This situation created an atmosphere of close cooperation between the licensor, the Canadian distributor and BRUK. These three parties were engaged in continuous exchange of views and experience with the product and also had built up a common information base. But there was no written agreement between the parties concerning the product. There was only separate bilateral agreements between the licensor and BRUK, and between the licensor and the Canadian distributor. The product had been sold by the Canadian distributor for several years. As BRUK was a new user of the technology, the support of the distributor was very helpful for it. This distributor was also manufacturing a product on license from BRUK.

Another good example of establishing network with other firms was demonstrated by ORTHO. During the signing of collaboration, ORTHO had only contact with an English firm. This contact expanded over time as new partners came in the picture and the whole EU-project could be established. All these new contacts were helpful for ORTHO to gather
international experience and to keep itself informed about the development in the field. PARK, the main technology-based SME, developed an international network of distributors all over the world. To keep this network function, dealers were invited twice a year to the head office. During these meetings, present position of the products in terms of quality, competitors, prices and product development plans were analyzed. For LEGO, it had been difficult to expand its network beyond the relationship with local partner due to language barrier (Spanish was the only language for communication) and limited opportunity in the local market.

6. DISCUSSION

There is a general belief that SMEs lack important resources, particularly in connection with internationalization. Buckley (1989) for example, argues that small firms do not often have specialist executives to manage their international operations, nor do they possess a hierarchy of managers through which complex decisions can be sifted. However, no direct support to the argument was found in the current study. One explanation could be that the SMEs considered here are quite larger except in the case of LEGO and therefore the top management seems to be capable in handling international alliances. But there is a support in this study to Buckley's another argument that smaller firms are constrained by a shortage of management time. The technologically based firm PARK continued to be dependent on a German firm for the development of its core technology, but no proper plan for learning the technology could be developed. PARK management succeeded to manage other international relationships, it was therefore not believable that they lacked expertise.

Baird et al. (1994a) in their study of small business have found that the managers considered alliances most effective in obtaining technological and marketing advantages. Even the current study viewed support to the above finding as all four SMEs' desires from the alliances were either
related to marketing, technology and product development or both. Technological collaboration was easier or conflict-free when the partners made complementary contribution and served different markets (ex. ORTHO and BRUK) but was complicated when one of the partners made major contribution and thereby had a dominating role in the relationship (ex. PARK). The partner who seeks one way help from the other, will find it difficult to manage the relationship and will not feel safe to disclose its technical expertise. Smaller firms are vulnerable to product, market, and technological changes because they are not diversified and are often one product, one market companies (Buckley, 1989). It means the SMEs are highly concerned about their core products or markets they are specialized in, because a loss of such competence can have fatal adverse effect on their operation and survival.

Proposition 1: When each partner contributes complementary resources and none of the partners has a dominating role, the alliances will function well and develop over time

Size of SMEs is important for discussion from two dimensions. First dimension implies how big a small firm should be to engage in international business. The other dimension does not directly concern the SME, rather it is more related to the partner organization and its size. The question is how big the partner should be so that the collaboration will be successful. The first issue has been addressed by Calof (1993) in respect with internationalization and he did not find any evidence that firm size could be a obstacle. The present study has not openly examined this question, however, there is an indication that comparatively larger firms were more suitable for internationalization. The smallest firm LEGO could not use the collaboration properly and the internationalization process was therefore not that effective. One explanation is that the objective for internationlization for this SME was not well thought and the partners did not know how they could use this collaboration.

The second dimension is not found to be examined by other researchers, therefore it appears as an important research issue. In all the relationships
except between PARK and one of its German distributors, the partners were of similar sizes. This distributor was a large company who developed a similar product to compete with PARK. The relationship became strained and the collaboration had to be dissolved. A major concern with alliances is that firms may unwittingly give away market, technical, and manufacturing expertise and consequently erode their long-term competitive advantage (Reich and Mankin, 1986). As Doz (1988) argue that in relationships between larger and smaller firms, the latter is always worried to protect its technology because, it is, after all, the only bargaining strength of the smaller firm. Except in the case of LEGO, where the SMEs and their partners were of equal sizes, were satisfied with the performance and development of their collaborations.

Proposition 2a: SMEs are in general inclined to form collaboration with partners of equal sizes irrespective of their field of business.

Proposition 2b: The more the equal the sizes of the partners, the higher the chance for better cooperation and success.

Among the type of collaborations, joint ventures usually warrant closer involvement of the partners both in terms of financial and mental involvement. Lorange and Roos (1993) identify equity ownership next to merger which calls for creation of more interdependence between partners to fulfill the objectives. This is usually the case but is not a necessary condition for establishing joint ventures. In the current study of SMEs, different kinds of collaboration forms namely, joint ventures, joint product development and licensing were used. Among these, collaborations for product development were temporary projects and to be ceased after completion of the assignments. As a matter of surprise, such relationships at least in two cases, got firmly established and continued to grow on mutual understanding. One important explanation is that firms attached more interest on these exchanges as they were related to their core technology and thereby were significant for growth and success.
In joint ventures, where the involvement were supposed to be crucial and more valuable to the SMEs businesses, not found applicable in this study. The use of collaboration form was not well planned and in fact, had little to do between seriousness of the business purposes and collaboration type chosen. This finding is in the line of Baird et al. (1994), who argue that internationally involved small firms view exporting, foreign alliances, and foreign equity investments as a single international strategy. Here the review study of Coviello and McAuley (1996) who examine internalization of small firms, become interesting. They find some firms to follow an incremental process of internalization (i.e. internationalization occurs in a series of stages in order to gradually increase commitment and investment in foreign markets, see Johanson and Vahlne, 1977) and others do not.

Proposition 3a: The choice of the form of collaboration by small firms are not usually well planned because there is a shortage of experienced and capable people in the organizations.

Proposition 3b: Importance of relationship is exclusively dependent on the area of business, not on the form of collaboration chosen.

Learning is a vital aspect in strategic alliances. It may be concerned to develop managerial or technical skill, general as well specific competence and knowledge about procurement of resources, using resources efficiently, dealing with the customers, etc. Hamel (1991) has studied inter-partner learning within international strategic alliances and describes intent, transparency and receptivity as the three determinants of learning. If learning is to take place, partners must be willing to learn, there must be openness of each partner, i.e. the learning object is transparent and the partners has the capacity to learn. The basic argument of Hamel is supported by the present study even though it exclusively concerns SMEs. In case of ORTHO and BRUK, the Swedish SMEs knew that they joined
the product development alliances with the purpose of learning and they had the capacity to do that. Even their partners were sympathetic to this view, thus the learning could take place. However, in case of PARK, the Swedish SME was interested to learn from the technology developer, but it was not clear what to learn, when to learn and how to learn. The Swedish partner lacked the capacity to absorb the technology for at least three reasons: 1) the German partner neither disclosed nor offered any real scope for the other partner to learn, 2) the Swedish SME suffered a shortage of technically capable people and 3) the technology itself was changing and required constant development making the transfer process difficult. An important difference between the first two cases with PARK is that both the partners in the latter instance are technology based firms and have more or less same direction of business, which Hennart (1988) has called symmetric alliance. The first two cases are examples of asymmetric alliances where the partners have strategically different dimensions. Strategic alliances designed to facilitate learning presume that cooperating firms differ (Barney, 1996).

Many researchers have recognized the importance of networks to small firms. Coviello and Munro (1997) who have reviewed network studies on small firms, categorize the studies in two groups. According to them, much of the small firm network research focuses on general network influences on firm behavior. The other group of studies highlight the potential role of networks in small firm internationalization. The current study is obviously close to the latter group as SMEs enter into alliances to develop its international contacts so that necessary resources and competence can be acquired at easier terms. In this study, OLMED and BRUK consciously developed its network relationships with their collaborating partners and successfully used them in enhancing their capabilities. However, LEGO could not develop further contacts based on the current relationship and therefore failed to generate any direct benefit or advantage out of it. An alliance linkage may be able to reduce much of the time and cost of this process, although this depends on the ability of the small firms to recognize and utilize the network as an asset (Welch, 1992).
Network researchers, such as, Johanson and Vahlne (1993), Axelsson & Easton (1992), Johanson and Mattson (1988) recognize that firms use network relationships to enter into new market. The penetration is a continuous process and it takes place over time through creation of further contacts and learning in procuring resources and using the networks efficiently. Coviello and Munro (1997) report from a number of studies on small firms that internationalization is viewed as an incremental process, based on knowledge, commitment and investment. The current study also demonstrates that small firms want to use networks to learn about the market, technology, know-how and the capacity of the partners they deal with for future collaboration. However, the networks and learning has so far treated by may authors, but not in relation to each other. It is argued here that learning and networks are not separate issues, and a combination of these will provide as a better understanding of SMEs alliance formation and its success. This view is supported by Welch and Luostarinen (1991) who argue that SMEs can offer a far better knowledge of the local market and access to a useful contact network.

Proposition 4: Efficient use, and development of existing and new network relationships will lead to learning among the alliance partners.

7. CONCLUSION

The purpose of this study was to explore strategic alliances of SMEs, because most of the studies in this field concentrated on larger firms. Although a few recent studies concerned SMEs, they did not offer us a complete view of the issue as alliances had not been considered in detail with proper emphasis on the characteristics of the SMEs. Strategic alliances are themselves complex and dynamic (Harrigan, 1988), therefore an attempt was made in this study to develop a theoretical framework, primarily on the basis of detailed case studies. The need for such type of conceptual work for further understanding of SME-alliances has been
realized by many researchers in the field. The conclusion of D’Souza and McDougall (1989, p.31) concerning smaller firms is noteworthy in this regard:

Understanding and prioritizing variables and developing valid and reliable theories/models/typologies for such joint ventures (an important form of strategic alliances by smaller firms) is only part of the acute need for research in this area.

The cases in this study played a similar role as questionnaires in a quantitative study where a large sample is used. However, the object was not generalization as it takes place in a rigorous questionnaire study, but was simply to generate theoretical conception by contrasting theory with the data. This approach was very helpful because knowledge about strategic alliances for SMEs is still very underdeveloped because concepts developed for larger firms can not be applied blindly considering special characteristics and conditions of the SMEs. There are several key areas in which small firms are different and these raise a set of important conceptual and strategic issues (Buckley, 1989). In sum, building theory from case study research is most appropriate in the early stages of research on a topic or to provide freshness in perspective to an already researched topic (Eisenhardt, 1989).

Like any other research work, this study has also certain weakness. The first weakness was the limited number of cases. However, the small number of the case studies was in fact the strength of this work because it provided us deeper insights of a complex issue. A few more case studies could be done, but it would affect the purpose of the study. It was not the representativeness but a clear understanding of SME-alliance was the purpose of this study. The firms which were already involved in alliances and the persons interviewed, were therefore carefully selected. However, a next research project can be based on few more cases which will particularly focus on the findings of the present study. The cases can be selected from a number industries or from the same industry. In the present work, only Swedish SMEs were studied, therefore a study from other
country’s perspective will be an important contribution. For the purpose of generalization, it is possible to make a survey where the focus will be on the consensus of the developed propositions.

REFERENCES


