

PROFILE OF SME'S STRATEGIC ALLIANCE IN MALAYSIA

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Abstract

In the third millennium, competition has become tough and unpredictable and all organizational regardless of their size and scope of operation are facing fierce competitive challenges. In management, one of the most reliable ways to cope with these challenges quickly and effectively is strategic alliance or partnership. Consequently, strategic alliance has attracted lots of attention from the researchers and managers over past years. Technically, strategic alliance is a systematic approach to share the resources, acquire more capabilities, and finally create cooperative and competitive advantages. This study addressed the concept of strategic alliance amongst Malaysian SMEs in different industries and tried to create a regulatory framework for the SME strategic alliance in Malaysia from a holistic view based on the statements of the sampled SMEs' executives. The findings of the study showed that in conducting a strategic partnership program the first step must be selecting a potential partner and this process requires a full understanding of partners across two dimensions: 1. Resources and capabilities, and 2. Cost and risks. In addition, strategic alliance can shape domestically as well as internationally and also in the form of a network of multiple alliances and the tendency of an enterprise in forming such partnership programs indicate the attitude of executives toward the alliance. Finally, it also has been found that learning and sharing knowledge resources is a critical factor in success of any strategic alliance.

Key words: *strategic alliance, Small and medium enterprises (SMEs), resource based view (RBV)*

Introduction

Significant industrialization and economic development is seen in the context of Malaysian market after country independence in 1975. Data demonstrates a considerable growth in Malaysian economic with the crucial role of SMEs. Malaysian national SMEs development council (MNSDC, 2006) states that globalization and the economic transformation taking place in the Malaysian economy brings new opportunities and challenges for the domestic SMEs. Similarly, in another report (MNSDC, 2007) 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 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 ongoing economic transformation and rise to the challenge of having the capability, capacity and flexibility of shifting to meet the changing patterns of demand. Therefore, it is shown that falling trade barriers and technological advancements are

changing Malaysia's domestic and international trade patterns while the emergence of China and India as significant trading partners is a key feature of the changing economic environment.

In today's competition, all companies regardless of their size and scope of operation have to behave in a superior way to survive in this competitive environment. Small-to-Medium-size Enterprises (SME) are also similarly facing these tough circumstances not only domestically but also in terms of global market's challenges and difficulties. From another angle, Malaysia's economy is moving toward a new era of prosperity and growth. To pave this way, Malaysia's government is paying considerable amount of attention and devoting remarkable amount of money to SMEs.

From theoretical and practical point of view, SMEs are considered as a crucial element of economic and industrial development. Systematically SMEs' 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 quietly 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 is strategically considered as a way to grow product and service offerings, develop new markets and control technology and R&D, achieve market power and market entry strategy both domestically and internationally (strategic alliance conference, 2008). Research shows that number of alliances is growing rapidly, at an average rate of 25 percent per year globally (Parise, S. and Casher, A. 2003). Based on its importance, deep and broad understanding of strategic alliances is necessary, and executives should consider it more efficiently than ever.

Despite these facts management literature particularly in Malaysia and other similar countries in ASEAN region lacks a proper study to explain and analyze strategic alliance from a holistic perspective for SMEs. This study should be initially aimed to explain different aspects of strategic alliance for SMEs in Malaysia in order to draw some theoretical and practical implications for both academics and practitioners in SME field.

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 other authors such as David (2007) and Thompson et al. (2008). Technically, competitive advantage created by cooperative strategy is known as collaborative or relational advantage that is pursued on a mutual basis by participating firms.

Strategic alliances embrace many different aspects from managerial, financial, and organizational to strategic and operational sides, accordingly it has been studied in different disciplines including strategic management (Godet, 1987, 2000; Doz, 1996; Doz and Hamel 1995,1998; Doz et al. 1989; Berney, 1997; Eden and Achermann, 1998; Hunger, 1999; Hitt et al. 2007; David, 2007 and Thompson et al. 2008), marketing management (Kotler et al .2006; Kotler and Keller, 2006; Hutt and Speh, 2007,Grewal and Levy, 2008 ; Walker et al. 2008; Ferrell and Hartline, 2008; Kurtz, 2008) and international business (Beasmish et al. 1995; Shenkar and Luo, 2004; Delios and Beamish, 2004; Hill, 2005 ; Gareth and George, 2008).

Because of the rapid technological changes in market place, firms are following cooperative and collaborative strategies to create new competitive advantages, strengthening and upgrading 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 occurring by companies. Thus, strategic alliance can be termed also as strategic coalition (Porter and Fuller, 1986) and strategic network (Jarillo, 1988, 1993).

As strategic alliances are collaboratively planned strategic actions, its advantages have been profoundly studied by different researchers (Yashino, et al.1995; David et al. 1996; Eden and Achermann, 1998; Hitt et al. 2007, Thompson et al. 2008; David, 2007). Hitt and his colleagues also conducted comprehensive analysis on the benefits of strategic alliances (Hitt et al. 2006). Thompson et al. (2007) and other authors (Eden and Achermann, 1998; David, 2007) also mentioned the benefits of strategic alliances.

However, the main logic behind strategic alliances is not perceived values of it, but strategically since strategic alliance is a systematic approach to share resources and achieve cooperative capabilities and objectives, scholars have studied the logic of strategic alliances from Resource-Based View of the firm (RBV). Barney (1991, 2001) initiated the resource-based theory of the firm but it can be tracked back to the study of Wernerfelt (1984). In this theory, scholars believe that competitive advantages are created and sustained through development and utilization of superior resources. These strategic resources create capabilities and core competencies. In this regard, strategic alliance can be theoretically considered as a way to achieve and also cultivate these resources and capabilities (Connell and Voola 2007, Gravier et al. 2008).

Akio (2004) argued that to understand the logic behind strategic alliance, the RBV theory could be applied. In this sense, strategic alliances are literally seen as a form of alliances with a content that is strategic. Therefore, to test the strategic nature of alliances, it is essential to find out strategic theories and strategy basis of the firm like RBV and then relate alliances to it. In this sense, from literature it is found that the traditional explanations for establishing corporate alliances were following strategic objectives like 1) seeking the formation of industrial cartels in order to ameliorate competition, 2) sharing risks, 3) enabling the union of mutually complementary resources, and 4) overcoming obstacles to market participation (Badaracco, 1991). These strategic objectives are essentially collaborative strategies, because strategy has been long defined as the pattern of corporate objectives and the policies and plans intended to achieve those (Andrews, 1967, 1980).

Strategic alliances can be considered as a strategic action, which pursues a long-run objective to attain a collaborative competitive advantage. Hence, an alliance has to be planned and managed on the basis

of resources and it must improve and develop product and market portfolios of a firm (economies of scale and economies of scope). However, the importance of resources in strategic actions in case of creating new resources, reinforcing existing ones and developing capabilities based on superior resources have received more attention (Teece et al. 1997; Stalk et al. 1992; Petaraf, 1993; Barney, 2001; Priem and Butler, 2001; Rugman and Verbeke 2002; Hoopes et al. 2003; Sanchez et al.1996, Makadok 2001; Sanchez and Heene, 2004; Will-Johnson, 2008). This is historically attributable to Penrose (1959) who saw the firm as an aggregate of administrative organization and managerial resources and these resources come into picture only through the service they make within organizational framework. Penrose (1959) believed that it is not resources themselves that are invested in the productive process, but the services that resources bring and services are a function of the experience and knowledge that have been accumulated in the firm, and are therefore different from firm to firm (Akio, 2004).

Strategic alliance is a useful approach that cannot be limited to a specific industry, market or firm. However, it has to be noted that, strategic alliance is a complex process of partnership that must be carefully planned and managed; otherwise it leads to a catastrophic failure. To enhance the understanding of strategic alliance from the essence of formation strategic management textbooks (Hitt et al. 2007; David, 2007; Thompson et al. 2008) have classified strategic alliances into three main categories as joint ventures (JVs), equity alliances and non-equity alliances.

From another point of view, strategically strategic alliances are seen as strategies that are developed to create competitive edge in all strategic levels and therefore are classified based on their strategic scope and objective (David, 2007; Thompson et al. 2008). In this context, Hitt et al. (2007) have categorized strategic alliances in terms of their competitive scope across business level and corporate level strategies as well as international perspectives. Strategic alliances also have been investigated and discussed as a way to compete in different speeds of markets in today's erratic and volatile markets. Market speed is a concept coined by Williams (1998) and describes the speed in which competitive advantages are imitated and must be upgraded. According to this theory three kinds of markets exist: fast-cycle, standard-cycle and slow-cycle. Strategic alliances are also used to overcome competitive challenges in these markets (Arndt, 2003 cited in Hitt et al. 2006).

According to this theory, unique conditions of slow-cycle, fast-cycle ad standard-cycle markets cause firms using cooperative strategies mainly alliances to achieve different objectives (Hitt et al. 2006). Hitt et al. (2006) described slow-cycle markets as markets in which enterprise's competitive advantages are shielded from imitation for relatively long-period and imitation is costly. Fast-cycle market is market where enterprise's competitive advantages are not shielded from imitation preventing their long-run sustainability. And, standard-cycle markets are markets in which competitive advantages are moderately shielded from imitation for a longer time that fast-cycle and shorter time that slow-cycle markets".

Kotler et al. (2006) added that companies have to give creative thought to finding partners that might complement their strength and offset their weakness, therefore well-managed alliances enable firm to obtain a greater sale at less costs and better times and efficiencies. To keep strategic alliances thriving, enterprises have begun 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 international business point of view, scholars and researchers (Beasmish et al. 1995; Shenkar and Luo, 2004; Delios and Beamish, 2004; Hill, 2005; Gareth and George, 2008) have taken strategic and marketing alliances widely into consideration as a major market entry venue. Such alliances allow a firm to quickly establish itself in 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.

Hitt et al. (2006) asserted that managing and controlling strategic alliances is a difficult task because managers and strategy makers must deal with new cultures, new structures, shared costs, profits, and risk, therefore creation of a complex culture and structure control costs, profits and shared resources is one disadvantage of strategic alliance. Because of this complexity some deceitful actions may happen (Das, 2005) which hinder success of alliance. Therefore, selecting partner, structure, creating, and managing new culture are the most difficult steps in developing a thriving strategic alliance. Technically firms seek two kinds of partners as complementor and competitors based on their strategic objectives to enhance the formation of alliance and strengthen the ability to cope with these difficulties (Zineldin and Bredenlow, 2003).

In this sense, Teng and Das (2008) studied the role of shared objectives, management experience, and international partners in success of strategic alliances. Furthermore, Butler (2008) addressed the problem of an international strategic alliance in the context of European defence manufacturing firms from Germany, UK, France and Czech Republic and found that the degree of problem differs from firm to firm based on their culture and nationality.

Kauser and Shaw (2004) uncovered the importance of behavioural and organizational characteristics of successful strategic alliances. Their study's result show that behavioural characteristics play a more significant role in explaining overall alliance performance compared to organizational characteristics. High levels of commitment, trust, coordination, interdependence and communication are found to be good predictors of international strategic alliance success. Conflict, meanwhile is found to hamper good performance. By contrast, surprisingly organizational characteristics such as structure and control mechanisms are found not to strongly influence the success of international strategic alliances. Finally, the most important challenges in establishing and managing successful strategic alliances can be listed as follow: sharing control over alliance; time to entre, exit and other critical timing decisions; sharing costs and managing shared cost, potential of profitability, needed resources, optimizing learning and resource development, risks of failure and collaborative handling of these risks, stability of operation, problems of integration, human capital, structure, culture; problems of negotiations with domestic and local parties, ethical, moral, and mutual confidence and trust issues at managerial and operational levels(Hitt et al. 2006).

Das and Teng (2000a) noted that there are four kinds of resource alignment in strategic alliances: Supplementary resources alignment; Surplus resources alignment; Complementary resource alignment; and Wasteful resource alignment. Supplementary alignment implies that the firms are contributing similar resources that are being utilized effectively, whereas surplus alignment means that these similar resources are

not fully utilized. Complementary alignment implies that the resources contributed by the partners are dissimilar, and utilized well, while wasteful alignment occurs when the dissimilar resources of the partner firms cannot be effectively utilized.

From another point of view, strategically, strategic alliances are seen as strategies that are developed to create competitive edge in all strategic levels and therefore are classified based on their strategic scope and objective (David, 2007; Thompson *et al.* 2008). In this context, Hitt *et al.* (2007) have categorized strategic alliances in terms of their competitive scope across business level and corporate level strategies as well as international perspectives as follow:

1. Business level vertical complementary strategic alliances (sharing resources and capabilities from different stages of value chain)
2. Business level horizontal complementary strategic alliances
3. Corporate level diversifying strategic
4. Corporate level synergistic alliances
5. Corporate level franchising
6. Cross-border strategic alliance is an international cooperative strategy, in which enterprises, firms in different countries share their resources and capabilities in order to create an international-based competitive advantage
7. Network strategic alliance is a cooperative strategy in which enterprises agree to form a network consists of multiple partnerships in order to achieve shared objectives and create relational competitive advantage.

Finally, in the outcome stage, the performance of an alliance can be assessed by analyzing four possible outcomes as (Das and Teng, 2002): Stability; Reformation; Decline; or Termination which has been described by Das and Kumar (2007) in this way that, if the alliance has met the expectations of allies and shared objectives were acquired the strategic alliance will be stabilized and even expand. Moreover, an alliance may need to be restructured or reformed if the expectations of the alliance partners are not properly met and decline or termination happen in similar case but under worse managerial and strategic scenarios that have made control and risk management extremely difficult and leading alliance to a strategic failure.

Chesbrough and Teece (1996) expressed that many large organizations have been outperformed by smaller networked competitors. However, small firms that have developed networks and benefited from this strategic action usually do not make the headlines, and attract attention from practitioners and scholars (Alliance Analyst, 1995). Three types of alliances can be classified within the boundaries of an economy and its industrial clusters as: between big firms; between big firms and smaller firms; and between SMEs. Since SMEs have fewer resources and strength than larger enterprises (Das and Teng, 2000a, 2003) they can also shape alliances with suppliers, resource complementor and marketing agencies (customer relationship allies) and because of lack in competitive resources, complementors can be a better venue of alliance for SMEs (Das and He, 2006).

The development of competitive SMEs is a crucial task for creating a thriving economy and in this sense the growth and development of Malaysia's SMEs 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 defined as those with an annual turnover between RM200, 000 to RM25 million or having among 5 to 150 employees. Yet, when compared to the overall performance of larger national firms, Malaysian SMEs have clearly not reached their full potential. SMIDEC (2007) also indicates that, SMEs in Malaysia have been distributed across three economic sectors as manufacturing, agriculture and service in which service sectors contains more enterprise.

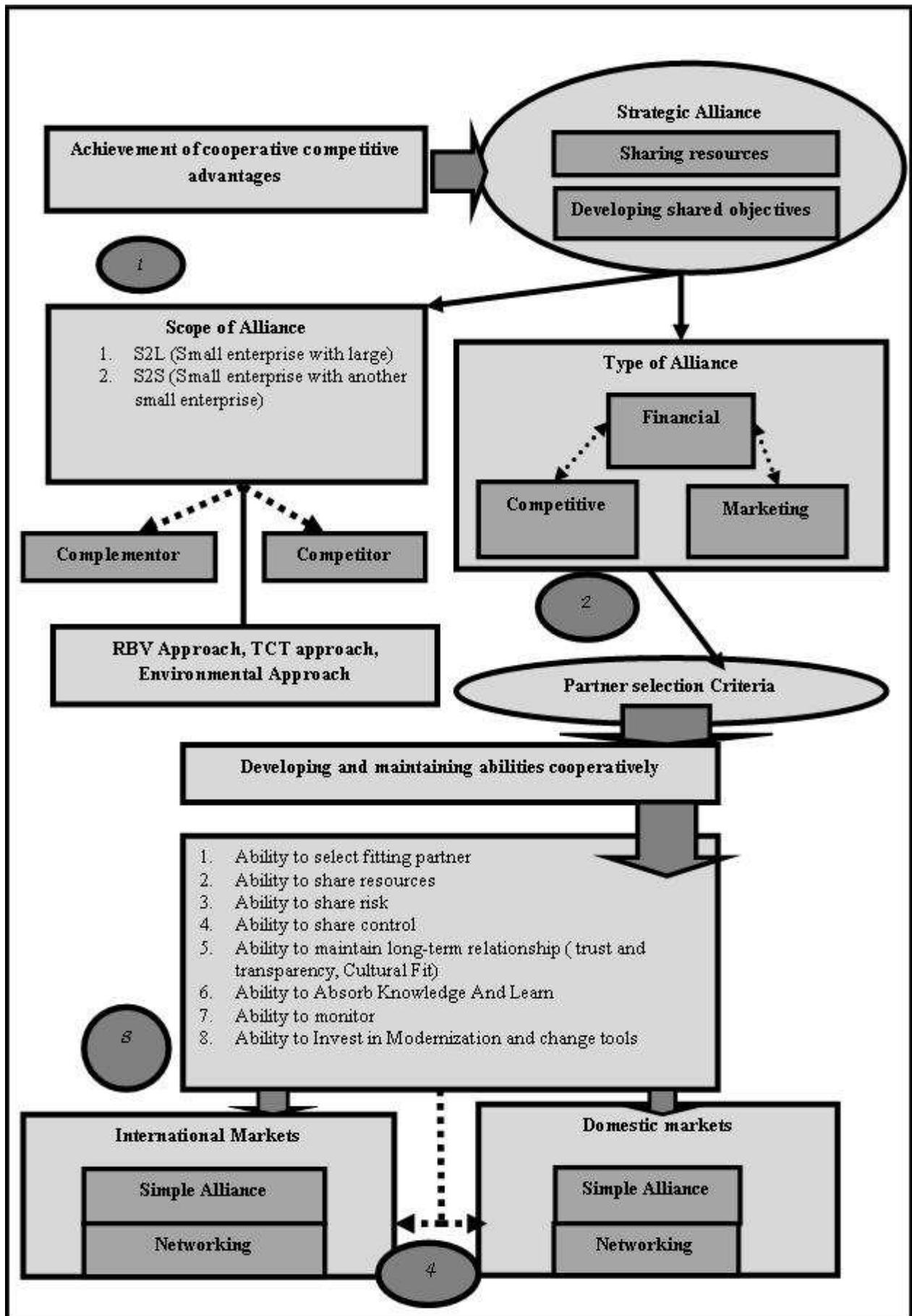
According to theoretical findings of this study strategic alliances can assists Malaysian SMEs to improve their competitiveness and enable them to deal with these competitive challenges more effectively through development of managerial skills, development of human capital, improving of financial and technical capabilities, improving of market share and access to market, and reducing 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 shows a schematic model of alliance from a holistic perspective. This graph can be divided into four consecutive sections as:

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

These four have been arranged in the following graph and will be properly hypothesized in order to develop a regulatory model of alliance for Malaysian SMEs.

Figure1: conceptual model of this research



Research Method

Sampling Procedure (size and process)

Based on Malaysian Bureau of Statistics and the latest report published by SMIDEC (2007) the census on establishments and companies in Malaysia reveals that in Malaysia the total number of 547307 SMEs are concentrated across three main economic sectors of service, agriculture and manufacturing. In this study the sampling method was random sampling, and the total number of 100 SMEs that are located in Selangor; and WP KL states has been chosen and a number of executives mainly CEOs and business developers of SMEs are asked to participate in the survey. Therefore a total sampling of 60-90 respondents are expected to participate in this study. Research questionnaire was emailed to SMEs executives through their email address that have been given to author by SME info and SME bank two authorized agencies. First of all, research objectives and a brief description of research are written as an introduction and then executives are asked to participate in survey and ask survey questions freely. They are also asked to share their valuable comments and suggestions during survey via e-mail and phone call by the researcher. This process was expected to take more than one month and during this time line, some reminders were also sent to respective respondents. In case of not receiving answers a printed version of the questionnaires were given to SMEs by researcher in order to maximize the efficiency of the sampling procedure.

Instrument

The survey instrument in this research was a simple structured questionnaire consisting of four sections which totally has 21 close-ended questions. Section One has six questions which are general questions exploring the main areas for developing any kind of strategic alliance from the perspective of SMEs' executives in Malaysia. Section Two consists of six questions following the holistic scope of strategic alliance for SMEs in Malaysia. Section Three including three questions was devoted to analyze different abilities needed by SMEs to create a thriving strategic alliance and maintain it. This section also explored the methods used to select partners based on a three main approaches as RBV, TCT and EFA. And Section Four consisted of six questions explored the context of domestic and cross-national alliances and strategic networking by asking questions pertinent to main foreign countries as allies and also the willingness to establish sole partnership or network of alliances.

Research Hypotheses

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

H2: Malaysian SMEs' executives are pursuing alliance with other SMEs that are complementors.

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

H4: Strategic alliances among Malaysian SMEs are basically equity based

H5: Strategic alliances among Malaysian SMEs and big firms are non-equity based

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

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

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

H9: SME's executives use transaction costs-theory in selecting their potential partners for domestic alliances

H10: Malaysian SMEs' executives prefer to develop simple alliances for their foreign partnership planning

H11: Malaysian SMEs have developed more domestic alliances and therefore lack a strategy abroad for their internationalization

Statistical Method

This research uses categorical and nominal scales which in return enables the researcher to obtain clear information from the wide array of executives through a simple and understandable close-ended questionnaire. This approach opens a way to explore and explain the data effectively as it will be addressed in the next successive sections

Data Analysis

Data analysis in this study was done through frequency distribution test, and Chi-square test and showing the results in Bar charts for better clarification. Frequency distribution test has been done to determine which item for each question has been received more responses and accordingly which concept has been paid more attention by counting the number of responses of each category for each question. Also, Chi-square test has been done for determining the compatibility of observed result with a stated null hypothesis. And for the better demonstration and visualization of results bar charts were used.

Results

Frequency distribution tests and Chi-Square tests were used to hypothesize the eleven hypotheses in the current study.

The results for the first research hypothesis “Acquiring technical know-how is the most important strategic objectives pursued by Malaysian SMEs through their strategic alliances” shows that 28% of managers mentioned the technical learning as their objective for making alliance, 22.7% of the managers pointed that market access was their objective in making their alliances, and 21.3% of the managers chose market power and competitiveness as their third objective, and only 16% of them stated that developing managerial capabilities is their aim in developing strategic alliance. Chi-Square test for this hypothesis provided a p-value of 0.022, which was less than 0.05. Therefore, this hypothesis cannot be rejected.

Table 1 : Malaysian SMEs’ Objectives

	Frequency	Percent	Valid Percent	Cumulative Percent
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 second hypothesis “Malaysian SMEs” executives are pursuing alliances with other SMEs that are complementor” results demonstrates that 65.3% of SMEs executives preferred complementor SMEs for establishing alliance, and 34.7% of SMEs’ executives took more competitor SMEs into their consideration for making alliance. The chi-square test gave a p-value less than 0.05 (0.00) which indicates that this hypothesis cannot be rejected.

**Table 2: Malaysian SMEs’ Considerable Partners for Making Alliances
(among other SMEs)**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Complementor	98	65.3	65.3	65.3
competitor	52	34.7	34.7	100.0
Total	150	100.0	100.0	

The third hypothesis “Malaysian SMEs are pursuing alliances with big firms that are competitors” results reveal that 45.3% of SMEs preferred to develop strategic alliance with complementing big firms rather than competitive ones, and a portion of 54.7 % of these enterprises favoured to make alliances with big firms, which are competitor. The chi-square test produced a p-value of 0.253, which was more than 0.05 that indicates that this hypothesis cannot be accepted.

Table 3: Malaysian SMEs’ Considerable Partners for Making Alliances with Big Firms

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Complementor	68	45.3	45.3	45.3
competitor	82	54.7	54.7	100.0
Total	150	100.0	100.0	

The fourth hypothesis “Strategic alliances among Malaysian SMEs are equity based” results show that the majority of Malaysian SMEs allotted a specific amount of capital to possess a particular percentage of the established alliance (53.3%) and the rest (46.7%) did not allocate a specific amount of capital in this case. Chi-square test presented a p-value more than 0.05 (0.414), therefore, this hypothesis cannot be accepted.

Table 4: Malaysian SMEs Equity Based Strategic Alliance

	Frequency	Percent	Valid Percent	Cumulative Percent
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 the fifth hypothesis “Strategic alliances among Malaysian SMEs and big firms are non-equity based” illustrate that 50.7% of enterprises made alliances with big firms through joint ventures. For 20% of these enterprises the structure of their alliances with big firms was through both joint ventures and non-financial resources based ventures. Finally, 29.3% of Malaysian SMEs’ alliances’ structure was non-equity based ventures strategic alliances with big firms. Chi-square test gave a p-value of 0.00, which was less than 0.05, and accordingly this hypothesis cannot be accepted.

Table 5: Malaysian SMEs' Alliance Structure with Big Firms

	Frequency	Percent	Valid Percent	Cumulative Percent
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	

Results of the hypothesis “Malaysian SMEs form marketing alliances with both SMEs and big firms” demonstrate that 42.7 % of SMEs formed marketing alliance with big firms, a portion of 32% formulated their marketing alliance with both other SMEs and big firms, and the rest (25.3%) targeted other SMEs. Chi-square test represented a p-value of 0.032 which is less than 0.05; therefore, this hypothesis cannot be accepted.

Table 6 :Malaysian SMEs' Alliances' Partners towards Fortifying their Marketing Capabilities

	Frequency	Percent	Valid Percent	Cumulative Percent
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 the “Executives of Malaysian SMEs are eager to develop horizontal complementary alliances and therefore play a critical role in industrial linkages” hypothesis show that a total of 38.7 % of SMEs developed their alliances with other firms performing in other industries (vertical alliance). A total of 33.3% of them made their alliances with other enterprises operating in the same industries (horizontal alliance). And 28% of them preferred to have alliances vertically and horizontally. The Chi-square test gave p-value of 0.278 which was more than 0.05. Therefore, this hypothesis cannot be rejected.

Table 7 :Developing Alliance in Same Industry

	Frequency	Percent	Valid Percent	Cumulative Percent
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 the 8th hypothesis “Executives of Malaysian SMEs are eager to develop vertical complementary alliances and therefore play a critical role in industrial linkages” illustrate that 29.3 % of SMEs entered to both new market and new industry for making new alliance, and 22.7% of managers did not mention any item and in this sense more studies for exploring the details on this issue are needed. Based on Chi-square test ($p\text{-value} = 0.665 > 0.05$), this hypothesis cannot be rejected.

Table 8 : Malaysian SMEs Executives’ Eagerness to Develop Vertical Complementary

	Frequency	Percent	Valid Percent	Cumulative Percent
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	

To test the 9th hypothesis “SME’s executives use transaction costs-theory in selecting their potential partners for domestic alliances” the results reveal that 53.3% of SMEs’ managers considered financial and operational resources for selecting an appropriate partner. A total of 29.3% of these managers took intangible resources and competitive capabilities like know-how and brand into their consideration to choose partners properly. The rest of managers (17.3%) paid attention to overall costs of alliance vis-à-vis sole development of a resource to decide on selecting partners. The Chi-square test gave a p-value less than 0.05 and accordingly this hypothesis cannot be accepted.

Table 9: Malaysian SMEs Selection of Potential Partners for Domestic Alliance

	Frequency	Percent	Valid Percent	Cumulative Percent
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	

The results for the 10th hypothesis “Malaysian SMEs’ executives prefer to develop simple alliances for their foreign partnership planning” display that 48% of Malaysian SMEs developed network partnership in foreign markets, 26.7% of them did not have any alliance in foreign market and a total of 25.3% preferred

to develop simple foreign partnership. Chi-square test gave a p-value less than 0.05 (0.001). Therefore, this hypothesis cannot be accepted.

Table 10 : Malaysian SMEs Simple versus Network Foreign Partnership

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid simple alliance	38	25.3	25.3	25.3
network partnership	72	48.0	48.0	73.3
no alliance	40	26.7	26.7	100.0
Total	150	100.0	100.0	

The results for the 11th hypothesis “Malaysian SMEs have developed more domestic alliances and therefore lack a strategy abroad for their internationalization” are shown in the following tables:

Table:11 Malaysian SMEs’ Current Allies

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid domestic	32	21.3	21.3	21.3
abroad	72	48.0	48.0	69.3
both	46	30.7	30.7	100.0
Total	150	100.0	100.0	

Based on the above statistical results, the total of 48% of Malaysian SMEs developed abroad alliances, the SMEs, which made alliances currently in both domestic and abroad form the portion of 30.7% in total, and 21.3% of SMEs, had current partners form domestic. According to chi-square test, there was a significant different between these three categories of responses (domestic, abroad, both), therefore, it can be said that Malaysian SMEs current partners in making alliances were from abroad.

Table12: Malaysian SMEs’ Choice of New Partners for Developing Alliances

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid domestic	28	18.7	18.7	18.7
abroad	78	52.0	52.0	70.7
both	44	29.3	29.3	100.0
Total	150	100.0	100.0	

Based on the above statistical findings, 52% of SMEs preferred partners for developing alliances from international market. A total of 29.3% selected partners from both domestic and international market and finally just 18.7% of these enterprises considered partners from domestic market in this sense. A chi-square test gave p-value less than 0.05 (0.00) which indicates that the majority of Malaysian SMEs take into their consideration the partners from international market for developing strategic alliances.

In addition to hypotheses verification, some questions were designed to explore more details and dimensions Strategic Alliances among Malaysian SMEs. Frequency test was used to test all questions in this section.

The results for the first question “Malaysian SME’s Establishment of Strategic Alliances with Other SMEs” show that 37.3% of these enterprises have established strategic alliance with other small and medium sized enterprises, 41.3% of them did not make any alliance and 21.3% of these enterprises are planning to make alliance with other SMEs.

The second question was about “Malaysian SME’s Establishment of Strategic Alliances with Big Firms” and the results show that 36% of these enterprises have established strategic alliance with big firms, 34.7% of them did not make any alliance and 29.3% of these enterprises are scheming to make alliance with big firms.

The results of the next question “Malaysian SMEs Main Sources of Concern in Making Strategic Alliances” illustrate that Malaysian SMEs sources of concern are opportunistic behaviour of partners, control over shared resources and managerial control both are equally important, financial control of alliance, risk management, and ability to learn

The fourth question is about “Developing new legally independent Enterprises by Malaysian SMEs towards Making Alliances”, results show that Only 38.7 % of these enterprises developed a new legally independent enterprise for their alliances, a portion of 44% of them did not establish a new legally independent enterprise in this sense, and the rest (17.3%) expressed that they are planning and considering a new legally independent enterprise to make alliance with other firms.

The next question “Malaysian SMEs’ Pursued Abilities in Making Alliances” results demonstrate that the abilities pursued by Malaysian SMEs in making alliances categorized respectively as: ability to maintain long-term relationship (trust and transparency, cultural fit) and ability to absorb knowledge and learn are both equally important, ability to share control and ability to select fitting partner both are equally important, ability to monitor and ability to invest in modernization and change tools are both equally important, ability to share risk, and ability to share resources.

The 6th question “Pursued Abilities of Malaysian SMEs’ Partners in Making Alliances” results show that the abilities, which these allies are trying to achieve through partnership with Malaysian SMEs, have arranged respectively as: ability to share risk, ability to share control and ability to select fitting partner both are equally important, ability to absorb knowledge and learn, ability to maintain long-term relationship, ability to share resources ,ability to monitor and ability to invest in modernization and change tools .

The 7th question “Malaysian SMEs Simple versus Network Partnership in Domestic Market” results demonstrate that 36% of Malaysian SMEs developed simple alliances in local market, a portion of 46.7% of

these enterprises formed network partnership in their domestic market and finally 17.3% did not develop any alliance.

The 8th question “Preferred Origins of Partners for Malaysian SMEs” results reveal that the preferred origins of partners for Malaysian SMEs are: China, America, India, Singapore and Middle East countries both are equally important, and Other ASEAN countries except Singapore and EU (Germany, France and UK) both are equally important, and Oceanic (Australia and New Zealand)

The last question “Malaysian SMEs” Willingness to make Simple versus Network Partnership in Foreign Market” results show that:

Malaysian SMEs” managers pay same amount of attention to both make simple alliances and network partnerships. There is no preference for Malaysian SMEs to develop simple instead of network partnership in foreign market. Finally, this implies that understanding of benefits and complexities of simple and network alliances has fundamental deficits in Malaysia.

Discussion

From literature it has been found that, the traditional explanations for establishing corporate alliances were following strategic adjectives: seeking the formation of industrial cartels in order to ameliorate competition, sharing risks, enabling the union of mutually complementary resources, and overcoming obstacles to market participation. Therefore, strategic alliance as a strategic action of a firm has to be developed and made out of resources and make services from these allocated resources. Accordingly, since alliances are cooperative actions these resource and procedures are done collaboratively to reduce risk and improve organizational relationships.

Based on the findings in this study it can be said that the Non-equity complementary alliances as horizontal and vertical partnerships both have been tested and verified as the main competitive alliances for Malaysian SMEs. However, to explain these alliances in terms of the SMEs’ operation it can be added that, Malaysian SMEs lack operational capabilities and learning abilities to complement their resources in particular knowledge- based (managerial and technical know-how). Cross-industrial alliances amongst SMEs in service sector, manufacturing and other core section of Malaysian economy can enable SMEs to establish alliances that are more effective and gain more operational resources and capabilities. In this sense, it has been found that recourse-based approach to partner selection can result in a better partnership and therefore for Malaysian SMEs selecting a partner with complementary resources and capabilities bring about better advantages and outcomes. Moreover, forming operational non-financial alliances (non-equity) that been oriented toward operational effectiveness of partners by sharing technical and managerial know-how and promoting operational learning lead these enterprises to better consequences and cooperative operational-based competitiveness.

The second objective of the current study was developing a theoretical framework, illustrating different aspects of strategic alliance for SMEs in Malaysia This theoretical framework or model has been developed and illustrated in two ways; first did firms as allies and partners pursue a conceptual model of this

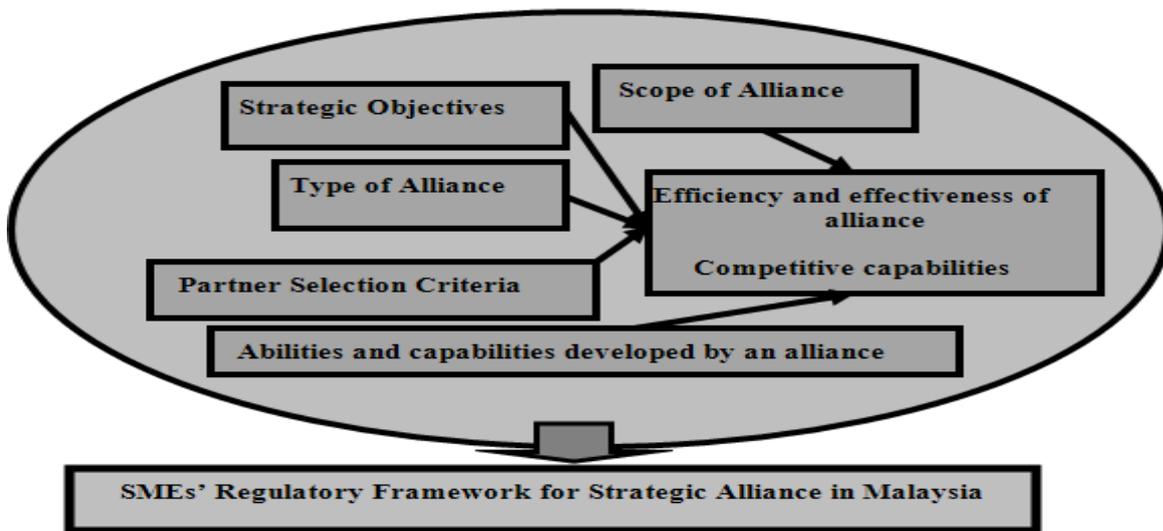
study, which synthesizes main construct of strategic alliance from objectives, to operational scope and financial structure to capabilities and abilities, to formation process. Second was a simple illustrative model as regulatory framework developed by this study. These models can be synthesized in a comprehensive scheme that draws the realm of strategic alliance and underlines the main constructs of strategic alliance as: main strategic objectives and benefit; typology from financial and strategic perspectives (equity versus competitive scope, horizontal or vertical); the nature of partners (competitor, complementors); abilities and capabilities specially learning and knowledge sharing; analysis of alliance from transaction-costs theory versus resource-based view; partner selection model and considerations; geographical scope (domestic and international); and simple alliance and networks. Thus, this objective was met and it is reasoned that, strategic alliance as a cooperative strategy or as a growth strategy to penetrate into new markets, industries or international arena is a multifaceted concept and a simple theoretical model cannot embrace all constructs of this strategic action. However, each dimension needs a full theoretical model and moreover theory of strategic alliance is still growing day to day and more factors are added to this field. Hence, the conceptual body of alliance is dependent of the time and scope or context of study for example Malaysian manufacturing or service SMEs in 2000s or other time frames.

The next objective of the study was explaining the competitiveness of strategies alliance for SMEs which was appropriately met in literature survey by reviewing the benefits of alliance, competitive challenges and weaknesses of Malaysian SMEs and finally tailoring theory of alliance for SMEs. The findings and results of study show that alliance leads SMEs to a competitive power and enable them to neutralize competitive threats and develop competitive capabilities and advantages with lower cost and in a shorter time.

Common Regulatory Framework for Strategic Alliance amongst Malaysian SMEs

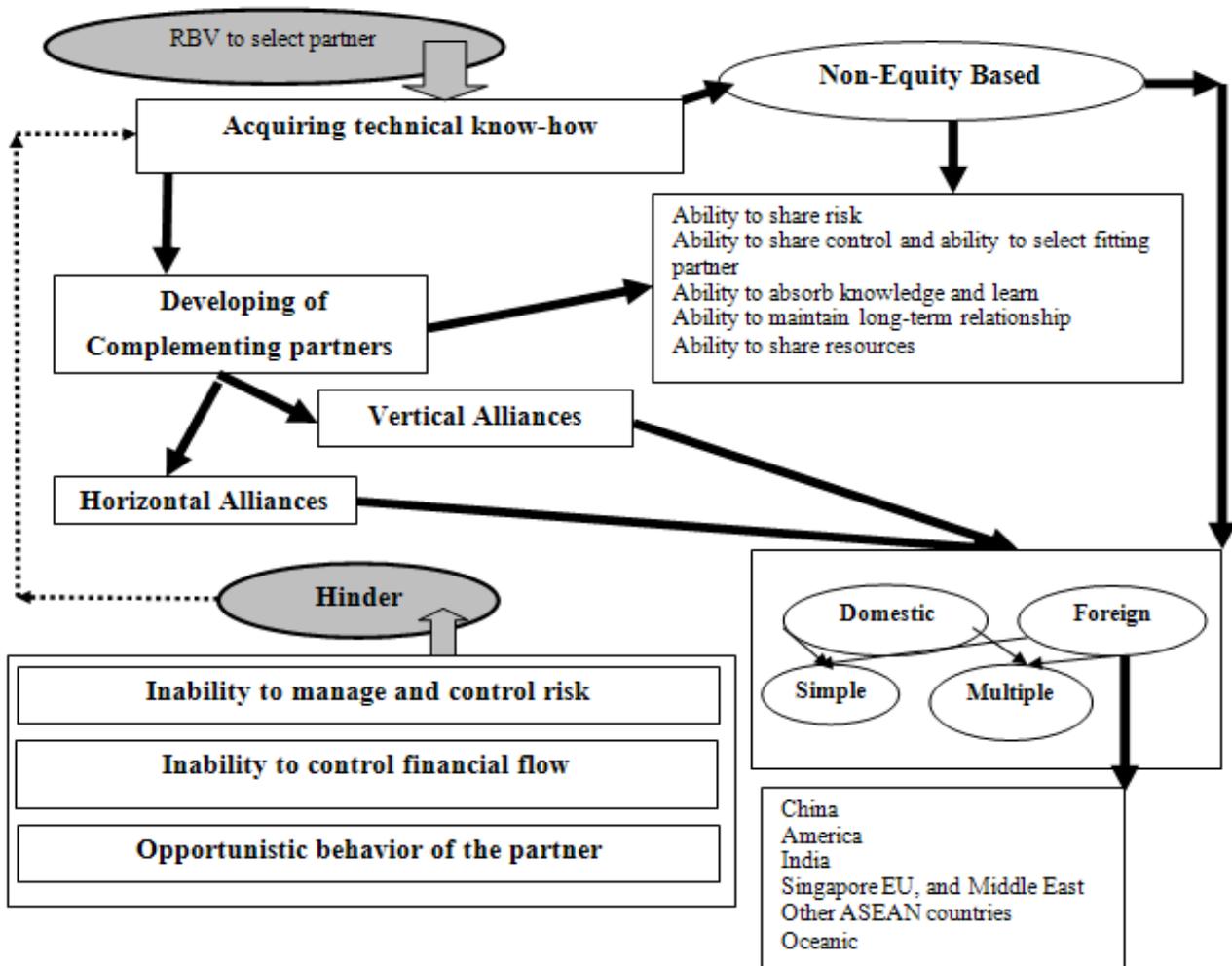
As this study shows, developing a regulatory framework that include all aspects of strategic alliance can be a constructive attempt but requires inclusion of numerous factors. In this regard, this study is encapsulates main factors as pillars of a regulatory model for strategic alliance and in addition compiled them in chapter two as literature review and then the most important components have been chosen for empirical study. This process mapped a holistic regulatory framework for strategic alliance of Malaysian SMEs. A simple schematic model based on constructs as found in this study can be graphed as Figure 2 which shows the main aspects of a general model for theorizing and studying strategic alliance for firms (here, Malaysian SMEs).

Figure 2: A Schematic Regulatory Framework for Strategic Alliance of SMEs



After this schematic model an empirical model as a tentative framework is shaped based on statistical findings.

Figure 2: Proposed Conceptual Framework



Regarding to the above Proposed Conceptual Framework and statistical findings as previously described, there are several interesting points which are listed as below:

1. To date, Malaysian SMEs have not developed enough alliances either with other SMEs or with big firms and this showed that the importance of this cooperative strategy in Malaysia has not been understood and taken advantage of it.

2. Opportunistic behavior of partners, inability to control financial flow amongst partners and also managerial control have been the main concerns of executives in establishing strategic alliances with both other SMEs and also big firms

3. Due to lack of financial and also managerial resources (skills and controllability) Malaysian SMES have not had a tendency towards developing joint-ventures and cultivating new entities

4. The main abilities to be attained through partnerships have been expressed by SME's executives in Malaysia as:

- ✓ Ability to maintain long-term relationship (trust and transparency, cultural fit) and ability to absorb knowledge and learn are both equally important
- ✓ Ability to share control and ability to select fitting partner both are equally important
- ✓ Ability to monitor and ability to invest in modernization and change tools are both equally important
- ✓ Ability to share risk
- ✓ Ability to share resources

5. These SMEs also believe that their partners are pursuing below firm alliance abilities with them

- Ability to share risk
- Ability to share control and ability to select fitting partner both are equally important
- Ability to absorb knowledge and learn
- Ability to maintain long-term relationship (trust and transparency, cultural fit)
- Ability to share resources, ability to monitor and ability to invest in modernization and change tools
all three are equally important

6. SMEs executives in Malaysia are willing to shape multiple alliances and from network of partnership to achieve more resources and benefit from a broader scope of operation.

7. To conduct a partnership with foreign enterprise, Malaysian executives have selected the following countries based on their main considerations as:

- China, America, India, Singapore and Middle East countries both are equally important, and Other ASEAN countries except Singapore and EU (Germany, France and UK) both are equally important, and Oceanic (Australia and New Zealand)

Strategic alliance is an alternative strategy for both domestic market and international arena and all enterprises develop simple and network partnership across industries and borders to not only develop cooperative advantages competitively but also broaden their scope of operation and competition and play more roles in global business milieu. Therefore, international and network partnership do not only belong to big firms but SMEs can also take advantages of this action.

8. Finally, in the case of setting alliance as a strategy for playing an international role, SMEs' executives in Malaysia have paid equal attention to simple alliances and network alliances. Moreover, this indicated that the concept of international alliance and the complexities engaged in them have not been comprehended well by these executives and more initiatives are required to awaken Malaysian SMEs about the conceptual considerations of simple and network partnership particularly in an international context.

Having considered these issues, it can be argued that in Malaysia developing a regulatory framework for strategic alliance of SMEs is still a complex endeavor and many factors are forming or not well structured, understood and managed yet. The level of understanding of executives is still low and many building blocks of alliance for SMEs yet need to be constructed.

Implications

The implications of this study can benefit SME's executives, managers, practitioners and academician who are interested and involved in formulating and implementing strategies for alliance among SME. These implications are as follow:

1. Strategic alliance is a cooperative strategy that is developed and implemented to create competitive advantages jointly and therefore it requires a mutual culture, transparency and commitment.
2. Strategic alliance is a complex and multifaceted concept that embraces all operational, financial and managerial aspects of a firm strategically towards a promising partnership; therefore it necessitates executives to understand their resources, abilities and shortages accurately and comprehensively.
3. Managers and executives must clarify their objectives from a partnership and subsequently analyze potential partners and starts formation of alliance , this means that partners can be both complementors and competitors and alliance can be conceived intra and inter industries as horizontal and vertical bases on the shared objective and pooled resources.
4. For Malaysian executives, acquisition of technical know-how has been the main objective of alliance but other objectives such as attainment of market power and access can be also taken into consideration.

5. Since, SMEs normally lack financial resources to pool and share; the executives of SMEs tend to form non-equity based alliances through which other intangible assets ranging from technical know-how to managerial skills are shared.

6. Opportunistic behaviour of parents must be monitored and avoided in alliances because it causes mismanagement and failure of alliance and results in creation of competitive disadvantage for partners and wipes trust and transparency out of the partnership.

7. Numerous abilities can be developed through a well-structured and well-managed alliance such as the ability to maintain long-term relationship (trust and transparency, cultural fit, and ability to absorb knowledge and learn, ability to share control, ability to monitor, ability to invest in modernization and change tools, ability to share and manage risk, and finally ability to share resources and complete them collaboratively.

Research Limitations

During conducting this research, some limitations are undeniable and must be named and explained in order to clarify the process of research. First of all, Malaysia's SME bank lack enough information about alliances, the number of alliances and other statistics to be used and interpreters in such studies. Second limitation is about responsiveness of executives and the quality of communication. Some of SMEs' executives lack English proficiency and communicational abilities, which hinder to process of survey and interview. These two limitations as technical barriers in addition to time and cost constraints are main limitations in this study. Researchers, policy makers and practitioners are advised to take proper actions in order to minimize the effects of these limitations when studying Malaysian SMEs.

Directions for Further Research

This study tried to provide a comprehensive view on strategic alliance for Malaysian SMEs 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, 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 was designed to contrive a model for analyzing strategic alliance of Malaysian SMEs and developed a simple schematic framework to be served as a regulatory map into this domain, this study excavated some gaps that exist still in literature and yet to be bridged by other studies. Hence, these deficits are targeted and tried to been addressed by recommending some directions for research in future.

1. The main objective of modern alliances is learning and enriching knowledge repository of partners. However, for Malaysian SMEs, the literature lacks a prior study in this context and conducting a research to investigate the patterns and effectiveness of learning amongst SMEs makes a real sense.

2. Evaluating resources of partner has been always a tricky step in formation of alliances. Developing models and implementing them for SMEs and even big firms in Malaysia can result in a plenty of insightful findings for improvement of alliances and making them more effective.
3. Studying the differences between outcomes (both financial in terms of revenue and technological and managerial) of alliances between Malaysian SMEs and foreign SMEs from developed versus developing economies can contribute to this study and complement this regulatory framework by distinguishing the factors related to the origin of allies.
4. Investigating cross-sectional differences or inter-industrial alliances for SMEs is also an important field of study in this context.
5. Studying the relationship between the structure of enterprise and the pursued and attained strategic abilities and capabilities can provide insightful findings into this field and enhance decision-making of executives for formulating and controlling strategic alliance.
6. Researching the role of modern technologies and strategic approaches such as knowledge management system and modern costing, logistic inventory, ERM, lean philosophy and also just-in-time(JIT) in success of partners in an alliance of network of alliances is also a worthwhile domain of study which is worth of further investigations

Conclusion

This study was designed to remove a knowledge gap in the body of SMEs' alliance in Malaysia. The concept of alliance, its typology, managerial procedures, formation, merits and demerits and were all briefly reviewed and discussed. A conceptual model was sketched to illustrate the holistic model of alliance for SME's alliance and its main dimensions were hypothesized. SMEs' executives were asked to express their attitudes toward different aspects of alliance for their respective enterprise. The findings were explicated and finally research limitations, implications and directions for further investigation were also underlined.

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