

## **Pre and Post-alliance Formation Factors and Financial Performance of Small and Medium Enterprises Involved in Strategic Alliances in Kenya**

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The primary objective of this study was to determine the pre- and post-alliance formation factors influencing the financial performance of SMEs involved in strategic alliances in Kisumu District, Kenya. The study was necessitated by anecdotal documentation of such factors and the financial performance of SMEs in strategic alliances, particularly in developing economies. Data was sourced from a total of 120 SMEs involved in strategic alliances. Chi square was used to test hypotheses, while binary logistic regression was applied to determine the effect of such factors on the financial performance of SMEs involved in strategic alliances, while considering the influence of institutional characteristics. The study found that financial performance of SMEs in strategic alliances was significantly associated with firm attributes such as age, type of business activities, legal status, place of location, average income and firm size. Among the pre- and post-alliance formation factors, prior experience with partners accounted for the highest variance in financial performance of SMEs involved in alliances (13.2%); followed by the trust for partners (11.4%) and partner's reputation (9.7%). Overall, the model explained up to 58.8 percent of variance in the financial performance among targeted SMEs. The study concluded that the involvement of SMEs in strategic alliances does not necessarily guarantee better financial performance among alliance partners. In this regard, SMEs require appropriate information to enable them choose most appropriate partners; understand the culture of partners as well as potential risks and how best such risks may be managed. The study recommends the need to: improve awareness about business strategic alliances, as a key strategy through which SMEs can secure their survival and growth in today's globalized economies; develop a comprehensive communication strategy aimed at promoting the development of SMEs and encouraging entrepreneurs to initiate strategic alliances; and develop appropriate curriculum on business strategic alliances and encourage Technical, Industrial, Vocational and Entrepreneurship Training (TIVET) institutions to implement the curriculum.

**Key words:** Pre and Post Alliance, Formation Factors, Financial Performance, Strategic Alliance, Kenya

## BACKGROUND OF THE STUDY

Small and Medium Enterprises (SMEs) are defined in relation to various parameters, including the number of employees, value of assets, sales volume or capital size (World Bank, 2009). Of these, the most commonly used criterion is the number of employees because of the relative ease of empirical verification using documented information or report by business owners. SMEs are usually owner-managed or family-owned and supported by 2 to 250 employees. Besides, SMEs operate from definite business premises, are often tax-registered and meet other formal registration requirements (World Bank, 2009).

SMEs play an important role in economic development in both developing and developed economies. In Kenya, SMEs contribute to economic development by creating over 70 percent of employment opportunities and generating up to 22 percent of the national Gross Domestic Products (GDP); thus, providing a source of livelihood for middle and low-income households (Atieno, 2001; Mbithi & Mainga, 2006; Beck & Demirguc-Kunt, 2006). In view of this, stagnation or even demise of SMEs translates into loss of job opportunities and upsurge of poverty levels.

SMEs are increasingly forming strategic alliances with various actors, including their suppliers, customers, financiers and competitors to enable them cope with negative effects of globalization such as competition and technological advances (Varadarajan, 1995; Das, 1997). Increasing market complexity and competition makes it

necessary for SMEs to seek refuge in strategic alliances to achieve competitive advantage and enhance their survival (Das, 1997).

In this regard, '...strategic alliances are as necessary for the survival of SMEs in the modern market economy as a chassis is to a car' (Das, 1997: 34).

Strategic alliances are agreements between two or more firms to cooperate in undertaking a common business activity, where each partner commits resources and effort, including skills, financial resources or technology to the arrangement; thus, improve their survival and growth chances (Gulati, 2000). According to Hoffmann and Schlosser (2001), through strategic alliances, firms can improve their competitive positioning, gain entry to new markets, supplement knowledge and skills, as well as share risks and costs of joint projects, while remaining independent. Similarly, Kale (2001) notes that strategic alliances create opportunity for risk minimization, cost reduction, efficiency as well as for sharing information, technology, financial and physical resources by partnering firms in rapidly-changing business environments. Without strategic alliances, most SMEs are not able to achieve competitive advantage by themselves due to financial, technological and technical resource constraints (Hoffmann & Schlosser, 2001).

Scholars differ on the subject matter of how to gauge the performance of alliance SMEs. However, the use of accounting-based measures seems to be more acceptable than stock-market indicators such as share price, which is limited to firms listed in stock

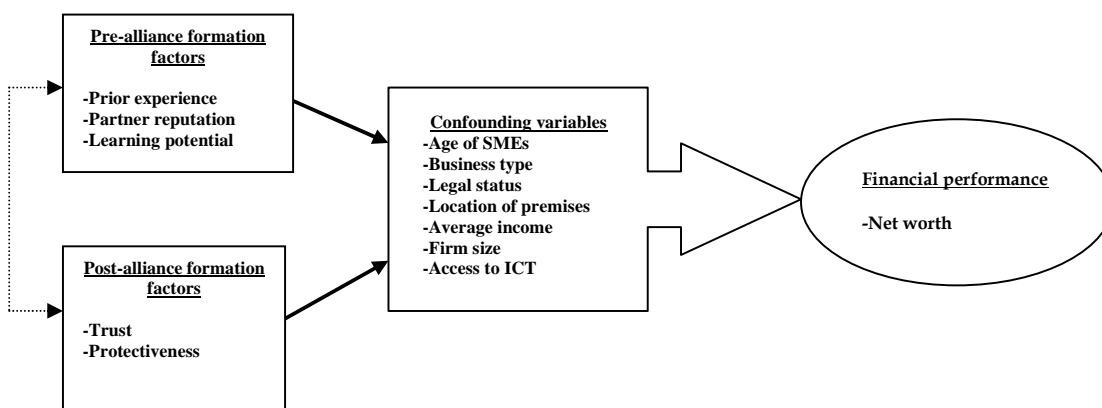
exchanges (Grant, 1988; Varadarajan, 1995). Accounting-based measures of financial performance have been applied by various scholars, including Anderson and Weitz (1979), Grant (1988) and Sandoval (2001). These studies used parameters such as asset value, liability portfolio and net worth to show financial performance. The cited studies also noted that financial performance was significantly associated with firm attributes such as age, size, type of business activities, location, legal status, income level, number of alliance partners and frequency of communication between partners.

### **Pre- and post-alliance formation factors influencing financial performance of SMEs**

The performance of SMEs in alliances is a complex phenomenon that becomes relevant only when its components are dissected to the operational level. Empirical studies conducted in various geographical and national contexts

have revealed an array of factors determining the financial performance of alliance SMEs (e.g. Larson, 1992; Kogut, 1988; Gulati, 1998). A detailed review of such studies, reveal two main conceptual categories of factors influencing the financial performance of alliance SMEs, namely pre-alliance formation and post-alliance formation factors (Larson, 1992; Kogut, 1988; Gulati, 1998).

Pre-alliance formation factors include attributes such as prior experience with a partner, partner reputation and perceived learning potential; while post-alliance formation factors include variables such as trust and protectiveness of information (Larson, 1992; Kogut, 1988). Figure 1 below shows the conceptual framework, indicating the perceived influence of pre- and post-alliance formation factors on the financial performance of alliance SMEs.



*Figure 1: Conceptual framework*

*Source: adapted and modified from (Kogut, 1988)*

### **Pre-alliance formation factors**

Previous studies have shown that SMEs form strategic alliances with various firms, including suppliers, customers, financial institutions and competitors (De Wit & Myer, 2004). Prior experience with potential partners is likely to have some bearing on the financial performance of alliance SMEs. In this regard, firms that have repeatedly worked together tend to know and understand each other (Hoffmann & Schlosser, 2001). Prior experience is advantageous in deterring opportunism; it also provides opportunity for SMEs to build confidence in potential partners (Varadarajan, 1995); which in turn, inspires partners to invest resources in strategic alliances (Larson, 1992).

Prior experience with partners facilitates the creation of strategic alliances in which chosen partners are similar in management style and company culture (Bucklin & Sengupta, 2003). Earlier, a study by Ruekert (1997) found that factors such as domain similarity and goal compatibility enhance the co-existence of firms involved in strategic alliances. On the same note, Bucklin and Sengupta (2003) also indicate that the compatibility of the partners is critical to the performance and success of strategic alliances.

Reputation refers to the knowledge held by individuals about a potential alliance partner in terms of behaviour in previous engagements with other firms. Nielsen (2002) likens the concept of reputation to Mayer's (1995) concept of integrity. Most firms are, either directly or indirectly, involved in networks with various organizations and individual (Kogut, 1988). Within such networks, reputation plays an important role

in determining how a firm's status is perceived by society; it also adds value to a firm's legitimacy and credibility; thus, defines its potential for future alliances (Kogut, 1988).

By bringing together different firms with unique capabilities, strategic alliances create unique learning opportunities for partner firms (Saxton, 2001). As pointed out by Muthusamy and White (2005), learning involves acquisition and exploitation of new knowledge by alliance partners. Such new knowledge provides the basis for organizational renewal and sustainable competitive advantage. Partner firms recognizing and using strategic alliances as opportunities for learning are likely to acquire knowledge that can be useful in enhancing financial performance. In this regard, SMEs engaging in strategic alliances should choose partners with complementary skills and resources to facilitate knowledge transfer and improve financial performance.

According to Richter and Vettel (1995), firms planning to form strategic alliances should consider the amount of knowledge that can be gained from identified partners; but cautions alliance partners to exercise patience because knowledge sharing takes a while as partners study each other. Similarly, Inkpen and Crossan (2005) notes that firms getting into strategic alliances should ensure that potential partners are similar enough to understand each other, but also diverse in terms knowledge and skills to permit learning.

### **Post-alliance formation factors**

Empirical studies have identified trust as one of the key factors influencing the performance and long-term sustainability of strategic alliances among SME (e.g. Larson, 1992; Morgan & Hunt, 1994; Jennings (2002). The literature further suggests that ‘...trust improves cooperation and flexibility, lowers the cost of coordinating activities, as well as increases knowledge transfer (Larson, 1992: 78). In this regard, trust enables alliance partners to share resources, including information to improve their competitiveness. Consequently, trust is an important determinant of alliance performance because it increases a firm’s access to external resources. For any strategic alliance to achieve its objectives, some degree of trust must exist between partnering firms (Larson, 1992).

As noted by Kumar (2006), trust in strategic alliances reduces the perception of risks that may be associated with opportunistic behaviour. In this regard, alliance partners trusting each other generate greater profits, serve customers better and are more adaptable (Kumar 2006). Furthermore, a study conducted by Smith (2007) suggests that the degree of trust is one critical factor influencing the performance of strategic alliances among SMEs. In view of this, the study points out that trust is so important to strategic alliances that it is considered the “cornerstone of the strategic partnership success” (Smith, 2007:43).

Consistent with the resource-based view of the firm, knowledge protectiveness is often seen as an appropriate safeguard against opportunistic behaviour in strategic alliances

(Larson, 1992). Alliance partners are likely to be more protective of their knowledge resources when their competitive advantage relies on such information. In a situation of high competitive overlap between partners, firms are likely to restrict knowledge sharing because of the risk of spill over (Varadarajan, 1995). Nielsen (2002) also found that protectiveness was negatively related to knowledge transfer, suggesting that it acts as a barrier to effective knowledge and resource exchange; which in turn, is likely to breed conflicts between partners, thus, render alliances ineffective and unsuccessful. However, another perspective advanced by Khanna (2004) suggests that despite their advantages, strategic alliances among SMEs may introduce the risk of a firm losing its critical capabilities or skills to a partner without receiving any benefits in return. This possibility necessitates alliance members to be protective of their information, knowledge and skills, especially as they build trust towards partners.

### **Confounding variables**

The influence of pre- and post-alliance formation factors on the financial performance of SMEs is likely to be confounded firm attributes, such as age, type of business activity, legal status, location of premises, average income, farm size and access to ICT facilities in the premise. A study conducted by Pasanen (2006) found that financial performance of SMEs in strategic alliances was influenced by institutional factors such as duration of operation, capitalization level, number of paid workers and form of legal status. These variables returned significant association with financial performance, which was measured in terms of

rate of return on assets (ROA). The mentioned variables also brought out significant differences between long-lived and young business firms; thus, long-lived firms reported better performance than young firms.

In another study, Hashim and Hassan (2007) identified various institutional attributes which influenced the performance of sampled SMEs. The study found that financial performance was a function of factors such as legal status of firms, number of employees, age, total sales and pre-tax net profit. According to Wincent (2006), financial performance of SMEs is a function of firm characteristics, which fall into two categories, viz. 1) trait-like factors that are stable and capture resources and capabilities that the firm brings into cooperation, and 2) factors that are likely to change based on the firm's cooperative orientation. The key firm characteristics noted by this study include firm size, type of business venture, size of enterprise, form of legal status, age of firms, the mean number of products and capitalization level. These studies show that firm attributes cannot be overlooked while assessing the performance of SMEs involved in strategic alliance. The framework postulates that firm attributes play a crucial role in modifying the influence of pre- and post-alliance formation factors.

### **Financial performance**

Scholars differ on the subject matter of how to measure the financial performance of business entities. While scholars in the field of strategic management emphasizes the use of market-based performance and accounting measures, critics note that such measures reflect market perception of future earnings,

while accounting-based measures provide historical financial data. However, "decisions regarding diversification are made using profitability data derived from financial statements and, hence, it would be more appropriate to use accounting-based measures of performance to assess the efficacy of diversification efforts" (Ramanujam & Varadarajan, 1989, p. 540). Among the first studies to apply the accounting-based measures to gauge the performance of firms in strategic alliances was Anderson and Weitz (1979). The study explained firm performance in terms of asset value and net worth and found significant associations between asset value and explanatory variables such as trust, firm age, firm reputation, firm stability, number of alliance partners and frequency of communication between such partners.

Other studies that have applied accounting-based indicators of performance include Bettis & Hall (1985), Grant (1988) and Lei (1994). These studies used accounting-based indicators, including asset value, liability portfolio and net worth to measure the performance of firms in strategic alliances. According to Bettis & Hall (1985), change in net worth of a firm is an important measure of performance and is often employed by managers and external analysts to assess firm effectiveness and efficiency. In addition, net worth was applied as a measure of financial performance of 48 United Kingdom companies in relation to their growth and diversification (Grinyer & Al-Bazzaz, 1980).

Furthermore, Sandoval (2001) applied asset value and liability portfolio to indicate the level of performance among Chilean firms involved in strategic alliances. The study

found positive relationship between asset value and liability portfolio and background factors such as alliance life span, alliance type, alliance stability, number of alliance partners and type of business activities. Asset value and net worth have also been applied by Law, Tse and Zhou (2003). In this context, the two indicators were used to show firm performance in their study of how to improve Chinese firm performance during transitional economies.

Even though the literature review suggests lack of universal indicators of firm performance, the use of accounting-based measures has been more widespread than the application of indicators such as stock price. The choice of asset value, liability portfolio and net worth are based on the cognizance that firm performance is more directly reflected in such accounting indicators rather than stock price, which is limited to firms listed in stock markets; yet, not all firms in alliances are listed in stock markets (Grant, 1988). Furthermore, the use of stock price can be affected by factors outside of management's control; therefore, it is not be an efficient measure of performance (Sandoval, 2001).

### **The Issues**

Due to resource constraints, SMEs are increasingly engaging in strategic alliances with other firms to enhance their survival, performance and growth in globalised economies. However, not all strategic alliances formed by SMEs have resulted to better financial performance of partners involved. While some SMEs have succeeded in establishing beneficial alliances; others are associated with a long list of failed alliances

(Varadarajan, 1995). For the past two decades, research on SME alliances reveals two main areas of focus; with one stream focusing on factors underlying the formation of alliances (e.g. Harrigan, 1985; Lorange, 1988; Kogut, 1988). The other stream dwells on determinants of alliance success or failure; which, as noted by Kogut (1988) and Varadarajan (1995), may not necessarily be indicated by financial performance.

Nonetheless, the extent to which a strategic alliance has achieved its goals may not be adequately reflected by financial performance. Despite poor financial results, an alliance may have met or exceeded partners' objectives; hence, considered successful (Kogut, 1988). Similarly, an alliance may be viewed as unsuccessful despite good financial results (Lorange, 1988). According to Saxton (2001), empirical investigations into factors influencing financial performance of individual firms involved in strategic alliances remains scanty and anecdotal.

In addition, Nielsen (2002) notes that although a lot has been written about strategic alliances, the literature is rather skewed towards characteristics of such entities and their survival, with little documentation on the financial performance of individual alliance partners, particularly in developing economies. On the same note, Hoffmann and Schlosser (2001) emphasize the need for more research in various political and economic contexts to document factors influencing the performance of firms involved in strategic alliances. In view of the highlighted gaps in literature, this study was initiated to determine factors underlying the financial performance

among alliance SMEs in Kisumu District, Kenya.

### Objectives of the study

The broad objective of this study was to determine the effect of pre- and post-alliance formation factors on the financial performance of alliance SMEs. Specifically, the study determined the effect of *pre-alliance formation* factors such as prior experience with a partner, partner's reputation and learning potential; as well as *post-alliance formation* factors, including trust and protectiveness of information on the financial performance of alliance SMEs.

### Hypotheses

From the conceptual framework in figure 1, the study derived and tested the statistical significance of the following null hypotheses:

*H<sub>01</sub>*: Prior experience with a partner negatively influences the financial performance of SMEs in strategic alliances;

*H<sub>02</sub>*: Partners' reputation negatively affects the financial performance of SMEs in strategic alliances;

*H<sub>03</sub>*: Perceived learning potential of partners has a negative effect on the financial performance of SMEs in strategic alliances;

*H<sub>04</sub>*: Perceived level of trust for partners negatively affects the financial performance of SMEs in strategic alliances;

*H<sub>05</sub>*: Protectiveness level of information negatively influences the performance of SMEs in strategic alliances.

### Justification of the study

Business strategic alliances enable SMEs to benefit from resources, knowledge, skills and technological capability of partners, empirical studies (e.g. Kogut, 1988; Lorange, 1988; & Varadarajan, 1995) point out that the success of strategic alliances in realizing common objectives does not necessarily translate to better financial performance of partnering firms. While a number of studies have focused on the value added by the synergy to the success of strategic alliances, there has been little focus on the financial performance of alliance partners, particularly in Kenya.

### DATA AND METHODOLOGY

The study applied the cross-sectional survey design; implying that data was sourced from target respondents at a single point in time (Babbie, 1973). The design is the most commonly used form of survey designs in social research, particularly because it is cheaper compared to longitudinal designs. Data on pre- and post-alliance formation factors were collected at one point in time. Information on the pre-alliance formation was largely based on what SME owners/managers could recall from the necessary plans and considerations before alliances were formed.

The design had two key approaches - quantitative and qualitative. The quantitative approach consisted of structured questions, which elicited numerical and quantifiable information to be used for descriptive and inferential purposes. On the other hand, the qualitative approach, with unstructured questions obtained in-depth information based on the experiences and opinions of SME owners.



The choice of cross-sectional survey design was based on the fact that it is cheaper than longitudinal designs in terms of finances and time (Rindfleisch, Malter, Ganesan & Moorman, 2008). Besides, the design used is not vulnerable to confounding factors, which may arise due to social, political and cultural changes. In applying the design, efforts were made to overcome its inherent weaknesses, including the risk of high non-response rate because of voluntary participation; as well as the risk of interviewer bias, prompting respondents to provide socially-desirable responses, rather than ones reflecting their true life and opinions (American Statistical Association, 1999). Details of the design and the approaches used in this study are fully discussed in the following publications records, particularly balance sheets summarizing assets and liabilities at the end of the immediate trading period. At the time of this study, Kisumu District had about 24,000 registered and functional SMEs. However, no data was available regarding the proportion of SMEs involved in strategic alliances. Using functional SMEs as the sampling frame (N), a sample size of 289 SMEs (n) meeting the specified criteria was drawn. Of the stated sample size, only 120 (41.5%) SMEs were involved in strategic alliances.

Data collection process entailed identification of SMEs, meeting the criteria for inclusion, which included availability of comprehensive accounting records and willingness to avail such records, as well as willingness to be interviewed. Those who consented were interviewed and information in accounting

(Nachmias & Nachmias, 1996; Bryman & Cramer 1997; Owens, 2002).

Data was collected in March 2002 from SMEs involved in strategic alliances and aged at least 3 years. The overall goal of the study was to achieve academic credit in MBA. Although the data is about 10 years old, it provides a basis upon which future studies will be conceived and justified. According to the Organization for Economic Cooperation and Development (OECD), SMEs are business firms having a staffing level ranging from 4 to 250 employees (OECD, 2001). Inclusion in the sampling frame was also based on whether a firm had complete accounting

records extracted. Both quantitative and qualitative approaches were applied to process, analyze and interpret the data. At the bivariate level, quantitative analysis generated cross-tabulations with Chi square ( $\chi^2$ ) for significance test; while at the multivariate level, binary logistic regression was applied to obtain *odds ratios* denoted as  $Exp(\beta)$  and significance tests.

Binary logistic regression predicts the proportion of variation in dichotomous variable from a set of independent variables (Aldrich & Nelson, 1984). The predicted variable takes the value 1 with a probability of success  $\theta$ , or the value 0 with probability of failure  $1-\theta$ . In this study, the dependent variable was *net worth*, with only two possible values – *above the OECD threshold* or *below the OECD threshold*. The model is often expressed in the form: -

$$\text{Logit } [\theta(Y)] = \log \left( \frac{\theta(Y)}{1 - \theta(Y)} \right) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_i X_i + \varepsilon$$

Source: Aldrich & Nelson (1984)

Where:  $Y$  = the predicted variable (*net worth*);  $\theta(Y)$  = the probability of an alliance SME has a net worth 'above threshold' the OECD;  $1 - \theta(Y)$  = the probability of an alliance SME has a net worth below the OECD threshold;  $\alpha$  = the constant term of the equation;  $\beta_1, \beta_2, \dots, \beta_i$  = regression co-efficients associated with independent variables;  $X_1, X_2, \dots, X_i$  = independent variables and  $\varepsilon$  = the error term.

The Statistical Package for Social Sciences (SPSS) and Microsoft Excel packages were used to facilitate quantitative analyses. Qualitative data were processed and analyzed following three steps. In the first step, data was organized and summarized in line with key thematic areas. The second step involved description of the summary sheets to produce a preliminary report. The third step involved systematic analysis and interpretation of the preliminary report.

## Results

This section presents results of the study, which have been organized under two broad thematic areas, including background profile of SMEs in strategic alliances and its implication on their financial performance; as well as factors influencing the performance of alliance SMEs.

### Background profile of SMEs in strategic alliances

Data used in this study was collected from a total of 120 SMEs involved in strategic alliances, with complete accounting records and whose chief managers accepted to participate in the interviews voluntarily. The analysis revealed that SMEs had engaged in strategic alliances for varying periods of time. In this regard, up to 74 (61.7%) had *been involved in strategic alliances for between 4 and 9 years*, 28 (23.3%) had been in alliances for utmost 3 years, 10 (3.8%) had been in alliances for 10 to 19 years, while 8 (6.7%) had engaged in such alliances for 20 years or more.

In relation to financial performance, the analysis obtained a calculated  $\chi^2$  of 13.545 with 3 degrees of freedom and a p-value of 0.035. The result was significant at 0.05 error margin, implying up to 95 percent chance that the duration of being in strategic alliances was significantly associated with financial performance. Furthermore, SMEs formed alliances with various types of partners. As indicated in figure 1 below, most SMEs formed alliances with their suppliers (64%); while up to 20 percent worked with their competitors, and 16 percent partnered with their customers/clients.

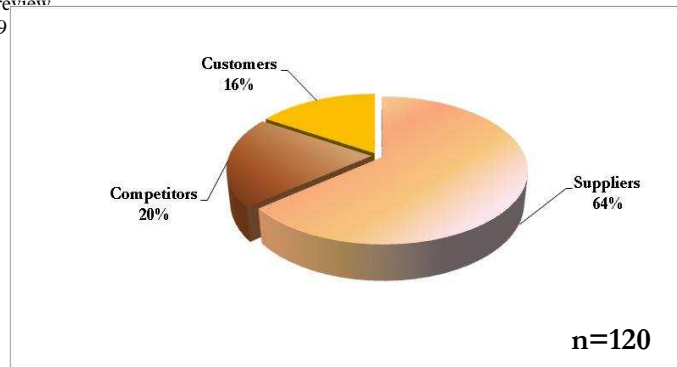


Figure 2: Types of strategic alliance partners

In terms of the number of alliance partners, 97 (80.8%) SMEs had involved with only one partner, 22 (18.3%) had collaborated with utmost two partners, while one SME had formed strategic alliances with at least three partners.

The findings suggest that the main reason driving most SMEs to seek and form strategic alliances was inadequacy of resources, including finances, information, skills and technology, which would enable them to effectively compete in the market. In this regard, alliances were formed to facilitate sharing of necessary technical skills and knowledge; to access new markets, overcome economic turbulences, arising from changing political landscape in the country at that time; as well as access to external resources.

The study captured information on various background attributes of SMEs, including age, type of business activities, legal status, location of premises, average monthly income, number of paid workers and access to Information Communication and Technology (ICT) infrastructure within their premises. The idea was to determine the relationship of these background attributes with financial performance of alliance SMEs. This was important for helping the researcher to identify attributes likely to confound the

influence of pre- and post-alliance formation factors on the financial performance of SMEs in strategic alliances.

#### **Age of the firm, type of business activities and legal status**

Age is one of the factors likely to influence the extent to which a firm is established in the market; which in turn, is likely to influence overall financial performance. Table 1 below shows cross-tabulation results between age of SMEs and net worth. The net worth of SMEs was measured based on the OECD criteria for sustainable SMEs (OECD, 2001). In this regard, sustainable SMEs in developing economies should operate at a minimum net worth portfolio of US\$ 62,500 (KES 5,000,000) at any given time. The results presented in table 1 show that up to 42.1 percent of the SMEs whose net worth was 'below the threshold' and 35.4 percent of those whose net worth was 'above threshold' were aged between 10 and 19 years.

*Table 1: Age, business types & legal status of SMEs*

Age of SMEs	Below threshold		Above threshold	
	Freq.	Pct	Freq.	Pct
<3 years	6	15.8	8	9.8
4 to 9 years	10	26.3	28	34.1
10 to 19 years	16	42.1	29	35.4
20 to 29 years	6	15.8	15	18.3
30 years +	0	0.0	2	2.4
Total	38	100.0	82	100.0
<i>Type of business activities</i>				
Hairdressing	3	7.9	2	4.2
Beauty products	9	23.7	18	22.5
Clothing boutique	3	7.9	11	11.7
Food and beverage	7	18.4	14	17.5
Chemist	0	0.0	7	5.8
Electronics	1	2.6	3	3.3
Fish processing	1	2.6	3	3.3
Construction materials	2	5.3	3	4.2
Motor vehicle parts	2	5.3	5	5.8
Groceries	5	13.2	12	14.2
Photo studio	5	13.2	4	7.5
Total	38	100.0	82	100.0
<i>Legal status of SMEs</i>				
Sole proprietorship	8	21.1	25	30.5
Partnership	20	52.6	40	48.8
Limited company	10	26.3	17	20.7
Total	38	100.0	82	100.0

Furthermore, cross-tabulation analysis between age and net worth of SMEs obtained a calculated  $\chi^2$  of 2.647 with 4 degrees of freedom and a p-value of 0.618, which was not statistically significant at any point within 0.1 error margin. This finding suggests that age was not significantly associated with the financial performance of alliance SMEs, as the performance of both young and older SMEs was not significantly different.

In addition, table 1 shows the distribution of SMEs in relation to their business line activities. In this regard, up to 23.7 percent of the SMEs 'below threshold' and 22.5 percent of those 'above threshold' specialized in beauty products; 18.4 percent of those 'below threshold' and 17.5 percent of those 'above threshold' were involved in food and beverage; while 13.2 percent of the SMEs 'below threshold' and 14.2 percent of those 'above threshold' traded in groceries.

Cross-tabulation analysis between type of business and net worth yielded a calculated  $\chi^2$  of =12.608, with 10 degrees of freedom and a p-value of 0.047; which was statistically significant at 0.05 error margin. The results suggest up to 95 percent chance that type of business activities were significantly associated with the financial performance of SMEs in strategic alliances.

Table 1 also shows that up to 52.6 percent of the SMEs 'below threshold' and 48.8 percent of those 'above threshold' were registered as partnerships; while 26.3 percent of those 'below threshold' and 20.7 percent of those 'above threshold' were operating as limited liability companies. Bivariate analysis between the legal status of SMEs' and their net worth obtained a calculated  $\chi^2$  of 17.277, with 2 degrees of freedom and a p-value of 0.055, which was significant at 0.1 error margin; thus, suggesting up to 90 percent chance that legal status of SMEs in strategic alliances was significantly associated with their financial of performance.

#### **Location of the firm, average income, size & access to ICT**

The study revealed that rural and urban areas have varying opportunities for growth and development of SMEs. While rural-based SMEs are closer to agricultural raw materials, urban SMEs have an easier access to the market. Both scenarios have the potential to influence the overall financial performance of SMEs. In this regard, table 2 shows that up to 86.8 percent of the SMEs 'below threshold' and 72.0 percent of those 'above threshold' were located in urban areas.

*Table 2: Location, income level, firm size & access to ICT*

Place of location	Below threshold		Above threshold	
	Freq.	Pct	Freq.	Pct
Rural	5	13.2	23	28.0
Urban	33	86.8	59	72.0
Total	38	100.0	82	100.0
<i>Average income</i>				
<KES 100,000	4	10.5	15	18.3
KES 100,000-199,999	16	42.1	27	32.9
KES 200,000-299,999	8	21.1	16	19.5
KES 300,000-399,999	6	15.8	18	22.0
KES 400,000-499,999	0	0.0	3	3.7
KES 500,000-599,999	4	10.5	3	3.7
KES 600,000 +	0	0.0	0	0.0
Total	38	100.0	82	100.0
<i>Firm size</i>				
No paid workers	0	0.0	7	8.5
1 to 9 workers	20	52.6	45	54.9
10 to 19 workers	12	31.6	16	19.5
20 workers +	6	15.8	14	17.1
Total	38	100.0	82	100.0
<i>Access to ICT in premises</i>				
Has internet connection	7	18.4	12	14.6
Has no internet connection	31	81.6	70	85.4
Total	38	100.0	82	100.0

The analysis further obtained a calculated  $\chi^2$  of 6.440, with 1 degree of freedom and a p-value of 0.018, which was significant at 0.05 error margin; suggesting up to 95 percent chance that the location of SMEs was significantly associated with their financial performance.

The level of net income determines the ability of a firm to build internal capital, which can be ploughed back into production. This information was obtained from the accounting records for the preceding one-year trading period. Table 2 indicates that up to 42.1 percent of the SMEs 'below threshold' and 32.9 percent of those 'above threshold' were in the income bracket of KES 100,000-199,000; another 21.1 percent of the SMEs 'below threshold' and 19.5 percent of those 'above threshold' were earning between KES 200,000-299,000; while up to 15.8 percent of those 'below threshold' and 22.0 percent of those 'above threshold' had incomes in the range of KES 300,000-399,999.

Cross-tabulation analysis between average income and net worth obtained a calculated  $\chi^2$  of 16.613, with 5 degrees of freedom and a p-value of 0.034, which was significant at 0.05 error margin. The result suggests up to 95 percent chance that average income was significantly associated with the financial performance of SMEs in strategic alliances.

Firm size was measured in terms of the number of paid workers, as recommended by OECD and World Bank guidelines (OECD, 2001). The number of paid workers may influence as well as indicate the level of financial performance. The bigger the positive change in the number paid workforce over time the higher the likelihood that an SME is experiencing increasing performance. In this study, table 2 shows that up to 52.6 percent of the SMEs 'below threshold' and 54.9 percent of those 'above threshold' had between 1 and 9 paid workers; 31.6 percent of those 'below threshold' and 19.2 percent of those 'above threshold' had between 10 and 19 workers; while 15.8 percent of SMEs 'below threshold' and 17.1 percent of those 'above threshold' SMEs had at least 20 paid workers.

Furthermore, cross-tabulation results between firm size and net worth obtained a calculated  $\chi^2$  of 4.914, with 3 degrees of freedom and a p-value of 0.017; which was significant at 0.05 error margin. The finding suggests up to 95 percent chance that the number of paid workers was one of the factors likely to influence financial performance of SMEs in strategic alliances.

More still, access to ICT was gauged in terms of availability of computers with internet connection in business premises. This was

considered an indicator of financial performance as well as an opportunity for SME growth in terms of communication and marketing. In this regard, table 2 above shows that up to 81.6 percent of SMEs 'below threshold' and 85.4 percent of those 'above threshold' did not have computers with internet connection in their premises. Besides, cross-tabulation analysis between access to ICT and net worth yielded a calculated  $\chi^2$  of 1.068, with 1 degree of freedom and a p-value of 0.112, but which was not statistically significant at any point within the 0.1 error margin.

Bivariate analysis shows that financial performance of SMEs in strategic alliances was significantly associated with various background factors, including the *age of SMEs*, *type of business activities*, *legal status*, *place of location*, *average income* and *firm size*. These variables were identified as potential confounders of the relationship between pre- and post alliance formation factors such as prior experience with a partner, partner's reputation, learning potential, trust and protectiveness level and financial performance of alliance SMEs.

Nevertheless, most bivariate analysis techniques, including cross-tabulation with chi square tests have no ability to bring out the effect of a set of independent variables on a dependent variable. The techniques can only determine the presence or lack of significant association. This necessitated the application of multivariate analysis techniques, particularly binary logistic regression, which is commonly used to predict variation in a dependent variable from a set of independent variables. The technique was applied to determine how pre- and post-alliance

formation factors influence financial performance of SMEs in strategic alliances, while taking into account background attributes.

### **The influence of pre- & post-alliance formation factors on the performance of SMEs**

The literature review brought out five key factors discovered by various studies to have a bearing on the financial performance of SMEs in strategic alliances. This study assessed how the same factors influenced the financial performance of alliance SMEs in Kisumu District, while considering background attributes of the SMEs in question. In this regard, two models were generated using binary logistic regression: the first model included pre- and post-alliance formation factors and partialled out background attributes of SMEs. However, the second model included both pre- and post-alliance formation factors and background attributes of SMEs in the equation. Table 3 presents the results of regression analysis.

### Prior experience with partner

Table 3: Summary results of logistic regression

Covariates	Model 1				Model 2			
	$\beta$	S.E.	p	Exp( $\beta$ )	$\beta$	S.E.	p	Exp( $\beta$ )
<b>PREXPEpartner</b>								
Yes	2.1863	1.4676	.006*	8.9022	1.8653	1.0251	.011**	6.4578
No (RC)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>PARTreputation</b>								
High	2.0739	.8072	.010**	7.9558	1.0361	.0365	.028**	2.8182
Moderate	1.0091	.6573	.005*	2.7431	.1288	.2742	.001*	1.1375
Low (RC)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>LEARNpotential</b>								
High	.4513	.1897	.000*	1.5703	.4173	.1561	.010**	1.5178
Moderate	.2713	.1307	.000*	1.3117	.2251	.0233	.000*	1.2524
Low (RC)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>TRUSTpartner</b>								
High	.5978	.1437	.000*	1.8181	.4408	.1232	.013**	1.5539
Moderate	.4301	.1897	.000*	1.5374	.4173	.1561	.010**	1.5178
Low (RC)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>INFORprotection</b>								
Yes	-1.4761	3.7782	.022**	0.2285	-1.9125	2.1425	.007*	0.1477
No (RC)	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
<b>BUSType</b>								
Hairdressing	-	-	-	-	-.0633	1.3301	.121	0.9387
Beauty products	-	-	-	-	.6990	1.2637	.042**	2.0117
Clothing boutique	-	-	-	-	.5801	2.9640	.165	1.6621
Food and beverage	-	-	-	-	.2694	3.6632	.111	1.3092
Chemist	-	-	-	-	.3452	.1600	.321	1.4123
Electronics	-	-	-	-	.3115	.6494	.110	1.3655
Fish processing	-	-	-	-	.3209	.4722	.014**	1.3784
Construction materials	-	-	-	-	.6441	.9783	.035**	1.9043
Motor vehicle parts	-	-	-	-	-.1288	.2742	.001*	.8792
Groceries	-	-	-	-	-.4173	.1561	.010**	0.6588
Photo studio (RC)	-	-	-	-	xxx	xxx	xxx	xxx
<b>LEGstatus</b>								
Sole proprietorship	-	-	-	-	-.6612	.0046	.002*	1.9371
Partnership	-	-	-	-	.5652	.1212	.013**	1.7598
Limited company (RC)	-	-	-	-	xxx	xxx	xxx	xxx
<b>LOCpremises</b>								
Rural	-	-	-	-	-.0141	1.1447	.045**	0.9860
Urban (RC)	-	-	-	-	xxx	xxx	xxx	xxx
<b>AVERincome</b>								
<KES 100,000	-	-	-	-	-.1108	1.0449	.055***	0.8951
KES 100,000-199,999	-	-	-	-	-.1329	1.1794	.004*	0.8756
KES 200,000-299,999	-	-	-	-	-.1789	1.9211	.112	0.8362
KES 300,000-399,999	-	-	-	-	-.2469	1.4543	.073***	0.7812
KES 400,000-499,999	-	-	-	-	-.8599	.1065	.194	0.4232
KES 500,000-599,999	-	-	-	-	-.9780	.1188	.160	0.3761
KES 600,000 + (RC)	-	-	-	-	xxx	xxx	xxx	xxx
<b>FIRMSize</b>								
No paid workers	-	-	-	-	-.6339	.3998	.005*	0.5305
1 to 9 workers	-	-	-	-	-.12353	.4400	.001*	0.2907
10 to 19 workers	-	-	-	-	-.21660	.8259	.000*	0.1146
20 workers + (RC)	-	-	-	-	xxx	xxx	xxx	xxx

RC= Reference category; \* significant at p=0.01; \*\* significant at p=0.05; \*\*\* significant at p=0.1

### Partner reputation

Model one shows that firms whose alliance partners had high reputation were about 7.9 times more likely to have a net worth well above the threshold than firms whose alliance partners had a low reputation. However, when background attributes are included in the

The results in model 1 show that SMEs having prior experience with alliance partners were 8.9 times more likely to have a net worth well above the OECD threshold than SMEs with no such experience. Variation between the two groups was significant at 0.01 error margin, which implies up to 99 percent chance that having some prior experience with a partner was likely to improve the financial performance of alliance SMEs.

However, when background attributes are incorporated in the equation, the results in model two shows that SMEs having some prior experience with alliance partners became 6.5 times more likely to have better financial performance than their counterparts having no such experience. Again, variation in performance between the two groups was significant at 0.05 error margin. This suggests up to 95 percent chance that having prior experience with alliance partners is likely to enhance the financial performance of SMEs in strategic alliances. Consequently the null hypothesis ( $H_01$ ) stating that *prior experience with a partner reduces financial performance of alliance SMEs* was rejected for not being consistent with empirical findings.

equation, firms whose alliance partners had high reputation became 2.8 times more likely to be above the threshold than those who believed their partners had a low reputation.

Besides, the variation in financial performance between firms in the two groups was significant at 0.05 error margin. This implies up to 95 percent chance that firms whose partners had a high reputation were likely to be performing better than those whose partners had a low reputation. Based



on this finding, the null hypothesis ( $H_{o2}$ ), stating that *SMEs whose partners have a high reputation are likely to experience better financial performance* was not rejected for lack of sufficient evidence to warrant its rejection.

### ***Learning potential***

Furthermore, model one shows that firms indicating that their partners had a high learning potential were 1.6 times more likely to have their net worth well above the threshold than those who thought that their partners had a low learning potential. However, when the equation is expanded to include background attributes, firms whose partners had a high learning potential became 1.5 times more likely to be above the threshold than those who considered their partners to be of a low learning potential.

The variation in the financial performance of firms in the two groups was significant at 0.05 error margin. This implies up to 95 percent chance that firms whose alliance partners had a high learning potential were likely to be performing better than those who believed that their partners had a low learning potential. In other words, SMEs partnering with resourceful firms were likely to have better financial performance than those whose partners were considered less resourceful. This finding led to the rejection of the null hypothesis ( $H_{o3}$ ), stating that *having partners of higher learning potential negatively affects financial performance of alliance SMEs*. The hypothesis was rejected for being inconsistent with empirical findings.

### ***Trust***

In relation to trust, the results presented in model one indicate that firms who believed that their alliance partners were highly trustworthy were about 1.8 times more likely to be above the threshold in terms of net worth than firms having a low trust for their alliance partners. However, when the model was adjusted for background attributes, firms with a high level of trust for their alliance partners became 1.6 times more likely to have a net worth well above the threshold than their counterparts having a low trust for their partners.

The variation in financial performance, between firms believing that their partners were highly trustworthy and those expressing a low level of trust for their partners, was significant at 0.05 error margin. This gives up to 95 percent chance that SMEs having a high level of trust for their alliance partners were likely to be performing better than firms having a low level of trust for their partners. This finding was not consistent with the null hypothesis ( $H_{o4}$ ) stating that *perceived level of trust for partners negatively affects the financial performance of alliance SMEs*; thus, the null hypothesis was rejected.

### ***Protectiveness level***

As regards protectiveness of organizational information, model one results show that firms that were protective of their information and not sharing with their alliance partners were 0.2 times less likely to have their net worth above the threshold than firms that were freely sharing their information with alliance partners. When the equation is expanded to include background attributes, the results presented in model two show that firms not sharing their information with



partners became 0.1 times less likely to have net worth above the threshold than those sharing such information.

Furthermore, the results show that variation in financial performance, between firms sharing their information and those not sharing such information, was significant at 0.05 error margin. This suggests up to 95 percent chance failing to share information with alliance partners negatively affects financial performance. This confirms the null hypothesis ( $H_05$ ), stating that *protectiveness level of information negatively influences the performance of alliance SMEs*.

### Goodness-of-fit of the model

In binary logistic regression, the predictive power of a model is indicated by the unit change in -2 Log Likelihood (-2LL) statistic each time an independent or confounding variable (covariate) is added into the equation. Each model starts with an initial -2LL also referred to as the chance model. In this study, the initial -2LL statistic for model one was 220.833, while the second model started at

209.024. This statistic measures how poorly the model predicts variance in the dependent variable, which in this case, is the financial performance of alliance SMEs. The inclusion of each covariate in a binary logistic regression equation can have a negative or positive change in the -2LL statistics; nevertheless, the smaller the statistic, the better the model in predicting variance in the values of a dependent variable (Wuensch, 2006). The magnitude of change in the value of -2LL depends on the importance of a covariate in influencing the dependent variable.

Figure 3.2 below provides a summary of each covariate's effect on the financial performance of SMEs in strategic alliances, converted into percentages to show the proportion of variance in the dependent variable accounted for. In the first model, partners' reputation accounted for the highest variation in the financial performance of alliance SMEs (13.3%); followed by prior experience with partner (10.2%) and the trust for a partner (9.2%).

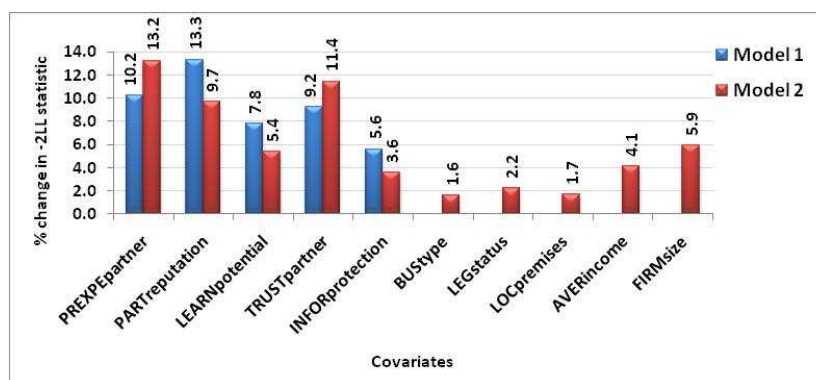


Figure 3: Effect of covariates on the financial performance of SMEs

The sum of proportions contributed by each covariate is 46.1 percent. However, when potential confounders are included in the equation, prior experience with partners accounted for the highest variation in financial performance of alliance SMEs (13.2%). This was followed by the trust for partners (11.4%) and partner's reputation (9.7%).

Again, the sum of proportions accounted for the covariates gives 58.8 percent. This shows that the second model explained up to 58.8 percent of variation in the financial performance among alliance SMEs. This implies that incorporating background factors in the equation increased the predictive power of the model from 46.1 percent to 58.8 percent; further implying that about 41.2 percent of variation may be explained by other variables not included in the model. The omnibus tests of the final model coefficients yielded a calculated  $\chi^2$  value of 64.84, with 15 degrees of freedom; which was significant at 0.01 error margin.

## DISCUSSIONS AND CONCLUSION

The overarching objective of this study was to determine the effect of pre-alliance and post-alliance formation factors on the financial performance of SMEs involved in strategic alliances in Kisumu District. The study was inspired by the researcher's long-standing interest in SMEs financing and coping strategies, particularly given that most SMEs have a limited access to formal credit facilities provided by commercial banks. Besides, the study was necessitated by scanty documentation of pre- and post-alliance

formation factors and the financial performance of firms involved in strategic alliances, particularly in developing economies.

The ultimate goal of business enterprises is to overcome various challenges related to financing and market dynamics in order to maximize their profit and survival. Strategic alliances have become necessary for SMEs to pool resources, as well as share knowledge, skills and technology to improve performance and survival in globalized market economies. However, initiating strategic alliances does not necessarily guarantee the success of partnering firms. Without appropriate knowledge and experience in making essential decisions, most alliances are likely to fail; thus, bear far-reaching consequences in the economic status and survival of constituent firms.

This study generated information on pre- and post-alliance formation factors that can either facilitate or impede the financial performance of SMEs involved in strategic alliances. The information is particularly useful to firms interested in forming such alliances and government bodies involved in business and entrepreneurship development.

### Pre-alliance formation factors influencing financial performance

The study found that SMEs form strategic alliances with various firms, including suppliers (64%), customers (16%) and competitors (20%). In addition, firms having some prior experience with alliance partners were about 6.5 times more likely to have their net worth above the OECD minimum threshold for sustainable SMEs than their

counterparts having no prior experience with partners. The variation in performance between the two groups was significant at 0.05 error margin, prompting the rejection of the null hypothesis ( $H_01$ ) stating that *prior experience with a partner reduces financial performance of alliance SMEs*.

This suggests that having some prior experience working with other business firms enables potential alliance partners to know and understand each others' values and philosophies, capabilities, resources and limitations. Having prior work knowledge puts SMEs in a better position to detect potential vices such as opportunism; they are also able to address dissimilarities; thus, minimize conflicts when alliances are formed. Without conflicts, alliance partners have ample time to focus on their financial performance. In view of this, SMEs intending to enter into strategic alliances should ensure they have thorough knowledge of potential partners before alliances are formed. This knowledge can best be acquired through engaging in business activities with potential partners ahead of time.

The study also found that firms whose alliance partners had a high reputation were about 2.8 times more likely to have their net worth above the minimum threshold than firms believing that their partners had a low reputation. This variation in financial performance was significant at 0.05 error margin; thus, the null hypothesis ( $H_02$ ), stating that *SMEs whose partners have a high reputation are likely to experience better financial performance* was not rejected.

As business firms operate in a community, they interact with various organizations,

including their competitors, clients, suppliers, financiers and regulatory authorities, as well as community members. Through such interaction, reputation germinates based on the nature of behaviour, business ethics, integrity, culture and social responsibility. The way a firm conducts its business determines how it is perceived by the immediate community and business entities. For instance, a low or poor reputation can ruin a firm's credibility and influences its potential for strategic alliances in future.

On the contrary, a firm that acquires a negative reputation for not being trustworthy may not have good chances for strategic alliances. In this regard, forming strategic alliances with firms of high positive reputation is critical for SMEs to improve their performance. In this regard, SMEs interested in forming strategic alliances with other firms should consider the kind of reputation commanded by their potential partners because it can have significant negative effects on the ultimate financial performance.

The study revealed that firms whose partners had a high learning potential were about 1.5 times more likely to be above the minimum threshold in terms of net worth than those who considered their partners to be of low learning potential. The variation in the financial performance of firms in the two groups was significant at 0.05 error margin, leading to the rejection of the null hypothesis ( $H_03$ ), stating that *having partners of higher learning potential negatively affects financial performance of alliance SMEs*.

Strategic alliances create unique environments and opportunities for learning among alliance partners. New knowledge provides the basis for organizational renewal and sustainable competitive advantage. Partner firms recognizing and using strategic alliances as opportunities for learning are likely to acquire knowledge that can be useful in enhancing financial performance. However, the formation of strategic alliances does not necessarily imply that its learning potential will be realized. In this regard, it is important for firms to choose partners with complementary skills and resources to improve knowledge development and better financial performance.

#### **Post-alliance formation factors influencing financial performance**

Trust is a critical ingredient for the success of strategic alliances and individual alliance partners. This study found that firms with a high level of trust for their alliance partners were about 1.6 times more likely to have a net worth well above the threshold than SMEs having a low level of trust for their partners. Since the variation in financial performance between the two groups was significant at 0.05 error margin, the null hypothesis ( $H_04$ ) stating that *perceived level of trust for partners negatively affects the financial performance of alliance SMEs* was rejected.

Trust is important for enhancing sharing of resources, skills and information to improve their competitiveness. Trust also reduces the likelihood of opportunistic behaviour, improves efficiency and financial performance. However, the level of trust correlates with prior experience working with alliance partners and reputation. Based on

this, alliance partners should work harder to build and sustain trust, without which, strategic alliances cannot achieve anything. Nonetheless, trust may also be enhanced by having clear operational guidelines and regular review meetings to assess performance and address issues arising.

As regards protectiveness of organizational information, the study found that firms not sharing their information with partners were about 0.1 times less likely to have a net worth above the threshold than those sharing such information. Variation in financial performance, between firms sharing their information and those not sharing such information, was significant at 0.05 error margin; thus the null hypothesis ( $H_05$ ), stating that *protectiveness level of information negatively influences the performance of alliance SMEs* was not rejected.

Information sharing among alliance partners is as real as the extent to which firms are open and willing to share their information. Protectiveness of information may have serious negative consequences for the survival and success of strategic alliances; by reducing information and knowledge exchange. Protectiveness also nurtures distrust, which may have negative repercussions on financial performance. In a situation of distrust, alliance partners may spend more time outdoing each other rather than focus on improving financial performance. Consequently, protectiveness is likely breed conflicts among partners, suppress teamwork and affect financial performance.

Strategic alliances remain necessary for the growth and survival of SMEs. However,

involvement in strategic alliances does not necessarily guarantee the success of alliance partners. The success of firms involved in strategic alliances requires knowledge and awareness to enable SMEs choose the right organizations for partners. Success also requires a thorough understanding of organizational behaviour and culture as well as potential risks and how best to manage such risks. Hence, from the programmatic point of view, it is necessary for relevant ministries and key stakeholders to provide information about strategic alliances to enable them understand the pre- and post-alliance formation factors likely to influence their performance. Encouraging SMEs to engage in strategic alliances is a critical step in supporting the growth and development of small businesses; which in turn, will improve their role in the national economic development.

### **Implication on policy and practice**

Improve awareness about business strategic alliances, as a key strategy through which SMEs can secure their survival and growth in today's globalized economies. This is a multi-sectoral intervention that requires action from the Government through relevant ministries, Kenya National Chamber of Commerce, business associations, trade unions, commercial banks, investment companies and the media. Appropriate information should be designed and disseminated through various forums, including trade fairs and exhibitions, mass media adverts, conferences, seminars and the internet, whichever is most efficient and effective in reaching out various segments of the business fraternity.

Develop a comprehensive communication strategy aimed at promoting the development of SMEs and encouraging entrepreneurs to initiate strategic alliances. An initiative of national magnitude should be guided and coordinated through appropriate national strategy, prioritizing actions, defining stakeholders, regulatory authority, decentralized institutional structure, as well as monitoring and evaluation.

Develop appropriate curriculum on business strategic alliances and encourage all tertiary educational institutions, particularly those accredited to provide Technical, Industrial, Vocational and Entrepreneurship Training (TIVET) programs to incorporate and implement the curriculum. Among other topics, the curriculum should cover the selection of alliance partners, contracting process, risks and risk assessment, internal control measures, conflict resolution and exit strategies.

Establish SME assistance centres at the district level, with key functions such as promoting the development of SMEs, linking SMEs with appropriate stakeholders, including Government institutions, NGOs, and larger companies; conducting research on SMEs and strategic alliances; as well as generating and disseminating information to enrich national initiatives.

Create appropriate financing mechanisms, such as affordable formal credit facilities. This will also require the attention of both government and sectoral players, including non-governmental organizations. The government should also initiate focused public-private partnerships with financial

institutions to create suitable credit products targeting SMEs. In addition, government incentives such as tax relief on SME loans should also be considered.

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