Launching the breakout session on strategic alliances, moderator Osman Atac of ITC said the first thing any small- or medium-sized enterprise needs to do is to get a clear idea of its objectives and goals, because without out that, there is no chance of success. “We need to define strategy, decide on what we are offering and what market or markets we are interested in,” he told participants. While there are many success stories, many more such ventures end in failure and the big question is why.

Jack Lowe, chief executive officer of Blue Orchard Finance, Switzerland, a micro-financing investment company, said micro-finance can generate a double bottom line – a profit for investors and a big social impact. “We want to bring more sustainability, short-term fixes do not last,” he said. Lowe detailed his company’s operations and how it worked with big financial development institutions – the IFC, the IDB, the Dutch FMO and KFW from Germany – which have not traditionally wanted to lend to the private sector.

So far it has worked on three loan packages for a total of $320 million. “We structure the projects and they provide the analytical backstop and (some of the) money...We are both getting something out of this,” he said.

Mutual investment

Beatrice Dove-Edwin, Director of the Policy, Planning and Research Division in Sierra Leone’s Ministry of Trade, said that strategic alliances are a form of mutual investment, which can take various forms, sometimes financial, sometimes technological. They allow partners to share costs, software developments and knowledge. She gave the example of high-definition television where various companies came together to speed their technological development.

Alliances can also help create new businesses and open up new markets. On the downside, they can also result in international takeovers. In Latin America in the 1990s, for example, US companies used such alliances as an open door into a country. Collusion can generate cartels, which is an issue in the pharmaceutical industry.

National policy-makers need to be aware of the dangers. The reasons for failure can vary. Sometimes it results from a lack of cultural understanding. Firms need carefully to test their premises, what they hope to get out of any alliance. This is particularly important for small- and medium-sized companies. For governments, the task is to ensure an adequate business environment and policy coherence.
Patience

Strategic alliances work best when partners bring something unique to the relationship, said Anil Bhardwaj, Secretary-General, Federation of the Indian Micro Small and Medium Enterprise (FISME). Over two-thirds of global trade is carried out within trans-national corporations and wherever SMEs have been able to penetrate and grow in the international market, it has been through strategic alliances. One of the biggest challenges they face is having the necessary patience to get results. “Impatience is problem number one,” he said.

The other key requirement is the will to succeed. Trade support institutions can help in designing strategies, providing services and spreading word of success stories. Countries need a good image to attract international firms, with the right mix of skills, laws and business environment. Governments can help by removing impediments to foreign investment.

Alliance and divorce

Moderator Atac pressed the panel to explain why so many alliances end in divorce. Bhardwaj said that the public sector needs to take a positive role, for example, by providing infrastructure. But it is the will of the entrepreneur and the clarity of his or her vision that can determine the success of failure of an alliance. Dove-Edwin echoed the need for infrastructure.

A representative from Zambia wanted to know how SMEs take the first step towards forming alliances, how do they find allies, who can help meet their various needs.

Bhardwaj replied that governments can help by organizing trade fairs. Dove-Edwin said that chambers of commerce can play a role. There is also the Internet, trade associations, consular offices. Another delegate said that one answer lay in former clusters of similar businesses, because international markets do not want an enormous quantity of small suppliers.

Chinese and German concerns are particularly good at coming together, he said. The same participant also cited the example of the Dutch flower industry. Dutch firms work with the government to see what is needed for success, he added.

Micro-finance

Lowe was asked how he distinguishes between finance for survival and sustainable finance. He replied that micro-financing is largely about poverty reduction. “It is not designed to create entrepreneurs,” he said. His company lends to other institutions. Most of the eventual recipients of the financing are able to access more food, water and minimal medical care. Seventy percent of the funds go to women, who are excellent managers of micro-finance, he said.

Does size matter? For Bhardwaj it does because breaking into an international market requires resources. For this reason, clusters are the answer for small companies even if they can pose problems in terms of internal rivalries and competition.

Choosing technology

One area where SMEs need external help is in choosing technology, he added. He cited the example of companies around the Taj Mahal that were helped by the Indian government to switch to gas from coal to cut the pollution that was damaging the monument. But Dove-Edwin said that governments must be cautious about getting involved if approached for help by the private sector.

“Our mantra is that it is not governments that create business,” she said. There are exceptions, such as the mining and fishing sectors, she added. “But you have to be careful in the resources industry. There are a lot of carpet-baggers.”

A Finnish representative said that his government has taken an active role in fostering the conditions for alliances to be formed. It got business people together to talk and learn from each other.

A representative from Uruguay warned that it is wrong to see government intervention as “evil.” It can create business opportunities, he said. The issue of free zones was also discussed, although views differed on their value to SMEs.

Wrapping up the debate, Atac said that the onus is on the company seeking the alliance to have a clear picture of what it wants.