

**HOW SMALL AND MEDIUM SIZED
ENTERPRISES (SMEs)
CAN INFLUENCE THE SUCCESSFULNESS OF
A PARTNERSHIP WITH A
LARGE COMPANY (LCO)
IN THE TECHNOLOGY INNOVATION SECTOR**

by

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Summary

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Small and medium sized enterprises (SMEs) are being seen by governments, increasingly, as important engines of economic growth. They are viewed as sources of innovation and employment creation.

Technology innovative SME's commercialization strategy often includes forming a partnership with a large company (LCO). This is because what the SME lacks in terms of market links, marketing and distribution channels, the LCO can often provide. LCOs, on the other hand, need to be innovative in order to survive in a dynamic and ever changing business environment. LCOs are therefore open to new ideas, being in the form of knowledge and capabilities.

The reality is, however, that many partnerships fail. For an SME whose growth is dependant on a partnership with an LCO, understanding how it can influence the partnership such that it will result in success is critically important. This research sets out to gain a better understanding of this topic.

Research Problem

Technology innovative businesses operate in the knowledge economy where the one sure source of competitive advantage is knowledge (Takeuchi and Nonaka, 2004). However, knowledge is a high risk commodity and can be easily appropriated by an opportunistic company. A major risk in collaboration is that the partners can gain access to the knowledge and skills of the company (Littler et al, 1995) – this is termed knowledge spillover. Where this is unintentional, it can result in the company exposing its knowledge and skills being made very vulnerable. Furthermore, the high rate of partnership failure is attributed to a lack of cooperation and the opportunistic behaviour of partners (Das et al, 1998).

It is important, therefore, for SMEs wishing to partner with an LCO, to understand both what attracts the LCO to partner with them in the first instance, as well as what safeguards need to be in place to protect themselves against possible opportunistic behaviour by the LCO.

Methodology

A sample of 43 technology innovative SMEs was interviewed by means of a structured questionnaire. The frequencies of the variables were analysed and compared with findings in the literature. In order to improve the variation of the dichotomous responses, the independent variables were compounded into the following variables: competencies, ability capabilities, awareness capabilities, formal safeguards and informal safeguards. The relationship between the number/level of competencies and capabilities and partnership success was determined, as well as the influence of formal and/or informal safeguards on this relationship. Backward conditional logistic regression was performed on the compounded variables in order to determine which model best fitted the data, in other words which predictors most affected partnership success. To better understand the negative relationship between ability capabilities and perceived partnership success, as well as the positive relationship between awareness capabilities and perceived partnership success, cross tabulations were performed on all the individual items to determine the Phi Square. An explanation was provided for those items that proved to be statistically significant.

Because of the small sample used for this quantitative study and in order to verify the major findings, four case studies were conducted on SMEs that had participated in the original survey. The findings of the survey were then compared with the findings of the case studies.

Main findings

The main findings from the survey were the following:

1. SMEs' abilities rather than their competencies, appeared to influence the success of the partnership
2. the more ability capabilities an SME had, the lower the perceived success of the partnership. This was influenced by where the SME had developed its own IP; and where the SME had segmented its potential market in accordance with Moore's (1999) market segmentation strategy for hi-tech products
3. a positive relationship between awareness capability and partnership success was influenced by the SME having an understanding of the LCO's SWOT, but this same relationship was negatively affected by the LCO preferring to enter into a JV with another LCO when sourcing technology
4. the relationships listed in items 2 and 3 above were influenced by safeguards, namely:
 - 4.1 the greater the number of safeguards (formal and informal) that were put in place, the more positive will be the relationship between increasing numbers of awareness capabilities and the perceived success of the partnership
 - 4.2 the greater the number of safeguards (formal and informal) that were put in place, the less negative will be the relationship between increasing numbers of ability capabilities, and the perceived success of the partnership
 - 4.3 formal safeguards were more effective at moderating the relationship between capabilities and partnership success than informal safeguards

The main findings from the case studies were as follows:

1. having ability capabilities, awareness capabilities and competencies was associated with high levels of partnership success (not in support of the survey findings)
2. above average levels of capabilities/competencies were associated with low levels of partnership success (in support of the survey findings)

3. there is a positive relationship between the level of safeguards and the association between capabilities/competencies and partnership success (in support of survey findings)
4. both formal and informal safeguards are important in ensuring a positive association between capabilities/competencies and partnership success (not in support of survey findings).

In conclusion, the findings from the case studies did indeed validate some of the findings of the survey, namely, in the absence of safeguards, above average levels of capabilities/competencies are associated with low levels of partnership success; and there is a positive relationship between the level of safeguards and the association between capabilities/competencies and partnership success.

Keywords

SME; successful partnership; inter-organizational relationships; technology innovative; competencies; capabilities; safeguards; moderator variables; small-large company partnership.

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