

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

Abstract:

The primary objective of this study was to determine the pre- and postalliance 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.