

Dancing with gorillas

How SMEs can go global by forging links with MNCs



Written by:

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The Advanced Institute of Management Research (AIM) develops UK-based world-class management research. AIM seeks to identify ways to enhance the competitiveness of the UK economy and its infrastructure through research into management and organisational performance in both the private and public sectors.

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Current AIM research projects focus on:

UK productivity and performance for the 21st century.

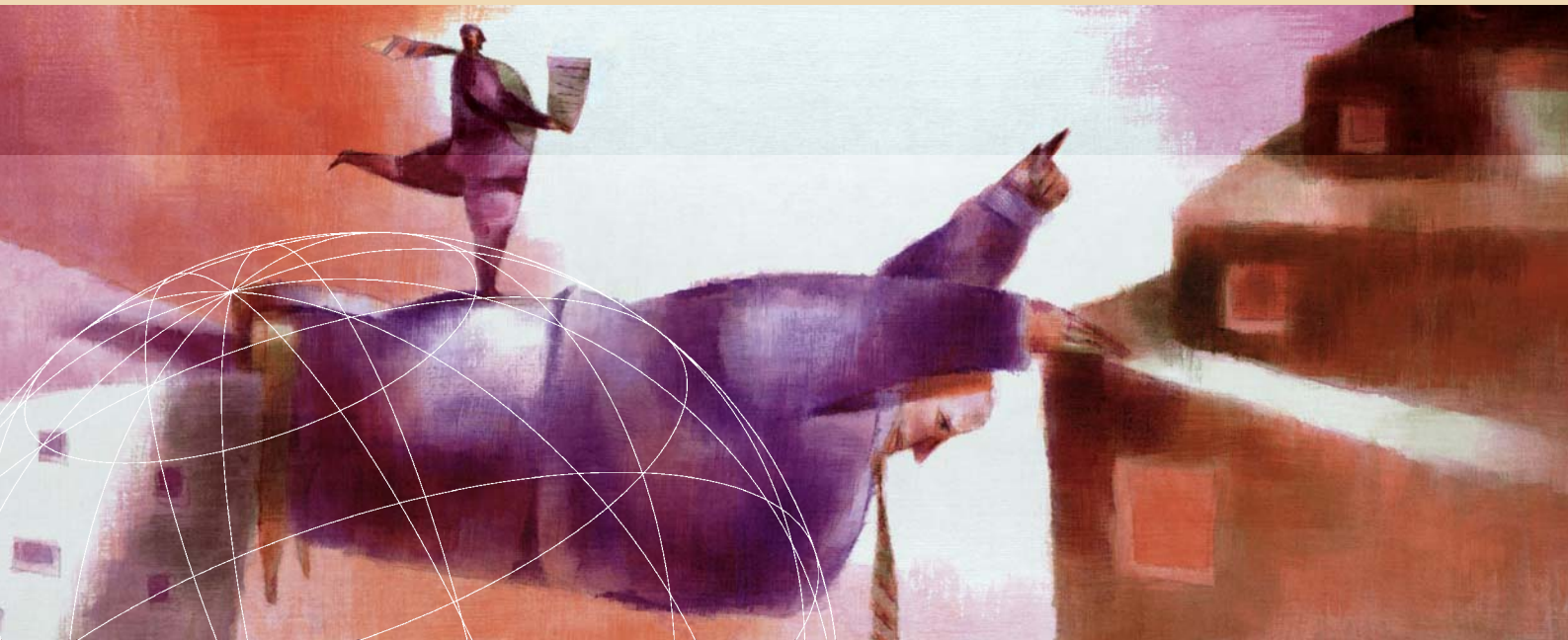
How can UK policymakers evaluate and address concerns surrounding the UK's performance in relation to other countries?

National productivity has been the concern of economists, government policymakers, and corporate decision-makers for some time. Further research by scholars from a range of disciplines is bringing new voices to the debates about how the productivity gap can be measured, and what the UK can do to improve the effectiveness of UK industry and its supporting public services.

Sustaining innovation to achieve competitive advantage and high quality public services.

How can UK managers capture the benefits of innovation while meeting other demands of a competitive and social environment?

Innovation is a key source of competitive advantage and public value through new strategies, products, services and organisational processes. The UK has outstanding exemplars of innovative private and public sector organisations and is investing significantly in its science and skills base to underpin future innovative capacity.



Adapting promising practices to enhance performance across varied organisational contexts.

How can UK managers disseminate their experience whilst learning from others?

Improved management practices are identified as important for enhancing productivity and performance. The main focus is on how evidence behind good or promising practices can be systematically assessed, creatively adapted, successfully implemented and knowledge diffused to other organisations that will benefit.

For SMEs, interaction with the local subsidiaries of multinational corporations (MNCs) provides tremendous opportunities for collaborative innovation which may form the basis for internationalisation, providing resources not normally available, and bestowing credibility and legitimacy which would otherwise be difficult to achieve.

Our research shows that while making a connection with MNCs can be difficult for SMEs, and despite the potential pitfalls and obstacles, the benefits for both SMEs and MNCs will often make the risks worthwhile. And the odds of obtaining those benefits are much greater for the SME if it follows a number of strategies revealed by our research.

MNCs are often more in need of help to sustain their innovation activities than is commonly perceived.

Benefits for MNCs

MNCs are often more in need of help to sustain their innovation activities than is commonly perceived. As a result it is the highly innovative SME, rather than the average performer, that is best placed to take advantage of the opportunities available through linking up with MNCs.

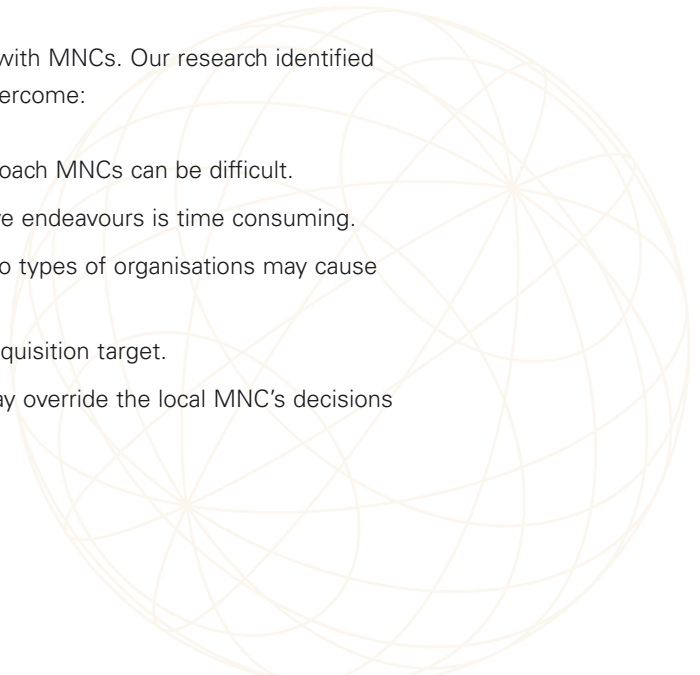
Our research identified five benefits for the subsidiaries of MNCs engaging in collaborative relationships with local SMEs:

- **Corporate citizenship** – fostering local SME growth helps demonstrate good citizenship.
- **Technology evangelisation** – converting SMEs into product adopters strengthens the bottom line.
- **Technology absorption** – SME innovation contributes to MNC product and service innovation.
- **Capability demonstration** – collaboration allows the subsidiary to demonstrate its innovation credentials to the parent HQ.
- **Spin-off support** – an MNC may create a local SME through a spin-off.

Overcome barriers

SMEs are often wary of building relationships with MNCs. Our research identified five perceived barriers which SMEs need to overcome:

- **Access** – finding the right channels to approach MNCs can be difficult.
- **Attention** – paying attention to collaborative endeavours is time consuming.
- **Asymmetry** – differences between the two types of organisations may cause problems.
- **Acquisition** – the SME may become an acquisition target.
- **Autonomy** – directives from the parent may override the local MNC's decisions and affect the course of the collaboration.




Engage proactively

Forging effective SME-MNC links is no easy task. The most effective SMEs:

- **Use bridging mechanisms** – building a connection between SME and MNC through a joint initiative or via third party assistance.
- **Modularise knowledge transfer** – have discrete knowledge transfer steps so that there is still benefit if the project is cancelled.
- **Network across boundaries** – build relationships within the MNC but beyond the immediate local MNC subsidiary.
- **Get commitment (preferably on paper)** – obtain a memorandum of understanding.
- **Take a holistic perspective** – focus on obtaining benefits through both upstream activities – like R&D – and downstream activities – like sales.

SMEs that do establish a successful relationship with local subsidiaries of MNCs can use that relationship as the launch pad for leveraging their business from the local to the global economy.



International expansion is no longer the exclusive domain of large multinational corporations (MNCs).

introduction: SMEs on the world stage

International expansion is no longer the exclusive domain of large multinational corporations (MNCs). Internationalising small and medium enterprises (SMEs) feature prominently in today's economic landscape especially, but not exclusively, in knowledge-intensive sectors such as software and biotech. How do these SMEs overcome their resource constraints and accelerate their internationalisation process? In part, by leveraging their network relationships with other companies – such as key clients or strategic partners.

For SMEs, network relationships may lead to collaborative innovation opportunities which spark technological developments that provide the basis for internationalisation, as well as other international business opportunities. While SMEs often collaborate with other SMEs, they may also forge links with larger firms that can provide them with both resources and opportunities that would ordinarily be beyond their reach.

Also, associating with larger firms can provide legitimacy to SMEs, especially in the case of new ventures, where an unproven track record may deprive them of credibility in the marketplace.

One potentially valuable network relationship that is seemingly overlooked by many SMEs is with a local MNC subsidiary. There has been a steady rise in the setting up of MNC subsidiaries, particularly in key markets such as India and the UK where, for instance, it is estimated that 40 percent of UK-based firms are foreign-owned.

Local MNC subsidiaries, depending on their mandate and their entrepreneurial orientation, often possess a reasonably sophisticated set of resources and capabilities that SMEs can benefit from tapping into. MNC subsidiaries are also able to provide SMEs with links to other parts of the MNC, such as its headquarters or other subsidiaries. In other words, an MNC subsidiary can be a *local* link to *global* connections for SMEs – a bridgehead for SME internationalisation.

Although possibly advantageous for SMEs, interaction between SMEs and MNCs is unlikely to take place easily or naturally due to the sheer difference in scale between the two types of organisations. It is more common for SMEs to form relationships with other SMEs, and MNCs with other MNCs. Indeed, the mismatch between small firm and large global player can be intimidating to SMEs.

Even so, some would say that SMEs wishing to operate as truly global players have no choice but to engage with MNCs, despite any fears. As management guru C K Prahalad said: "I think every small company... is worried about large companies... Of course, when you dance with the big gorilla you better be careful!" And yet, as he saw it, SMEs, "cannot [avoid] large companies. If you want a global reach you have to put up with it... It is not a choice. The question is: How do you learn to dance with the big gorilla?"

It is an important question. Yet, despite the intriguing potential opportunities that MNC subsidiaries hold for SMEs, little research has been done in this area. Our research looked at SMEs seeking to develop an international business, and how they might go about that more productively.

Initial research showed that internationalisation-seeking SMEs share three characteristics:

- They overlook the possibilities afforded through relationships with MNC subsidiaries;
- They are sceptical about the extent to which such relationships can be truly beneficial;
- Their efforts to engage with MNCs are often half-hearted.

We identified three lessons for SMEs relating to these issues:

- Recognise the opportunities;
- Overcome the barriers;
- Engage proactively.

About the research

The insights presented here draw upon research conducted as part of a follow-up study to a three-year investigation into SME internationalisation. Twenty five interviews were conducted between October 2005 and September 2006 among individuals associated with SMEs, MNCs, trade bodies and economic development agencies in the software industries in Bangalore, India, and Scotland. Multiple perspectives were elicited in order to explore the prevalence of, barriers to, and measures to facilitate, SME-MNC linkages.

Scotland and Bangalore provide informative settings in which to explore the topic given the concentration of information technology companies – both indigenous SMEs and MNC subsidiaries – found there. Additionally, they jointly provide a range of perspectives covering both advanced and emerging economy contexts.

As noted, this follow-up study builds on prior research, some findings of which can be found in: Prashantham, S. (2008) *The Internationalization of Small Firms: A Strategic Entrepreneurship Perspective*.²

Financial support from the Carnegie Trust for the Universities of Scotland is acknowledged.

lesson 1: recognise opportunities

SMEs should recognise that a relationship between an SME and an MNC is far from one-sided. MNCs can obtain considerable benefits from engaging with innovative and agile SMEs, via local subsidiaries. Our research identified five reasons for MNC subsidiaries associating with SMEs.

(i) Corporate citizenship: The notion of being a responsible corporate citizen is high on the agenda for many MNCs at the moment. There was a strong sentiment of wanting to be good citizens in the local environment expressed by MNC managers at the companies we looked at, both in Scotland and Bangalore, India.

Many companies have a huge stake in fast growing economies such as India, so it should come as no surprise that they seek to demonstrate a responsible contribution to the local community. In India, for example, these corporate citizenship endeavours include a variety of innovation-related programmes in conjunction with the Indian government and industry bodies, including efforts to create a stronger climate for SME innovation and growth.

(ii) Technology evangelisation: Another major motivation for MNCs to engage with local ventures is to help strengthen their bottom-line. In the software business, for example, small local firms are often where the cutting edge software innovation and development occurs.

Microsoft, for example, is understandably keen to ensure that local innovative software companies build their cutting-edge software products, using Microsoft's proprietary technologies; thus Microsoft looks to convert these smaller firms into adopters of its platform technologies.

MNC managers tasked with the job of persuading SMEs of the merits of their particular flavour of software are often designated 'evangelists.' For a fee, software companies – many of which are SMEs – can sign up to a partnership programme with an MNC like Microsoft, in return for which they will get the considerable benefit of technical and marketing support, from a company with much deeper pockets and probably greater expertise in these areas.

(iii) Technology absorption: Under pressure to lower costs without compromising on quality, MNCs realise that they cannot be entirely self-sufficient when it comes to technological innovation. MNCs also recognise that, in the words of one executive, "there is a lot of innovation out there" which global companies want to tap into.

The study found that, consistent with recent calls for MNCs to act as 'metanationals', global players are seeking out and absorbing new ideas and innovation from across the world. An example in Scotland was that of EDS and Motorola working with an innovative local software start-up with expertise in radio frequency identification (RFID) technology to develop track and trace applications for the oil and gas industry in Aberdeen. In India, another manifestation of technology absorption is the acquisition by Oracle of the banking software firm, i-flex.

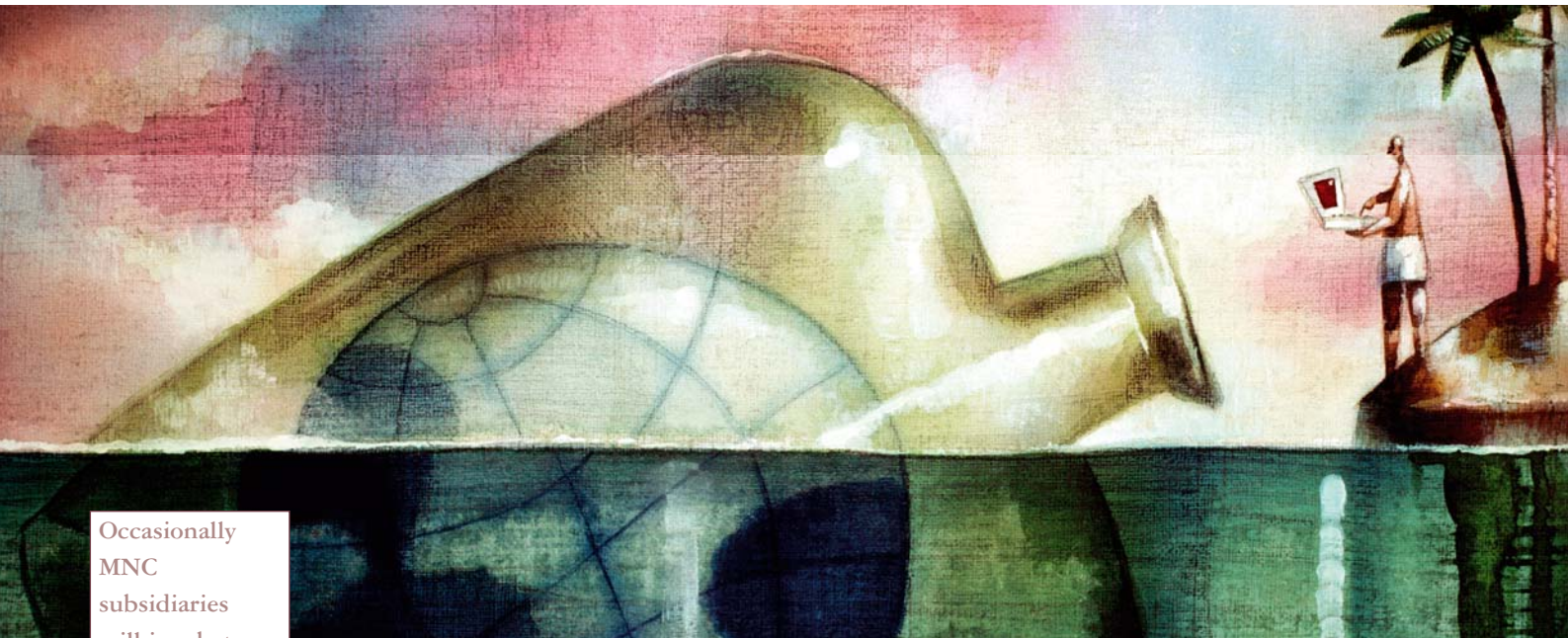
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(iv) Capability demonstration: MNCs may also engage with innovative companies with a view to strengthening their case for certain strategic initiatives. A good example is Sun Microsystems in Scotland, where the MNCs subsidiary has engaged with local SMEs in RFID projects. It had made this move to bolster its technology credentials in the eyes of its parent in the US, at a time when there was likely to be internal competition among the European subsidiaries of Sun to host an RFID testing centre for the region.

Obtaining permission from headquarters to carry out such initiatives increases the value that the subsidiaries add for the MNC parent and, therefore, themselves as their mandate evolves and grows.

(v) Spin-off support: Occasionally MNC subsidiaries will incubate a new business spun off as an independent venture. This can lead to a highly productive relationship between an MNC subsidiary and local SME.

For example, Mitoken, an innovative software company, was spun off in the early part of the decade from the Bangalore operations of Motorola. The co-founders developed a promising technological innovation that did not fit directly into Motorola's strategy.



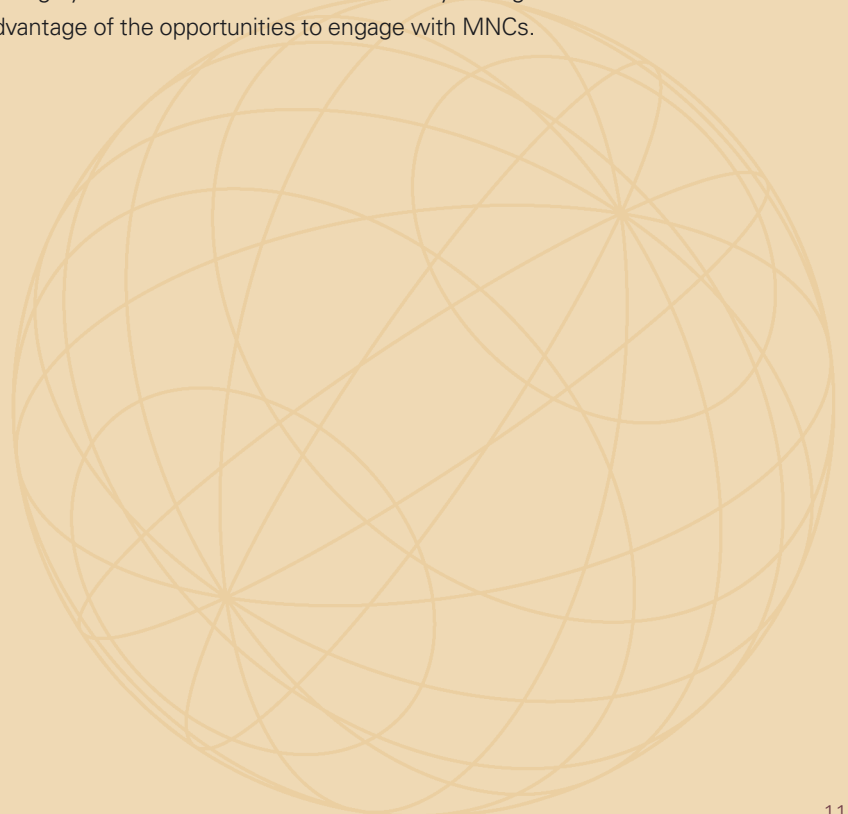
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It was agreed, therefore, that Motorola would act as a corporate sponsor for the new venture with a senior executive playing a mentoring role as a member of Mitoken's Board. Subsequently, Mitoken's first big international break came through a large business contract from Motorola in Chicago, facilitated initially by Motorola India.

Table 1: The advantages of the SME-MNC relationship for MNCs

Motivation	Rationale	Example
Corporate citizenship	Perceived as responsible global player	IBM's innovation programmes in India
Technology evangelisation	Greater sales through technology adoption	Microsoft's independent software vendor (ISV) partnering programmes
Technology absorption	Globally sourced and enhanced technological innovation	EDS's collaboration with an Aberdeen SME; Oracle's acquisition of i-flex
Capability demonstration	Increased subsidiary mandate for more value-creating activities	Sun Microsystems' quest for an RFID facility in Scotland
Spin-off support	Assistance to a venture incubated within the subsidiary	Motorola's initial source of support for a spin-off in Bangalore

Two main points should be noted in the light of these potential opportunities. First, MNCs are more in need of help to sustain their innovation activities than may be commonly perceived by SMEs. Second, it is the highly innovative – as distinct from merely average – SME that is best placed to take advantage of the opportunities to engage with MNCs.



lesson 2: overcome barriers

Despite the undoubted opportunity that exists, our study reveals that there are still considerable barriers faced by SMEs seeking to form network relationships with MNCs.

(i) Access: Despite the growing imperative for MNCs to absorb new ideas from across the world, they are often perceived to be detached and unapproachable by indigenous companies, especially SMEs.

In our research, for example, it almost seemed that MNC subsidiaries and SMEs, including innovative start-ups, inhabited parallel worlds within the Bangalore and Scottish information technology clusters that we studied in depth.

Consequently, SMEs lack opportunities to interact with local MNC subsidiaries. Significantly, they are often unaware of the right person to approach within the MNC subsidiary, in order to start a dialogue about establishing a relationship.

Thus even though one Bangalore-based entrepreneur believed that engaging with large MNCs was the 'obvious thing to do', he felt that getting access to MNCs was difficult. This view was echoed by a Scottish entrepreneur who noted that 'the problem with big companies is getting attention at high levels where decisions are made'.

As a consequence of these factors, SMEs may perceive barriers in terms of gaining visibility vis-à-vis MNC subsidiaries.

(ii) Attention: SMEs often have scarce resources, one of the scarcest being attention. Paying attention to collaborative activity is time-consuming – even more so when gaining access to the other party is not easy. Moreover, network relationships take time and effort to build and maintain.

When time is spent on engaging with MNC subsidiaries, it often happens episodically. Plans and ideas made during meetings fail to subsequently translate into the reality of everyday business. Or at least, day to day business gets in the way of significant progress being made between meetings. As one interviewee put it: 'Collaboration is no one's day job'.

Also, previous research suggests that SMEs intuitively focus the attention that they pay to internationalisation on network relationships in international markets, rather than in the local environment. This is understandable. As a consequence, however, SMEs may overlook potential local network relationships – including those with MNC subsidiaries – even though they are right under their nose.

(iii) Asymmetry: A major complication in the dealings between SMEs and MNCs is that they are very different creatures. In particular, they tend to have asymmetrical systems and processes that seem best suited for conducting business with similarly sized entities.

For instance, there may not be clear-cut counterparts in terms of managerial roles between SMEs and MNCs and, as such, the joint execution of everyday routines can be problematic. Moreover, each set of firms is likely to have differing mindsets and organisational cultures which in turn cause impediments to communication and joint activity.

As a consequence, SMEs and MNCs are likely to have different agendas and criteria for assessing outcomes in relation to strategic alliances, leading to inherent tensions in SME-MNC collaborations.

(iv) Acquisition: It was clear from the study that some SMEs have a latent fear that they could be acquired by a predatory larger company, with the consequent potential loss of control over the firm's destiny for the SME's top management team.

Furthermore, these top managers, typically co-founders, often have little interest in becoming part of a large organisation. Ultimately of course, the fear of predatory larger partners reflects an overall sense that the larger MNC will capture the greater share of any value created by the alliance.

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Some MNCs, however, make it clear that they engage with SMEs chiefly in non-competing yet complementary areas. Also, the prospect of being acquired may actually be desirable for some company founders who may see this as a viable exit strategy that allows them to move on to their next start-up venture. At any rate, the prospect of acquisition may be an unspoken cause of anxiety in SME-MNC dealings.

(v) Autonomy: A major source of scepticism on the part of SMEs concerns how autonomous MNC subsidiaries are. As one entrepreneur in the study put it: "Do these MNC subsidiaries control their own destinies?" A related concern is that MNC subsidiaries may not be fully committed to relationships with local ventures.

Consequently, some SMEs seem to fear that collaborative projects undertaken with MNCs may not be seen through to completion – not without some justification, as was evident in our research from the experience of a couple of Scottish SMEs where decisions taken at MNC headquarters led to the termination of projects involving its local subsidiary. There is a sense while dealing with MNC subsidiaries that “the plug may be pulled at any time,” noted one entrepreneur.

Table 2: Potential barriers to the SME-MNC relationship

Concern	Key issues	Typical sentiment
Access	<ul style="list-style-type: none"> • MNCs perceived as aloof • Limited opportunities for MNC-SME interactions • Restricted access to decision-makers 	<i>The problem is getting access to decision-makers</i>
Attention	<ul style="list-style-type: none"> • SMEs short on time for collaboration • Episodic approach i.e. little accomplished between meetings • SMEs’ intuitive focus on international rather than local networks 	<i>Collaboration is no one’s day job</i>
Asymmetry	<ul style="list-style-type: none"> • Systems and processes geared for engaging with similar sized firms • Contrasting organisational cultures in SMEs and MNCs • Different agendas and success criteria for strategic partnerships 	<i>Large customers are unhappy doing business with small firms long term</i>
Acquisition	<ul style="list-style-type: none"> • SMEs fear loss of control • Little interest in becoming part of large firm setup and culture • Apprehension that the MNC will capture the lion’s share of the value created 	<i>Big fish will want control over the small fish</i>
Autonomy	<ul style="list-style-type: none"> • Unsure of MNC subsidiary’s ability to make autonomous decisions • MNC commitment to local SME suspect • Sense of uncertainty regarding projects involving an MNC subsidiary as partner 	<i>The plug may be pulled at any time</i>

SMEs need to assess which barriers are most relevant to their specific situation. The opportunity to engage with MNCs can only be exploited by creatively overcoming what can be considerable obstacles.

lesson 3: engage proactively

Our research suggests that forging effective SME-MNC links is no easy task. However, it is also clear that it is possible for SMEs to usefully engage with MNCs, if the process is well managed by both parties. Drawing on the successful experiences of SMEs in Scotland and Bangalore (see box 'From Idea to Innovation' below and 'From Local Link to Global Visibility' on page 17), we identified the following strategies for fostering effective SME-MNC partnerships.

(i) Use bridging mechanisms: It may be necessary to form a bridge between the two disparate organisations. So, for example, some MNCs such as Microsoft run active partner programmes for independent software vendors (ISVs) through which SMEs can receive technical and sales support.

Additionally, some public policy initiatives provide even greater 'hand-holding' for SMEs, such as the Scottish and Technology Collaboration (STAC) initiative. This initiative provided for legal input on, for example, formulating agreements concerning intellectual property. Such initiatives will of course only make a positive difference if both SMEs and MNCs have access to them. SMEs would do well to identify and leverage these opportunities, where available.

(ii) Modularise knowledge transfer: When collaborative projects have discrete knowledge transfers, it is possible to achieve partial success even if the project gets shelved at some point down the road.

Joint projects can be broken down into specific knowledge transfer milestones. This was certainly the case with HMD, an SME in Scotland (see box below – 'From Idea to Innovation') when decisions beyond its control led to the termination of a collaboration with an MNC subsidiary after about six months of activity. A modular approach to knowledge transfer, however, meant that HMD ended up with a perfectly functioning prototype using the MNC's hardware platform, which required no further additional technological development going forward.

From Idea to Innovation: HMD Clinical and Sun Microsystems in Scotland

Edinburgh-based SME, HMD Clinical (www.hmdclinical.com) is an innovative new venture operating in the clinical technological space – 'a technology company concentrating on making clinical trials more efficient'.

The start-up was launched offering bespoke Web- and telephony-based solutions for the control of large clinical trials. Once established, HMD then turned its attention to developing a new productised offering designed to overcome inefficiencies, largely due to human error, in existing procedures to manage the complex logistics involved in large-scale clinical trials. The new innovation was based on RFID technology.

“The pharmaceutical and clinical trials industry will benefit from improved traceability of all test components through the entire supply chain. Human error in both the supply chain and trial process will be eliminated with potential life saving results,” said co-founder Ian Davison.

The co-founders of HMD were clear that they would be using this technological innovation as a means to target international customers, and that an effective way to take their idea to the next level would be to form a strategic partnership with a large established MNC. While HMD sought access to RFID expertise, Davison acknowledged that the interest in partnering with a large established player was also motivated, in part, by the recognition that “there’s a certain cache in being associated with a big company”.

Around the same time Sun Microsystems – an MNC with a significant local presence – was keen to set up an RFID testing centre at its premises in Linlithgow, Scotland. HMD decided to explore the possibility of forging a link with this MNC subsidiary. Through a combination of serendipity and foresight, HMD was able to arrange a series of meetings with Sun. Based on HMD’s product idea, Sun expressed an interest in working with the new venture. For the MNC subsidiary, the relationship would also provide an opportunity to demonstrate its RFID credentials to its headquarters in the US, thus strengthening its case to host the proposed European RFID testing centre. The alliance was subsequently expanded to include another new venture specialising in RFID.

Interactions among the alliance members were brokered and facilitated by the Scottish and Technology Collaboration (STAC) initiative, which has a mission to facilitate these kinds of collaborations between established MNCs and innovative new ventures.

Unfortunately, about six months down the road, the alliance between HMD and Sun was terminated because of high-level decisions at the latter’s US offices which were beyond the control of the MNC subsidiary and HMD. However, Davison was emphatic that considerable benefit was derived through engaging with Sun.

“We got what we wanted out of the relationship, because we managed to build a prototype using the Sun technology... we’ve developed the prototype using their underlying technology and really, developing onward from this stage, that underlying technology won’t have to change,” he said. “And we actually managed to demonstrate that prototype to one potential international customer at the Sun facility in Linlithgow”.

(iii) Network across boundaries: The SMEs most successful at collaborating effectively with MNC subsidiaries were those that built links with individuals who spanned boundaries and who could, in turn, tap into resources and knowledge elsewhere in the MNC network.

Thus one SME in Scotland dealt with an MNC technology specialist who was well connected with other European and North American subsidiaries and therefore could obtain useful information from the wider MNC network. The case of Skelta (see below) also demonstrates the virtues of boundary-spanning networking, where the SME's visibility with Microsoft in Bangalore was extended to the global HQ in the Seattle area in the US.

From Local Link to Global Visibility: Skelta and Microsoft in Bangalore

Skelta (www.skelta.com) is a Bangalore-based software start-up.

The company's credentials include a worldwide award for innovation at Microsoft's worldwide partner conference, regarded by many in the industry as recognition at the global level. Skelta is also featured on Microsoft's global Web site for Vista. Thus in addition to technological support, Skelta has achieved significant visibility in the software industry, at an international level, through its association with Microsoft, which began through local linkages with Microsoft India in Bangalore.

Companies like Skelta gain access locally to MNCs like Microsoft by participating in Microsoft's partner programme for independent software vendors (ISVs). Signing up requires a fee of about \$400. In return they are able to use free software for the purpose of software development and technical support. Additionally, their software products can be promoted, through roadshows, for example, along with those of other Microsoft partners. Yet, out of hundreds of software SMEs that signed up to the ISV programme, Skelta has clearly achieved exceptional success in establishing and leveraging this valuable relationship.

Its technological capabilities aside, the key to Skelta's success appears to be its top management team's proactive approach in engaging with Microsoft and its willingness to align Skelta with a large MNC partner.



“Skelta fostered a very strong link on multiple levels with Microsoft India,” said Microsoft’s Rajiv Sodhi, who was instrumental in fostering the relationship with Skelta under the auspices of the ISV programme. “What happens as a result is that it’s not a very distant point in time when you start getting elevated to regional levels, to global levels, given the way the hierarchy works.”

The SME’s alignment with the Microsoft agenda – in terms of adopting its technology and engaging closely with the Indian subsidiary – went hand in hand with the development of a variety of linkages within Microsoft that allowed it to span boundaries within Microsoft, such as between Bangalore and the headquarters in the US. While the Indian subsidiary has clearly been supportive by, for instance, nominating Skelta for various awards and the Vistas Web site, the boundary-spanning networking by Skelta’s top management team has helped, facilitated by Microsoft events and conferences to which Skelta has gained access, both in India and the US.

Key factors evident to Microsoft in their dealings with Skelta include the top management team’s clear vision of achieving excellence within the software product space, great awareness in terms of relating to MNC executives, both locally and internationally and, somewhat paradoxically, robust solo efforts to self-reliantly build capabilities in new business development. As Sodhi noted: “We are helping Skelta. More importantly, they are helping themselves”

(iv) Get commitment (preferably on paper): Commitment – in the form of a memorandum of understanding, for example – strengthens the commitment to a joint project from all the parties. Intermediaries such as STAC could potentially be useful in brokering such an agreement.

Even if pressures from MNC headquarters begin to impede progress, subsidiaries – particularly entrepreneurial ones – are likely to push on with a view to achieving the agreed outcome.

Apart from the actual benefits of the collaborative activity, a major motivation for persisting with a joint project when there is a written understanding is to avoid losing face in the local community. As one interviewee suggested, when there is mutual commitment to a collaborative project an MNC subsidiary is likely to be “shamed into carrying out its end of the bargain”

(v) Take a holistic perspective: The attraction of dealing with MNCs, including through an ISV partner programme, is the prospect of receiving support in both upstream activities, such as R&D, as well as downstream activities, like sales.

HMD's product development efforts in Scotland provide an example of an upstream benefit, while Skelta's joint promotion activities in Bangalore illustrate downstream benefits. SMEs would do well to adopt a holistic perspective seeking to derive, where feasible, benefits both upstream and downstream, thus achieving economies of scope – getting more bang for their buck – from network relationships with MNC subsidiaries.

The prospects of internationalisation can be enhanced when there is technical support for the development of an offering, as in the case of HMD; also, international expansion resulting from greater visibility, as in the case of Skelta, is more likely to be sustainable when underpinned by a solid innovation base.

When it comes to networking approach SMEs can be classified into four types...

Table 3: SME networking types

	Endowment of Network Relationships		
Leverage of Network Relationships		High	Low
	High	Effective Networker	Proactive Networker
	Low	Passive Networker	Non-Networker

One thing that those SMEs that successfully collaborated with MNCs shared is the proactive way in which they engaged with a local subsidiary. When it comes to networking approach SMEs can be classified into four types (see table 3 above).

The most desirable are the effective networkers who have, and make good use of, strong networks. The least effective are the non-networkers who represent the other end of the spectrum. Passive networkers have strong networks but don't consciously utilise them; these SMEs should strive to become effective networkers by using the strategies outlined above. Proactive networkers should keep up their good work and seek to expand their base of networks over time even as they continue to proactively engage with network partners such as MNC subsidiaries.

Proactively leveraging network relationships is, of course, not a licence to opportunistically exploit fellow-collaborators. Such behaviour will in fact rapidly ensure that other parties to the collaborative efforts opt not to join in on future collaborative work. Rather, the goal is to achieve mutually beneficial value creation.

why SME-MNC linkages matter

It is clear that for those SMEs looking to develop a more international business, there are plenty of opportunities to engage meaningfully with MNCs via MNC local subsidiaries, especially if they do so proactively and pay attention to the potential obstacles.

It is worth, however, noting a word of warning about network relationships in general. Firms whose affairs become too enmeshed with those of network partners may get caught up in a mode of groupthink – everyone begins to think the same way, and novel ideas are no longer generated or pursued. Also, there may be reluctance on the part of SMEs to engage in radically innovative behaviour if they think it will cause problems for their network partners. Thus a challenge for innovative SMEs is how to participate in social networks without diminishing the propensity for radical entrepreneurial behaviour.

Interestingly, relationships with local MNC subsidiaries can actually help SMEs avoid such pitfalls. MNC subsidiaries are known to be agile and lightly embedded – often to the regret of local policymakers who would prefer their closer involvement with local organisations.



Firms whose affairs become too enmeshed with those of network partners may get caught up in a mode of groupthink...

However, this very attribute of MNC subsidiaries could be a blessing in disguise for SMEs; in other words, ties with MNC subsidiaries are likely to be devoid of the intense reciprocity that may characterise other local network relationships, such as those with other local small firms. Consequently, SMEs can't afford to be less inhibited from engaging in radical entrepreneurial behaviour. Indeed, it is likely that MNC partners who are themselves entrepreneurial and autonomous would encourage such behaviour, without feeling threatened by smaller firms that are unlikely to pose direct competition.

There is considerable potential for value creation through links between SMEs and MNCs. Such dealings could, in the years to come, transcend economic activity in advanced economies such as the UK and in the urban centres of emerging economies like India. MNC-SME linkages could also be crucial to economic development in the less prosperous parts of the world. A United Nations report titled *Unleashing Entrepreneurship: Making Business Work for the Poor*³ urges policymakers in developing countries to 'develop linkages with multinational and large domestic companies to nurture smaller companies'.

Furthermore, there may be unprecedented opportunities for MNCs to develop products, and sell to, the world's poor – a market referred to as the 'bottom of the pyramid'. In such a scenario, MNCs will undoubtedly wish to tap into the expertise of innovative local firms, including SMEs (see the box 'SME-MNC Linkages at the Bottom of the Pyramid?').

SME-MNC Linkages at the Bottom of the Pyramid?

Recent work by management guru C K Prahalad, professor of strategy at the Stephen M. Ross School of Business, University of Michigan, and author of *The Fortune at the Bottom of the Pyramid*,⁴ has drawn attention to commercial opportunities for MNCs through serving the needs of the billions of people who live on a meagre income – many on less than a dollar a day – and treating these people as a potentially lucrative market rather than as recipients of charity.

The argument is that MNCs are best placed to address the complex needs of this vast market. However these firms, well resourced though they are, are unlikely to succeed if they go it alone. At the bottom of the pyramid, a different mindset and type of innovation will be required, which calls for non-conventional strategic alliances both with NGOs but also with local innovative SMEs. It is significant, for example, that IBM and the Trestle Group Foundation recently announced a joint initiative to assist women entrepreneurs in developing countries.

It may well be that a demand-driven approach is called for whereby a need is identified and a consortium of relevant players – including MNCs and SMEs – is put together to address unique opportunities at the bottom of the pyramid, through creative product development efforts and subsequent business development activities. Moreover, strong partnering efforts may be required to educate – and learn from – various stakeholders given the sheer novelty of some of these offerings.

A useful model of such a consortium approach may be found in ongoing collaborative activity in Aberdeen where, through the efforts of the Scottish initiative STAC, over an extended period of time, key players in the oil and gas industry were brought together with a view to identifying needs of mutual interest. These extensive consultative efforts led to the launch of an initial set of pilot projects between an innovative local SME and such MNCs as EDS and Motorola, involving the application of RFID technology to tracking and tracing equipment and people. Such an approach is likely to be even more relevant – and require even more persistence – at the bottom of the pyramid.

conclusion: building successful SME-MNC relationships

Having considered the considerable challenges involved, it is conceivable that some SMEs will wonder whether collaborative SME-MNC relationships are really worth the trouble. Indeed for some SMEs, specifically those that are content to focus on relatively less knowledge-intensive offerings and pick the low-lying fruit, engaging with MNCs may not be truly beneficial.

However for those SMEs that do have cutting-edge technologies to offer, spurning the prospect of engaging with MNCs is likely to result in missed opportunities. And, as noted at the outset, there may really be little option for innovative SMEs with global ambitions but to learn to dance with the gorillas.

SMEs should understand that MNCs are more in need of help to sustain their innovation activities than may be commonly perceived.

For those SMEs that are considering taking the dance floor with an MNC partner, our research highlighted the following important issues:

Benefits for MNCs

SMEs should understand that MNCs are more in need of help to sustain their innovation activities than may be commonly perceived. However it is the highly innovative, as distinct from average, SME that is best placed to take advantage of opportunities to engage with MNCs. Our research identified five benefits for subsidiaries of MNCs engaging in collaborative relationships with local SMEs: corporate citizenship; technology evangelisation; technology absorption; capability demonstration; and spin-off support.

Overcome barriers

SMEs are often wary of building relationships with MNCs for a number of reasons. Our research identified five perceived barriers which SMEs need to overcome before they can construct a productive relationship: access, attention asymmetry, acquisition, and autonomy.

Engage proactively

Forging effective SME-MNC links is no easy task. The most effective SMEs do the following: use bridging mechanisms; modularise knowledge transfer; network across boundaries; get commitment (preferably on paper); and take a holistic perspective.

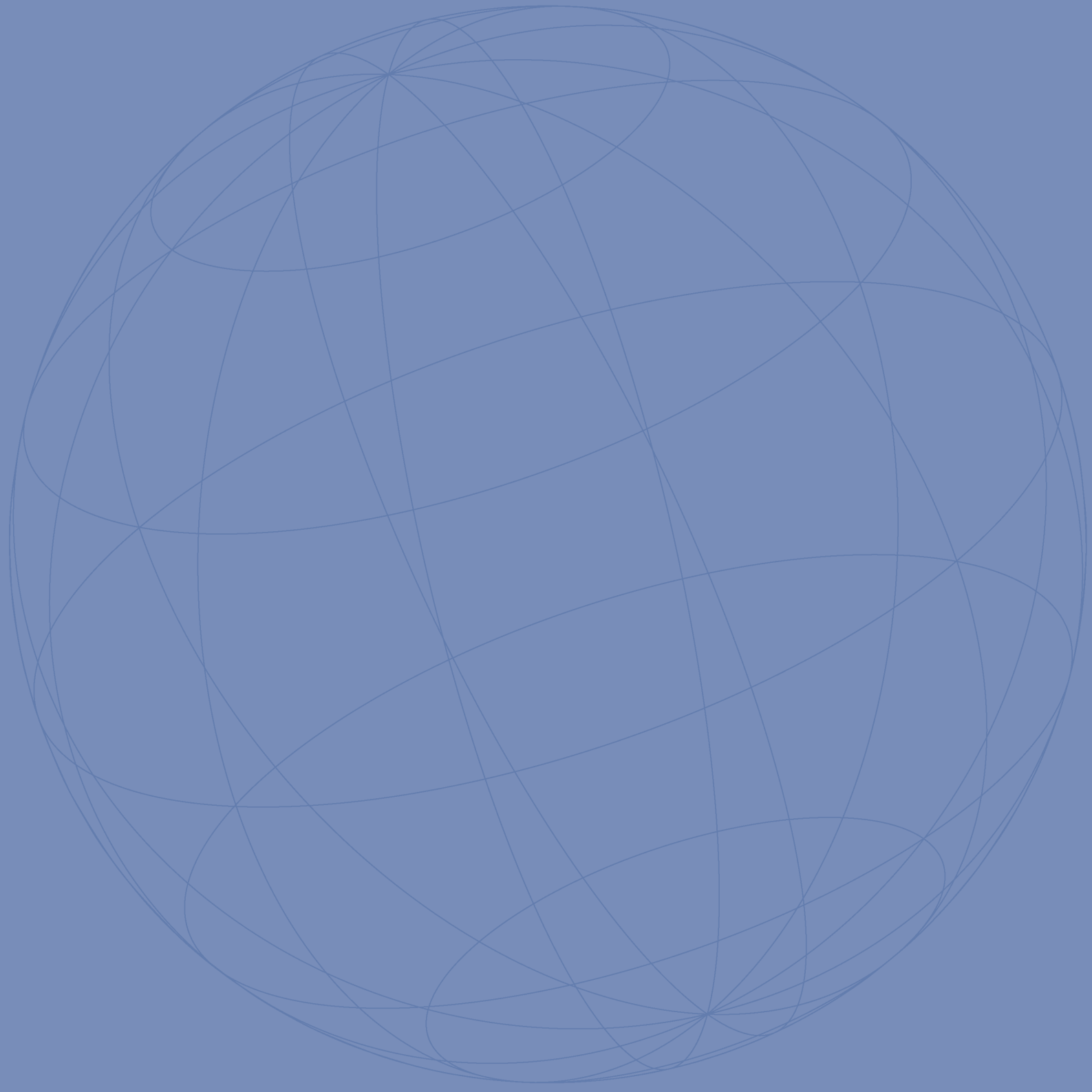
For those SMEs that do succeed in forging strong relationships with MNCs, collaboration with a local MNC subsidiary offers tremendous internationalisation opportunities.

¹ Excerpt from a question-answer session during the presentation of the 2006 Booz Allen Hamilton Distinguished Scholar Award at the Academy of Management meeting in Atlanta, USA.

² Prashantham, S. (2008) *The Internationalization of Small Firms: A Strategic Entrepreneurship Perspective*. London: Routledge.

³ United Nations (2004) *Unleashing Entrepreneurship: Making Business Work for the Poor*.

⁴ Prahalad, C.K. (2004) *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*. Philadelphia: Wharton School Publishing.



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