

# Age of Economic Alliances - How SMEs Win the Market Using Alliances in Turbulent Times

By Genoveva Da Costa LUPÉDIA<sup>1\*</sup>, Constantin-Iulian TĂNAȘCU<sup>2</sup>,  
Dumitru-Alin STATIE<sup>3</sup>, Robert-Andrei COSTACHE<sup>4</sup>

## Abstract

The years of the pandemic meant more than a test to prove the maturity of the states - it was a good exercise for the business community around the world, to prove that it can survive extremely harsh conditions. Over the two years of the pandemic, SMEs have learned that the only way to survive is to work together, within strategic alliances, for a common goal - to make enough profit to survive.

This strategy of alliances in the field of SMEs was a response of the Romanian entrepreneurship to the competitive fight on the market, where the big companies, in order to obtain huge profits even if there was a cataclysm going on, did not "play" honestly and "attacked" the few clients the SMEs had. On the other hand, small businesses have learned that "working together" is synonymous with "surviving." The synergy relationship achieved between small companies, transposed into economic alliances, are true examples of business.

Through our research, we wanted to see how these companies acted so we have created a model by which new entrants can develop these strategic alliances to grow quickly, gain customers, and cope with the turbulent environment in which they operate daily. For this, we performed a statistical and econometric analysis, using as a tool a questionnaire applied to a number of 156 SMEs in Bucharest-Ilfov and Giurgiu, as well as the output provided by the SPSS for Windows application. Preliminary results have shown us the existence of strategic alliances, which we later studied in order to create a model called the Survival Alliance in Modern Era (SAME). This model can be used as an important element of any strategy, a starting point in the rapid, sustainable, and efficient development of an SME, that is at the beginning of the road and wants to have a word in the market in which it operates.

*Key Words: Strategic alliances SMEs, Business strategy*

## 1. Introduction

In one of his lectures, Michael Porter said that a company without a strategy is willing to try anything (Porter et Fuller, 1986). The strategy of trying everything possible to succeed in business is a strategy in itself. The problem is that most start-ups, who do not have a strategy when they enter the market, tend to be "scared" by the first blow they receive. Therefore, the bankruptcy situation is extremely difficult. According to the analysis of some specialists (Tallman, 2022), the year 2021 was characterized by over 6,100 companies that went into insolvency, but the main reason was Pandemic. Contrary to what we might believe - that Pandemic was the main reason - a statistic gives us a bleak picture of 2019, when there was no Pandemic - 6,384 companies went bankrupt (Lipmann et Rumelt, 2021). Is it the Romanian culture that is to blame for the large number of companies that deal with the management of these companies doing something wrong? The answer to this question can also be found in the field of statistics.

<sup>1,2,3 &4</sup> , <sup>2, 3, 4</sup> The Bucharest University of Economic Studies.

\*Corresponding Author.

Several researchers (Hamel, 2021; Anderson et al., 2020) in Romania have conducted an in-depth study of the SME sector in our country to identify the mistakes that these companies make and how they can avoid bankruptcy. Their findings are very important and have been a real starting point in our analysis. According to them, in Romania there are 19 companies per 1000 inhabitants, which indicates a relatively poor economic environment in economic agents. The main reasons why companies fail are: supply chain delays, deficient structure of expenses in the profit and loss account, lack of liquidity, existence of a high level of stock and small number of customers, deficient cash flow structure and a poor budget allocation and lack of market research conducted in a realistic manner and useful for future management decisions. Basically, most of the companies entering the market do not know very well the market in which they operate, and the management is just learning to manage in an extremely dynamic environment. Added to all this are certain trends that the management of many SMEs adopts, and which are based on nothing more than the herd effect and the lack of definite analysis (Ghemawat et al., 1986).

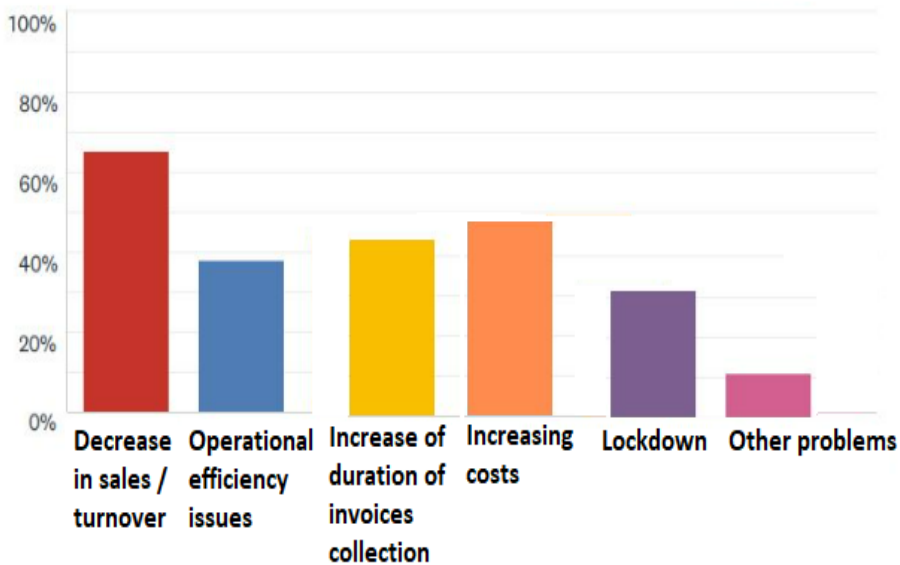
The pandemic proved to everyone that many companies were not prepared for crisis situations. Moreover, the pandemic has proven that the only recipe for success is for certain companies in the field to ally to meet the needs of large customers and thus win together. Specialized practice has shown that those economic agents who want to work on their own and less in economic alliances end up going into insolvency and ultimately into bankruptcy. There are also happy cases in which "lone wolves" type companies survive, but the level of profit is diminished because the mass of customers is "stolen" by companies in strategic economic alliances.

In Romania, a very good example to observe the power of strategic economic alliances can be found in the case of SMEs in the field of agriculture. If farmers ally, they can very well compete with the big commercial chains, but if they do not choose to work together (which often happens), they risk throwing their products in the trash and incurring huge losses.

Should the strategic economic alliances be a new business trend, or should it be something transient, favored by the weakened pandemic business environment? Can managers put aside pride and work together for a common goal - to achieve a higher level of profit?

## **2. Literature review**

The year 2022, a post-pandemic year, from the point of view of the business environment, presents a resumption of severely affected economic activities, an introspective analysis of what happened in the chaotic period of the pandemic and an analysis of what needs to be done now on to do the companies. Studies (Achrol, 2021; Day et Klein, 2020; Varadaraja et Anil, 2020) have shown that most companies affected by the pandemic were the ones where communication with and interaction with the customer had to take place face to face. All the companies whose activity did not include discussions and meetings with the clients, moved their activity in the online environment and were able to face the challenges very well. Among the main problems that companies have faced are:



*Figure 1: The problems that companies have faced in the company*  
*Source: Written by the authors, based on Parkhe's study (Parkhe, 2021)*

This happened in the SMEs that still had the power to sustain certain gaps and that could face the problems in Romania. Those SMEs that were at the beginning of the road, that did not have a large portfolio of clients or very large cash, but that worked alone, woke up with big financial problems and even the closure of activities (Achrol, 2021).

A very interesting aspect is that the strategic economic alliances had to win. In other words, companies in a particular field or related fields have chosen to work together to survive and consolidate their market position together, in an unequal struggle with multinationals that had a portfolio of clients and superior liquidity. Thus, it was found that these alliances were extremely effective because they allowed exchanges of know-how, openness to the market, bargaining power with suppliers, multiple distribution channels and a wider range of covered customers. All this while fighting with multinationals and large companies was growing, but this time the alliances of SMEs could withstand the movements of large companies (Cravens et al., 2020).

Moreover, it has been proven by passionate business and management researchers that those companies that chose to work together to overcome the Pandemic and that chose to share the profit in proportion to the contribution made in the alliance, paradoxically recorded increases in turnover and profit during the Pandemic higher than before the cataclysm. Thus, many of the SMEs in these strategic economic alliances have chosen to continue working in a strong synergy relationship even after the end of the Pandemic, as a strategy to grow quickly, healthily, sustainably and to cope. the power of their biggest competitors - big companies. Thus, all these strategic economic alliances have turned into true win-win partnerships, in which SMEs gain customers, increase their turnover, profit,

and remain on the market, and customers are satisfied that there is supply for goods and the services they need.

### **3. Methodology**

In our research, in order to build a model that would characterize the strategic economic alliances and prove their efficiency, it was necessary a direct interaction with SMEs in Romania and a thorough analysis of them. The main reasons why we personally went to those companies were to identify in real time how these alliances are produced and what the benefits are. Moreover, we had an overview of the two parties involved - both on one side and on the other. We have discovered pros and cons for concluding these alliances and we have identified the fact that there are several pros, identified even by the people in charge of the two entities, to justify such a big step towards the sustainable development of their business.

In addition to the discussions with managers and employers, our study contains a quantitative exploratory analysis, conducted using a questionnaire available here <https://www.isondaje.ro/sondaj/8594182492/>.

The questionnaire was accessed by 102 SMEs based in Bucharest-Ilfov and / or Giurgiu, which provided us with valid answers. For data recording, we used a wide range of procedures specific to quantitative analyzes such as: frequency response analysis, multiple response analysis and cross-analysis of data.

Our target group, hereinafter referred to as the analysis sample, is composed of small and medium-sized companies, which have their headquarters either in Bucharest, Ilfov County or Giurgiu County, in 11 fields of activity and which at the time of the study they were insolvent or bankrupt. Moreover, in the present study, we have a broad approach to the perspectives that SMEs have in terms of strategic economic alliances, and for this, we have formulated a series of basic hypotheses, three working hypotheses, as follows:

- I1. SMEs, regardless of their field of activity, are eager to ally only when they feel close to bankruptcy;
- I2. SMEs, especially those in rural areas, are much more willing to ally in various strategic economic alliances to face competition, unlike SMEs in urban areas;
- I3. SMEs that have formed strategic economic alliances have an advantage over the competition, have obtained a higher distributed profit than if they existed alone and want to continue this form even after the pandemic period.

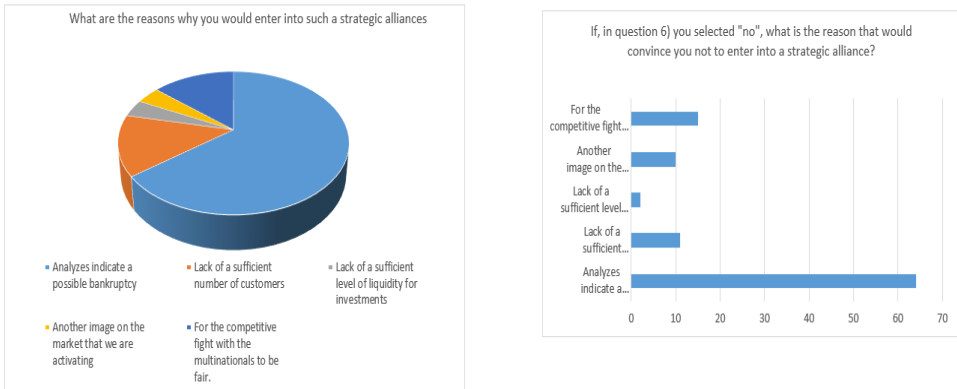
### **4. Research results**

To test the main hypothesis in our study (SMEs, regardless of their field of activity, are willing to ally, only when they feel close to bankruptcy), we analyzed the answers to questions 5 and 7 in the study. questionnaire, using the cross-analysis of data method (table no. 1). The scores of the answers were recorded on the date of the study and are as eloquent as possible to characterize the first hypothesis of our study. Even so, most of the SMEs that responded to the study said that the lack of customers and liquidity led them to resort to strategic economic alliances between companies that have the same

or complementary business (98 companies responded, representing 96, 07% of the total participants).

**Table 1:** 5) What are the reasons why you would enter into such a strategic alliance?

7) If, in question 6) you selected "no", what is the reason that would convince you not to enter into a strategic alliance?



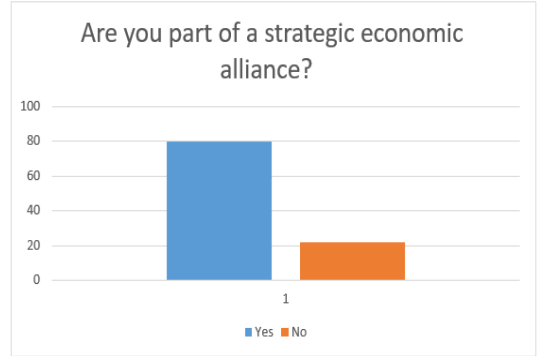
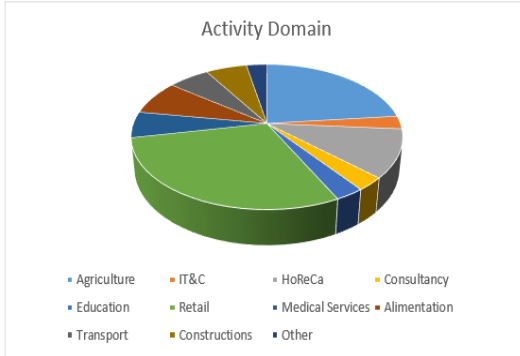
Source: Response processing in the IBM SPSS application by the authors

Testing the first working hypothesis (SMEs, regardless of their field of activity, are eager to ally, only when they feel close to bankruptcy) involved a much more elaborate analysis of answers 5, 6 and 7 of within the questionnaire due to the particularity of the target group consisting mainly of SMEs in various fields: 83 of the companies, with a turnover between 10,000-30,000 euros (81.37% of the total sample), of which 72 are already in a strategic economic alliance and 19 companies with a turnover between 50,000 and 100,000 euros (18.62%), of which 10 are members of a strategic economic alliance. The method used to test the working hypotheses included cross analyzing the data and observing the frequencies of the answers (tab. No. 2).

The answers recorded inside the tab. no. 2 suggested that, regardless of the specifics of the company as a result of the assignment of the CAEN code, at the date of the study, most of the companies in the sample were in a strategic economic alliance - 80 companies (78.43%). The explanation for this situation can be found in the environment in which the companies operate. We are talking about SMEs that have been seriously affected by the pandemic and by the chaos in the public administration, which has had a strong (negative) impact on the Romanian business environment. Therefore, most of the companies focused on strategic economic alliances between companies that have the same or complementary object of activity. The analysis output can be seen in tab. no 2.

**Table 2:** Activity Domain

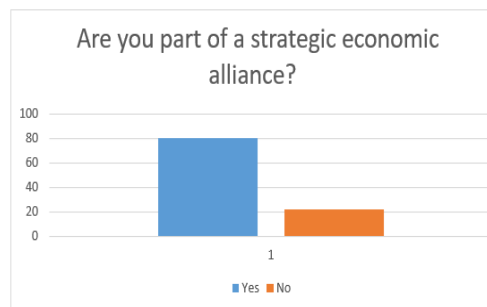
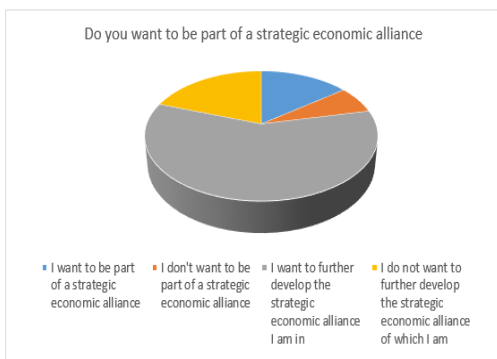
6) Are you part of a strategic economic alliance?



Source: Response processing in the IBM SPSS application by the authors

Testing the second working hypothesis (SMEs, especially those in rural areas, are much more willing to ally in different strategic economic alliances to face competition, unlike SMEs in urban areas) implies a strong analysis of the answers to questions 6 and 13, also using the cross-data analysis method. The results of this analysis were summarized in Table No. 3 and helped us to conclude that, on the contrary, urban companies are much more willing to enter into strategic economic alliances to increase their influence in the market on which they operate. Therefore, 15 respondents out of a total of 102 SMEs surveyed during the study (14.70% of the total sample, respectively 15 out of the 20 companies operating individually) have since become members of a strategic alliance, and 60 out of the 82 that are in a strategic economic alliance (58.82% of the study sample) want to develop this alliance even more.

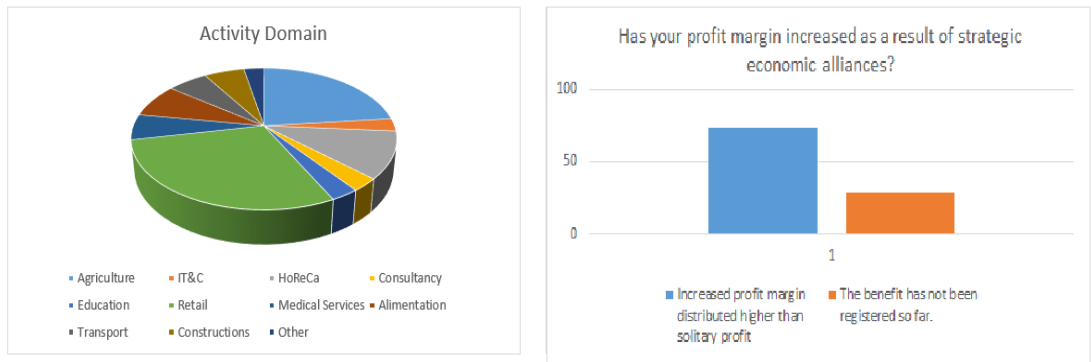
**Table 3:** 6) Be part of a strategic economic alliance 13) Do you want to be part of a strategic economic alliance or to further develop the alliance you are part of?



Source: Response processing in the IBM SPSS application by the authors

Testing the third study hypothesis (SMEs that have formed strategic economic alliances have an advantage over the competition, have obtained a higher distributed profit than if they existed alone and want to continue this form even after the pandemic period.) included in the analysis the questions with numbers 8 and 11 and was a mix of included methods such as the analysis of multiple answers and the analysis of cross-data type. The results we obtained allowed us to conclude that the hypothesis is valid: at the time of the analysis, SMEs that have formed strategic economic alliances have a competitive advantage over the competition by obtaining a higher distributed profit margin. unless they are active alone and want to continue this form after the pandemic. Therefore, the largest number of companies in the mentioned category are part of agriculture (21, respectively 20.58% of the sample), HoReCa (8, respectively 7.84 of the sample) and retail (25, respectively 24, 50%), as can be seen in table no. 4:

**Table 4:** Activity Domain; Has your profit margin increased as a result of strategic economic alliances?



*Source: Response processing in the IBM SPSS application by the authors*

Because the analysis showed us that strategic alliances are beneficial for the development of the business environment and the protection of small companies at the beginning of the road, we thought of a model for these strategic economic alliances, which can be applied as part of a strategy by all companies that want this. The only important condition is that SMEs are part, either of the same field of activity or of fields that complement each other, so that the economic relations developed through the strategy, are beneficial and have a business foundation on a market and on a niche.

The model proposed by us was called Survival Alliance in Modern Era (SAME) and is based on both the results obtained in the questionnaire and the conclusions we drew from discussions with SME managers in Bucharest-Ilfov and Giurgiu County. The model is designed for SMEs to survive both cataclysms like the past pandemic, or to develop chances in markets where multinationals have a hard time saying a word. Thus, the SAME model and the related explanations can be seen in the figure below:

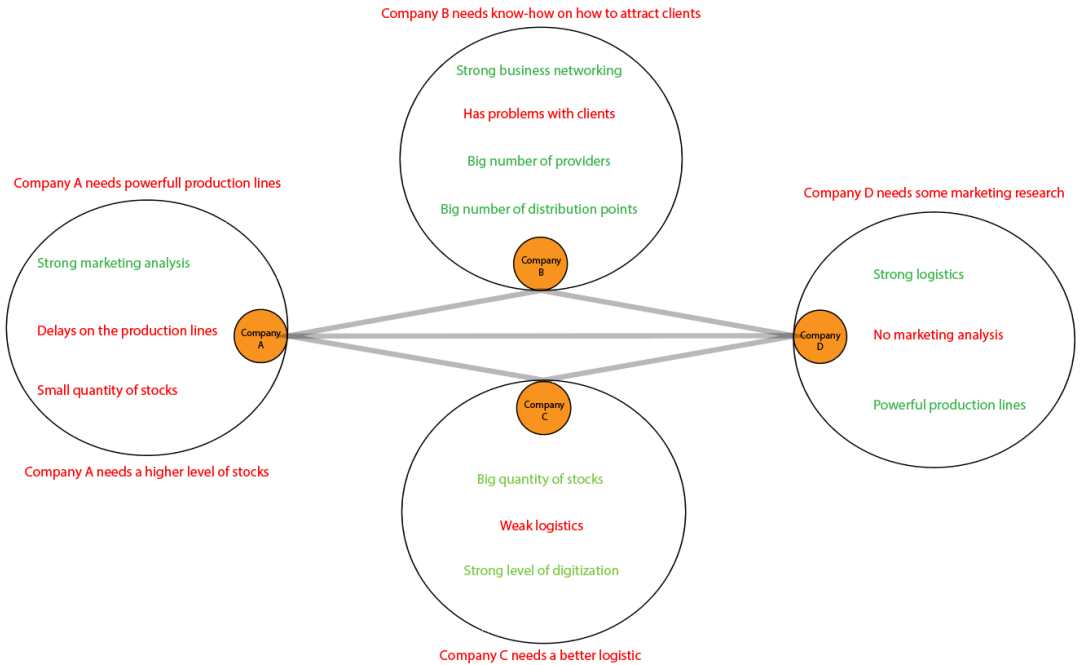


Figure 2: SAME diagram  
 Source: Realized by the authors

According to figure no. 2, strategic economic alliances require at least two companies. In the present case, there are four companies named: Company A, Company B, Company C, Company D. Each of these companies either operates in the same field or operates in a related field, having no connection with each other until the moment they decide to work together.

Each of these companies has, as usual, strengths and weaknesses in the value chain, which is why it may be easier for them to achieve their main goal - to make a profit - or more difficult. They need to identify the vulnerabilities and strengths they have and look for two things: companies in the same industry or related, that are missing something that is a strength for our company and find those companies that have a vulnerability in the company. studied.

Moreover, profit margins are very important. From the discussions I conducted in the interviews with the managers and owners of the SMEs in the sample, I found that there is a higher profit margin distributed on each of the members of the strategic economic alliance than there would be if those companies acted individually. Thus, we can understand that the transfer of technology and know-how (because the strategic economic alliances in the SAME model refer to this in the first place) is all the more important as it covers some gaps held by the member companies of the alliance and which generate a level of very high profit.

Because each member company of the alliance wants to obtain a higher level of profit, the margin of distributed profit will be represented by a share of the contribution made to obtain the total profit. In this way, companies that involve assets, technology and know-



how will benefit from a higher level of profit because the margins of distributed profit, obtained as a share of the total profit obtained, will be higher than the profit obtained individually by each company. This does not mean that the respective companies cannot provide individually, at the same time as they provide within the alliance.

According to figure no. 2 we find that each of the companies present in the SAME model can help the other. Basically, from individual companies, which fight on the market with giants to make a profit and to attract customers, they create a synergy relationship and become much stronger. Thus, applying the SAME model, they will be able to obtain more than know-how, loan assets and technique. They will be able to get the chance they need to face the big competitors, to be able to attract customers and to be known together.

Perhaps the best SAME model is highlighted by cooperatives. Several companies working in one field come together, clap their hands and choose to work together to survive and make a profit instead of being disbanded by stronger competitors. This model applied in the field of agriculture has shown us that small farmers gain bargaining power in front of large companies, that they have the power to deliver very large stocks of products in record time and, most importantly, have the availability, technique and capital attracts more and more customers.

## 5. Conclusions

The SAME model that we created is a way to collaborate in business, in a constantly changing world, in a complicated business environment, so that companies that are not able to be competitors cooperate.

The SAME model helps to better observe the framework in which the company works, in order to identify the opportunities, it can reap in relation to other companies. Practically, a certain company notices the vulnerabilities of a non-competing company, analyzes its own vulnerabilities, and then evaluates how the two can work together in order to cover those vulnerabilities and turn them into key success factors, profit generators.

The more this model is applied on a larger scale, the stronger companies can become. In the case of an efficient business environment, which works together to cover the needs of clients and potential clients, the benefits translate into an increase in income, turnover and, implicitly, profit. What is more, the use of this model by companies from a certain city / region, leads to a synergy report that can economically stabilize that area. It is very important to say that economic practice shows us that where the level of competition is high, the quality of products and services decreases because companies are oriented towards competition, not towards quality.

In addition, another very important element to underline in the conclusions is represented by profit margins and profit as a whole. Companies that apply the same model will have a profit distributed directly proportional to the size of the strategic economic alliance of which they are a part. Practically, it is very important to say that revenues will grow at a sustained rate, more or less, directly proportional to the level of strategic alliances in the SAME model.

It is very important to say that this model was tested in Romania within 10 companies - SMEs from a poor area of the country - Giurgiu. The results were surprising because, in

the first year of implementation, the companies that followed the SAME model recorded a 2% increase in turnover.

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