The Formation of Strategic Alliances in Entering Low-income Segment of Developing Nations

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Strategic alliances are a firm behavior in which an institution collaborates with other institutions to achieve its strategic goal, of which the format spans from contract-based alliances, equity alliances, to joint ventures. These collaborative behaviors have been traditionally explained by existing strategy and macro organization theories including transaction cost theory, resource dependence theory, resource-based theory of the firm, institution theory, competitive theory, organization learning theory, real options theory, theories of foreign market entry modes, social network theory, and relational theory.

However, with a few exceptions such as the cross-sector alliance literature, existing theories assume that alliances are made primarily between for-profit firms, consciously or unconsciously excluding the phenomenon in which for-profit firms ally with not-for-profit organizations in low-income segments of developing nations.

This study first surveyed extant literature of strategic alliances and applied those theories to alliance activities in the low-income, so-called "Base of the Pyramid" segment of developing nations to verify their explanatory power. A case study of a venture business activity in Tanzania was used. Second, based on a part of those behaviors unexplained by existing theories, a new theoretical framework in which social performance is also integrated in the dependent variables was introduced, by which how alliance behaviors are formed in the so-called inclusive (BOP) businesses was explained.

As a result, in building the new causal model, this study found out the concept of "socio-economic convergence capacity" consisting of three capabilities including 1) the capability to utilize the social aspects of the firms' product and services to attract necessary resources from social organizations, 2) the capability to take advantage of the firm's economic investment to enhance its social performance, and 3) the capability to take advantage of its social investment to enhance its economic performance, was playing a key role to facilitate successful alliances.