Mergers are risky strategies

Q: I would like to ask if there is an emerging trend for SMEs to merge. Is that a necessity for SMEs to survive?

A: Mergers may be helpful when there are benefits in increasing the size of operations (also called economies of scale). In some industries, these benefits may be significant – and SMEs could consider mergers if they belong to these industries. In many other industries, however, a larger size may offer few benefits, and hamper agility or nimbleness. In these industries, mergers may be unnecessary, and possibly even be counterproductive.

Any SME considering mergers should actively consider the benefits of larger size versus the possible loss in nimbleness/agility. Typically, mergers need a good amount of financial and management resources for successful consummation. SMEs would also need to pay attention to their own capacity in terms of financial and management resources, among others.

I would classify mergers as risky strategies that should be undertaken only when there is time pressure (eg the need to grow quickly) or compelling reasons (eg unique opportunities to acquire valuable resources). Under other conditions, internal (or organic) growth may be a better avenue for SMEs.

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Started out as a fortnightly column, ‘Ask NUS Profs’ will now be a weekly collaboration with NUS Business School. Every week, a panel of professors from the school will address business-related questions relevant to SMEs. If you manage a business and have a question to ask the panel, please e-mail it to btnews@sph.com.sg along with your name, designation and company particulars and mention ‘Ask NUS Profs’ in the subject line. If, for some reason you do not want your name or your company’s details to be published, please indicate so in your e-mail.