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The effects of firm capabilities on external collaboration and performance: The moderating role of market turbulence

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ABSTRACT

Although inter-firm collaboration has become an important form of organizing and leveraging marketing resources for greater competitive advantage, and firm capabilities are recognized as marketers' major resources, research has paid little attention to the role of firm capabilities in enhancing inter-firm collaboration. This study addresses this deficiency by examining three internal capabilities (i.e., innovation, information, and relational capabilities) as critical enablers of the firm's external collaboration strategy. The findings show that these capabilities positively affect the effectiveness of external collaboration, which in turn contributes to the firm's market and financial performance. Further, the enabling effects of innovation and information capabilities are found to be positively moderated by market turbulence, while relational capability has a consistently positive effect on collaboration effectiveness regardless of the market turbulence level. Implications for marketing strategy research and practice are discussed.

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1. Introduction

Firms are increasingly engaged in collaborative relationships with various external partners including customers, suppliers, universities, and even competitors to integrate their value co-creation processes (Jap, 2001; Noseleit & de Faria, 2013). Managing collaborative relationships, however, is challenging, as indicated by the high failure rate of these relationships (Park & Ungson, 2001). Possible causes identified for collaboration failures include inter-firm rivalry, governance problems, cultural crashes, coordination costs, unintended knowledge spillovers, divergent goals, learning races between the partners, and organizational rigidity (Park & Ungson, 2001; Sivadas & Dwyer, 2000), but research seems to have evaded an apparent culprit, namely, the firm's capabilities in relation to external collaborations. The question as to whether all firms are equally capable to initiate, develop, and benefit from external collaborations has been largely unanswered.

The resource-based view (RBV) maintains that the firm's existing capabilities are the basis on which it further develops and strengthens its competencies through continuous, collaborative learning (Powell, Koput, & Smith-Doerr, 1996). Capabilities are a critical success factor for the collaboration strategy as they represent both the value the firm can contribute to the collaborative relationships and the cost to manage them, but the literature offers little insight as to what types of capabilities are the most important for collaboration under what contexts, although such knowledge is essential for firms to strategically develop and exploit specific capabilities.

Against this backdrop, this study aims to examine which firm capabilities enable external collaboration and subsequently affect firm performance. The research draws on the RBV thesis that dynamic capabilities are sources of competitive advantage (Barney, 1991; Barney, Ketchen, & Wright, 2011; Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997) and the resource-action-performance framework (Ketchen, Hult, & Slater, 2007), identifies three broad-based dynamic capabilities as key enablers of external collaboration, and develops and tests a model linking these capabilities (resources), external collaboration (strategy), and firm performance. Adopting a contingency perspective (Donaldson, 2001), the study examines market turbulence as a key environmental condition that moderates the effects of dynamic capabilities, and provides an enhanced understanding of the complexity of the capability–collaboration–performance relationship. The primary contribution of this research is to add three dynamic capabilities as a new set of explanatory variables to the collaboration literature. It also contributes to the RBV by explicitly specifying external collaboration as a concrete mechanism through

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which dynamic capabilities transform firm resources into competitive advantage.

The remainder of the paper will first review the background literature on collaboration and dynamic capabilities, and develop a conceptual model linking capabilities, collaboration effectiveness, and firm performance. Next, an empirical study testing the model is presented, and the paper concludes with a discussion on theoretical and managerial implications.

2. Conceptual background

2.1. External collaboration

External collaboration is an important means to augment the organization's internal value creation activities and improve its competitive advantages because in the networked and knowledge-based economy, the locus of innovation resides not inside the firm, but in the interstices between the firm and its external partners (Powell, 1990; Powell et al., 1996). Collaboration can be seen as close, functionally interdependent relationships characterized by mutual influence, open and direct communication, support for innovation and experimentation, and a goal of creating beneficial outcomes for all participants (Jap, 2001). The benefits of collaboration are multifold. Transactional cost economics suggests that firms are able to reduce production cost and reach greater economies of scale by pooling resources together (Williamson, 1994). Porter and Fuller (1986) argue that firms may hedge risk by building a portfolio of investment through strategic collaborations. Firms also gain access to restricted markets through partnerships (Hitt, Ireland, & Hoskisson, 2009). More importantly, firms are able to develop and enhance their core competencies via accessing to complementary resources in partner organizations (Dyer & Singh, 1998; Powell et al., 1996).

2.2. Internal capabilities

Dynamic capabilities are organizational processes that integrate, build, and reconfigure the resource base to match changes in the marketplace, enable organizational learning, and help shape the environment to the firm's advantage (Day, 2011; Eisenhardt & Martin, 2000). Static resources must be transformed into dynamic capabilities in order to create competitive advantage and realize superior financial performance (Teece et al., 1997). Research on external collaboration and alliance has generally acknowledged the importance of capabilities yet failed to identify specific capabilities needed for effective collaboration. For instance, Kale, Dyer, and Singh (2002) equate prior experience and the existence of a designated alliance function in the organization to alliance capability, whereas Allred, Fawcett, Wallin, and Magnan (2011) operationalize collaboration capability as behavioral processes composed of both internal and external collaborations without conceptualizing it. Our knowledge of collaboration enabling capabilities is at a nebulous stage.

The various dynamic capabilities proposed in the literature generally fall into three broad categories. The first is related to innovation, and researchers have investigated technological capability (Camison & Villar-Lopez, 2014; Verona, 1999) and innovation capability (Terziovski, 2007) that contribute to product design, new product development, and business process innovation. The second concerns the management of information, typically enabled by deploying cutting edge information technology to enhance communication, the collection, analysis, and dissemination of market information, and coordination within the firm and among business partners (Hulland, Wade, & Antia, 2007; Nakata, Zhu, & Izberk-Bilgin, 2011). The third category entails developing, nurturing, and managing external relationships. In this category, studies have looked at alliance capability (Kale et al., 2002; Leischnig, Geigenmueller, & Lohmann, 2014), marketing capability (Day, 2011; Vorhies & Morgan, 2005), relational capability (Day, 2000; Dyer & Singh, 1998), and collaboration capability (Allred et al., 2011).

These three categories of capabilities broadly capture the major cross-functional business processes related to inter-firm collaboration including new product development, operations, inventory management, logistics, customer relationship management, and supplier relationship management. Prahalad and Hamel (1990) maintain that capabilities that enable external collaboration should be able to promote innovation across multiple partner organizations, reduce counterproductive behavior through frequent and open communication, and devise governance mechanisms for goal alignment and risk sharing. Corresponding to these criteria, the three dynamic capabilities enable the firm to both contribute to and benefit from external collaborations, and therefore will be the focus of this study.

Innovation capability refers to the organizational processes to perform innovative activities related to offerings, operations, management, and marketing in order to create superior customer value (Hurley & Hult, 1998; Terziovski, 2007). Integrating cultural, intellectual, technological, structural, and other resources, and innovation capability enhances the firm's absorptive capacity to acquire, assimilate, transform, and exploit external resources for greater market performance (Lisboa, Skameas, & Lages, 2011; Zahra & George, 2002).

Information is the bedrock of communication and coordination, and firms rely on advanced information technology to collect information, identify market opportunities, communicate with external partners, and streamline business processes (Hulland et al., 2007; Nakata et al., 2011). Building on previous conceptualizations (Hulland et al., 2007; Mithas, Ramasubbu, & Sambamurthy, 2011), this study defines information capability as the firm's processes to employ technology to acquire, process, and transmit information to support decision-making, improve business operations, and facilitate communication and coordination with external partners.

Relational capability refers to the firm's processes to develop and manage its network of relationships with external partners for greater value creation (Day, 2000). It reflects the firm's ability to identify best partners, initiate and develop relationships (Morgan, Slotegraaf, & Vorhies, 2009), and design governance mechanisms for effective collaboration (Faems, Janssens, Madhok, & Van Looy, 2008; Williamson, 1994).

3. Conceptual model and hypotheses

Based on the resource-action-performance framework (Ketchen et al., 2007), our conceptual model (Fig. 1) proposes that the three dynamic capabilities as resources enable the firm's strategic pursue of external collaborations, which in turn enhances its market and financial performance. Collaboration effectiveness mediates the relationship between capability and performance, and market turbulence moderates the capability–collaboration relationship.

3.1. Innovation capability

Innovation capability enables external collaboration in two ways. First, since the internal knowledge base and absorptive capacity are essential for the firm to evaluate and absorb new resources from partners to build up competitive advantage (Zahra & George, 2002), firms with higher innovation capability are more likely to benefit from collaborative efforts and further develop and strengthen their internal capabilities (Powell et al., 1996) and therefore are more motivated to engage in collaborations. Second, innovation capability helps attract qualified partners. Potential partner firms enter into collaborative relationships with the desire to obtain access to complementary resources that they do not possess internally (Powell et al., 1996; Sivadas & Dwyer, 2000). The focal firm's innovation capability serves as a verifiable ex ante credential to potential collaborators when they evaluate whether the focal firm has the ability to contribute to the collaborative effort that they can benefit from (Heide & John, 1990; LaBahn, 2000).

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