Journal of Business Research 69 (2016) 1199–1207

Contents lists available at ScienceDirect

Journal of Business Research

Interfirm alliance configuration as a strategy to reduce shareholder risks

Tanya (Ya) Tang [a,*], Gregory J. Fisher [b], William Qualls [c]

[a] Isenberg School of Management, University of Massachusetts Amherst, 121 Presidents Dr, Amherst, MA 01003, USA
[b] Miami University, Farmer School of Business, 800 E. High Street, Oxford, OH 45056, USA
[c] University of Illinois at Urbana-Champaign, 83 Wohlers Hall, 1206 South Six Street, Champaign, IL 61801, USA

ARTICLE INFO

Article history:
Received 3 May 2013
Received in revised form 25 September 2015
Accepted 26 September 2015
Available online 23 October 2015

Keywords:
Dynamic capabilities
Partner relatedness
Alliance relatedness
Shareholder risks

ABSTRACT

This article investigates how interfirm alliance configuration strategies reduce shareholder risks via the alignment of "what" types of alliances to establish and "with whom" to build such alliances. Two concepts are introduced, partner relatedness and alliance relatedness, to consider how alliance partners and alliance activities relate to the focal firm's business activities. Building upon the dynamic capabilities literature and using secondary data, this research empirically demonstrates that the effects of alliance configuration strategy on shareholder risks depend on the type of risks (idiosyncratic or systematic) and the degree of industry environment changes. With low market dynamism, the consolidation strategy of high partner relatedness/high alliance relatedness reduces idiosyncratic risk. Yet with high market dynamism, the expansion strategy of low partner relatedness/low alliance relatedness decreases idiosyncratic risk. In contrast, the mixed configuration strategies of high partner relatedness/low alliance relatedness or low partner relatedness/high alliance relatedness lessens systematic risk independent of market dynamism.

1. Introduction

The last few years have witnessed significant turmoil in many U.S. industries. This upheaval has been marked by unprecedented macroeconomic recessions, unpredictable technology evolution, fast-changing customer demand, and accelerating global competition. Under this dynamic and uncertain environment, shareholder risks increasingly have become a top performance metric, as it is critical to the long-term performance and survival of firms (Srinivasan & Hanssens, 2009). Faced with this uncertainty, many firms pursue interfirm alliances as a strategy to reduce their shareholder risks (Murray & Kotabe, 2005).

Prior studies in this domain often focus on alliance outcomes at firm performance levels (Das & Teng, 1998), whereas shareholder risks have been largely neglected. Given that strategic alliances are inherently interwoven with risk (Murray & Kotabe, 2005), considering only firm performance outcomes does not capture the concerns of shareholders (e.g., employees, creditors, suppliers, customers) who are interested in long-term shareholder value (Xu & Lu, 2007). The protection of shareholder value is affected not only by the growth of individual firm performance, but also by the risks associated with market variation, environmental uncertainty, and growth volatility (Srivastava, Shervani, & Fahey, 1998).

By building upon a dynamic capabilities theoretical perspective (Helfat & Winter, 2011), this paper attempts to understand how a firm's alliance configuration strategy can leverage its partners' resources to reduce shareholder risks over time. The essence of a firm's alliance configuration strategy lies at the confluence of two critical decisions: "with whom to build strategic alliances?" and "to build what type of strategic alliances?" To investigate these two dimensions of alliance configuration strategy, this research introduces two concepts. First, partner relatedness encapsulates the "with whom" element, or the degree to which the alliance partner and focal firm's business areas are related. Secondly, alliance relatedness captures the "what" element, or the extent to which the established alliance activities relate to the focal firm's existing business areas. Importantly, this paper argues that firms make these two decisions not separately, but *simultaneously* because strategic alliances entail "different types of collaborations among various partners to generate new and synergistic resource combinations among firms" (Eisenhardt & Martin, 2000, p. 1107).

With data collected from several secondary data sources including the SDC strategic alliance database, COMPUSTAT, and CRSP, this paper empirically demonstrates that the effects of a firm's alliance configuration strategy on the reduction of risks will depend not only on the type of risks (idiosyncratic or systematic), but also on the rapidness of change in the market environment (market dynamism). In environments characterized by low market dynamism, the consolidation configuration strategy of high partner relatedness/high alliance relatedness reduces idiosyncratic risk. Yet in environments characterized by high market dynamism, the expansion configuration strategy of low partner relatedness/low alliance relatedness decreases idiosyncratic risk. In contrast, a mixed configuration

* Corresponding author.
E-mail addresses: yatang@isenberg.umass.edu (T.(Y.) Tang), fishergj@miamioh.edu (G.J. Fisher), wqualls@illinois.edu (W. Qualls).

http://dx.doi.org/10.1016/j.jbusres.2015.09.013
0148-2963/

strategy of high partner relatedness/low alliance relatedness or low partner relatedness/high alliance relatedness lessens systematic risk independent of market dynamism.

The findings offer several contributions to the strategic alliance literature. This paper introduces partner relatedness and alliance relatedness as two critical constructs that influence risk factors in strategic alliance management. Importantly, it studies the configuration between partner relatedness and alliance relatedness and suggests that they jointly determine alliance outcomes. The extant literature has often explored partner or alliance characteristics separately (Saxton, 1997), but the insights are conflicting. Our contingent framework shows that both high and low levels of partner relatedness can lead to greater alliance outcomes but are dependent on the type of alliance relationships that they build. Further, this study considers the outcomes of alliance configuration on shareholder risks, which has been overlooked in the alliance literature (Murray & Kotabe, 2005). Additionally, existing literature has frequently equated dynamic capabilities with dynamic environmental conditions (Schilke, 2014). By investigating alliance configurations under different levels of market dynamism, our results show that a turbulent environment is not necessarily a component of dynamic capabilities, which can exist in stable environments if partner relatedness and alliance relatedness are aligned properly.

2. Theoretical background

2.1. Strategic alliance configuration as a dynamic capability

The dynamic capabilities literature describes how an organization may respond to a changing external environment by purposefully creating, extending, or modifying its resources in pursuit of improved effectiveness (Helfat & Winter, 2011; Zahra, Sapienza, & Davidsson, 2006). Such capabilities hold an "intended and specific purpose" that permits the firm to complete a particular activity in a reliable manner (Helfat & Winter, 2011). Dynamic capabilities aid a firm in gaining a competitive advantage by enabling it to modify the way in which it solves problems, often with respect to how it serves customers (Helfat & Winter, 2011). For instance, a firm may use its dynamic capabilities to change how it earns revenue and profit through many approaches, such as altering a product offering, a production process, or the markets that it serves (Winter, 2003). As such, dynamic capabilities include an organization's ability to reconfigure to "pursue opportunities in new and potentially effective ways" (Zahra et al., 2006).

The skill to effectively configure and modify strategic alliances is one example of a dynamic capability (Kale, Dyer, & Singh, 2002). Alliance configuration capability allows a firm to selectively modify its network of interorganizational partnerships in order to cope with changing environmental conditions (Hoffmann, 2007). Alliance configuration capability includes skills such as identification of valuable alliance opportunities, alliance design, alliance coordination, and integration of alliance learning (Kale & Singh, 2007). Such expertise enables the firm to explore new markets with local alliance partners (Hitt, Dacin, Levitas, Arregle, & Borza, 2000), shape the environment by meeting changing customer needs with products offered by alliance networks, and stabilize the environment by leveraging channel alliances to establish a competitive advantage (Hoffmann, 2007). Prior research suggests that a capability that promotes "economically significant change" is dynamic (Helfat & Winter, 2011). Thus, the configuration of alliances is a dynamic capability that creates value for firms "by manipulating resources into new value-creating strategies" (Eisenhardt & Martin, 2000).

To achieve a competitive advantage, the dynamic capabilities perspective emphasizes the integration of internal and external knowledge resources and skills (Schreyögg & Kliesch-Eberl, 2007). A firm can configure its alliances to increase access to external resources and obtain new skills that are held by partners (Hoffmann, 2007). In particular, alliance learning processes enable a firm to transform the external resources held by cooperative partners (Lin & Wu, 2014; Kale & Singh, 2007). Thus, alliance configuration decisions help the firm to replace decaying resources, integrate new skills, and accumulate resources in order to cope with environmental challenges and improve market performance.

2.2. Strategic alliance configuration to reduce shareholder risks

The effective alignment of alliance characteristics helps a firm expand its business into noncore markets, which allow it to detect environmental uncertainties and learn new skills that reduce its risk (Murray & Kotabe, 2005). This paper seeks to determine how a firm should configure its interfirm alliances to reduce two specific types of shareholder risks: systematic and idiosyncratic risk. Systematic shareholder risk is collectively faced by multiple firms in the same market (Beckman, Haunschild, & Phillips, 2004). In the finance literature, systematic risk is often associated with market uncertainty that is attributed to macroeconomic factors (Kerr & Kren, 1992). In addition to the financial factors, firms face systematic risk pertaining to the industry and markets in which it operates. For example, certain markets contain higher competitive intensity and greater technological uncertainties, but firms can configure alliances to increase their market power to reduce this systematic risk (Murray & Kotabe, 2005). Further, firms with strong competitive positions can protect their cash flows from external market fluctuations through lower demand elasticity, lower operating costs, and higher price premiums (Subrahmanyam & Thomadakis, 1980).

In contrast, the idiosyncratic portion of shareholder risk stems from firm-specific activities after accounting for market-wide variation. The unique uncertainty constitutes approximately 80% of a firm's total shareholder risk (Beckman et al., 2004). Firms may experience idiosyncratic risk from multiple sources, such as managerial decision failure, uncertainty associated with internal new product development (Ragatz, Handfield, & Petersen, 2002), or a turnover in leadership (Barron, Chulkov, & Waddell, 2011). Although a variety of factors prompt idiosyncratic risk, the underlying commonality is that these sources are "unique and often internal to the firm" (Beckman et al., 2004). Alliances can help reduce idiosyncratic risk by providing access to different markets, a broader product offering, and additional resources that offset shortcomings of the firm.

2.3. Partner relatedness and alliance relatedness as elements of alliance configuration strategy

To reduce idiosyncratic and systematic risks, the dynamic capabilities perspective suggests that an optimal arrangement creates an *internal-fit* between partner and alliance relatedness, and an *external-fit* between the arrangement of partner and alliance relatedness and the environment (Kabadayi, Eyuboglu, & Thomas, 2007). Alliance configurations are formed by the alliance portfolio's structural and relational characteristics. The structural traits include the relative redundancy of resources between a firm and its partners, whereas the relational traits comprise the social capital that facilitates information exchange between external partners (Hoffmann, 2007; Tsai, 2000). Accordingly, we define partner relatedness and alliance relatedness to capture the respective structural and relational aspects of an alliance portfolio configuration.

Partner relatedness describes the degree of similarity between the business activities of firms that are engaged in a strategic alliance (Merchant & Schendel, 2000). When a firm and its alliance partner operate in the same markets, they share similar knowledge and resource endowments, and they exhibit familiarity with each other's business capabilities and operations. Highly related partners may offer similar products, rely upon common elements within their supply chains, and exhibit similar knowledge-sharing routines (Holcomb & Hitt, 2007). The similarities of highly related partners reduce communication barriers and improve coordination effectiveness that assists in resource