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Strategic alliances and firm performance in startups with a social mission

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ABSTRACT

Innovation with a social purpose is strictly linked to entrepreneurship and economic development. However, those startups that pursue a social mission often operate in really novel markets and raise some scepticism in the eyes of investors. Startups can improve their business performance by leveraging on equity and non-equity based strategic alliances, so to pursue growth. However, sustainable growth requires to attract the right investments at the right stage of development of the startup. This study draws on international business theory and proposes a novel framework that explains the mechanisms regulating strategic alliances and firm performance in a startups context. We use a sample of 3913 UK high-tech startups engaging in social innovation to test our hypotheses and we derive an explanation for some of the mechanisms behind strategic alliances effect on startups performance, startups scalability and the balance needed between performance and the pursuit of a social mission.

1. Introduction

In the UK, 5.7 m small businesses contribute to £1.9 trillion of turnover and employ 16 m people (UK Government, 2019). A recent report from the British Council (2019) highlighted the increase of social enterprising activity in the UK, which contributes to the UK economy with £24bn per year across economic sectors. Social enterprises operate in any industry of the UK economy and the government gives them increasingly higher attention and 'have introduced a number of initiatives to support the sector's growth. This has resulted in financial support and legislation to make the business environment more favourable for social enterprises' (2019, p. 49).

As authors of this study, we believe the scope of the definition of social enterprises is currently too narrowly focusing only on not-for-profit organisations, neglecting the social mission embedded in many for-profit organisations. Social enterprises are generally defined as businesses 'with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners' (DTI, 2002), but it is often difficult to obtain a crisp definition of social enterprises based on social purpose. For instance, a lot of for-profit organisations engage in social innovation (Altuna, Contri, Dell'Era, Frattini, & Maccarrone, 2015) thus, these also have a social purpose without necessarily being classified as social enterprises. These enterprises have been defined as 'for-profit social ventures', as they have been incorporated as for-profit bodies, but they have been designed to serve a social purpose (Dees & Anderson, 2003).

Likewise, a lot of social enterprises do not engage in social innovation, despite their focus on sustainability (Yunus, Moingeon, & Lehmann-Ortega, 2010). Furthermore, social innovation is cross-sectoral (Murphy, Perrot, & Rivera-Santos, 2012) as it involves public and private stakeholders (the latter, in both for-profit and not-for-profit companies), and, thereby, attracting the interest of governmental and supra-governmental bodies. For instance, the European Union 'acts as an agenda-setter in the measurement of social innovation, working with and liaising with the private sector, venture capitalists, and foundations to facilitate a consensus' (European Commission, 2012, p. 15).

Enterprises, to deliver on social mission goals without lessening their business performance, have to leverage the collaborations that often occur in spontaneous entrepreneurial and innovation ecosystems (Letaifa & Rabeau, 2013). This is particularly true for startups, which lack resources and social capital (Lonial & Carter, 2015). Given the stress caused by limited resources, collaborations amongst startups have to be strategic in nature and different types of alliances can take shape between startups and their partners according to their different strategic alignments (Herrera, 2015).

Business-to-business (B2B) strategic alliances can provide solutions to societal challenges (Chesbrough & Bogers, 2014; Phillips, Lee,

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Ghobadian, O'Regan, & James, 2015) while enhancing the startups' business performance. Furthermore, social enterprises are at the core of value creation: these can create value for the society at large by leveraging collaborations and strategic alliances with non-for-profit organisations primarily, but with for-profit firms, too. Such collaborations and alliances enable the development of strategies that foster social innovation (Felício, Gonçalves, & da Conceição Gonçalves, 2013). These alliances directly benefit communities, individuals, and society overall.

However, it is important to highlight that these relationships are also beneficial for those firms that engage in these relationships (Drumwright, 2014), as there is evidence of the economic benefit for for-profit firms to engage in social innovation practices (Ozdemir, Kandemir, & Eng, 2017; Shaw & de Bruin, 2013).

Notwithstanding the extensive research on strategic alliances and the importance of alliances to the success of firms operating within a social mission frame, there is still lack of understanding of how alliances impact the performance of those firms that decide to adopt a social mission and which engage in innovation for the benefit of society.

In a startup context, a strategic collaboration consists of collaborating on both core and non-core activities so as to enhance the competitive advantage of the startup. Quite often, startups capitalise on alliances through external funding from investors to boost their financial performance (Parker, Storey, & Van Witteloostuijn, 2010). Funding enables the firm to grow and pass through the successive stages of development from seed funding to venture growth and to finally exit through merger and acquisition.

Most of the studies on strategic alliances focus on multi-national enterprises (MNEs), mergers, acquisitions, differentiation, cost leadership (Culpan, 2009), alliances of e-commerce (Park, Mezias, & Song, 2004), partnership reputation (Li, Eden, Hitt, & Ireland, 2008), and governance and structure (Teng & Das, 2008). The startups' context has been neglected in the extant literature. There are only a few studies investigating the link between strategic alliances and startups performance (Chang, 2004). There have been some attempts to investigate strategic alliances in an SME context; in that sense, Franco and Haase (2015) developed a taxonomy for SMEs and classified four categories of strategic alliances: strategic, improvised, exploratory, and deliberate. Also, Swoboda, Meierer, Foscht, and Morschett (2011) studied alliances' success factors in the context of small and medium-sized enterprises (SMEs).

That said, it is likely that relevance of strategic alliances for organisations' performance differs for MNEs and SMEs: Lunnan and Haugland (2008) investigated the factors that affected long-term and short-term performance and they suggested that alliance performance is a multidimensional construct. They showed that short-term performance can be explained by access to complementary resources and by the strategic importance of the alliance itself, while long-term performance is dependent on how the developmental process is handled by the partners.

On the other hand, startups differ from the latter due to their size, rate of development, use of business models innovation, use of social capital and market focus (Brouthers & Nakos, 2004; Van de Vrande, De Jong, Vanhaverbeke, & De Rochemont, 2009). Hence, how do strategic alliances impact startups performance? What strategic alliances may startups benefit from at different stages of their business development? Furthermore, a lot of startups also have a strong social orientation and pursue a social mission (Hockerts, 2006). This social mission is often the trigger of their business operations and sometimes it leads to the development of social innovations and other disruptive market solutions to societal problems (Mirvis, Herrera, Googins, & Albareda, 2016).

The main objectives of the paper are (i) to explore the relationship of strategic alliances with firm performance, and (ii) how different stages of firms' business development influence strategic alliances' and firms' performance.

These are important questions that we address in this paper, as it investigates the relationship between strategic alliances and startup performance, with particular focus on credit rating and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). We also study the moderating effect of the stage of development of the startup on the alliance-performance relationship by keeping in focus whether startups have a social mission.

The theoretical contribution to this paper is twofold: First, this paper contributes to the emerging theories of social innovation by adding to this growing body of literature a strategic dimension of social innovation collaborations. Second, this paper contributes to the current debate on strategic alliances by exploring different types of alliances amongst startups such as equity, non-equity based alliances, joint ventures, and hybrid alliances. By means of this study we, we enrich current innovation theory by explaining how different forms of startups alliances benefit startup performance. We also contribute to international business theory on strategic alliances and shed light on the role of strategic alliances amongst startups and fill the gap left by the lack of studies on strategic alliances in the context of startups with a social mission. We propose a new, startup specific framework that explains how equity and non-equity alliances affect startups' business performance at different stages of business development and how these mechanisms differ from a more multinational-enterprises-based (MNEs) context.

In this study, we draw upon the literature on social innovation, business strategy, and international business to derive some hypotheses. We propose a framework for startup strategic alliances based on international business theory (which is mostly focused on MNEs) and we test the hypotheses with a dataset of high-growth UK startups using a sample of 3913 firms. The extant literature on this topic shows varied results, and often do not cover more than one type of alliance in a single study. This paper extends current theory on strategic alliances within a startup context by adding to the clarity on how different types of startup alliances affect startup performance at different stages of development. The findings show that traditional theories on strategic alliances for MNEs do not necessarily apply to the dynamic, resource-scarce, and challenging world of startups.

This paper is structured as follows: Section 2 introduces the conceptual framework, Section 3 introduces the methodology, Section 4 describes the analysis and results, in Section 5 the results are discussed, Section 6 considers the implications for practitioners, and Section 7 presents the conclusion.

2. A framework for strategic alliances and startup performance

2.1. The role of strategic alliances in enhancing firm performance amongst startups

Strategic alliances contribute to the firm's competitive advantage by determining performance outcomes (Baum, Calabrese, & Silverman, 2000; Musarra, Robson, & Katsikeas, 2016). The different types of collaborations and partners involved in strategic alliances enable startups to build trust and credibility (Jiang, Jiang, Cai, & Liu, 2015), and to grow their markets (Park, Chen, & Gallagher, 2002). Empirical research on the relationship between strategic alliances and firm performance has so far been inconclusive (Baum et al., 2000; Rothaermel & Deeds, 2004). Some alliances benefit the organisations, while others are detrimental to startups' development (Lerner, Shane, & Tsai, 2003). For instance, some studies demonstrate that startups are better off alone (Rosenbusch, Brinckmann, & Bausch, 2011), and others do not discount collaborations but point out the risks associated with that (Hagedoorn, Lokshin, & Zobel, 2018). In light of the inconsistencies amongst the results from previous studies, we posit that strategic alliances benefit startups' financial performance, but the type of alliance may have different effects. For instance, equity options (e.g., fundraising), non-equity options (e.g., grants), joint venture programmes (e.g., university spin-offs), and hybrids combination (e.g., accelerators' attendance) may

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