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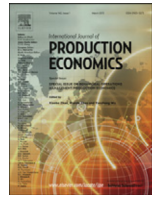

A strategic needs perspective on operations outsourcing and other inter-firm relationships

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ABSTRACT

This paper considers two issues: the formation of inter-firm relationships, and the choice of governance form. These have been widely investigated in both the strategic management and operations management fields. This paper contributes to the literature in three ways. First, we address why firms enter inter-firm relationships by hypothesizing that managers enter them to pursue three strategic needs, that is: efficiency/effectiveness, knowledge/learning, and global market access. Our first contribution evidences the relationship between the above strategic needs and a number of operational objectives that managers normally pursue in an inter-firm relationship. Second, we hypothesize how the achievement of the above strategic needs influences the choice of governance form. Third, we compare our framework with the operations management approach to strategic networks by evidencing similarities between the two approaches and showing that managers pursue a similar approach when they face inter-firm agreement issues, whether agreements are supply-chain- or strategy-oriented. We empirically test our framework using secondary data consisting of 95 inter-firm agreements. Our findings largely support the theoretical predictions, and also have important practical implications. First, our results offer managers "practice" suggestions on what kinds of objectives can be pursued together in inter-firm relationships to achieve specific strategic needs, and which governance form is most suitable, depending on the strategic need in question. Second, we consider the strategic reasoning concerning inter-firm relationship management, and some engineering issues, such as time and quality objectives, that, while largely considered in the operations management literature, are often neglected in the strategic management field.

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1. Introduction

In 2007, *Chartered Semiconductor* signed an alliance with *IBM* and *Samsung* to develop its chip business. In an article published by Hamm (2007), the CEO of Chartered declared that this agreement would be beneficial for all partners involved, since they did not have large enough volumes in the competitive and costly business of chip manufacturing to go on alone. Banding together their energies, the three manufacturers were able to benefit from significant cost reductions, learning opportunities and economies of scale associated with large-scale global deployment, and improvements in technical efficiency. Moreover, the fact that these three companies could all produce a chip in the same way was attractive to customers.

In 2012 *General Motors* (GM) and *PSA Peugeot Citroën* announced the creation of a long-term and broad-scale strategic alliance that leverages the combined strengths and capabilities of the two companies, contributes to the profitability of both partners and strongly improves their innovativeness. The two firms shared engineering development and hoped to launch the first common design by 2016. In a press release on the alliance appeared on Pearson and Schmidt (2012), the two CEOs claimed that they were investing together in the motor industry to combine GM's expertise with PSA Peugeot Citroën's capabilities. The alliance allowed both companies to drive new growth opportunities, reduce complexity and risks of new vehicle programs, and improve innovation rate of new projects.

In another instance, in 2011 *NEC Corporation* and *Lenovo* closed the establishment of a joint venture (Yamaguchi, 2011). The agreement aligned NEC, Japan's number one PC company, with Lenovo, the fastest growing top-five PC maker in the world. The new joint venture gave both companies a unique opportunity to grow in the Japanese PC businesses through a stronger market position, an enhanced product portfolio, and expanded distribution channels. "The agreement with NEC is a perfect fit for our strategy. It reinforces our commitment to our core PC business while, at the same time, providing important new opportunities for growth in a new market, such as Japan" said Yang Yuanqing,

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CEO of Lenovo. For NEC, whose PC business has been limited to the Japanese market, the venture could provide a bigger customer base to survive increased competition. "Fast-growing Lenovo's partnership would boost our strength and would provide a new opportunity for our expansion in Japan and overseas" NEC President Nobuhiro Endo said.

The above are only three examples of the great number of inter-firm relationships (IFRs) that companies have undertaken. Indeed, over the last two decades the rate of formation regarding inter-firm relationships has increased significantly (Dyer and Singh, 1998; Hagedoorn, 2002; Dyer et al., 2004; Binder and Edwards, 2010). The industrial relevance of this phenomenon has, of course, attracted enormous attention in the management literature (Barringer and Harrison, 2000; Das and Teng, 2000). One of the most relevant streams within the IFR literature (Osland and Yaprak, 1995; Taylor, 2005) tries to understand how firms make IFR decisions, and answer the following questions in particular: (1) Why do firms enter into inter-firm relationships? (2) What types of governance modes should be used?

The first question has received the highest amount of research attention to date. Firms enter IFRs for various reasons, and the motives behind these are one of main topics of study in this field. After a review of several theoretical explanations and conceptual models concerning the subject, we hypothesize that managers enter IFRs to pursue three principal strategic needs, that is: efficiency/effectiveness, knowledge/learning, and global market access. In this work, we build a relationship between objectives that managers declare themselves to pursue in IFRs, and the three above-mentioned strategic needs. Moreover, it is quite evident from the above examples that the IFR between Chartered Semiconductor, IBM and Samsung was focused on obtaining more efficiency in chip production, while the agreement between GM and PSA Peugeot Citroën centred around acquiring new knowledge, and pooling resources and capabilities to support the development of new products. Finally, the purpose of the IFR between NEC Corporation and Lenovo was to penetrate new markets and increase market share. Thus, by empirically evidencing that the objectives normally pursued in IFRs are all ascribable to the three hypothesized strategic needs, we provide a new perspective; that is, firms enter IFRs to pursue the above strategic needs, and they achieve these strategic needs through a cluster of specific objectives.

Furthermore, it can be noted that, in our examples, the governance forms differ depending on the IFR scope: indeed, the agreement between Chartered Semiconductor, IBM and Samsung is a contractual alliance, while the agreement between GM and PSA Peugeot Citroën is a strategic innovation alliance and, finally, NEC Corporation and Lenovo formed a joint venture. Thus, the choice of governance form has also attracted huge interest from both a practical and a scientific point of view; indeed, several studies in the literature focus on the choice between different types of IFR (Gulati and Singh, 1998; Chen and Chen, 2003; Santoro and McGill, 2005; Todeva and Knoke, 2005). The aim of our research is also to contribute to this second issue by hypothesizing a relation between strategic needs and governance modes, i.e. that strategic needs pursued in IFRs influence the choice of governance form.

Thus, this paper contributes to the literature on the issue by developing a new theoretical framework that explains why firms enter IFRs, and what motivates the choice of governance form. Finally, we discuss how our approach, even though it is framed in a strategic management view of IFRs, is quite similar to the view that operations management (OM) scholars have of strategic supply networks. Thus, our research also represents an attempt to provide a comparative approach to IFR management between the strategic and OM literature.

The remainder of the paper is organized as follows. The next two sections offer a review of the relevant literature on IFR formation and its relation to governance modes, and develop the hypotheses for the study. The main part of the paper progresses and supports the new theoretical approach using an empirical point of view. The final section discusses the implications and interpretations of the empirical investigation, building on the results of the research.

2. Theoretical approach: Research motivations and questions

As already defined in literature (Glaister and Buckley, 1996), an inter-firm relationship is a collaborative long-term agreement between two or more companies in a given economic space for the achievement of mutually well-defined strategic goals. In the extant literature authors use the following terms synonymously with IFRs: business alliances, strategic alliances, strategic partnerships, strategic networks, inter-firm cooperation, collaborative joint ventures, joint ventures and so on (Gulati and Singh, 1998; Hagedoorn, 2002; Chen and Chen, 2003; Dyer et al., 2004). Therefore, we use the term IFR to encompass all of these agreements. In addition, authors consider outsourcing agreements to be IFRs as well, since

Table 1
Summary of major contributions in the literature regarding IFR formation.

Perspective	Theory focus	Inter-firm relationship dimension	Key literature
Positioning school	Firm performance is predicted by industry properties. Companies' external environment controls their strategic behaviour.	IFRs are a means by which to compete, with a partner, against other IFRs, and to obtain a specific desired position in the market.	Porter (1980), Mintzberg and Lampel (1999).
Resource-based view	Competitive advantage depends on possessing a bundle of unique, rare, durable, and inimitable resources.	IFRs make it possible to possess or acquire resources that are lacking; resource pooling is the principal aim.	Eisenhardt and Schoonhoven (1996), Chung et al. (2000).
Relational view	Competitiveness arises from the network of inter-firm relationships in which one firm is embedded. Idiosyncratic inter-firm linkages may be a source of relational rents and competitive advantage.	IFRs generate competitive advantages since they move the relationship away from the attributes of market transaction in which relationships are not rare or difficult to imitate.	Dyer and Singh (1998), Gulati et al. (2000), Lavie (2006).
Evolutionary perspective	Dynamic models explain the strategy formation by considering changes that occur in companies over time. They focus on how companies behave and how the environment affects these behaviours.	IFRs evolve over time; all the phases of an alliance are important, not just the initial conditions. There is an emphasis on learning through cooperation.	Barnett and Burgelman (1996), Ariño and de la Torre (1998).
Transaction cost economics	Focus on the existence and boundaries of the firm, plus minimizing transaction cost by choosing the most efficient mode between market and hierarchy.	IFRs might be the most efficient governance form by which to manage the transaction.	Williamson (1979, 1991), Gulati (1995).
Institutional theory	Institutional environments impose pressures on organizations to appear legitimate and conform to prevailing social norms.	To legitimate themselves (increase reputation, image, prestige, and so on) companies participate in IFRs.	Hitt et al. (2001), Dacin et al. (2007).

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