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Value and alliance capability and the formation of strategic alliances in SMEs: The impact of customer orientation and resource optimisation

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ABSTRACT

Strategic alliances offer significant opportunities to organisations, including the ability to expand their capabilities and to optimize value. In exploring the question of whether firms with differing value expectations choose to enter strategic alliances with firms of different capabilities, this study adopts a qualitative research approach using five Business to Business (B2B) manufacturing small and medium enterprises (SMEs). This study focuses on improving our understanding of three related questions, first, whether or not they aim to capture or create value from the alliance; second, what is the nature of their capabilities and third, what is the interrelationship between value and capabilities in SME alliance formation. A qualitative research approach enabled in-depth investigation and facilitated the emergence of relevant themes; customer orientation and resource optimisation. The insights derived from the study should help SMEs in partner selection and alignment thereby increasing chances of alliance success and longevity, and in turn SME sustainability and survival.

1. Introduction

In recent decades studies have demonstrated the benefits of inter-organisational alliances as a strategic tool supporting improved organisational performance across a range of functions (for example, Dyer & Singh, 1998; Hoang & Rothaermel, 2005). Strategic alliances are co-operative arrangements between two or more firms, who share reciprocal inputs to realise improved competitive performance by sharing resources, while maintaining their own corporate identities (Ireland, Hitt, & Vaidyanth, 2002). These interorganisational alliances facilitate resource exchange with the intent of developing processes, products or services (Gulati, 1998; Pangarkar, Yuan, & Hussain, 2017). Alliances can be described as horizontal or vertical, facilitating multifaceted relationships which have been the source of many studies (for example, Gulati, 1998; Wassmer, 2010). Gulati (1998) suggested five key areas of study; alliance formation, governance structure, evolution, performance and consequences. This study focuses on an exploration of alliance formation in small and medium enterprises (SMEs).

Recent studies have provided a deeper understanding of alliances at the dyadic and temporal levels (for example, Capaldo, 2007; Schildt, Keil, & Maula, 2012), however much less is known about how actors engage contemporarily and the choices they make in terms of which partners to pursue (Haider & Mariotti, 2016). Research on the drivers of SME alliances illustrates the significance of engaging in a dialectic process, with inter-organisational and external networks, and acknowledgment of the social structural context (Franco & Haase, 2015); however the value orientation or capabilities of SMEs has not been explored in the context of alliance formation. "*Value creation and capture capabilities are jointly responsible for a firm's unique position in the marketplace, competitive advantage and sustainable success*", with studies illustrating that the absence of value capture capabilities is associated with firm failure (Zacharias, Nijssen, & Stock, 2016: 4123). "*SMEs face particular challenges and have some peculiarities in forming and performing alliances with other firms. A better understanding of this phenomenon would permit academics and practitioners to develop measures to facilitate access and increase efficiency with regard to this type of cooperation*" (Franco & Haase, 2015: 168).

Previous studies (Dickson & Weaver, 2011; Mukherjee, Gaur, Gaur, & Schmid, 2013; Swoboda, Meierer, Foscht, & Morschett, 2011; Thorgren, Wincent, & Boter, 2012; Zeng, Xie, & Tam, 2010) have addressed the issue of SME alliances but none have explored the interrelationship between value, capabilities and alliance formation. This study focuses on improving our understanding of three related questions impacting the formation of SME alliances; first, whether or not they aim to capture or create value from the alliance; second, what is the nature of their capabilities and third, what is the inter-relationship between value and capabilities in SME alliance formation. This understanding will help companies in partner selection and alignment

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thereby increasing chances of alliance success and longevity. Some firms have demonstrated considerable strength in creating and capturing value from alliances (Hannah, 2016; Heimeriks & Duysters, 2007; Kale, Dyer, & Singh, 2002; Sarkar, Aulakh, & Madhok, 2008). The dual challenges of value and capability optimisation while competing in dynamic markets (Sirmon, Hitt, & Ireland, 2007) can pose significant challenges for SMEs which can be overcome by engaging in strategic alliances.

Few SMEs compete effectively on their own against large and multinational companies in a dynamic highly competitive landscape (Narula, 2004). The working definition of SME adopted for this study is "*The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.*" (Extract of Article 2 of the annex to Recommendation 2003/361/EC; http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en). In the 2015/16 SME annual performance review report it was noted that "*SMEs make up 99.8% of all enterprises, 57.4% of value added, and 66.8 % of employment*" (http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review-2016_en#annual-report; 3) and play an important role in Europe's economic growth and development providing employment, growth and innovation (Birch, 1979; Storey, 1994; http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review-2016_en#annual-report). SME survival depends on the recognition and exploitation of market opportunities, a strategy which is impacted by their capabilities and their value orientation (for example, Shane & Venkataram, 2000; Zahra, Korri, & Yu, 2005). By forming an alliance, that is, "*a collaborative relationship among organisations to pursue a common goal that could not be easily reached by the individual firms alone*" (Di Guardo & Harrigan, 2012: 790), with partner companies, SMEs can gain significant competitive advantage (Das & Teng, 2000; Leischnig, Geigenmueller, & Lohmann, 2014; Sluyts, Matthyssens, Martens, & Streukens, 2011; Townsend, 2003). Alliances offer SMEs the ability to act with the capacity of a large or multi-national company, facilitating access to critical resources such as markets, networks, expertise, finance and supply chains (O'Dwyer, Gilmore, & Carson, 2011). The alliance diversity of partners is particularly important for SMEs because they may lack resources to develop and maintain multiple ties (Parida, Patel, Wincent, & Kohtamaki, 2016).

In addressing the research aim and questions this paper builds on alliance literature by exploring the nature of the interrelationship between value orientation and capabilities of alliances in order to support SMEs in maximizing opportunities offered by alliances. In exploring whether firms with differing value expectations choose to enter strategic alliances with different capabilities, the paper initially presents literature on strategic alliances, alliance capabilities and value creation and capture before outlining the methodology, findings, discussion and conclusions.

2. Literature review

2.1. Strategic alliances

The rate of alliance formation in recent years has increased significantly (Leischnig et al., 2014) augmenting a culture of interdependence in business which impacts organisational ability to create and capture value (Hannah, 2016); how SMEs navigate these interdependencies defines their alliance formation. Alliances are an essential business management tool designed to improve organisational competitiveness in uncertain, dynamic, multifaceted environments (Hoffmann & Schlosser, 2001). By forming alliances with partner companies, SMEs strengthen their competitive advantage (Townsend, 2003) enabling them to compete with larger organisations with the increased resources, skills and abilities and geographic spread facilitated by the alliance (Franco & Haase, 2015; O'Dwyer et al., 2011).

The contractual asset sharing facilitated by alliances challenges the concept of impermeable organisational boundaries (Das & Teng, 2000; Stuart, 1998) and is a purposive mutually beneficial relationship between firms (Albers, Wohlgezogen, & Zajac, 2016) which benefits organisational performance (Lambe, Spekman, & Hunt, 2002). It impacts upon a firm's ability to effectively initiate and manage strategic alliances and their associated relationships. Such relationships result in firm growth (Powell, Koput, & Smith-Doerr, 1996); organisational learning (Hamel, 1991; Hulbert, Gilmore, & Carson, 2012); competitive advantage (Gravier, Randall, & Strutton, 2008; Andersson, 2002; Eisenhardt & Schoonhoven, 1996; Gilmore, Carson, & Rocks, 2006); and transaction cost economies (Eisenhardt & Schoonhoven, 1996) for allied companies. Many of these relationships result in successive development of international operations in multiple markets (Chetty & Eriksson, 2002; Crick & Spence, 2005; Cyert & March, 1963; Welch & Luostarinen, 1988) which forms part of an organisational strategy. SMEs in mature industries and firms with traditional business activities are more likely to have internationalised over a period of time (Andersson, 2002; Boter & Holmquist, 1996) and in incremental stages (Madsen & Servais, 1997) by leveraging all available resources.

Literature illustrates two dominant views of strategic alliances; the economic and process views. The economic approach suggests that a rational solution emanates from access to perfect information (Benito & Gripsrud, 1992) through larger information networks facilitated by strategic alliances. The process approach suggests that the rational solution is replaced by the behavioral decision (Benito & Gripsrud, 1992) in the absence of perfect information. Decision making in SME alliances is largely dependent on, first, the nature of the constituent membership of the alliance which can be based on interpersonal relationships rather than purposive rational selection of partners; and second, the entrepreneur's personal decision making process. In both instances reliance on perfect information for decision making is limited; therefore the process approach is more prevalent in SMEs. Such processes encompass management capability, target setting, task implementation, integration capability, structural integration, knowledge creation and internalisation (Kohtamaki, Rabetino, & Moller, 2018).

At firm level, alliances are typically formed to build and strengthen core competencies and to progress strategic goals rather than address tactical and operational concerns (Kohtamaki et al., 2018; Rao & Reddy, 1995). This has an economic impact on organisations which leads to a reduction in market entry risk and costs, increased capacity optimisation and additional economies of scale (Gulati, 1998; Osborn & Hagedoorn, 1997). Within, and through, their functional areas of business, allied firms will encourage and facilitate inter and intra organisational coordination, using structures and cultures which can vary from simple to complex alliances (Gulati, Puranam, & Tushman, 2012; Mowery, Oxley, & Silverman, 1996). Simple alliances exist where two companies share resources, while more complex alliances can develop multi-purpose and multi-dimensional strategic objectives across multiple geographic, economic, political, legislative, social and technological boundaries (Mowery et al., 1996). The longevity of a strategic alliance is determined by the satisfaction, competence, commitment and compatibility of the parties involved and the achievement of alliance goals (Shamdasani & Sheth, 1995). Kale et al. (2002) identified that alliance success is based on the management of organisational structures and the organisational and individual learning experience.

Alliances can be described as horizontal (e.g. with competitors) or vertical (e.g. with customers, agents, distributors) and facilitate simultaneous engagement and multiple alliances with a range of partners (Wassmer, 2010). Horizontal alliances can be based on functional, geographic or business units and are generally formed between partners operating in the same business area to improve competitive advantage by reducing the number of competitors actively competing with each other (Albers et al., 2016; Ozdemir, Kandemir, & Eng, 2017). In contrast, vertical alliances are between partners at different hierarchical