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The orchestration of alliance portfolios: The role of alliance portfolio capability

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ABSTRACT

This study offers a longitudinal analysis of the processes of orchestration in alliance portfolios. These processes are captured through an examination of critical events and changes in the strategic actions of focal actors. By studying how alliance portfolios are orchestrated and how relationships are managed, we complement both the endogenous and exogenous perspectives on network change. Drawing on an analysis of two cases from the Pakistani automotive industry, we show that the orchestration of alliance portfolios is driven by actors' alliance portfolio capability and their strategic choices in relation to which partners to pursue and which knowledge requirements to prioritize.

1. Introduction

Over the past decades, firms have nurtured alliances to achieve greater competitiveness and growth (Contractor & Lorange, 1988; Dyer & Singh, 1998; Parmigiani & Rivera-Santos, 2011). Hence, many firms have found themselves immerse in dense interorganizational networks (Hoffmann, 2007; Schilke & Goerzen, 2010). The focus of research has thus shifted from the study of individual alliances or dyads (Gulati, 1995; Khanna, Gulati, & Nohria, 1998; Kumar & Nti, 1998; Ahuja, 2000; Chung, Singh, & Lee, 2000) to the alliance portfolios formed by individual firms (Hoffmann, 2007; Sarkar, Aulakh, & Madhok, 2009; Wassmer, 2010). The alliance literature generally refers to an alliance portfolio as a firm's collection of alliance partners (Baum, Calabrese, & Silverman, 2000; Ozcan & Eisenhardt, 2009).

Past studies have paid attention and investigated the motivations that drive alliance formation and the characteristics of attractive partners and have shown that actors deliberately enter into alliances to garner complementary resources and knowledge (Contractor & Lorange, 1988; Dyer & Singh, 1998; Kogut, 2000); to enter into new markets or to reduce costs and navigate competition (Kogut, 1988; Parkhe, 1991; Ahuja, 2000). Part of this literature has focused on the role of knowledge and has shown that companies' competitive advantage and survival is linked to superior capabilities in managing processes of knowledge transfer, creation and application (Mowery, Oxley, & Silverman, 1996; Grant & Baden-Fuller, 2004; Simonin, 2004; Collins & Hitt, 2006). While, these studies have provided a deeper understanding of alliances at the dyadic level and at specific points in time, much less is known about how actors engage contemporarily with multiple partners and the choices they make in terms of which partners to pursue and which knowledge or knowledge processes to prioritize over time. In this respect, there is an emerging body of research which has placed greater emphasis on the study of the management of alliance portfolios (Hoffmann, 2007; Heimeriks et al., 2009; Wassmer, 2010; Bakker, 2015; Zhang, 2016) and has attempted to examine the factors that drive change in alliance portfolios. Specifically, scholars have investigated change in alliance portfolios through two distinct approaches. One approach focuses on the endogenous processes of spontaneous emergence either stemming from structural path dependence (Gulati & Gargiulo, 1999; Chung et al., 2000), initial conditions and sequential interactions (Doz, 1996) or life-cycle stages (Dyer & Nobeoka, 2000; Hite & Hesterly, 2001). A second approach points at the exogenous processes of change stemming from competition or critical events (Koka, Madhavan, & Prescott, 2006; Lavie & Singh, 2012). Both approaches tend to see actors as either passively perpetuating existing relationships or at best reacting to external pressures without considering their strategic choices, that is, how and why actors make changes to their alliance portfolios over time (Wassmer, 2010; Bakker, 2015; Castro & Roldán, 2015). In this

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respect, recent research has pointed at the critical issue of orchestration (Dhanaraj & Parkhe, 2006; Paquin & Howard-Grenville, 2013; Clegg, Josserand, Mehra, & Pitsis, 2016) and the associated processes of alliance portfolio management. Orchestration is broadly defined as the set of deliberate, purposeful actions undertaken by a focal actor to create and extract value from its network of relationships (Dhanaraj & Parkhe, 2006). Hence, orchestration refers to all the activities undertaken by focal actors to bring together previously unconnected partners, unite knowledge and resources towards a common goal and spur engagement and value creation. In a similar vein, the literature has also highlighted the lack of research on the related concept of 'alliance portfolio capability' (Hoffmann, 2005; Sarkar et al., 2009; Castro & Roldán, 2015; Wang & Rajagopalan, 2015), that is, actors' ability to engage with their alliance partners in a holistic way. A major pitfall that prevents actors from realizing the value of their portfolio is that they consider their alliance portfolio as a mere collection of individual alliances. Yet, the orchestration of alliance portfolios requires an ability that goes beyond the task of managing individual alliances. Related to the above, researchers have also stressed that most of the work on alliances has adopted a static perspective, ignoring the important role of time (Wassmer, 2010; Ahuja, Soda, & Zaheer, 2012) and call for longitudinal studies and a dynamic perspective (Hoffmann, 2007; Lavie & Singh, 2012; Tatarynowicz, Sytch, & Gulati, 2016). This temporal and dynamic component is essential to further understanding on alliance portfolios and their dynamics.

This study attempts to shed further light on the orchestration of alliance portfolios by focusing on the role of alliance portfolio capability and it explores three related questions: How do actors orchestrate their alliance portfolios? What is the role of alliance portfolio capability? And, related to this, how do actors discern or prioritize knowledge requirements as they alter their portfolios? We investigated these questions through two exploratory, qualitative cases of Pakistani automotive companies and their portfolio of alliances. We specifically draw our attention on the processes of alliance orchestration and management including the types of partners, their assessment and the types and nature of alliances formed. These processes are captured through an examination of critical events and changes in the strategic actions of focal actors. The two cases were an ideal field to examine the proposed research questions given their reliance on alliances and their focus on knowledge and capabilities development.

By studying how alliance portfolios are orchestrated we complement both the endogenous and exogenous perspectives on change. While endogenous accounts assume that tie formation and the portfolio structure are path-dependent or follow predetermined patterns of change, we show that decisions about choice of partners and the type and nature of alliances are affected by the emergence of an alliance portfolio capability on the part of focal actors and may deviate from established routines and repetitive alliance behaviour. As Giddens noted (1979, p. 56) it is not just the idea that actors could have acted differently, but that actors can devise unique responses to improve their situation and gain advantage in the network. Similarly, we recognize the effects of exogenous forces in shaping change in alliance portfolios, but we also take into consideration the strategic choices made by firms and how these can partially affect or preempt certain external forces thus accounting for greater variety in the patterns of change. On the whole, the study provides some evidence as to how companies might move from a dyadic approach to managing a portfolio of alliances through the use of their alliance portfolio capability and the exercise of strategic choice.

The paper is organized as follows. In the next section, the theoretical background is presented. This is followed by the methodology employed in the study and a brief overview of the cases. Results are, then, presented and discussed. The paper ends with some managerial implications and a discussion of the limitations pertaining to this study.

2. Theoretical background

2.1. Prior research in alliances and the knowledge-based view of the firm

The literature on alliances has grown tremendously over the past decades, but the orchestration of alliance portfolios is a theme that still remains under-researched. Prior studies have focused on the motivations behind the choice of partners and have shown that firms form alliances deliberately to access knowledge, complementary resources and new markets (Contractor & Lorange, 1988; Dyer & Singh, 1998; Gulati, 1995; Kogut, 2000); to reduce costs and gain efficiency or to mitigate competition (Kogut, 1988; Parkhe, 1991; Gulati & Singh, 1998; Ahuja, 2000). Specifically, a large body of work has focused on knowledge management in alliances and this has become a central research area (Hamel, 1991; Inkpen & Crossan, 1995; Kale, Singh, & Perlmutter, 2000; Khanna et al., 1998; Lane, Salk, & Lyles, 2001; Mowery et al., 1996; Simonin, 2004). In this respect, the knowledge-based view of the firm (Kogut & Zander, 1992; Nonaka, 1994; Grant & Baden-Fuller, 1995; Zander & Kogut, 1995; Grant, 1996; Kogut & Zander, 1996; Liebeskind, 1996) has contributed to our understanding of knowledge and its strategic use and has focused on the linkage between organizational capability and competitive advantage. The original idea behind the knowledge-based view of the firm is that 'the central competitive dimension of what firms know how to do is to create and transfer knowledge efficiently within an organizational context' (Kogut & Zander, 1992: 384). Learning is, thus, the path to developing the necessary core competencies and capabilities, treated as 'the knowledge set that distinguishes and provides a competitive advantage' (Leonard-Barton, 1992: 113). Therefore, firms are able to grow and deter competitive imitation only by continuously recombining their knowledge and applying it to new market opportunities.

Taking on board this view on knowledge, the alliance literature has then explored a number of knowledge processes such as knowledge creation, transfer and application. Knowledge creation refers to the joint development of new knowledge by alliance partners (Inkpen, 1996; Khanna et al., 1998; Lubatkin, Florin, & Lane, 2001; Reid, Bussiere, & Greenaway, 2001); knowledge transfer refers to the transmission of knowledge within or across firm boundaries (Grant & Baden-Fuller, 2004; Collins & Hitt, 2006); knowledge application, instead, describes how knowledge is embedded and used to create value (Grant, 1996; Lane et al., 2001). Scholars have shown that these knowledge processes contribute significantly to alliance survival, and their performance and, therefore, can be deemed of strategic importance (e.g. Hamel, 1991; Inkpen & Beamish, 1997; Kogut & Zander, 1992; Lyles & Salk, 1996; Nonaka, 1994; Steensma & Lyles, 2000; Tsang, Nguyen, & Erramilli, 2004). This is also reflected in research on the automotive industry and specifically in the works of Dyer and Nobeoka (2000) and Dyer and Hatch (2004) on Toyota's knowledge creation network.

More recently, scholars have sought to understand how a firm's knowledge base can influence the management of alliances and alliance portfolios (Grant & Baden-Fuller, 2004; De Mattos, Burgess, & Shaw, 2013; Zhang, 2016). This literature has highlighted the complementarities between a firm's internal knowledge base and its external linkages and has shown its relevance for innovation and increased performance (Enkel, Gassmann, & Chesbrough, 2009; Hughes & Wareham, 2010; Lichtenthaler, 2011; Xia, 2013). This is crucial especially in dynamic