Alliance Capabilities as a Source to Deal With Alliance Portfolio Complexity

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The objective of this paper is to discuss the importance of alliance portfolio complexity as a factor that influences alliance performance and as a factor who’s influence is moderated by an alliance capability. Furthermore, in network theory some references for alliance complexity and its influence on alliance performance can be found. However these are mainly positive effects (Gulati, 1999). Instead it will be argued that a contingency approach and the RBV are more appropriate in explaining alliance performance.

An alliance portfolio is the collection of alliances where the firm participates in. Different factors can add to alliance portfolio complexity. Hoffmann (2005: p130) states that the need for overall co-ordination of the alliance portfolio is greater when the number of alliances a firm is involved in is high, when the average number of partners per alliance is high, and when the redundancy of the alliances is high. Except the number of alliances, also the type of alliance matters. A portfolio that consists of one kind of alliance is easier to manage, than a portfolio that consists of R&D alliances, marketing alliances, learning alliances etc. Other dimensions that add to portfolio complexity are the diversity of partners and the number of partners, which is illustrated with figure 1. The need for coordination will be different when a firm for example has four alliances with one partner (1a); four alliances with four different suppliers (1b), or four alliances with one supplier, one customer, one research institute and one competitor (1c).

Research shows an implicit consensus that an alliance capability constitutes of a firm’s ability to manage boundary-spanning activities by specific routines and processes. Most often, alliance capabilities are associated with the tasks of identifying partners, initiating the relationship, engaging in the ongoing management and the possible restructuring as well as the termination of the relationship (Simonin 1997; Khanna et al. 1998; Lambe et al. 2002). The extent to which an organization recognizes opportunities and subsequently uses alliance capabilities to exploit them provides firms with an advantage to reap the benefits from its alliances (Ireland, Hitt and Vaidyanath, 2002). This distinguishes firms from each other, as the alliance capabilities and the extent to which they are deployed are not uniformly distributed among firms (Ethiraj et al., 2005). Firms that have developed an alliance capability will be better suited to deal with alliances in general and portfolio complexity in particular (Hoffmann, 2005; Kale et al. 2002).

In addition, Sarkar et al. (2004) make the distinction between the potential of an alliance portfolio and the realized benefits. This can be further elaborated in the context of alliance portfolio complexity and alliance
capability. In some studies it is stated that the performance of alliances will increase when the firm adds more alliances to its portfolio (Draulans et al., 2003; George et al., 2001). According to our reasoning this would imply an increase in complexity and likewise would have a negative influence on alliance performance. This seems contradictory, but can be explained in two different ways. First, it depends on how performance is defined. For example, in the case of individual alliances and their realized performance an additional alliance may add one dollar to the entire portfolio performance. However, the alliance could have added 10,000 dollars when it realized the synergy opportunities and had prevented the conflicts caused by other partners in the portfolio. Therefore it is questionable if that one dollar really reflects a good performance. Secondly, firms will become more experienced and therefore realize a better performance (Simonin, 1997), which is actually a reflection of the firm’s alliance capability deployment.

Performance differences between firms may be caused by differences in alliance’s potential or differences in effectuation levels. The latter may be due to alliance capability heterogeneity among firms. Also companies without a special dedicated alliance function can achieve high performance. Zollo and Winter (2002) highlighted the difference in alliance management between two companies with successful alliance portfolios. Hewlett Packard and Corning have completely different methods of managing their alliances. HP relies more on manuals, training and databases (more like a dedicated alliance function), while Corning relies more on experience-based learning and apprenticeship systems. HP spent quite some money on the set-up of their alliance function, while Corning did it with less. Both firms are successful by applying their alliance capability and to countervail the influence of the alliance portfolio complexity on performance, and even manage to use this complexity to their advantage. Furthermore, George et al., (2001) estimated a moderating effect of absorptive capacity on the relationship between alliance portfolio characteristics and innovative and financial performance. The absorptive capacity is a firm’s ability ‘to recognize the value of new, external knowledge, assimilate it, and apply it to commercial ends’ (Cohen and Levinthal, 1990: 128).

Finally, alliance portfolio complexity and alliance capability can be linked to the contradictions that network theory may raise. A network of embedded ties can become a basis of a rich information exchange network, which can lead to a good choice of partners (Gulati, 1999). But there is also the risk of a lock-in effect; firms are too focused on their existing ties, and are prevented from opportunities outside their network. Also the position a firm takes in the network and the diversity of the network can provide an information advantage, according to network theory. Diversity is considered as a good, but diversity adds also to complexity and may decrease performance. Valuable information in itself does not lead to a better performance, but depends on the capability to use this information to make the right decisions with regard to the firm’s alliance portfolio.

With our paper we want to stress the importance of the interrelationship between alliance portfolio complexity, alliance capability and alliance performance in order to get a deeper understanding of differences in alliance performance and how firms can influence them. The resource base and contingency perspective on alliances seems to be a promising approach to understand these differences and to overcome some of the implications of network theory. An alliance portfolio with diversity in partners and alliances can create an unique portfolio that cannot be imitated by competitors. This uniqueness rests upon the capability of a firm to manage the information- and knowledge flows, routines and learning processes in such a way that this unique portfolio creates a competitive advantage.

Future research is challenged to come up with empirical results. Some ingredients of within complexity and portfolio are already suggested. The next step is to determine and validate the most significant factors that influence alliance performance. Some research has been done on the number of alliances (Draulans, 2003; Koza, 1999), but also the number of different partners and the type of alliances should be studied (Rothaermel and Deeds; Hoffmann, 2005). Also processes have to be subject of research because capabilities need to be understood in terms of organizational and managerial processes (Teece, Pisano and Shuen, 1997). Focusing on these processes is focusing on the black box. These processes will determine the real competitive advantage of a firm (Winter, 2003: p991).