ARTICLE IN PRESS

Long Range Planning xxx (2013) 1–17

Contents lists available at ScienceDirect

Long Range Planning

journal homepage: http://www.elsevier.com/locate/lrp

Alliance Management Capability and Firm Performance: Using Resource-based Theory to Look Inside the Process Black Box

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This study employs the framework of the resource-based theory (RBT), and investigates the process by which firms can realize the potential value of their alliance management capability. In this process, co-exploration and co-exploitation are regarded as the two main strategic actions needed to leverage alliance management capability. Analyses of multisource, time-lagged data on 172 Finnish manufacturing firms show that alliance management capability has an inverted U-shaped effect on co-exploration, but an increasingly positive effect on co-exploitation. Whereas co-exploration drives firm growth in the longer run, co-exploitation has a positive effect on firms' short-term financial performance. Ambidextrous pursuit of simultaneous co-exploration and co-exploitation, however, is negatively, rather than positively related to firm performance. By shedding light on the black-box process that takes place between alliance management capability and firm performance, these findings add new insights into research on RBT in general and alliance management capability in particular.

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Introduction

The focal role of interorganizational (IO) relationships in firms' value creation is widely recognized (Gassmann et al., 2010; Parmigiani and Rivera-Santos, 2011; Swoboda et al., 2011). In light of that, it is not surprising that many management and strategy scholars (e.g., Cummings and Holmberg, 2012; Ireland et al., 2002; Kale and Singh, 2009; Schreiner et al., 2009) have increasingly underscored the importance of organizational capabilities for finding, developing, and managing IO partnerships. These capabilities, referred to as alliance management capabilities (Lambe et al., 2002), have been regarded as key resources in helping firms to effectively pursue their IO relationships (Draulans et al., 2003; Heimeriks et al., 2009; Schilke and Goerzen, 2010).

From the perspective of the resource-based theory (RBT) of the firm (Barney, 1991; Wernerfelt, 1984), alliance management capabilities can be regarded as heterogeneous and immobile resources that are controlled by a firm, and thus, they can be the basis of superior performance. In particular, alliance management capabilities are valuable because they augment the overall collaboration success (Kale and Singh, 2007; Lambe et al., 2002) and facilitate the realization of partnership benefits (Ireland et al., 2002; Rothaermel and Deeds, 2006). Yet, alliance management capabilities are rare and heterogeneously distributed (Anand and Khanna, 2000; Rothaermel and Deeds, 2006). Indeed, most alliances ultimately fail (Gulati and Kletter, 2005) because firms frequently fail to reap the benefits of their partnerships (Kale and Singh, 2009). The rarity of alliance management capabilities is largely the result of their inimitability. For example, because a firm develops alliance management capabilities through repeated partnership experiences along a unique path in the firm's history (Kale and Singh, 2009), duplicating these capabilities in other firms is difficult (Barney, 1991). Inimitability also implies that alliance management capabilities are nonsubstitutable, as substitution is a form of imitation (Barney, 1995; Crook et al., 2008).

Due to their value, rarity, inimitability, and nonsubstitutability, alliance management capabilities constitute a potentially important source of sustained competitive advantage (see Barney, 1991; Combs and Ketchen, 1999). Bundles of capabilities can be an even more important basis of competitive advantage (Newbert, 2007). In this vein, Kandemir et al. (2006) found that a bundle of three specific lower order alliance management capabilities — alliance scanning, alliance coordination, and alliance learning — particularly enhances a firm's ability to achieve its performance objectives through IO relationships. The importance of these particular dimensions is widely recognized, which is reasonable given that alliance scanning enables finding and accessing IO collaboration opportunities in the first place (Gulati, 1999); that alliance coordination problems are the most critical challenges in IO collaborations (Schreiner et al., 2009); and that alliance learning is essential for the successful pursuit of current IO collaborations and the continuous improvement of alliance management skills (Schilke and

0024-6301/$ – see front matter © 2013 Elsevier Ltd. All rights reserved.
http://dx.doi.org/10.1016/j.lrp.2013.08.006

Please cite this article in press as: Kauppila, O.-P., Alliance Management Capability and Firm Performance: Using Resource-based Theory to Look Inside the Process Black Box, Long Range Planning (2013), http://dx.doi.org/10.1016/j.lrp.2013.08.006

Goerzen, 2010). Consistent with prior literature (e.g., Ireland et al., 2002; Schreiner et al., 2009; Schilke and Goerzen, 2010), I term this bundle of lower order alliance capabilities, the "alliance management capability", which is formally defined as "a firm's skill portfolio of superior capabilities that help it scan its environment for partnering opportunities, coordinate its alliance strategies, and learn from its alliance experiences" (Kandemir et al., 2006, p. 325).

Despite alliance management capability's recognized role in building a competitive advantage, questions surrounding the processes through which alliance management capability leads to superior performance remain unanswered. In particular, the strategic actions that a firm must undertake to take advantage of its alliance management capability are poorly understood. This is an important shortcoming in the extant research, as possessing strategic resources is necessary but insufficient, because firms must also take appropriate actions to make use of their resources (Ketchen et al., 2007; Kraaijenbrink et al., 2010). That is, the potential value of resources remains unrealized as long as the firm does not have an organization and management system that enables their exploitation (Henderson and Cockburn, 1994; Miller et al., 2008). To gain insight into what is involved in leveraging firm performance through alliance management capability, this article poses the question: *How does alliance management capability affect firm performance?*

This investigation makes two key advances to the extant literature on RBT in general and alliance management capability in particular. First, by answering the "how" question, this study is able to look inside a black box of processes through which alliance management capability contributes to firm performance (Priem and Butler, 2001). This is an important contribution to the RBT discussions, as comprehensive empirical representations of the paths between resources and firm performance have been missing.[1] I adhere to recent recommendations by Crook et al. (2008), Ketchen et al. (2007), and Newbert (2007), and use an integrative framework that includes the mediating variables in the relationship between resources and firm performance (see Figure 1). Beyond the RBT discussions, in general, this article contributes to literatures on alliance management capability and IO relationships, in particular (e.g., Koza and Lewin, 1998; Parmigiani and Rivera-Santos, 2011). Specifically, to my knowledge, this study presents the first depiction of how alliance management capability influences a firm's pursuit of different types of activities in IO relationships.

Second, the inquiry into the "how" question raises another issue: *Are the effects of resources always positive?* The examination of the process may not only expose the mediating steps between resources and performance, but it may also depict the negative effects within the integrative RBT framework. This perspective is a particularly important addition to previous alliance management capability literature, as the examination of these negative effects is virtually nonexistent in the extant literature. As Armstrong and Shimizu (2007, p. 978) stated, "If we could identify a context in which a seemingly valuable, rare, and hard-to-imitate resource does not provide sustainable competitive advantage and accumulate these findings, we can greatly extend RBV research." Drawing on the capability – rigidity literature (Raisch, 2008; Leonard-Barton, 1992), the current study investigates whether exceptionally strong alliance management capabilities might lead to inertial strategic actions and, thereby, compromise growth, and long-term prospects for short-term performance. Studying these negative effects within the RBT framework helps to cross-validate the theoretical value of the RBT (Armstrong and Shimizu, 2007) and contributes to nascent discussions on the traps inherent in the path-dependent development of alliance management capabilities (Heimeriks, 2010).

Theory and hypotheses

Although the process by which resources contribute to firm performance is almost certainly multi-phased, most previous studies have investigated only simple resource – performance links (Crook et al., 2008). Due to these simplistic representations, the RBT models have appeared tautological (Priem and Butler, 2001), while at the same time, surprisingly few studies have been able to demonstrate that resources influence firm performance (Newbert, 2007). As a result of these problems, several scholars have come to believe that the RBT is insufficient as a theory (e.g., Foss, 1996; Priem and Butler, 2001). Despite this distrust, other authors allege that complex and process-based examinations that move beyond simple resource – performance linkages can open the black box of the processes by which resources contribute to performance (Kraaijenbrink et al., 2010). Specifically, a multi-phased RBT framework that incorporates strategic actions as mediating variables between resources and firm performance enables scholars to look inside the black box and determine how expectedly valuable resources can be leveraged in a manner that contributes to firm performance (Ketchen et al., 2007).

In RBT research, strategic actions refer to structures or processes that enable realizing the latent value of the resource (Newbert, 2007). Thus, whereas capabilities are resources possessed by the firm, strategic actions are different, in that they describe those activities that firms need to undertake to leverage their capabilities. In other words, strategic action describes *what the firm does* and capability determines *how well* the firm can perform this action. The difference between capability and strategic action is nontrivial because the presence of capability is not enough to guarantee its proper exploitation. For example, despite its leading-edge technological capabilities in digital imaging, Polaroid chose not to develop specific products and activities that would have leveraged this capability (Tripsas and Gavetti, 2000). As a consequence, the potential value of Polaroid's technological capability in digital imaging remained unrealized, and the firm did not attain higher performance.

[1] Notable exceptions include studies on market orientation (Hult et al., 2005; Zhou et al., 2008) that have used the RBT framework to examine the process by which market orientation influences firm performance.

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