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The influence of current firm performance on future SME alliance formation intentions: A six-country study ☆

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Abstract

Although research has implicitly assumed small- or medium-sized enterprises (SMEs) employ alliances to improve performance, few studies have directly investigated how and when current performance levels might prompt firms to cooperate. Based on disparate predictions of the behavioral theory of the firm (BTOF) and threat rigidity thesis, we developed competing hypotheses regarding the impact of performance dissatisfaction on future alliance intentions for firms with and without previous alliance experience. Employing a dataset of 657 SMEs from six countries, results indicate that for firms with alliance experience, increasing managerial dissatisfaction with current performance decreased intentions to employ future alliances, thus supporting the BTOF thesis. Overall, these results highlight the importance that current performance satisfaction plays in influencing future alliance formation intentions.

Keywords: Alliances; Performance satisfaction; Behavioral theory of the firm; Threat rigidity

1. Introduction

Small- and medium-sized enterprises (SMEs) are increasingly employing strategic alliances in attempts to build or strengthen a sustainable competitive advantage. In doing so, managers often hope to improve SME performance by developing new skills, obtaining critical resources, gaining market access, developing new technologies, attaining important scale economies, and/or enhancing firm reputation (Varadarajan and Cunningham, 1995). At the same time, alliances can create several potential organizational problems, including allowing critical information leakage to an alliance partner (Hamel, 1991). Consequently, an SME is only likely to seek an alliance when its managers perceive that benefits will offset costs of cooperation, and, thus, improve the firm's long-term performance (Harrigan and Newman, 1990).

Although extant research suggests that performance improvement goals motivate alliance formation, few studies, to date, have directly examined whether current performance actually prompts SMEs to cooperate. Several studies have examined performance as an outcome of alliance formation (e.g., Oum et al., 2004; Dollinger and Golden, 1992); however, few, other than a few sampling large, multinational firms (e.g., Burgers et al., 1993) have assessed whether it serves as a key input to these decisions. Thus, further research is needed to better understand how current performance influences future SME alliance formation decisions.

A central issue in developing this understanding involves how managers "frame" the decision to cooperate based on a

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firm's present circumstances. Managerial decision making research, in general, has long noted that current firm performance serves as a critical variable influencing how managers formulate future strategic decisions (Chattopadhyay et al., 2001; Kahneman and Tversky, 1979; March and Sharpira, 1987). In examining the role of performance, a simple reinforcement perspective (Bandura, 1977) would posit that positive and negative performance outcomes should prompt managers to maintain or change their firm's current strategic course, respectively (Milliken and Lant, 1991). Research, to date, however, particularly examining firms with substandard performance, has failed to universally support this straightforward relationship with some studies finding managers implement novel strategies in attempts to improve performance and others showing they persist with current strategies despite negative performance feedback (Greve, 2003; Ketchen and Palmer, 1999; Staw et al., 1981). Thus, how current performance influences future strategic decisions remains an important ongoing debate in organizational research (Ocasio, 1995).

Indeed, researchers have developed and employed two theoretical counterweights, the behavioral theory of the firm (BTOF) and threat rigidity thesis, to explain this relationship with the former positing increasing strategic change and the latter strategic persistence in response to managerial performance dissatisfaction (Cyert and March, 1963; Staw et al., 1981). Applying these theories to strategic alliances suggests that for firms that have recently or are currently employing alliances, increasing performance dissatisfaction will either decrease or increase a firm's likelihood of seeking future alliances to remedy substandard performance, respectively. Moreover, as we discuss in more detail below, they suggest exactly the opposite relationship for firms without alliance experience.

Accordingly, this study investigates the influence of current managerial performance dissatisfaction on future SME alliance intentions. We begin by briefly reviewing alliance advantages and disadvantages to discuss why SMEs might form or avoid forming alliances, in general. We then develop and test hypotheses based on the BTOF and threat rigidity for SMEs both with and without alliance experience employing a six-country sample. Finally, we discuss theoretical and managerial implications of our findings. Overall, results provide important insights into a heretofore underresearched motivation for SME alliance formation.

2. Theory and hypotheses

2.1. Strategic alliances and performance

An SME's strategic decision making process reflects its managers' overall performance goals (Smith and Miner, 1983). To reach these goals, managers must decide whether their SME should operate independently or cooperatively. By operating independently, managers maintain an SME's autonomy and avoid problems associated with managing alliances but limit the firm to a performance level obtainable from its current resource endowment. In contrast, by forming an alliance, an SME may be able to enhance performance by pooling resources with another firm (Dollinger and Golden, 1992; Ritter and Gemünden, 2003).

Strategic alliances provide SMEs avenues for improving performance in ways that may be difficult or impossible to obtain independently (Sarkar et al., 2001). For example, an SME can potentially boost performance by gaining key scale economies required to compete in an industry, accessing a partner's complementary (e.g., marketing, technical, or reputational) assets needed to enhance the SME's competitive advantage, or sharing the costs and risks faced when entering new markets (Gomes-Casseres, 1997; Varadarajan and Cunningham, 1995).

Despite alliances' potential to enhance firm performance, they also present several potential disadvantages that could reduce an SME's long-term performance. SMEs forming cooperative agreements face numerous threats, including the possibility of becoming too dependent on their partner or losing critical firm-specific information during the alliance process (Hamel, 1991; Miles et al., 1999). Cooperation also introduces relational uncertainty, that is, the possibility that a partner firm may act opportunistically (Chi, 1994). Although managers can potentially mitigate this latter risk by properly structuring each partner firm's payoffs based on alliance outcomes (Kogut, 1988), relational risk may exact a high cost through dissipation of a firm's competitive advantage (Bleeke and Ernst, 1995).

Given the potential opportunities and drawbacks inherent in alliance formation, SME managers are unlikely to make cooperation decisions lightly. Research has found that managers consider numerous external (e.g., industry growth rate) and internal (e.g., a firm's previous alliance experience) factors when considering alliance formation (Dollinger and Golden, 1992; Gulati, 1998). Of these, this study primarily focuses on managerial satisfaction with current firm performance, which previous research has shown to affect future strategic decisions, in general, but, to date, has received limited research attention in an alliance context.

Given the cognitive nature of performance satisfaction (or dissatisfaction), it is likely that its strongest impact will be on the future willingness (i.e., intent) of managers to seek out potential alliances. That is, how managers assess the success of their firm's past alliance strategies in improving overall firm performance will likely affect how they frame future alliance possibilities, and, thus, influence whether they hold positive or negative views about entering into future alliances (cf. Tyler and Steensma, 1998). Noting the importance of future intentions in determining planned behavior (Fishbein and Ajzen, 1975), previous studies have called for additional research assessing the process that managers undergo when forming their initial opinions, and in turn, intentions regarding future alliance formation viability (Auster, 1994; Tyler and Steensma, 1998). Thus,