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Too much of a good thing? Alliance portfolio size and alliance expansion

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ABSTRACT

Drawing from the organizational learning, transactions costs and resource based theories, we argue that the larger the Alliance Portfolio Size (APS) of the partners, the lower the likelihood that the alliance will be expanded. We also argue for an interactive effect by proposing that high levels of experience will neutralize some (but not all) of the detrimental impact of a large APS on the likelihood of alliance expansion. We deploy the case-control methodology to select a sample of 182 alliances from the biotechnology and pharmaceutical industries spanning the period 1980–2004. Results from logistic regression analyses support our predictions.

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1. Introduction

Over the last 30 years, as the technological pace in many industries has quickened and the barriers to globalization have fallen, strategic alliances, which can be defined as voluntary arrangements between independent organizations to share resources with an aim to achieve mutual strategic objectives (Das & Teng, 2000), have grown in popularity. Some studies estimate that several thousand alliances are formed every year with their incidence being very common in fast-paced industries such as biotechnology (Arora, Fosfuri, & Gambardella, 2004; Park, Chen, & Gallagher, 2002). As the number of alliances has grown, so has scholars' interest in the topic and the number of research papers on alliances.

Prior literature has deployed diverse theoretical perspectives such as the Resource Based View (RBV), Transaction Cost Economics (TCE) and Organizational Learning Theory (OLT) to examine issues such as alliance strategies (e.g., choice between non-equity alliances versus equity alliances and joint ventures and partner selection, among others) as well as their relationship with alliance outcomes (e.g., alliance survival, duration, partner satisfaction) (Buckley, Glaister, Klijn, & Tan, 2009; Dussauge, Garrette, & Mitchell, 2000). Though the early literature on alliances viewed each alliance as a separate entity independent of other alliances, recent literature has recognized that alliances may be parts of wider portfolios and alliance partners themselves may be parts of networks (Faems, Janssens, & Neyens, 2012; Hoffman, 2007; Lavie & Singh, 2012).

In this study, we focus on the influence of alliance portfolio characteristics on the decision to expand an existing alliance in terms of its scope and/or the resources committed to it. Expansion may be considered a strong form of exploitation strategy (March, 1991) as well as a positive alliance outcome, similar to the exercise of a real call option available at the alliance formation stage (Kogut, 1991), and it also has important implications for partner firms' alliance strategy. For instance, versus the alternative of forming a new alliance, expanding an alliance deepens the particular relationship and leads to lower complexity in terms of number of relationships (Wassmer & Dussauge, 2012). The expansion decision might also have positive implications for partner firms'

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reputations (e.g., as trustworthy partners that build deep relationships) and future alliance possibilities (Chung, Singh, & Lee, 2000). We model the expansion outcome as a function of Alliance Portfolio Size (or APS).

With regard to positioning, our study bridges two streams of literature on alliances—one looking at alliance outcomes as a consequence of individual alliance strategy variables such as governance structure or partner experience (e.g., Buckley et al., 2009; Dussauge et al., 2000; Hoang & Rothaermel, 2005; Park & Kim, 1997; Ritala, 2012), and the other looking at the characteristics of alliance portfolios such as size, breadth, diversity and redundancy (Ahuja, 2000; Lavie & Singh, 2012; Wassmer & Dussauge, 2012) as well as their implications for partner-level outcomes such as innovation (Deeds & Hill, 1996; Faems et al., 2012). Our study can be distinguished from the first stream because of its broader perspective, specifically consideration about the evolution of the alliance portfolio. The second stream of literature on alliance portfolios has not examined the impact of the development of a portfolio on the outcome of an individual alliance, which our study does.

We draw on the OLT, the TCE and the RBV to develop our hypotheses and argue that as APS increases, the costs of managing additional alliances might outweigh the incremental learning and resource access benefits, in turn reducing the likelihood of alliance expansion. Our analysis is based on a sample of 182 alliances selected using the case-control methodology, out of which 91 were expanded. As we discuss in the methodology section, we believe that the case-control methodology is highly appropriate for the purposes of the present study.

The remainder of this paper is organized as follows. In the following section, we advance conceptual arguments and develop the key hypotheses to be tested. We specify the methodological aspects next, followed by a discussion of the results of data analyses. We conclude the paper by discussing the implications of our results and identifying the directions for future research.

2. Conceptual arguments and hypotheses development

2.1. The alliance expansion decision

At any point in time, a firm can choose among three broad options about its alliance portfolio. The first option of status quo involves maintaining each of the current alliances in its portfolio as it is, without any additional commitment of resources or change in its scope. A second option might involve expanding existing alliances as a form of an exploitation strategy (March, 1991), either through allocation of greater resources to individual alliances (e.g., greater budget for an R&D alliance) or widening the scope of individual alliances (e.g., in the form of coverage of more countries or more products), among other possibilities. As a third option, a firm may choose to form new alliances (a form of exploration, March, 1991) either with the same partner or with new partners. In this paper, we focus on the choice between the second and the third options.

Let us examine the pros and cons of the decision to expand an alliance. Expanding an existing alliance means demonstrating greater commitment which might bolster the trust levels of the partners (Beckman, Haunschild, & Phillips, 2004) and reduce the likelihood of opportunism in the relationship, in turn improving stability (Chung et al., 2000; Walker, Kogut, & Shan, 1997). Reinforcing existing relationships may be especially valuable when exploitation is a more viable strategy than exploration (e.g., in the form of forging new alliances), because of high market uncertainty, among other factors (Geertz, 1978). The greater stability and trust engendered because of expansion would imply that partners can substitute formal governance with the less expensive and more adaptable relational governance (Gulati, 1995; Kale & Singh, 2009). By bolstering ties with existing partners through alliance expansion, partner firms might also build a reputation as trustworthy partners even among third parties who are not current partners but might become partners in the future (Chung et al., 2000). Expanding an existing alliance (or forging a new alliance with the same partner) may also be cost- and resource-efficient because partners have already spent time and energy in establishing their relationship (Martin, Mitchell, & Swaminathan, 1995). Finally, by expanding an alliance, a firm may also be able to leverage on the interpersonal trust which develops when individuals in partner firms repeatedly interact with each other, facilitating sharing of complex information because of reduced transaction costs (Gulati, 1999).

On the other hand, as suggested by the RBV, firms can expand their resource and knowledge bases by forming new alliances (Beckman et al., 2004:; Lahiri & Narayanan, 2013). Assets, knowledge and skills accessed through a new alliance may also be used in another, ongoing alliance, substitute resources accessed previously through other alliances (Wassmer & Dussauge, 2011), and/or combined with those associated with an existing alliance to create a new technology, service or product (Lahiri & Narayanan, 2013; Wassmer, Dussauge, & Planellas, 2010). When new alliances involve new partners, the novel information obtained (e.g., about environmental opportunities or new technologies) may be useful for addressing challenges and issues that partner firms cannot effectively handle with existing sources of information (Baum & Ingram, 2003), in other words to address firm-specific uncertainty (Beckman et al., 2004). By pursuing multiple goals through several simultaneous alliances, firms can spread the risk and potentially overcome uncertainty, and also obtain greater overall alliance benefits (Hoffman, 2007). Multiple alliances with different partners may also help a firm to create a more diverse and substantial experience base to accelerate learning (Anand & Khanna, 2000).

But, while growing an alliance portfolio, a firm needs to ensure that new alliances don't jeopardize its existing alliances. If a firm undertakes more than one alliance for the same purpose, greater overlap in the benefits offered by each alliance may increase to the extent that one alliance rivals another alliance in the portfolio, in turn leading to conflicts and costs that may outweigh the benefits (Kale, Dyer, & Singh, 2002; Kale & Singh, 2009). Wassmer et al. (2010) argue that stock market will penalize firms that create conflicts in the form of market overlap with existing alliance partners. They further suggest that “when alliances are in conflict, the focal company may not only incur increased conflict resolution costs but in the worst case may also have to bear with the consequences of dissolving the pre-existing alliance, resulting in loss of valuable resources and particular revenue streams and therefore create a cost, as in the unhappy story of Danone and Wahaha” (p. 81). Empirically, Roathermel and Deeds (2007) observed the negative impact of many simultaneous alliances on the innovation output of entrepreneurial ventures.

2.2. Alliance portfolio size and alliance expansion

Having considered the pros and cons of expanding an existing alliance versus forming a new alliance, we will now consider the relationship between APS and the likelihood of alliance expansion. The OLT would suggest that as it accumulates experience by forming more alliances, a firm would be able to attain greater benefits from each of its existing relationships (Wassmer & Dussauge, 2011), leading to a positive impact on the likelihood of an existing alliance being expanded. Similarly, the RBV would predict that greater, and possibly complementary, resources

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