

# Network Process, Strategic Alliance and Performance: Empirical Evidence from Nigeria

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## Abstract

This study explores the interplay between strategy alliance and network processes in explaining firm performance in highly unpredictable environments like what is obtained in Nigeria. Firms can outperform rivals by pursuing two types of strategic alliance: advantage-creating and advantage-enhancing. Each of these strategic alliances creates different needs, motivations, and opportunities for joint activity. This research work shows that firms with better advantage-creating strategies become entrenched in extra network process and are more likely to form non-equity strategic alliances in the future period, whereas firms with strong advantage-enhancing tendencies become rooted in intense network process with many equity-based strategic alliances in the future period. However, if different strategies lead to formation of different types of network processes, are these tendencies advantageous for firm performance? If not, what is the optimal combination of strategic alliance and network processes that maximizes firm performance? This paper argues that network process provides advantageous access to external resources that can both balance the internal capabilities of the firm and substitute for the capabilities that a firm is lacking. This paper finds out that network process plays both balancing and substitutive roles, however, my findings suggest dense network process is more favorable for firms that have superior either advantage-creating or advantage-enhancing capabilities, whereas firms with inferior internal capabilities can benefit more from a sparse network process. A correlation analysis was carried out on a sample of 125 respondents which indicates a positive relationship among both variables

**Keywords:** Network process, Strategic alliance, Competition, Firm Performance

## 1.0 INTRODUCTION

In today's hypercompetitive environments, firms do not control all resources necessary for steadily outperforming rivals (D'Aveni, 1994). In industries such as personal computers or consumer electronics, products are complex systems that comprise many components and modules produced and supplied by a variety of independent suppliers (Garud & Kumaraswamy, 2003). Given the importance of networks process for the firms' competitive success, it is critical to understand how and why firms form different types of network process and how and why different firms benefit from different types of strategic alliance. In this dissertation, I argue that for adequate understanding of these questions, it is critical to consider the type of competitive strategy a firm is pursuing. Different competitive strategies lead to the formation of different types of strategic alliance, and each type of competitive strategy requires an optimal structure of strategic alliance to maximize firm performance. More specifically, different strategies create different needs, incentives, and motives for collaboration with rivals. As a result, firms with different strategies engage in different patterns of joint activity. According to Drucker (1996), the growing partnership among companies around the globe is the biggest change in the field business. Kalmbach Jr. and Roussel (1999) noted that strategic alliance will record a 16-25 % of medium company value and a market value of 40% for about a quarter of companies in the next five years. An appropriate strategic alliance partner in the firm's selection is a critical decision (Hitt, Tyler, Hardee, & Park, 1995). These networking patterns are stable over time and form a recognizable inter firm network process, which is defined as a set of firms and a pattern of alliance ties that connect these firms (Brass, Galaskiewicz, Greve, & Tsai, 2004). Thus, to understand why firms form different types of network process, we need to know their competitive strategies.

Furthermore, if firms pursue different strategies and each strategy leads to a unique type of network process, do these combinations of strategies and network process have a positive effect on firms' performance? If not, what is the optimal network process for each strategy type that maximizes firm performance? To answer these questions, this paper examines which type of network process that is the most beneficial for each type of

competitive strategy. Once the network structure is formed, it provides network level benefits for the firm beyond the immediate gains from each strategic alliance.

Different network processes provide firms with access to different types of network resources. The extent to which a firm will exploit such external resource potential depends on its competitive strategies. Different strategies may benefit from different types of network processes, and therefore it is important to examine which network structure is optimal for each strategy type.

In today's competitive landscape, firms cannot rely on internally controlled resources alone to pursue advantage-creating and advantage-enhancing strategies. They must collaborate with other firms to gain access to information, skills, expertise, assets, and technologies and thus leverage their internal resources. Different strategic tendencies create different needs, motivations and opportunities for collaboration with other market participants (e.g., competitors, distributors, suppliers, and customers). Thus, certain regularities in firms' strategic behavior can lead to distinctive and recognizable patterns of networking behavior, which in turn leads to predictable types of network processes.

This paper focus on two types of strategic alliance network process: dense and sparse. A dense network process refers to the degree of interconnectedness among a firm's partners, whereas a sparse network process refers to the degree to which a firm maintains ties with firms from disconnected clusters. This paper therefore argue that firms with superior advantage-creating strategies will become embedded in sparse network processes and have many non-equity alliances (weak ties), whereas firms with strong advantage-enhancing tendencies will be embedded in dense network processes with many equity-based alliances (strong ties) in the future. When firms are strategically entrepreneurial, they dynamically change the network process over time. They create many new structural holes (i.e., connections with partners who are themselves disconnected), and subsequently stimulate collaborative activity among partners to sustain their newly created advantages.

The problem statement in this study emanates from the type strategic alliances which enable firms to gain superior performance. There are different strategic alliances which pose a great problem to the organization in achieving its organizational goal. Furthermore, there is the problem of how these strategies affect the firm's networking behavior and how it leads to the formation of particular network process? Finally is the problem of optimal combinations of strategic alliances and network resources to maximize firm performance?

The main aim of this study is to examine the type of strategic alliances which enables firms to gain superior performance, while the specific objectives include:

- (1) To investigate how the different strategic alliances affect the networking behavior this leads to the formation of network process.
- (2) To assist firms in the optimal combination of strategic alliances and network resources to maximize firm performance.

## 2.0 THEORETICAL FRAMEWORK

Researchers have taken different approaches in conceptualizing and operational zing firm strategy. For example, strategy can be viewed as a plan that defines long-term goals and objectives (Chandler, 1962), or as a distinctive, favorable and defensible positioning in the industry (Porter, 1985), or as a pattern or consistency in the firm's actions over time (Mintzberg & Waters, 1985). following Mintzberg and Waters's (1985) view of strategy and conceptualization, strategic alliance is a recurring pattern (or a tendency) in a firm's competitive behavior (Mintzberg, 1978). For example, a firm can exhibit a consistent pattern (tendency) of entrepreneurial behavior by frequently discovering radically new products and technologies. Other firms may focus more on protecting and enhancing their existing products and services and exhibit a tendency to intensively introduce actions such as new product versions, price cuts, advertising, promotions, capacity expansions, or new product features.

Strategic alliance is driven by the firm's ability to manage its resources strategically (Barney, 1991). As Penrose (1959: 84) noted —the type of product in which the consumer might be interested is in effect very often suggested...by the firm's resources. Managers continuously face many choices about restructuring, bundling, and leveraging their internally controlled resources (Sirmon, Hitt & Ireland, 2007; Ireland et al., 2003). The pattern of these resource allocation choices is reflected in the patterns of the firm's actual competitive behavior over time. Because the researchers often cannot observe resource allocation decisions, this dissertation focuses on examining the patterns in the firm's externally-oriented and observable competitive activity (Grimm & Smith, 1997). For example, a firm's ability to strategically use its resource potential to enhance its existing market position (i.e., to pursue advantage-enhancing tendency) is reflected in its intensity of introducing competitive actions such as updates and improvements of existing products, and new product versions, advertising campaigns, promotional events, price cuts, sale incentives, extended warranties, new capacity, new distribution channels, and extended dealership networks. Likewise, firms with strong advantage-creating capabilities will be frequently first to introduce new products and services and will frequently generate path-breaking technologies. The focus is, therefore, on the actual and observable strategic tendencies of firms, and it is assumed that these tendencies are reflections of the firm's capabilities.

The term capabilities refers to the concept of dynamic capabilities defined as firm's ability to integrate, build, and reconfigure internal and external resources to address rapidly changing environments (Teece, Pisano, & Shuen, 1997). Resources include all production factors, organizational routines, processes, technologies, reputation, status, competences, and other tangible and intangible assets available to a firm either owned by the firm or available through network process. The firm's Internal capabilities (advantage-creating and advantage enhancing), although unobserved, are reflected in firms' observed competitive behavior. For example, advantage-enhancing capability is reflected in firms' intensity of introducing price cuts, sales incentives, advertising and promotional campaigns, product versions and improvements, building new capacity and distributional channels, or market expansions. Advantage-creating capability is reflected in the frequency with which a firm issues patents, the extent to which patents have impact on subsequent technologies, and the extent to which the firm is first to commercialize new products and technologies.

D'Aveni (1994) argued that in today's hypercompetitive environments, firms cannot gain sustainable competitive advantage over rivals. Rivals can quickly imitate or make obsolete any advantage and therefore firms can outperform rivals only when they are able to create a series of new (temporary) competitive advantages. To achieve this, research has suggested that some firms adopt an entrepreneurial strategy-making mode (Dess, Lumpkin, & Covin, 1997). This entrepreneurial strategy is often driven by the presence of an entrepreneurial mindset (McGrath & MacMillan, 2000), an entrepreneurial orientation (Lumpkin & Dess, 1996), or entrepreneurial leadership and an entrepreneurial culture within the firm (Ireland, Hitt, & Sirmon, 2003) that encourages the discovery of radically new products and technologies. Researchers have recognized that some firms exhibit systematic and recurring patterns of such entrepreneurial behavior that can be reliably and objectively studied (Covin & Slevin, 1991; Jennings & Lumpkin, 1989). For example, researchers have identified that some firms show the tendency to be frequently first to introduce new products on the market (i.e., proactiveness) (Miles & Snow, 1978; Miller, 1983; Miller & Friesen, 1978; Covin & Slevin, 1991, Covin & Miles, 1999; Lumpkin & Dess, 1996). These proactive firms generate, change, and shape markets and industries rather than merely responding to the changes in their environment (Miller & Friesen, 1978). Other firms exhibit tendencies to frequently produce significant technological breakthroughs, and reinvent themselves and retain technological leadership in their industry (Ahuja & Lampert, 2001).

Covin and Miles (1999) argued that this innovative tendency enables firms to frequently rejuvenate and redefine their organizations, markets or industries. Both of these tendencies proactiveness and innovativeness enable firms to create new competitive advantages frequently. This paper refers to these two tendencies of firms to be first to introduce innovative products and services and to pursue technological leadership as advantage-creating tendencies. Following the prior research in corporate entrepreneurship area, proactiveness and innovativeness are considered as two interrelated but distinct dimensions that produce advantage-creating strategic tendency (Lumpkin & Dess, 1996; 2001).

As argued above, although all firms may exhibit some degree of advantage creating and advantage enhancing tendencies, firms vary in their abilities to pursue each type of tendency. Some firms may focus on developing superior entrepreneurial abilities to frequently create innovative products and technologies and thus earn above average profits. Other firms may be able to create only a few new advantages but may possess a strong ability to continuously enhance and expand their existing advantages and thus outperform rivals. Indeed, previous research has shown that pioneers and firms with entrepreneurial strategies possess a different set of skills, practices, and competences than firms that focus on protecting and enhancing their existing advantages and are often followers or late entrants (Kerin, Varadarajan, & Peterson, 1992; Miles & Snow, 1978; Covin & Slevin, 1989).

The underlying cause of the differences in firm's skills and competences to pursue both strategies is based on the assumption that all firms face resource constraints. Firms have limited resources and thus they must make choices in allocating their attention and resources either toward continuously exploring new products, markets, and technologies or toward exploiting and enhancing their existing advantages (Levinthal & March, 1993; March, 1991). Past research has suggested that firms with superior advantage-creating or superior advantage-enhancing capability can outperform rivals. On one hand, firms that show innovative and proactive tendencies i.e., advantage-creating tendencies frequently create and act on first-mover opportunities. These entrepreneurial actions disrupt the status quo on the market and often render the existing products and technologies of rivals' obsolete (D'Aveni, 1994). These groundbreaking entrepreneurial actions are complex and difficult for rivals to imitate (Smith & Di Gregorio, 2002), which causes delayed rivals' responses. This in turn can enable the first mover firms to gain (at least temporarily) above-average profits.

First mover advantage literature has suggested that the late entrants gain substantially less market share than early entrants do (Kalyanaram, Robinson, & Urban, 1995). Robinson (1988) and Robinson and Fornell (1985) showed that the order of market entry alone can explain from 9% to 18% of the variation in market share and (Makadok, 1998) found that first movers in the money market mutual fund industry were able to sustainably charge higher expense ratios i.e., higher fees for operating the fund. Hence, we can expect that firms that are

frequently first to introduce new products and technologies on the market will earn greater profits than will the less innovative and proactive firms.

Indeed, research in corporate entrepreneurship has shown that firms can pursue an entrepreneurial strategy regardless of their size and that this entrepreneurial strategy (or posture) has a positive effect on firm performance especially in highly volatile environments (Covin & Slevin, 1989). In addition, several researchers have shown that firms with entrepreneurial orientation measured by its degree of proactiveness, innovativeness, and risk taking) exhibit superior performance (Wiklund, 1999; Wiklund and Shepherd, 2003; Zahra, 1991).

On the other hand, firms with strong advantage-enhancing tendencies can gain superior performance either by adopting a wait-and-see strategy and entering the market once the uncertainty is resolved or by being able to successfully protect a few well-established competitive advantages. These firms may possess superior marketing and promotional capabilities, reputation and recognizable brand name, economies of scale and learning experience advantages, or ability to continuously update and improve the value of the existing products and services. These capabilities enable them to catch up quickly with first movers even if they enter the market as later entrants and gain profits. This is because later entrants have opportunity to learn from pioneers' mistakes, to collect more comprehensive information about the probability of success of the new product/technology, and benefit from lower imitation costs and free riding (Lieberman & Montgomery, 1988). Prior research has provided empirical evidence for this argument. For example, the research in competitive dynamics has shown that firms that compete aggressively with a wide variety of competitive actions (such as series of price cuts, advertising, and product versions) can dethrone industry leaders and gain greater market share and profits (Ferrier, Smith, & Grimm, 1999).

In addition, Boyd and Bresser (2008) provided evidence that moderately late entrant firms that enter markets neither too fast nor too late enjoyed performance advantages. This finding also suggests that firms with advantage-enhancing strategies can outperform rivals. On one hand, firms with advantage-enhancing tendencies are less likely to enter markets as early movers (second or third) because of their predominant focus on extending the existing advantages. On the other hand, they are also less likely to wait too long to enter the new markets, as they possess superior advantage-enhancing capabilities to quickly mobilize resources and imitate the first mover's products and technologies. This capability enables them to offer a wide variety of new product versions at lower prices than those offered by first movers. This suggests that both advantage-creating and advantage-enhancing capabilities can enable firms to gain superior performance. Abegglen and Stalk, (1985) noted that Sony and Matsushita have developed different types of capabilities and use different strategies to outcompete rivals. Sony regularly develops technological innovations and introduces pioneering products, whereas Matsushita is often a follower in an established market who quickly overtakes rivals and becomes market share leader because of its strong advantage-enhancing capabilities (e.g., manufacturing and marketing expertise).

Firms develop superior internal capabilities that enable them to pursue intensively advantage-creating and advantage enhancing strategies. However, the differences in the firm's internally controlled resources and capabilities can only partially explain performance differentials across firms. Firm's ability to persistently outperform rivals depends also on the advantageous access to external information and resources uniquely held by other market participants (Dyer & Singh, 1998). The increased competitive pressure and the unprecedented pace of technological change in most industries today (Bettis & Hitt, 1995; D'Aveni, 1994) have made collaboration with other firms a necessary condition for sustained success in the marketplace. This increased collaborative activity, strategically initiated by firms in their efforts to outcompete rivals; leads to formation of a network of inter firm relationships (in the form of strategic alliances, joint ventures, and long-term agreements) at the system level. Each firm in the network process maintains a distinct portfolio of alliances and has a distinct pattern of alliance ties with other network members, which in turn provide different potential for gaining access to network resources (Gulati, 1998; Gulati, Nohria, & Zaheer, 2000).

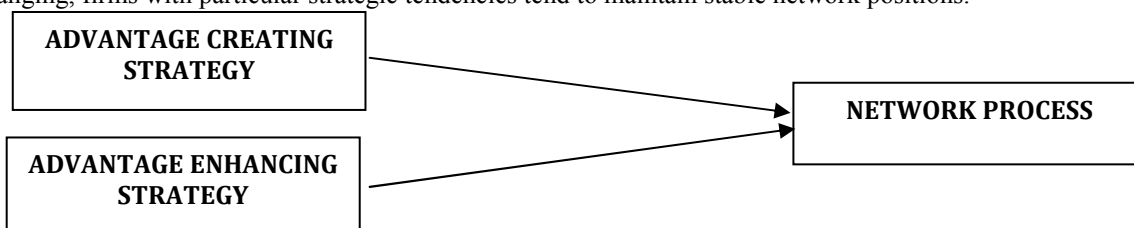
Applying social network theories, researchers have shown empirically that several network positions like brokerage position, ego network density, and centrality and configurations like diversity of ties, proportion of strong/weak ties provide firms with advantageous access to network process, which in turn is positively related to firms' performance (Zaheer & Bell, 2005; Ahuja, 2000a; Rowley, Behrens, & Krackhardt, 2000; Baum, Calabrese & Silverman, 2000; Powell, Koput, & Smith-Doerr, 1996).

In this study, there is the argument that the effect of network process on firm performance is contingent on the type of competitive strategy the firm is pursuing. However, before examining which type of network process is optimal for a given type of strategic alliances, it is important to understand how firms with different strategies become embedded in different network process. Firms purposefully form alliances to support their competitive strategies. The degree to which a firm has the ability to pursue advantage-creating or advantage-enhancing tendencies leads to different managerial choices and motivations about the intensity of inter organizational collaborative activity, the type of alliance partners, and the type of alliance governance form (equity vs. non-equity). Thus, it is likely that the network process is also a function of firm's strategies, because

different strategies produce different needs and motivations for collaboration with other market participants. Hence, it is examined how firms actually construct their network process (i.e., how different strategies lead to different types of network process).

The prevailing preoccupation in the networks literature has been in understanding how the firm's network position leads to certain outcomes; less emphasis has been placed on how the firm arrives in that network position. A few studies that have tried to explain the origins of network positions have mainly focused on how previous network positions provide opportunities for alliance formation and how these tendencies lead to formation of certain network positions (Gulati & Garguilo, 1999; Gulati, 1999; Powell, Koput, & Smith-Doerr, 1996). Although these studies have increased our understanding of network structure formation, we still have very little systematic knowledge of how strategic actors construct their networks (Stuart & Sorensen, 2007: 219). Stuart and Sorensen (2007) noted, firms are not randomly assigned to network positions. Firms strategically and purposefully engage in collaborative activity in an effort to enhance their ability to gain or sustain competitive advantage. Different firms exhibit different strategic alliances and these strategies create different needs, motivations, and incentives for collaborative activity. Thus, it is reasonable to expect that particular regularities in the strategic behavior of firms may lead to recognizable patterns of networking behavior, which in turn may result in being located in predictable network positions.

This study adopts a resource-based view of alliance formation (Eisenhardt & Schoonhoven, 1996). It assumes that alliances and the resulting network structure are driven by the firm's needs for resources or capabilities that are controlled by other firms. Firms have different strategic needs because they pursue different types of strategies and therefore certain strategies are associated with certain types of network structure. This is not to say that firms are purposefully constructing their alliance network structure. Firms form alliances to satisfy their strategic needs, and these individual decisions aggregate to certain types of alliance network structure that may be the unintended outcome of this networking activity. Firms purposefully create alliances, but they may unintentionally become embedded in a certain network process. It was argued that different firms exhibit recurrent patterns of strategic behavior and hence have different needs for external resources; therefore, they are consistently embedded in certain network process. Thus, although the overall alliance network is constantly changing, firms with particular strategic tendencies tend to maintain stable network positions.



**FIG 1: A MODEL OF COMPETITIVE STRATEGY AND NETWORK PROCESS (AUTHORS' , 2013)**

### 3.0 RESEARCH METHODOLOGY

The method of research used in this study was a survey research. The research was conducted on a population and sample size of 125 firms from computers and electronics industries that initiated 11,075 competitive actions and were surrounded in a larger network of 36,766 alliances over 7 years. The population and sample size was stratified using 125 firms from computers and electronic industries which were surrounded in a network of 36766 alliances over 7 years. A Primary data was used in collecting information and generating questionnaires from computer and electronic industries in Nigeria.

A five point likert scale questionnaire was the research instrument used in the research, which was sent to computers and electronic industries in Nigeria. The hypotheses generated for testing in this research study include:

- H<sub>01</sub>:** Network process has a negative effect on firm performance.
- H<sub>1</sub>:** Network process has a positive effect on firm performance.
- H<sub>02</sub>:** Strategic alliances have a negative effect on firm performance.
- H<sub>2</sub>:** Strategic alliances have a positive effect on firm performance.

A correlation matrix model was used to test and make a decision about the effect of network resources and strategic alliance on the organizational performance. A 5 point likert scale was also used to generate the questionnaire which ranges from strongly agree, agree, indifferent, disagree and strongly disagree.

### 4.0 DATA ANALYSIS

#### 4.1 Discussion of Demographic Findings

From the findings on demographic data, it shows that 75% of male participated while 25% participated in the survey, indicating that male participated more as compared to female. It also shows that respondents between the

age of 34 and 44 years participates more (i.e.50% of the sample size) in the study than every other age bracket while 70% indicating majority are married. Based on educational qualification, all the respondents have tertiary education with rank ranging from BSc, HND, OND and PhD. It can also be deduced from findings that majority of the respondent are in administrative and accounting department, while 35% of them have 1-5years experience, 45% have 6-10years of experience, while other have above 10years of experience

**Table 1: Descriptive Statistics**

	Mean	Std. Deviation	N
Different network processes provide different network resources	4.1680	.56420	125
The interplay between strategic alliance and network process increases firm performance	4.0160	.50775	125

Source: Author's Field survey, 2013

**Table 2: Showing Correlations between Network Process and Organizational Performance**

	Different network processes provide different network resources	The interplay between strategic alliance and network process increases firm performance
Different network processes provide different network resources	1	.441(**)
		.000
	125	125
The interplay between strategic alliance and network process increases firm performance	.441(**)	1
	.000	
	125	125

\*\* Correlation is significant at the 0.01 level (2-tailed).

Source: Author's Field survey, 2013

Testing the first hypothesis, the relationship between Network process and Organizational performance was investigated using Pearson product-moment correlation coefficient. Preliminary analyses were performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. There was a medium, positive correlation between the two variables,  $r = .441$ ,  $n = 125$ ,  $p < .0005$  (Table 2), this paper therefore fail to accept the null hypothesis since a positive relationship exist between network process an organizational performance.

**Table 3: Showing Correlations between Strategic Alliance and Organizational Performance**

	Strategic alliance is driven by the firm's ability to manage its resources.	Firm performance has increased over the years
Strategic alliance is driven by the firm's ability to manage its resources.	1	.031
		.734
	125	125
Firm performance has increased over the years	.031	1
	.734	
	125	125

Source: Author's Field survey, 2013

The second hypothesis was also tested using Pearson product-moment correlation coefficient. Preliminary analyses were also performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. There was a weak, positive correlation between the two variables,  $r = .031$ ,  $n = 125$ ,  $p < .0005$  (Table 3), this paper therefore also fail to accept the null hypothesis since a positive relationship exist between strategic alliance an organizational performance.

## 4.2 DISCUSSION AND RECOMMENDATIONS

Having taken a critical look at the analysis, my findings discovered that both network process and strategic alliance will both have a positive effect on organizational performance. However, there are situations whereby the wrong application of these processes and alliances will yield a negative performance to the organization. Therefore, network process and strategic alliance should be used interchangeably and be effectively and efficiently utilized to its maximum so as to explore and maximize organizational performance.

In this dissertation, the interplay between alliance networks and firm's strategies was used in explaining firm performance. In hypercompetitive environments, in which firms compete with complex modular products, a firm's ability to systematically outperform rivals depends not only on its internally developed capabilities but also on the advantageous access to information, assets, and expertise controlled by the other firms.

Recent research suggests that the sources of performance differences across firms reside in the firm's favorable pattern of alliance ties (Gulati, Nohria & Zaheer, 2000). For example, Dyer and Nobeoka (2000) qualitative research has shown that Toyota's productivity advantages over rivals can be, at least partially, attributed to its dense network of interconnected suppliers. Dense network stimulates knowledge sharing among network partners, discourages free riding and reduces the cost of accessing and mobilizing valuable external resources. On the other hand, Burt (1992) work suggests that firms can gain from sparse network structure in which a focal firm is connected with firms from disconnected clusters. This network process provides access to diverse knowledge and resources, which increases firm's potential for discovering entrepreneurial opportunities and developing radical innovation. However, this research has increased our understanding of how the structure of alliance network affects firm performance.

While embarking on this research study, some challenges were faced which affects the reliability and validity of the study. First among them was the fact that this study focuses only on small and medium enterprise and fails to look at the other sectors in the industry. Furthermore, the study restricted itself only the computer and electronic companies alone. Finally time constraint contributed to the low reliability of the research study to a very comprehensive level.

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