The Impact of a Firm's Strategic Orientation on the Likelihood of Engaging in Strategic Alliances: A Theoretical Perspective

Danielle A. Chmielewski[a] and Christoph Lattemann[b]

[a]dchmi@unimelb.edu.au
Department of Management and Marketing, The University of Melbourne
Alan Gilbert Building, 161 Barry Street, Parkville VIC Australia 3010
+61 (0) 3 8344 1886

[b]lattema@rz.uni-potsdam.de
Chair for Corporate Governance and E-Commerce
Universität Potsdam
Bebel-Str. 89, 14482 Potsdam, Germany
+49 (0) 331 977 3839

Extended Abstract of "in progress" Research

Since the mid 1990s there has been an observable world-wide trend towards an increasing number of Strategic Alliances, such as joint ventures, virtual organizations, and loose contractual agreements among firms (Bryan & Fraser, 1999), which is the result of globalization (Slater, Olson & Hult, 2006). The fiercely increasing dynamics in many industries are some of the main reasons for the increasing number of alliances, as firms manage to cope with the often changing market conditions and the competitive intensity.

Undoubtedly, the global hypercompetitive marketplace has modified the strategic focus of global organizations. The keys to the hypercompetitive shift are the dynamic capabilities of the firm, or the ease with which it can create/recreate new strategic assets (Thomas, 1996). In this context, there is an observable trend, from a resource-based orientation with an exploitation of given, tangible assets to a market orientation with agile exploration of new intangible assets. Both market orientation and resource orientation are two examples of a strategic orientation. According to Morgan and Strong (1998, p 1055), a strategic orientation is "central to organizational effectiveness in that it represents the competitive strategy implemented by a firm to create continuing performance improvements." As mentioned above, a resource-oriented firm focuses inward on exploiting existing assets as a source of value creation, whilst a market-oriented firm, which typically has a stronger outward-focus, is intent on looking outside the firm for new ways to engage in value creation. Hence, this seems to suggest that a firm's strategic orientation will influence the likelihood of a firm implementing and executing an innovative, outward-focused strategy such as a Strategic Alliance.

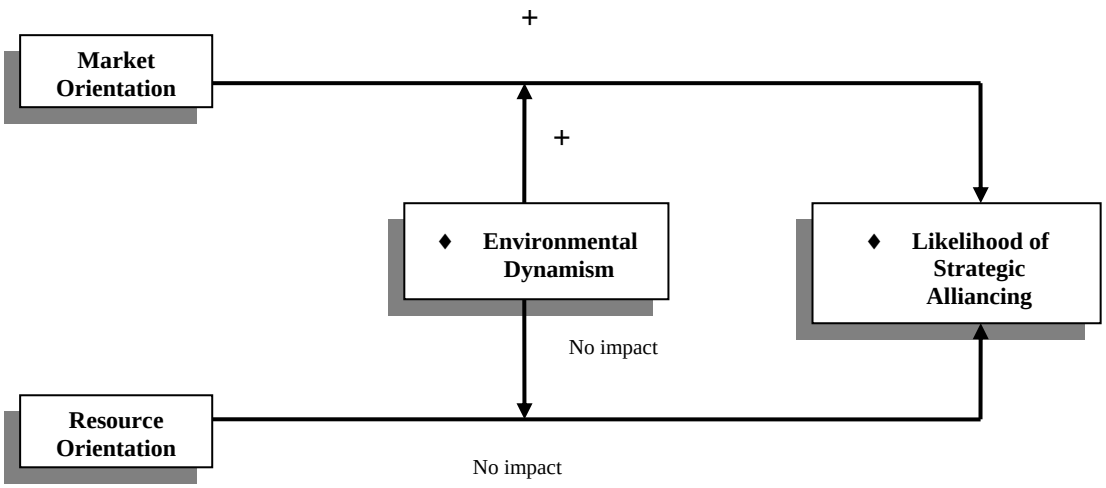
In light of this, the purpose of this research is two-fold: First, to investigate the relationship between different strategic orientations (namely market and resource orientation) and the likelihood of engaging in strategic alliances; and second, to investigate whether the dynamism of a firm's environment moderates the relationship between market and resource orientation and the likelihood of engaging in Strategic Alliances. The importance of this study is to understand the meaning of strategic orientation of firms in a hypercompetitive environment.

This paper starts with the statement of research questions followed by a brief literature review of different strategic orientations and dynamic environments. The relationships between market and resource orientation and the engagement in alliances will be outlined conceptually.

Research Questions

The two broad research questions (see below) that this study is aiming to examine are diagrammatically represented in the following conceptual model (see figure 1):

Figure 1: The Conceptual Model



(1.) (i) Are market-oriented firms (which are typically more outward-focused) more likely to engage in Strategic Alliances?
(ii) Are resource-oriented firms (which are typically more inward-focused) less likely to engage in Strategic Alliances?

(2.) To what extent does a firm's external environment moderate the relationship between a firm's strategic orientation and its likelihood of engaging in Strategic Alliances?

Literature Review and Conceptual Background

Strategic Alliances are defined as cooperative agreements of any form with the aim of strengthening the partner's position in an industry (Arino, and la Torre, 1998). ***Strategic orientations*** "are the guiding principles that influence a firm's marketing and strategy-

making activities" (Noble, Sinha, and Kumar, 2002: 25). As identified earlier, market orientation and resource orientation are two examples of a strategic orientation.

Narver and Slater (1990) define ***market orientation*** as the organizational culture that most effectively and efficiently encourages the three key behaviours–customer orientation, competitor orientation, and interfunctional coordination–that will help an organization to achieve a sustainable competitive advantage by creating and providing superior value to its customers. Market oriented firms are externally oriented, with a thorough understanding of their customers' needs and wants, as well as a strong awareness of present and potential competitors. Further, a market orientation facilitates innovative behaviour within a firm, because it ensures a proactive mind-set within a firm, allowing firms to search for new and/or unserved markets (Slater and Narver 1998; Kumar, Subramanian, and Yauger 1998; Pelham and Wilson 1999). So, a market orientation enables a firm to respond quickly and efficiently to changes in its external environment. Previous research studies have found a positive relationship between market orientation and innovation (see Gatignon and Xuereb 1997; Han, Kim, and Srivastava 1998; Hurley and Hult 1998; Lukas and Ferrell 2000).

A ***resource orientation*** describes the degree to which a firm practices a Resource-Based View (RBV) and is used to assess the extent to which a firm is oriented towards the development of valuable and unique resource bundles (Paladino, 2006). A resource orientation focuses on how firms create and deploy firm-specific resources when making strategic decisions and is intent on leveraging existing resources to enhance performance. A resource-oriented firm takes an inside-out approach to strategic decision-making, in that it evaluates its existing stock of resources to determine how well they can be used to satisfy market opportunities (Chmielewski and Paladino, 2007). In other words, a resource-oriented firm ensures that an appropriate fit exists between its resources and market opportunities before implementing strategic decisions (Paladino, 2006). This suggests that a resource-oriented firm may not be in a position to be as innovative as a market-oriented firm as it is more likely to "use and build on their existing knowledge base rather than entering unfamiliar areas" (Schilling 1998: 273).

Hence, as resource oriented firms are taking an inside-out perspective and market-oriented firms are taking an outside-in perspective, it can be proposed that market-oriented firms are seeking resources (for exploration or exploitation) by (strategic) alliancing a first place instead of thinking of strengthening their own internal resources in. Our research question 1 (i) (*are market-oriented firms more likely to engage in Strategic Alliances?*) addresses this line of arguments. A resource-oriented firm is thus less likely to engage in outward-oriented Strategic Alliances to seek business opportunities as they are seeking first to an appropriate fit between internal resources and market opportunities, respectively resources from partners. This links in with research question 1 (ii) (*are resource-oriented firms less likely to engage in Strategic Alliances?)*.

Contemporary researchers have described global competition and ***environmental dynamism*** as worldwide interactions requiring major resource commitments (i.e., through crossborder mergers, acquisitions, networks, and alliances) and the development of dynamic crossborder (on a firm and country level) capabilities, wherein companies achieve competitive advantage through acts of innovation and reformulation of existing strategies (D'Aveni, 1999). Regarding ***environmental dynamism***, the strategic marketing and management literature has long argued that a firm's external environment affects the linkage between strategy and performance (Miller, 1987; Tan and Litschert, 1994). In order for a firm

to be successful, strategic decision-making needs to revolve around analysing and responding to changes in a firm's external environment, such as competitors' actions (Cockburn, Henderson, and Stern, 2000; Spanos and Lioukas, 2001). This in turn helps a firm to position itself in an industry in such a way as to best defend itself from competitive actions (Teece, Pisano, and Shuen, 1997). Conducting an analysis of a firm's external competitive environment enables a firm to better understand and measure "the attractiveness of industries for long-term profitability and the factors that determine it" (Porter, 1985, p 1). The implication of this is that different environmental contexts require firms to make different strategic choices. Innovation and change have become inextricably linked together and must be addressed proactively by management.

As a consequence, the competitiveness of an industry should positively influence the likelihood of strategic alliances of outward/market-oriented firms. As resource-oriented firms ensure that an appropriate fit exists between its resources and market opportunities before implementing strategic decisions (Paladino, 2006), the dynamism of the environment should have less impact on their strategic decisions. Rather, with a resource orientation, the internal fit or misfit of a firm's resources should have a higher impact on the engagement in Strategic Alliances than the degree of competitiveness of the environment. These implications are addressed by research question 2 (*To what extent does a firm's external environment moderate the relationship between a firm's strategic orientation and its likelihood of engaging in Strategic Alliances?).*

Conclusion

Since the mid 1990s there has been, and still is, an increasing trend toward the engagement of Strategic Alliances in competitive environments. This study contributes to theory and practice by attempting to analyse the relationship between a firm's strategic orientation (namely market orientation and resource orientation) and the likelihood of seeking new business opportunities by engaging in alliances in competitive environments. This extends the existing body of research by linking together two strategically important concepts, that of strategic orientation and its impact on strategic alliancing. This research also has practical applications in that it will provide valuable insights for practitioners on implementing value-creation strategies in dynamic competitive environments.

This paper is the basis for further empirical work on the relationship between a firm's strategic orientation and the likelihood of engagement in strategic alliances in competitive business environments.

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