Divergent effects of inter-firm collaboration on product quality and growth

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Conference Presentation

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Keywords
Firm Growth, Product Quality, Interfirm Collaboration

Research Question
Collaborative arrangements that allow entrepreneurial firms to reconfigure resources to generate growth may be detrimental to quality because of limited control over essential resources and processes.

Methods
Data from survey of Spanish wineries combined with secondary data from AMADEUS, and from Parker, Repsol and Peñin raters. Multiple regression to test hypotheses.

Results
Collaboration on common in the wine industry. We explicate the pros and cons of such strategies regarding growth and product quality

Abstract
Divergent effects of inter-firm collaboration on product quality and growth

Principle Topic
Resource constrained ventures gain several advantages from inter-firm collaboration. Specifically, such firms gain access to resources that can help them overcome liabilities of newness and smallness (e.g. Baum et al., 2003). Far less attention, however, has been paid to the potential downsides of collaborative arrangements. In this paper we take a resource-based perspective to examine the pros AND cons of inter-firm collaboration, proposing that collaboration fuels sales growth but hampers product quality and that implications for financial
Collaborations provide resource constrained ventures with access to a greater resource pool. Entrepreneurial firms can configure these resources in novel ways to generate growth (Penrose, 1959) and refresh their resource bases (Sirmon, Hitt and Ireland, 2007). By engaging in collaborations and opening up to external resource influence, firms actively engage in managing their resource base, which allows for the ability to increase productivity and overall production capacity.

However, such resource-sharing also decreases resource control, which can have negative implications for the ability to maintain product quality. Firms develop quality enhancing capabilities through routinized practice (Nelson & Winter, 1982), learning (Kogut & Zander, 1992), operating on asset bases that are controlled by the firm (Helfat & Peteraf, 2003). A ‘repetitive pattern of activities’ (Nelson & Winter, 1982: 97) is necessary to generate output of consistent quality. Inter-firm collaboration creates a broader, but more fluid and loosely coupled pool of resources on which firms operate. As a result, entrepreneurial firms engaging in inter-firm collaborations lack tightly controlled resource bases and processes, which threatens output quality.

With this approach, we explicate an important tradeoff for resource constrained firms in capability development. Collaborative arrangements that allow entrepreneurial firms to reconfigure resources to generate growth may be detrimental to quality because of limited control over essential resources and processes.

Method
We use a sample of Spanish wineries to conduct our analysis as they represent a population of firms where both quality and growth are salient performance dimensions. In 2013, we surveyed a population of 520 Spanish wineries. We received responses from 111 directors of the firms. In order to safeguard against bias and verify the quality of the responses, we surveyed secondary respondents (enologists) of 33 firms, allowing us to establish inter-rater reliability. Objective information about the dependent variables was derived from external sources, reducing the risk of common method bias. Data on sales is available through the SABI/AMADEUS database. Product quality data is assembled by combining the ratings of three different wine ratings (Parker, Repsol and Peñin). All of them are internationally recognized systems adopted by popular wine magazines, suppliers, retailers, critics, and consumers alike.

The degree to which a company takes part in relationships with other organizations and the degree to which they utilize external resources constitute the main independent variables. Data are analyzed using moderated regressions.

Implications
Our results have several important implications for future research. First, whereas previous research has mainly concentrated on the positive effects of inter-organizational collaboration, we are able to distinguish between positive growth effects and negative product quality effects. This provides a more nuanced perspective on the implications of pursuing growth. Growth may have negative consequences for financial performance (Davidsson, Steffens & Fitzsimmons, 2009). We provide theoretical rationale and empirical evidence as to why it may be detrimental to product quality. Second, we provides important explanations as to why some firms refrain from engaging in collaborative arrangements, such as alliances. While prior research has examined agency related reasons for alliance failure (Park & Ungson, 2001), we advance a resource-based rationale for the detrimental effects of inter-organizational relationships. In doing so, we provide a more comprehensive picture of resource-related collaboration dynamics.

Third, we open up new avenues of theorizing by examining contingencies in inter-firm collaboration. Specifically, we show that not all collaborations are created equal, but rather there are important differences depending on the stage of collaboration in the production process and the degree to which knowledge exchanged in collaboration is formalized. Fourth, we contribute to the capabilities literature. The majority of recent research
has focused on the role of externally oriented dynamic capabilities in facilitating firm adaptation and growth. In this perspective, strategies such as inter-organizational relationships facilitate growth (Singh & Mitchell, 2005). We focus on the role of internally oriented capabilities that are created through learning and deeply embedded routines (Nelson & Winter, 1982).

With this research, we also provide a more comprehensive picture of the implications of engaging in inter-firm collaboration. We demonstrate that the effects of inter-organizational relationships are not universal across performance dimensions. Specifically, we point to the risk of jeopardizing the quality of the product as a consequence of forming collaborative arrangements to fuel growth. Importantly, we provide these insights in an industry that has received scant attention in management research in particular as regards theorizing, i.e., the wine industry.