

STRATEGIC COLLABORATIONS AND HIGH PERFORMANCE ORGANIZATION SYNERGY

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ABSTRACT

This study conceptually explores the integration of strategic collaborations into an extended structure for high performance organizations (HPOs). Extant knowledge on HPOs implicitly incorporates outsourcing, strategic alliances and partnership management through a fundamental focus on core competencies. This work proposes that synergistic HPO outcomes can be obtained with the unambiguous assimilation of empirically proven strategic collaboration techniques. Resource orchestration combined with the structure and boundary spanning internal dynamics of the HPO are presented as moderators of the paradoxes and organizational complexity imposed by strategic collaborations, which in reciprocal relationships, are posited as antecedents to improved HPO performance. Propositions are presented, and a conceptual model is offered in support of the mutual compatibility of HPOs and strategic collaborations.

INTRODUCTION AND BACKGROUND TO THE PROBLEM

The high performance organization (HPO) developed as a contemporary strategic concept in direct response to Peters and Waterman's (1982) seminal work, *In Search of Excellence*. Scholars and practitioners generally identify HPOs as emphasizing a select few strategic components that collectively allow organizations to excel in the more competitive global business climate of the late twentieth and early twenty-first centuries. Schermerhorn, Hunt, Osborn, and Uhl-Bien (2009) construct HPOs from five interrelated components; total quality management (TQM), employee participation, self-directed work teams (SDWTs), integrated production technology (IPT), and organizational learning. Intellectual capital is identified as the foundation for HPOs by these scholars. HPOs value people above all other assets. An HPO definition is offered by de Waal (2007):

A High Performance Organization is an organization that achieves financial results that are better than those of its peer group over a longer period of time, by being able to adapt well to changes and react to these quickly, by managing for the long term, by setting up an integrated and aligned management structure, by continuously improving its core capabilities and by truly treating the employees as its main asset. (p.4)

The five-component model of an HPO follows as Figure 1.

Figure 1: High Performance Organization Components



Adapted from Schermerhorn, Hunt, Osborn, and Uhl-Bien, 2009.

The performance of HPOs has been empirically documented to be superior to traditional organizations. Macy (2001) cited a thirty-year study of 1100 companies which concluded that HPOs exhibited annual profit growth 3 to 7 percent faster than traditional organizations, and 30 to 50 percent stronger over three to five year periods. A meta-analysis of extant HPO research undertaken by de Wall (2008) included 280 publications. For HPOs, return on equity, return on assets, and return on investment were respectively 17%, 7% and 20% higher than traditional organizations. Long-term strategic collaborations with external organizations were cited as a significant contributor to this differential performance (de Wall, 2008).

Global markets, multinational companies, lean manufacturing, cost efficiency and technological advance have all contributed to the need of long-term strategic collaborations and inter-organizational alliances to facilitate firms' operational expediency (Hitt, 2011; Luvison and Bendixen, 2010a; and Windrum, Reinstaller, and Bull, 2009). Dynamic, highly competitive environments create considerable uncertainty for participant firms (Gilbert, 2011 and Sirmon, Hitt, Ireland, 2011). Maintaining a competitive advantage in such a vigorous business environment necessitates strategic flexibility (Adner and Helfat, 2003). "Thus, firms either build an internal innovative capability and/or obtain such innovations externally through collaborative relationships" (Sirmon et al., p. 1399).

Prominent collaborative relationships include supply chain management (Chopra and Sodhi, 2004; Li, Ragu-Nathan, Ragu-Nathan, and Rao, 2006; Tan, Kannan, Handfield, and Ghosh, 1999), strategic alliances (Grant and Baden-Fuller, 2004; Kale and Singh, 2009; and Luvison, 2009), and outsourcing (Harland, Knight, Lamming, and Walker, 2005; Jiang, Frazier, and Prater, 2006 and Tadelis, 2007).

Mentzer, DeWitt, Keebler, Min, Nix, Smith, and Zacharia (2001) define supply chain management (SCM) as:

The systematic, strategic coordination of the traditional business functions and tactics across these businesses functions within a particular organization and across businesses within the supply chain for the purposes of improving

the long-term performance of the individual organizations and the supply chain as a whole. (p.18)

“Organizations began to realize that it is not enough to improve efficiencies within an organization, but their whole supply chain has to be made competitive” (Li et al., 2006,p.107).A multi-dimensional SCM framework has been proposed and empirically tested. This framework consists of five dimensions; strategic supplier partnership, customer relationship, level of information sharing, quality of information sharing, and postponement. This SCM framework has been proven to positively impact competitive advantage and organizational performance (Li et al.). Furthermore, the determination of customer requirements and management’s commitment to evaluating performance throughout the supply chain were shown to be significant antecedents to organizational performance (Hitt, 2011; Tan et al., 1999).

While an empirically proven SCM framework affords an organization the potential for increased performance, there is also the potential for increased complexity and risk which may paradoxically impede execution and performance (Chopra andSodhi, 2004; LuvisonandBendixen, 2010a).Supplychain risks include forecasting errors, disruptions and delays whichpotentially increase organizational complexity. “Managing supply-chain risks is difficult because individual risks are often interconnected. As a result, actions that mitigate one risk can end up exacerbating another” (Chopra andSodhi, 2004, p. 54).

Luvison and Bendixen (2010a) posit that as risk of organizational complexity increases firms may need stronger relationship-building mechanisms within the SCM function. Spekman, Spear, and Kamauff (2002) observed that behavioral elements such as trust, company culture, communication and commitment lead to greater adaptive learning, less organizational complexity and therefore a positive influence on SCM performance.

Strategic allianceshave grown in popularity as contemporary organizations seek to establish and maintain competitive advantage (Dyer, Kale,and Singh, 2001; Kale and Singh, 2009). A strategic alliance is a purposive relationship between two or more independent firms that involves the exchange, sharing, or co-development of resources or capabilities to achieve mutual relevant benefits (Gulati, 1995).While strategic alliances do create value for firms, and can be a source of competitive advantage (Dyer et al. 2001; Kale, Dyer,and Singh, 2002; Luvison, 2009) they pose significant failure risk (Dyer, et al.). Bamford, Gomes-Casseres, and Robinson (2004) observed failure rates of between 30% and 70%. Lunnan and Haugland (2008) found alliance termination rates in excess of 50%. Therefore, strategic alliances present a paradox for firms. Kale and Singh (2009) state; “On the one hand, companies face significant obstacles in ensuring sufficient success with alliances. On the other hand, they need to form a greater number of alliances than before, and must increasingly rely on them as a means of enhancing their competitiveness and growth.” (p. 45). Firms with stronger alliance management capability achieved stronger alliance performance (Dyer et al., 2001; Kale and Singh, 2009; Kale et al., 2002).

Outsourcing is a favored form of strategic collaboration and has become extensive and global in scope, incorporating a wide range of operational and strategic activities (Tadelis, 2007).“Outsourcing can be defined as turning over all or part of an organizational activity to an outside vendor” (Barthelemy, 2003). Mohr, Sengupta, and Slater (2011) define outsourcing as:

An arrangement in which one company (the client) hires another company (the service provider) to perform a particular function on its behalf. It involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider.

The incentives for outsourcing include cost reduction (Harland et al., 2005), access to advanced expertise or technology (Harland et al.), ability to focus on core competencies (Luvison and Bendixen, 2010; Windrum, Reinstaller, and Bull, 2009) and strategic flexibility (Mohr et al., 2011). Potential outsourcing shortfalls include supplier overdependence (Adler, 2003), information leakage (Hoecht and Trott, 2006), hidden costs (Bathelmy 2003), and loss of competitive advantage (Adler, 2003; Luvison and Bendixen, 2010) and loss of qualified employees (Bedeian and Armenakis, 1998).

Compounding the tradeoffs from the aforementioned outsourcing advantages and disadvantages are inherent outsourcing paradoxes. Windrum, et al., (2009) identify a productivity paradox; “In the short-run, outsourcing firms are able to reduce costs. In the long-run, firms that engage in outsourcing suffer lower productivity growth than firms that do not engage in outsourcing” (p. 198). This long-run productivity decline is modeled to be a result of myopic management’s focus on short-run declines in costs, the resultant motive to increase total outsourcing, which in turn leads to a decline in long-run innovative capability. Porter (1996) substantiates this long-run productivity decline:

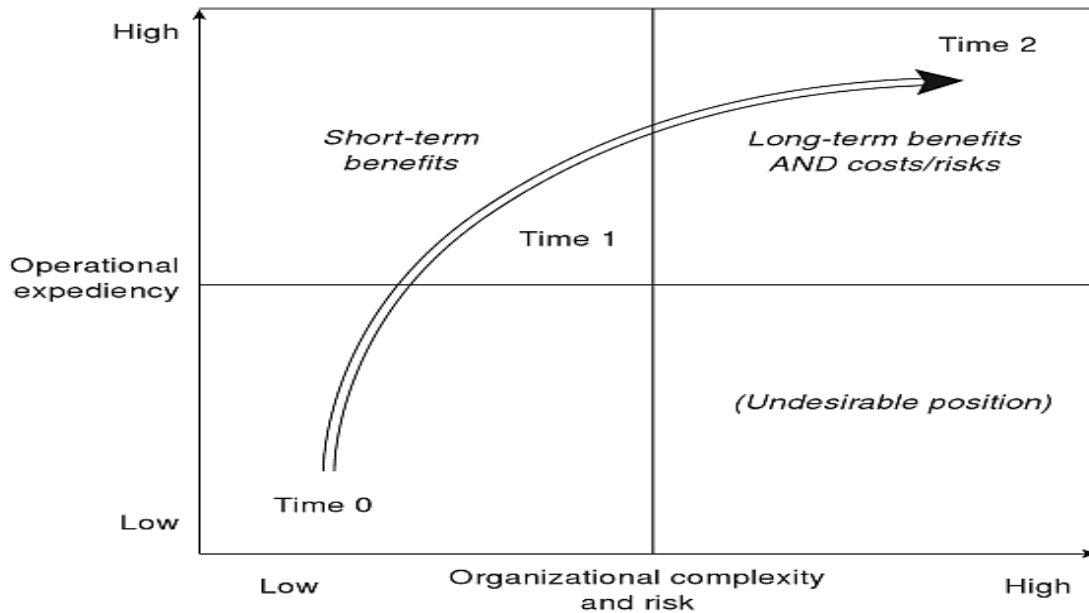
The more benchmarking companies do, the more they look alike. The more that rivals outsource activities to efficient third parties, often the same ones, the more generic those activities become. As rivals imitate one another’s improvements in quality, cycle times, or supplier partnerships, strategies converge and competition becomes a series of races down identical paths that no one can win. (p. 64)

Luvison and Bendixen (2010a) place this innovative capability risk within the context of a positive relationship between operational efficiency and organizational complexity. Luvison and Bendixen (2010b) state:

A vertically integrated firm (Time 0) can improve its operational expediency in the short term by outsourcing (Time 1). However, as it continues to progressively outsource increasingly key – and even core – functionality, additional benefits will be joined by new levels of complexity (Time 2). (p. 28)
Please refer to Figure 2 which follows.

Figure 2: The Relationship of Organizational Expediency to Complexity and Risk

Adapted from Luvison and Bendixen, 2010a.



Luvison and Bendixen(2010a) identify three paradoxes aggregated within Figure 2:

1. Operational Expediency versus Strategic Complexity - Functions moved outside the firm paradoxically create the need for new innovative functions to maintain competitive advantage.
2. Operational Expediency versus Management Complexity - While outsourcing provides expediency through a reduced infrastructure, there remains the requirement for management to support the functional area outsourced with a new infrastructure consisting of new skills, attitudes and behaviors.
3. Operational Expediency versus Learning Complexity –As firms outsource functions, support activities remain, which are predominately people-based and behavioral, consisting of relationship-building mechanisms.

In the face of greater people and behavioral need, firms reducing their structure through outsourcing must endure the risk of losing the most talented employees through voluntary turnover (Bedeian and Armenakis, 1998). Contrary to conventional outsourcing logic, there will be a need for greater organizational effort, skill and coordination as more internal functions are outsourced. Complacent strategy formation, by naïve management may lead an otherwise competitive organization down a furtive course of value destruction. Bossidy and Charan (2002) emphasize the concurrent need for people skills, operational efficiency and strategic competency for execution of strategic goals.

In summation, decisions on participation in strategic collaborations should not be quickly seduced by short-term gain potential. Collaborations require new skills and complexities which are potentially very costly and time consuming. The purpose of this work is to construct a theoretical framework on the

manner in which firms may integrate collaborative endeavors into the strategic management process while achieving greater short-term expediency at lower levels of long-term complexity and risk.

This paper is organized as follows. First, the prevailing theories; transaction cost economics (TCE) and the resource based view (RBV), are conceptually extended into resource orchestration theory. Then, operationalizing research orchestration theory as a foundation, a new theoretical model of the high performance organization is developed. Critical paradoxes and organizational complexities of the strategic collaboration process are examined. The boundary spanning capabilities of the HPO, in conjunction with organizational learning theory are explored to develop propositions regarding the effectiveness of the new HPO model. Study implications and recommendations for future research close this work.

THEORETICAL FRAMEWORKS AND PROPOSITIONS

Strategic collaborations have two theoretical underpinnings; the theory of transaction cost economics (Williamson, 2008, 1991), and the resource based view (Barney, 2001, 1991). Transaction cost economics (TCE) focuses on short-term efficiency, and promotes lucient guidelines to deploy outsourcing decisions (Crook, Combs, Ketchen, andAguinis, 2013; LuvisonandBendixen, 2010b). Harland, et al., (2005) explain TCE as exploring the boundaries of the firm with the most cost effective option. The resource base view (RBV) addresses long-term strategic sustainability through matching core competencies to environmental conditions (Crook, Ketchen, Combs, and Todd, 2008).The RBV posits that possession of rare and valuable resources drive value creation (Holcomb andHitt, 2007; Sirmon, et al., 2007). At times, both theoretical perspectives may be employed in collaborative decisions (Holcomb andHitt, 2007; LuvisonandBendixen, 2010b). However, in employing these approaches, firms may strategically error and outsource core competencies. “Mistakes in identifying core and non-core activities can lead organizations to outsource their competitive advantage” (Harland, et al., p. 839). Such strategic errors will increase risk to an organization (Chopra andSodhi, 2004; Windrum, et al., 2009).

In antithetical manner, TCE and RBV approach strategic decisions from conceptual opposites. TCE takes a markets failure approach, and RBV in contrast, takes an organizational hierarchy approach, assigning priority to competitive advantage obtained through organizational management (Crook et al., 2013).

Common to both theories, TCE and RBV ambiguously prescribe the operational and behavioral changes firms experience post-strategic collaboration commencement (Harland et al., 2005; Holcomb, Holmes, and Connelly, 2009; LuvisonandBendixen, 2010b). “More recently, scholars have added that while owning or having access to valuable and rare resources is necessary for competitive advantage, they must be effectively managed and synchronized to realize a competitive advantage” (Holcomb et al., 2009, p. 457).The link between valuable resources, rare resources and management practices has experienced disparate results. Management exhibits differences in the way resources are combined, managed and utilized (Holcomb, et al.). Sirmon, Hitt, and Ireland (2007) define resource management as; “the comprehensive process of structuring the firm’s resource portfolio, bundling the resources to build capabilities, and leveraging these capabilities with the purpose of creating and maintaining value for customers and owners”, (p. 273).Sirmon, Hitt, Ireland, and Gilbert, (2011) extend this resource management framework to research orchestrationby integrating the complimentary characteristics of asset orchestration:

The complementarities of these frameworks suggest that integrating them will facilitate research of managers’ actions within capability and resource based logics. To support this integration we adopt the term *resource orchestration*. In

the context of the work presented here, resource orchestration draws upon both resource management and asset orchestration and focuses on how managers affect a resource based competitive advantage.” (p. 1394)

Component activities of resource orchestration include structuring the resource portfolio; bundling resources for capability; and leveraging said capabilities to secure value to stakeholders (Sirmon et al., 2011; Sirmon et al., 2007). Through an expository examination of this extant body of knowledge upon research orchestration, logic leads to a need to ascertain the organizational hierarchy or structure most facilitative to research orchestration.

The literature on research orchestration affords perspicuous direction. First of all management must perceive the level of environmental uncertainty and munificence and adapt the organizational structure sub-processes accordingly (Sirmon et al., 2007). These sub-processes must be integrated across organizational levels “Such integration often requires that managers create special liaison units or liaison positions that facilitate the flow of information, encourage joint decision making, and attempt to build trust between key managers in each of the units represented” (Sirmon et al., 2011, p. 1395). Transaction cost economics theorizes that the appropriate structure minimizes transactions costs (Williamson, 1991) and achieves a “discriminating alignment”. Crook et al., (2013) add; “Second, consistent with the newer (i.e., resource-based) theory, assets that are both specific and strategic are more strongly related to hierarchical governance than assets that are just specific” (p. 64). The perceptible conclusion is that matching organization structure to the characteristics of the strategic collaboration maximizes performance. The strategic collaborations delineated within this work fall under the structural classification of hybrids (Crook et al.), which differ distinctly from markets and hierarchies, where all activities take place within one firm. Theoretical frameworks collectively argue in favor of resource orchestration via a hybrid structure that functions in the liaison role. Taken together, the above arguments suggest that management can add long-term value to an organization through the structural adaptation of a dedicated strategic collaboration unit, leading to the following propositions:

Proposition 1: A high performance organization that structurally incorporates a dedicated strategic collaboration unit will financially outperform a high performance organization without a dedicated strategic collaboration unit.

Proposition 2: A high performance organization that structurally incorporates a dedicated strategic collaboration unit will achieve a higher level of short-term expediency with a given level of complexity and risk versus a high performance organization without a dedicated strategic collaboration unit.

Strategic Collaboration and HPO Integration

The research orchestration framework supports the combination or extension of organizational units into a dedicated strategic collaboration function. Extant research on collaborations also supports a dedicated function. Specifically, Tadelis (2007) identifies the need to employ a strategic framework that will overcome the costs associated with greater strategic collaboration complexity and risk. These costs principally stem from knowledge transfer and relationship management issues. Rothaermel, Hitt, and Jobe (2006) conclude that firms will have to deal with the paradoxes and complexity of outsourcing through new forms of organizational structure that “taper integration” between internal and external value chain activities. Sirmon et al., (2011) recommend the creation of appropriate governance structures to support and administer dynamic management capability obtained externally.

Kale and Singh (2009) recommend a “portfolio approach” where a firm’s alliance portfolio is managed in aggregate. The creation of a separate organizational unit or entity responsible for managing a firm’s aggregate alliance activity is critical (Kale and Singh, 2009; Kale et al., 2002). Dyer et al., (2001) studied 1, 572 alliances and found that firms that have a separate, dedicated alliance function perform better and create more value. “Enterprises with a dedicated function achieved a 25% higher long-term success rate with their alliances than those without such a function” (Dyer et al., p. 38).

Grant and Baden-Fuller (2004) identify the need for knowledge sharing. Boundary spanning behaviors and competencies to cope with increased management and learning complexity are recommended in research by Luvison and Bendixen (2010a). Boundary spanning functions serve as knowledge coordination mechanisms which facilitate inter-organizational operations in dynamic environments outside a firm’s hierarchy of authority (Luvison and Bendixen, 2010a). These boundary spanning behaviors include relational leadership, risk management, cross-functional teams and organizational learning. Luvison and Bendixen (2010a) state:

one must assume that firms will exhibit differing abilities to transition through this process based on their unique proficiencies for organizational change and their abilities to evolve adaptive leadership styles and cultures. Consequently, more adept firms can be expected to achieve greater levels of expediency than their competitors at comparable levels of complexity. This offers opportunity for future empirical studies, as it suggests that a firm’s behavioral profile, as well as its ability to adapt that profile to ongoing challenges, can determine its ability to achieve maximum efficiency with minimal incremental complexity when outsourcing. (pp. 29-30)

This conceptual research offers HPOs as the organization structure exhibiting “unique proficiencies for organizational change” and “adaptive leadership styles and cultures”. The HPO foundation of intellectual capital addresses the need for knowledge workers at all levels. The self-directed work team component of HPOs can serve as the basis for cross-functional teams, and therefore facilitate relationship management (Schermerhorn et al., 2009). Finally, we posit that risk management can be developed through the combination of organizational learning and teams.

Organizational learning is advocated as a necessary core skill in research by Spekman, Spear, and Kamauff (2002). Sirmon et al., (2007) state; “Organizational learning is especially important for the effectiveness and efficiency of resource management in dynamic environmental conditions” (p. 275). Kale et al., (2002) recommend addressing the need for organizational learning through a dedicated organizational function to manage strategic collaborations; “First, a dedicated function can act as a focal point for learning and leveraging lessons prior and ongoing alliances.” (p. 750). Organizational learning is an HPO component that includes an adaptive culture and leadership. It is imperative that the external cultural adaptation be present to accept strategic collaborations.

The high performance organization component organizational learning is defined largely by the culture that directs the actions and behaviors of members. Kotter and Heskitt (1992) offer three cultural perspectives; strong, fit, and adaptive. A strong cultural perspective is one which is highly resistant to changes in the business environment. A strong culture may therefore be interpreted as reluctant to adopt strategic partnering and inter-organizational alliances. In order to obtain an alliance and partnership culture (Luvison, 2009), an adaptive perspective is preferable since this cultural perspective will more readily respond to dynamic business climates and the attendant changing needs of stakeholders.

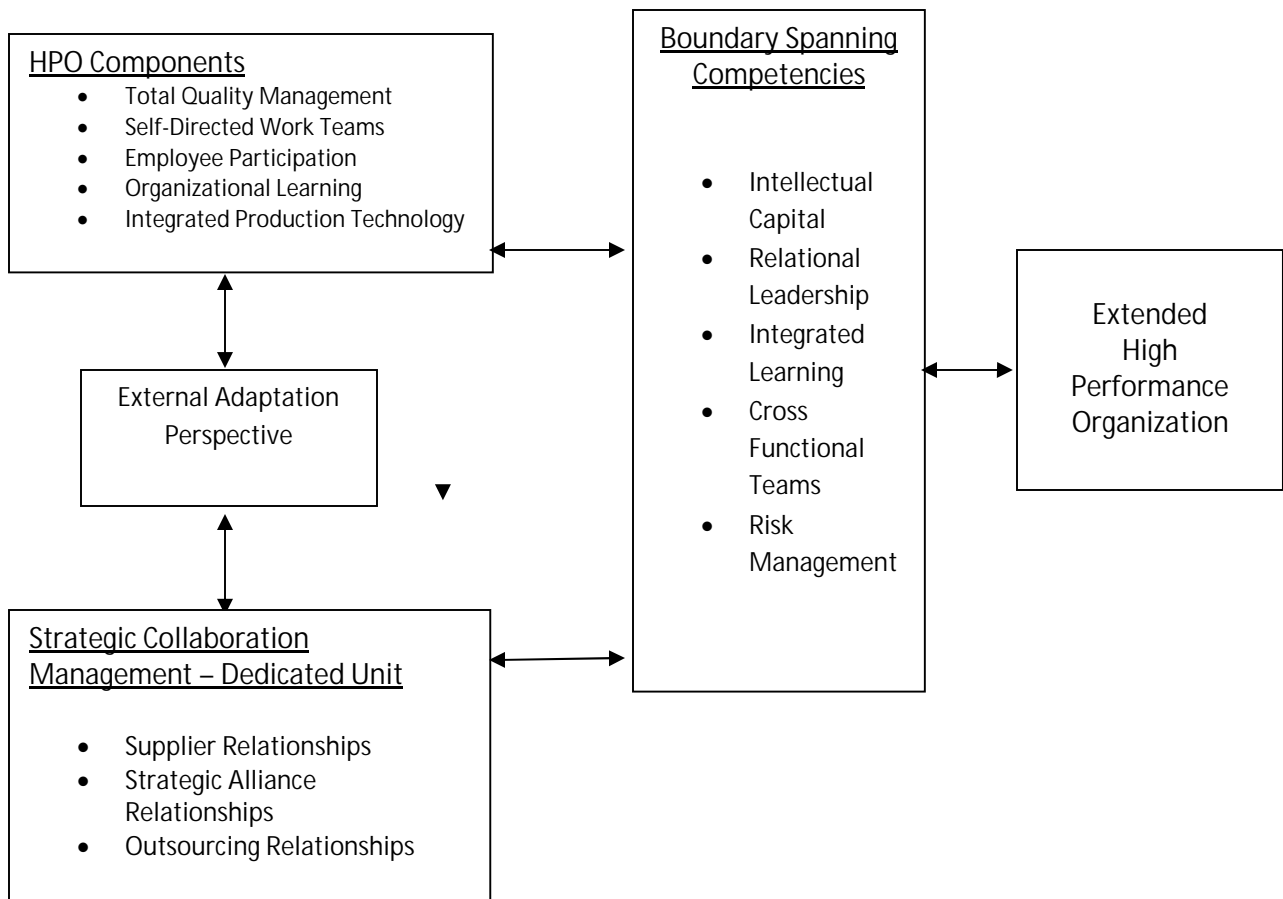
Of critical significance is whether an organizational culture is influenced more by internal integration or external adaptation (Schein, 1990). Internal integration deals with a collective identity and with ways by which members work together. External adaptation involves working with outside stakeholders and goal

attainment. Organizations pursuing increased performance through strategic collaborations will need external adaptation to be the dominant cultural dimension.

Given the interrelated knowledge on resource orchestration, dedicated organizational functions, boundary spanning, organizational learning and HPOs, this study posits a dedicated strategic collaboration unit as the sixth leg of an HPO structure. This research proposes that the revised, synergistic HPO structure will serve as the means to achieve higher levels of performance while reducing organizational risks and complexity from collaboration paradoxes.

A synergistic high performance organization model is offered in Figure 3, which follows.

Figure 3: Synergistic High Performance Organization Model



Adapted from; Schermerhorn, Hunt, Osborn, and Uhl-Bien, 2009, Li, Ragu-Nathan, Ragu-Nathan, and Rao, 2006, Scarso and Bolisani, 2008, and Luvison and Bendixen, 2009.

DISCUSSION AND IMPLICATIONS

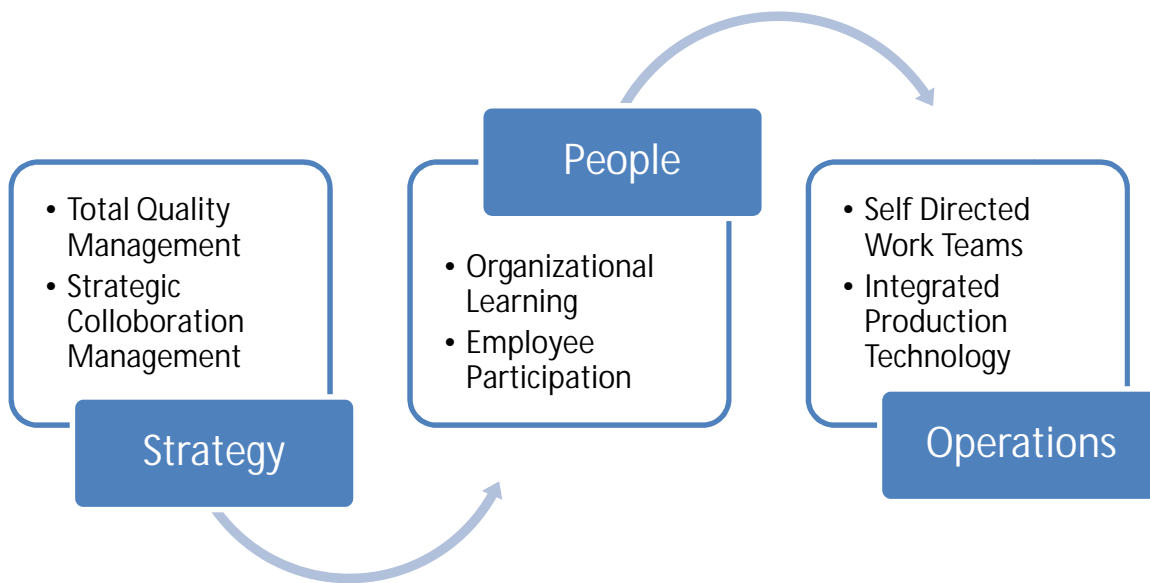
The extended, synergistic HPO structure is offered as the moderator for the constraints and paradoxes of outsourcing, strategic alliances and supply chain management identified by the body of research. It is proposed that an HPO with an external adaptation perspective and boundary spanning competencies incorporated into cultural values will result in an increased level of performance at a greater level of environmental complexity. This integration of a dedicated strategic collaboration unit (DSCU) will complement an HPO with increased performance. Finally, in appreciation of this perceived ability to deliver increased performance we offer the (DSCU) as the sixth component to a common HPO model. The original HPO model (Schermerhorn et al., 2009) is revised to include the sixth component DSCU in Figure 4 which follows. A more interactive model that defines the “new HPO” through the three lens of Bossidy and Charan (2002), strategy, people and operations is offered as Figure 5 below.

The implications of this study include the recognition that dynamic business environments necessitate collaborative agreements with external parties, but said agreements are fraught by failure. Management must explicitly incorporate collaborations into the strategic management process. In addition, within the strategic management process, the inexorable tradeoff between short-term operational expediency and long-term competitive advantage must be afforded greater due diligence. Furthermore, the mechanisms for successfully managing collaborations are very intricate, dynamic and at times counterproductive. This study also emphasizes the need for unique managerial skills, particularly in the behavioral management arena, required to execute boundary spanning between internal organization and external collaboration. This study adds to the body of knowledge on high performance organizations.

The obvious limitation is that this study is a conceptual study. It is hoped that future research will empirically test the propositions. The propositions appear to lend themselves to a combination empirical and qualitative study. Additionally, this study lacks practical detail on the mechanics for effectuating the boundary spanning conditions within the respective HPO components. The intricacies applicable to successful boundary spanning are very suitable for future study.



Figure 4: High Performance Organization Component Integration



Adapted from Bossidy and Charan, 2002.

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