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THE INFLUENCE OF ABSORPTIVE CAPACITY AND STRATEGIC PARTNERSHIPS ON FIRM INTERNATIONAL PERFORMANCE: A CASE OF FINNISH COMPANIES

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The purpose of the respective study is to empirically address the influence of absorptive capacity and strategic partnerships on firm international performance. In particular, the objective is to find out whether those two dimensions, individually, have a relationship with the international performance of Finnish companies.

Prior academic research shows that globalization and related competitive pressures have ensued in a situation in which companies actively evaluate new knowledge management processes and strategic partnering opportunities. Particularly, absorptive capacity and strategic partnerships have been identified as vital and major sources of firm competitive advantage for firms competing within the globalized business environment. However, it is not explicit that these concepts can continuously be turned into increased firm performance and, thus, are worth to examine in varied circumstances. Furthermore, these constructs have limited empirical research conducted in terms of their direct influence on firm performance. Accordingly, this study aims to fulfill this research gap and provide vital information for companies conducting their operations on international scale.

This study is in the form of a quantitative research focusing on Finnish companies conducting international operations. The data were collected with a structured questionnaire utilizing the key informant technique in Finland in 2013 with a total of 98 respondent firms. SPSS software is used to run the statistical analysis of the study and to determine the relationships between the studied concepts.

Consistent with prior research, the results of the study support the notion that there is a significant relationship between organizational absorptive capacity and firm international performance. Conversely, the results indicate that there is not a relationship found between strategic partnerships and firm international performance. In addition to these findings, the results show that strategic partnerships have a significant relationship with firm absorptive capacity suggesting that strategic partnerships may indirectly, through organizational absorptive capacity, influence firm international performance.

The study and the given results provide several implications to companies and their managers concerning firm international operations. First and foremost, given the results of the study, there is a need for managerial action that builds and supports organizational absorptive capacity and strategic partnerships to enable increased firm international performance.

Keywords
Absorptive capacity, Strategic partnerships, International business

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1 INTRODUCTION

The globalization of businesses has encouraged organizations to expand internationally and revitalize their operations to create new revenue streams (Zahra & Hayton 2008). Within the global environment companies are required to conduct divergent business methods in order to increase and sustain both organizational competitive advantage and performance. In particular, learning based knowledge (e.g. Autio 2000; Cohen & Levinthal 1990; Zahra & George 2002) and partnering activities (Elmuti & Kathawala 2001; Narula & Hagedoorn 1999) have become increasingly prominent in the global economy. Globalization and related competitive pressures have ensued in a situation in which companies actively evaluate new knowledge management processes and strategic partnering opportunities. In this study, the concepts of absorptive capacity and strategic partnerships are taken into consideration in order to evaluate them as potential sources of increased firm international performance.

Absorptive capacity is one of the most important concepts to emerge in organizational research in recent decades and has received considerable attention in the literature (e.g. Cohen & Levinthal 1990; Zahra & George 2002; Lane, Koka & Pathak 2006; Flatten, Engelen, Zahra & Brettel 2011). The seminal study of Cohen and Levinthal (1990: 128) concerning absorptive capacity brought out the discussion about a company’s “ability to recognize new, external knowledge, assimilate it, and apply to its commercial ends” and, this way, gain competitive advantage. Zahra and George (2002) define absorptive capacity as a set of organizational routines and processes by which companies acquire, assimilate, transform and exploit knowledge to produce a dynamic organizational capability.

The concept has long been used to explain diverse organizational phenomena within a number of fields including strategy, technology management and international business (Zahra & George 2002) and is seen as a key element of organizational knowledge management processes (Jolly & Therin 2007). Flatten et al. (2011) point out that the academic interest towards absorptive capacity has focused on the concept’s effects on organizational learning, knowledge sharing, innovation, capability building and firm performance. Developing and maintaining absorptive
capacity is crucial to a company’s long-term competitiveness, because absorptive capacity can complement, reinforce and refocus the company’s knowledge base (Lane et al. 2006). Regardless of the increasing popularity of the concept, the study of absorptive capacity remains difficult because of the ambiguity and diversity of its definitions, antecedents, components and outcomes (Zahra & George 2002).

The steady increase of strategic partnerships such as strategic alliances, joint ventures and selling partnerships is one of the significant features of the process of globalization (Meirovich 2010). Accordingly, the popularity of strategic partnerships has attracted attention of scholars and researchers in the management discipline to study the different aspects and characteristics of the issue both theoretically and empirically (Wang 2007). Isoraite and Mykolas Romeris (2009) suggest that the formation of strategic partnerships has been seen as a response to globalization and increasing complexity and uncertainty in the international business environment. Elmuti and Kathawala (2001) argue that for many firms strategic partnering activities are the only way to become and stay competitive and sometimes to even survive in the contemporary business world where strategic partnering is seen as an essential ingredient in organizational strategy.

Several definitions exist to explain the concept of strategic partnerships. First, Elmuti and Kathawala (2001) define strategic partnerships as “strategic alliances between two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial”. Second, Mody (1993) suggests that a strategic partnership is a flexible organizational mode allowing companies to bring complementary strengths together for the goal of experimenting new technological and organizational ideas. Third, Varadarajan and Cunningham (1995) define strategic partnerships as “the pooling of specific resources and skills by cooperating organizations in order to achieve common goals as well as goals specific to the individual partners while retaining their separate entities”. Fourth, Frankel, Whipple and Frayer (1996) bring out that strategic partnerships can be described as “processes where participants willingly modify their basic business practices with the purpose to reduce duplication and waste while facilitating improved performance”. In this study, the definition by Elmuti and Kathawala (2001) introduced above is used to incorporate strategic partnerships into the study.
Prior research suggests that both the level of absorptive capacity and the usage of strategic partnerships can greatly influence a firm’s success and performance in international context. For instance, an increased level of absorptive capacity has been reported to increase firm international performance in general (Park & Rhee 2012; Zahra & Hayton 2008; Jantunen, Puumalainen, Saarenketo & Kyläheiko 2005), to increase international sales (Autio, Sapienza & Almeida 2000) and to lower international entry barriers (Harris & Li 2009) and costs (Eriksson, Johansson & Majkgard 1997). Other benefits may include achieved competitive advantage (Cohen & Levinthal 1990; Zahra & George 2002), enhanced innovation capability (Sikka 1996), interorganizational learning (Lane, Salk & Lyles 2001), intra-organizational transfer of knowledge (Gupta & Govindarajan 2000) and knowledge search (Shenkar & Li 1999).

In terms of strategic partnerships, higher activity in this context has been reported to provide companies in the international arena with simplified and quicker entry into new markets (Garcia-Canal, Duarte, Criado & Llaneza 2002; Zahra & Hayton 2008; Lu & Beamish 2001; Kennedy & Keeney 2009), access to new information (Reuber & Fischer 1997), knowledge (Zahra & Hayton 2008) and skills (Inkpen & Beamish 1997) as well as reduced financial commitment (Elmuti & Kathawala 2001; Ojah 2007; Isoraite & Mykolas Romeris 2009) and risks (Garcia-Canal et al.; Chang, Chen & Lai 2008). Furthermore, strategic partnerships are suggested to increase company image (Stuart, Hoang & Hybels 1999) and reputation (Gulati & Higgins 2003; Marsh 2010) as well as to help companies achieve and sustain competitive advantage (Elmuti & Kathawala 2001). However, despite the potential for sustainable competitive advantage and other related value creation, a number of partnerships are not successful. Dyer, Kale and Singh (2004) bring out that partnerships generally create very little wealth for shareholders while Kale, Dyer and Singh (2002) report that over half of partnerships fail.

While the two concepts, firm absorptive capacity and strategic partnerships, are two separate constructs, prior research has identified a number of linkages to exist between them. For instance, absorptive capacity can act as an intermediary between firm partnering activities and performance (Zahra & Hayton 2008), is affected by companies position within knowledge networks (Noblet et al. 2011) and can increase
the survival rate of partnerships (Crossan & Inkpen 1995; Lane et al. 2001) while strategic partnerships are suggested to increase organizational learning potential (Gulati et al. 1998; Lyles & Salk 1996). In addition to their connection with each other, they have similarities in terms of their reported connection to firm international performance. This can also be discovered from the above introduction of the two concepts. These linkages have made it reasonable two study the two concepts together to determine their influence on firm international performance.

1.1 The objective of the study and research question

Based on the above discussion, firm competitive advantage, especially on international scale, becomes increasingly intertwined with the benefits that companies obtain through increased absorptive capacity and the effective use of strategic partnerships. Consequently, this study empirically addresses the influence of absorptive capacity and strategic partnerships on firm international performance. The objective is to find out whether those two dimensions, individually, have a relationship with the international performance of the companies of the research.

The importance of the topic is inevitable as more and more companies are taking part in the international business activities where organizational success is not a given platitude. Even though a variety of studies exist concerning the studied concepts, a less researched aspect of the concepts is their direct effect on firm performance (e.g. Marsh 2010; Zahra & Hayton 2008). Furthermore, in their study, Jantunen et al. (2005) propose future research to examine the role of different strategic orientations and knowledge-based assets in firm international performance. Thus, a need to gather empirical information of how absorptive capacity and strategic partnerships are affecting firm international performance is reasonable. Accordingly, the following research question has been formed as a premise of this study.

Research question: What is this influence of absorptive capacity and strategic partnerships on firm international performance?
1.2 Research methodology and data

The methodology of the study is quantitative research. Accordingly, statistical tools are used to determine the correlations between the studied variables. Specifically, SPSS software is used to run the statistical analysis of the study. A structured questionnaire was used to collect the data by utilizing the key informant technique in Finland in 2013. Majority of the respondents were CEOs accompanied with some R&D managers, technology managers, owners and chairmen of board, affirming their seniority and key position in the company. The study subjectively measures three different variables consisting of firm international performance, the level of firm absorptive capacity and the perceived competitiveness through strategic partnerships. Absorptive capacity has been further divided into two subgroups referred as potential and realized absorptive capacity (Zahra & George 2002) to detect their potential differences in terms of their influence on firm international performance.

1.3 Structure of the paper

The remainder of the paper is organized as follows. First, in chapters 2 and 3, a through literature overview of the concepts of absorptive capacity and strategic partnerships and their relatedness to firm international performance is provided and, based on the prior research, hypotheses are based as a premise of this study. Chapter 4 puts together the empirical evidence of the study by providing information about the data and measures used as well as the analysis of results. Finally, chapter 5 concludes the study by providing a discussion about the results achieved and their implications to business managers. In addition, the chapter discusses about the contributions and limitations of the respective study and provides suggestions and directions for subsequent research.
2 ABSORPTIVE CAPACITY

Previous chapter introduced how the concept of absorptive capacity is related to the respective study. In order to fully understand absorptive capacity as a possible factor to affect firm international performance, this chapter provides an advanced overview of the specific concept and its underlying dimensions. First, a definition and background of the concept is given. Second, the constituents of absorptive capacity are discussed to identify what exactly firm absorptive capacity is based on. Third, factors affecting the level of organizational absorptive capacity are presented. Fourth, the impact and benefits of absorptive capacity to firm performance and international performance, in particular, are provided. Finally, essential to this study, the identified benefits of absorptive capacity to firm international performance are summarized and hypothesis 1 is formed at the end of the chapter.

2.1 Definition of the concept of absorptive capacity

The concept of absorptive capacity (from here on referred as AC) has received considerable attention in the literature over the last two decades (Flatten et al. 2011). The concept has long been used to explain diverse organizational phenomena within a number of fields including strategy, technology management and international business (Zahra & George 2002). According to Jolly and Therin (2007), AC is a key element of the knowledge management processes of organizations. Flatten et al. (2001) point out that the academic interest towards AC has focused on the concept’s effects on organizational learning, knowledge sharing, innovation, capability building and firm performance. Volberda, Foss and Lyles (2010) introduce AC to span theories of learning, innovation, managerial cognition, the knowledge-based view of the firm, dynamic capabilities and co-evolutionary theories as well as managerial fields such as strategic management, organization theory and international business. However, despite the increasing use of the construct, the study of AC remains difficult because of the ambiguity and diversity of its definitions, antecedents, components and outcomes (Zahra & George 2002).

In their seminal study, absorptive capacity was defined by Cohen and Levinthal (1990: 128) as “an organization’s ability to value, assimilate and apply new
knowledge to its commercial ends” and explains why firms differ in their ability to exploit outside knowledge. Cohen and Levinthal (1990) link AC strongly to R&D, innovation and learning and point out that knowledge is not freely nor effortlessly absorbed by companies. On the other hand, Mowery (1995) defines AC as a broad set of skills needed to deal with the tacit component of transferred knowledge and the need to modify this imported knowledge. Kim, Wu & Erramilli (1998) assert that absorptive capacity requires learning capability and develops problem-solving skills where learning capability is the capacity to assimilate the knowledge for imitation and problem-solving skills to create new knowledge for innovation. Todorova and Durisin (2007) bring out major AC antecedents such as appropriability regimes, social integration, feedback loops, and power relationships.

2.2 Potential & realized absorptive capacity

Zahra and George (2002) define AC as a set of organizational routines and processes by which companies acquire, assimilate, transform and exploit knowledge to produce a dynamic organizational capability. Accordingly, they bring out two different types of AC: potential absorptive capacity and realized absorptive capacity. The former type concerns with acquiring and assimilating external knowledge, whereas the latter refers to the functions of transformation and exploitation of the collected knowledge and turning it into innovation outcome. Figure 1 on the next page illustrates this particular structure of AC. (Zahra & George 2002)
Figure 1. The structure of absorptive capacity. Adapted from Zahra & George (2002).

According to Zahra and George (2002), acquisition refers to an actor’s or a firm’s ability to identify and obtain knowledge that is critical to its operations from external sources such as suppliers and competitors. They identify three attributes of acquisition routines that can influence AC including intensity, speed and direction, which can determine the quality of a firm’s acquisition capability. Lane et al. (2006) suggest that a company’s ability to capitalize on externally held knowledge is linked to its ability to recognize, value and understand potentially valuable new knowledge outside the firm through exploratory learning. Hamel (1991) argues acquisition of new, specialized knowledge to be a motivator for interorganizational collaboration. This is a significant notion for this study, because it shows that there is a connection between firm AC and strategic partnerships. Finally, Foss (2000) points out that knowledge stocks and flows are constructs that are associated with the recognition, assimilation and utilization of new knowledge.

Second, assimilation refers to a firm’s ability to develop processes and routines useful in analyzing, interpreting and understanding the information obtained from external sources (Zahra & George 2002). Zahra and George (2002) suggest that a company’s success in this area could be evaluated based on the number of publications that the firm makes reference. According to Cohen and Levinthal (1990)
and Lane et al. (2006), the development of processes, policies and procedures that facilitate sharing and transfer of externally acquired knowledge within the organization denote the firm’s assimilation capability. Furthermore, Tasi (2001) suggests that knowledge assimilation advance the generation of novel ideas and development of new products.

Third, transformation concerns developing and refining those routines that facilitate combining existing knowledge with acquired and assimilated knowledge for future use. A firm’s success in transformation can be the number of ideas or research projects centered on new products and can be accomplished by adding or deleting knowledge or simply by interpreting the same knowledge in a different manner. Transformation capability provides companies with new insights, facilitates the recognition of opportunities and alters the way a company sees itself and its competitive landscape. (Zahra & George 2002)

Fourth, exploitation refers to a firm’s ability to improve, expand and use its existing routines, competences and technologies to create something new based on the transformed knowledge. The primary emphasis is on the routines that allow companies to exploit knowledge. The number of patents obtained or new products introduced could be used as an indicator of an organization’s success in this area. (Zahra & George 2002)

Zahra and George (2002) point out that potential AC and realized AC have separate yet complementary roles. Both of these subsets coexist at all times and fulfill a necessary but inadequate condition to improve company performance. Firms focusing on their acquisition and assimilation of new external knowledge are able to continuously renew their potential AC, but they may endure from the costs of acquisition without getting the benefits of exploitation. On the contrary, companies focusing on realized AC may gain short-term profits through exploitation, but drop into a competence trap. Accordingly, in absence of realized absorptive capacity, firms and their managers’ capability to acquire and assimilate external knowledge fails in helping to create firm competitive advantage. Thus, high potential AC does not necessarily indicate improved performance. (Zahra & George 2002)
Based on these definitions, Uotila (2006) defines absorptive capacity as a funnel, where potential AC ensures the newness and diversity of the knowledge required, whereas realized AC denotes to operationalization of the new knowledge in the existing processes in order to make the actual innovation processes conceivable. Zahra and George (2002) point out that the theoretical distinction between potential and realized AC is important to be able to evaluate their unique contribution to companies’ competitive advantage. For instance, they say it helps to explain why particular companies are more efficient than others in using AC. Moreover, regardless of the importance of potential AC, realized AC is the principal source of company performance improvements (Zahra & George 2002).

2.3 Constituents of absorptive capacity

AC is influenced by both internal and external factors (Daghfous 2004). The external factors affecting organizational AC are a combination of the external knowledge environment and the organization’s position within the relevant knowledge networks (Noblet, Simon & Parent 2011). In terms of resource-based view, the connections and interactions that companies build with outside organizations can increase their absorptive capacity and improve the effectiveness of the transfer process (Hamel 1991; Levinson & Asahi 1995). This connection of absorptive capacity and firm’s interaction with outside environment is important to this study because of its concentration on both firm AC and strategic partnerships and their potential relatedness to firm international performance. The connection suggests that both constructs, firm absorptive capacity and strategic partnerships, are worth to study together when evaluating potential sources of firm international performance.

According to Cohen and Levinthal (1990), an organization’s absorptive capacity will depend on the absorptive capacities of its individual members. However, they further remind that a firm’s AC is not simply the sum of its employees’ absorptive capacities, but rather depends on the ability of an organization as a whole to stimulate and organize the transfer of knowledge across individuals, functions and departments. In addition, managers play an important role in the formation of organizational AC. For instance, Lenox and King (2004) suggest that managers can directly affect an organization’s AC by providing information to potential adopters.
Thus, it is important for managers to develop managerial ties with partners to foster interactions beyond organizational boundaries (Granovetter 1985). Furthermore, Daghfous (2004) brings out that organizational culture has a positive effect on the level of absorptive capacity if it provides incentives for knowledge diffusion through the empowerment of employees and managers. Tu, Vonderembse, Ragu-Nathan and Sharkey (2006) refer to existing literature suggesting that an open, supportive climate can significantly increase employees ability to learn leading to effective implementation of new ideas and to higher business performance.

Cohen and Levinthal (1990) identify research and development (R&D) spending as the main indicator of an organization’s AC and a generator of new knowledge and innovations. Still, they argue that using R&D expenditures as the only indicator does not always reflect the actual case. Consequently, AC may also be developed as a byproduct of a firm’s manufacturing operations. This is because production experience provides the organization with the background required to recognize the value of and implement methods to identify or automate specific manufacturing processes. Furthermore, they point out that distribution of knowledge within the organization and the organization’s ability to transfer this knowledge internally are critical to absorptive capacity. (Cohen & Levinthal 1990)

On the other hand, AC, and the ability to evaluate outside knowledge, is highly dependent on previous and prior related knowledge. On individual level, accumulated prior knowledge increases both the ability to put new knowledge into memory, referred as acquisition of knowledge, and the ability to recollect and use it. This prior knowledge can range from the most basic skills such as a shared language to the most technological and scientific advancements. Because of this path dependence, AC is said to be cumulative in nature. The extent to which a company or an individual can assimilate information is also a function of the richness of the pre-existing knowledge structure. Thus, the diversity of prior knowledge acts an important role in the context. This is because the more diverse the knowledge background the more probable it is that the incoming information is something that is already known to some extent. Besides increasing the assimilative powers, according to Cohen and Levinthal (1990), knowledge diversity also facilitates the innovative
processes by making possible the individual to make novel associations and linkages. (Cohen & Levinthal 1990)

Zahra and George (2002) bring out that as the cumulative process of learning is shaped by pre-existing knowledge, companies can reach a better learning performance when the new knowledge domain objective is related to what is already known. Lenox and King (2004) suggest that knowledge gained from prior experience facilitates the identification, selection and implementation of related profitable practices. The cumulative nature of knowledge, according to Schmidt (2008), may also be related to another factor of absorptive capacity: employees’ level of education. Thus, the more training and education an employee receives, the higher his or her individual ability to assimilate and use knowledge is. Because of the relationship between organizational AC and the employee AC, the general level of education, training and experience that the employees have has a positive effect on organizations’ level of AC (Schmidt 2008).

2.4 Benefits of high absorptive capacity

As discussed above, absorptive capacity affects firm business performance. Even though it is difficult to evaluate the strength of firm absorptive capacity, companies should have a certain amount of absorptive capacity (Chun-Yao, Da & Chi-Hsia 2011). As brought out by Cohen and Levinthal (1990), AC involves not only the ability to assimilate new knowledge, but also the ability to apply such knowledge to commercial ends and, consequently, to create the possibility for profits and, because of this, is seen as an explanation of firm competitive advantage. Cohen and Levinthal (1990) also bring out that the higher the level of AC, the more likely a company will be proactive in exploiting opportunities present in the environment. Sikka (1996) and Tasi (2001) suggest that organizational AC is an important factor influencing corporate innovative capability. Sikka (1996) argues that if the level of firm AC were high, it would promote its R&D ability and then increase corporate innovation performance. Similarly, Zahra and George (2002) have recognized AC as a potential source of competitive advantage through innovation and strategic flexibility. They argue that the transformation and exploitation capabilities that realized AC encompasses are likely to impact firm performance through product and process
Innovation. Furthermore, absorptive capacity helps to increase the speed, frequency and magnitude of innovation when the new knowledge produced by the innovation becomes part of the company’s AC (Lane et al. 2006).

Chun-Yao et al. (2011) bring out that companies with high absorptive capacity particularly achieve product effectiveness and market value since those companies have more resources, experiences and activities. Similarly, according to Tasi (2001), having an adequate organizational R&D ability, a company with high AC is likely to successfully commercialize its new products as well as business operations in general. Lin, Tan and Chang (2002) bring out that firms cannot successfully integrate and apply external knowledge unless they hold a high level of AC. Fernhaber and Patel (2012) found that AC can have a positive moderating effect on the relationship between product portfolio complexity and a young company’s performance. Moreover, Cohen and Levinthal (1990) argue that knowledge transfer and accumulation facilitate the efficient utilization of knowledge and enable companies to better understand and assess the character and commercial value of knowledge and technological advances.

There are also intangible results of AC including interorganizational learning (Lane et al. 2001), intra-organizational transfer of knowledge (Gupta & Govindarajan 2000) and knowledge search (Shenkar & Li 1999). Cohen and Levinthal (2001) also point out that AC affects the expectation formation and the aspiration level of the company, allowing it to project more accurately the character and commercial prospective of technological advances. Lane et al. (2006) suggest that absorptive capacity helps the speed, frequency and magnitude of innovation and, in turn, that innovation produces knowledge that becomes part of company’s absorptive capacity. Consequently, firms without the required level of absorptive capacity may not be aware of a new opportunity that subsequently emerges, which then reinforces their incapacity to assess additional opportunities (Rhee 2005).

2.5 Firm international performance and absorptive capacity

There are several benefits provided by increased absorptive capacity for firms competing in international environments. According to Park and Rhee (2012), the
knowledge competency of a company exerts a positive effect on firm international performance. They further point out that, in terms of early internationalizing SMEs, the ability of them to perform well in foreign markets can be referred to as the extent of the competences to increase foreign market performance through the acquisition of knowledge-based resources and learning in foreign markets. Jantunen et al. (2005) argue that a company’s knowledge competency is a prerequisite for its adequate performance in the international context. Eriksson et al. (1997) suggest that in the phase of internationalization, companies need to assimilate totally new knowledge such as experimental knowledge of specific foreign business practices and institutional norms as well as general experiential knowledge of how to coordinate for foreign competition. They also found greater foreign knowledge associated with lower perceived costs of international expansion. Zahra and George (2002) suggest that firms that internationalize their businesses in innovative and creative ways may be able to achieve considerable benefits that are not limited to outstanding financial performance. Baum, Schwens and Kabst (2011) argue that firms that endeavor international expansion at or close to their establishment may need to develop their competences to achieve higher performance compared to their competitors.

Johanson and Vahlne (1977) introduced a model in which internationalization process is seen as a step-by-step process rather than a straightforward set of activities. They emphasized the experience factor affecting the decision making process when putting efforts on internationalization process. Their model is built to indicate how the experience factor is related to internationalization variables and helps firms to plan and carry through their activities when expanding businesses to international locations. The theory identifies different kinds of knowledge and market commitment as important factors when evaluating firm internationalization process. In terms of knowledge, factors such as institutional knowledge, business knowledge and internationalization knowledge are highlighted. The model further emphasizes the progressive adoption and use of knowledge of foreign market and, subsequently, the use of knowledge to increase commitments in individual foreign markets. To increase knowledge and decrease uncertainty, the firm has to make commitments to a market. The higher the commitment, the more knowledge, and, thus, success, the company will get with its international activities. (Johanson & Vahlne 1977)
In terms of knowledge management, Ling (2013) studied the global performance of companies from an intellectual capital perspective. The results of the study point out that intellectual capital is positively associated with a company’s global performance. In addition, the results confirmed a moderating effect of knowledge management strategy on the relationship between intellectual capital and global performance. As brought up above, firm absorptive capacity is one dimension to build firm intellectual capital and, thus, these findings suggest that increased firm AC is positively related to firm international performance. Autio et al. (2000) examined that the abilities with greater learning based knowledge intensity were positively related to growth in international sales. In particular, companies concentrating on knowledge creation and exploitation as a source of competitive advantage are more likely to regenerate learning skills that are advantageous for adaption and successful growth in new environments. They also point out that knowledge and learning can be expected to have an influence on international growth in a way that internationalizing companies need to comprehend, share and assimilate new knowledge in order to compete and grow in markets of which they have limited or no prior experience.

In terms of international joint ventures, Lane et al. (2001) studied that as partners acquire and assimilate new external knowledge performance increases. They found that the success and performance in terms of international joint ventures increased the more the joint venture partners acquired and assimilated new external knowledge. Zahra and Hayton (2008) found that absorptive capacity moderates the relationship between international venturing and company’s profitability and growth. Zahra and George (2000) point out that firm international performance is driven by the company’s ability to create knowledge by combining its purposes that meet the requirements of international markets. In their study Mahnke, Pedersen and Venzin (2005) brought out that MNC absorptive capacity positively influences its subsidiary performance and is an important source of competitive advantage. Moreover, In their study Harris and Li (2009) found absorptive capacity to have a positive effect on helping exporting firms to overcome entry barriers. They concluded AC to play an indirect role through the significant and large impact on firm R&D activities, which indirectly lowers international entry barriers.
2.6 Summary and hypothesis formation

The above literature review of absorptive capacity gives a broad and clear view of the respective construct. It has been identified what are the possible benefits gained through an increased level of absorptive capacity and, specifically, the conceivable advantages of AC to firm international performance. The existing literature indicates that, in terms of firm international performance, there are several benefits of and motives to increase the level of firm absorptive capacity. First of all, absorptive capacity has been identified as a source and provider of firm competitive advantage. Furthermore, AC has been reported to positively affect firm international operations through increased innovation, profitability, growth, market access and competitive advantage. Based on these findings, figure 2 below summarizes the benefits that absorptive capacity may provide for companies conducting international business activities. Despite the individual division, these identified benefits are typically closely related to each other and often work in conjunction.

![Diagram of Absorptive capacity & Firm international performance](image)

Figure 2. The identified AC benefits to firm international performance.
As discussed above, the existing literature and prior research indicate that the level of absorptive capacity positively affects firm capabilities to perform in the international business context. Therefore, this study takes a positive stance in terms of absorptive capacity impact on firm international performance. Based on the findings by Zahra and George (2002), absorptive capacity has been divided into potential and realized absorptive capacity to more precisely discover the potential differences in terms of their effect on firm international performance. Accordingly, the following two hypotheses have been formed to test the possible relationships between firm absorptive capacity and firm international performance among the research companies:

**Hypothesis 1a:** An organization’s level of potential absorptive capacity has a positive relationship with firm international performance.

**Hypothesis 1b:** An organization’s level of realized absorptive capacity has a positive relationship with firm international performance.
3 STRATEGIC PARTNERSHIPS

In addition to absorptive capacity, the study concerns the concept of strategic partnerships. Accordingly, this chapter provides a background to strategic partnerships and the variety of issues related to them to get a full understanding of how they may be related to firm international performance. The chapter is organized as follows. First, to get a preliminary understanding of the concept, the term “strategic partnerships” is defined. Second, a trough theoretical background regarding different types of strategic partnerships and the motivations of firms participating in strategic partnerships are given. Third, significant to this study, an introduction to the literature concentrating on the relationship between strategic partnerships and international business performance is provided. To give a full picture of strategic partnerships, the success factors and the disadvantages that may cause a failure of strategic partnerships are also discussed. Finally, a summary of the perceived benefits of strategic partnerships to firm international performance is given and hypothesis 2 is formed at the end of the chapter.

3.1 The concept of strategic partnerships

Strategic partnerships are becoming increasingly prominent in the global economy (Elmuti & Kathawala 2001). The popularity of strategic partnerships has attracted attention of scholars and researchers in the management discipline who have studied the different aspects and characteristics of the issue both theoretically and empirically (Wang 2007). Globalization and related competitive pressures have ensued in a situation in which companies actively evaluate new strategic partnering opportunities instead of seeking to exploit majority control of activities (Narula & Hagedoorn 1999). Isoraite and Mykolas Romeris (2009) bring out that the formation of strategic partnerships has been seen as a response to globalization and increasing complexity and uncertainty in the international business environment. They even argue that, in many markets and industries, strategic partnerships are no longer seen as a strategic option but rather a necessity. Thus, the steady increase of strategic partnerships such as strategic alliances, international joint ventures and selling partnerships is one of the significant features of the process of globalization (Meirovich 2010).
According to Zahra and Hayton (2008), researchers have shown a strong interest in understanding the patterns of corporate venturing over the recent years. Accordingly, many theoretical perspectives can be used to study and explain partnership strategy and behavior including strategic positioning, international business theory, the cost theory, the resource based view and game theory (Clarke-Hill, Li & Davies 2003). According to Wang (2007), the prior theoretical research on strategic partnerships has concentrated on theories such as business strategy theory, real option theory, resource dependence theory, signaling theory and transaction-cost economics theory.

Even though strategic partnerships have been the focus of much organizational research, there are still questions to be answered concerning the motives to form partnerships and the benefits the members are gain from these partnerships (Marsh 2010). Indeed, according to Marsh (2010), a less researched aspect of strategic partnerships is the direct effect of strategic partnerships to firm performance and competitiveness. Zahra and Hayton (2008) bring out that contradictory findings have been reported in the literature on the impact of international venturing activities such as acquisitions, alliances, and corporate venture capital on company’s financial performance.

There are multiple different definitions for strategic partnerships within the existing literature. As defined by Brinkerhoff (2002), a partnership is a dynamic relationship among diverse actors, is based on mutually agreed objectives and is pursued through a shared understanding of most rational division of labor on the respective comparative advantages of each partner. It encompasses mutual influence, with a careful balance between synergy and respective autonomy, which incorporates mutual respect, equal participation in decision-making, mutual accountability and transparency (Brinkerhoff 2002). Within the sector of inter-organizational relationships, Varadarajan and Cunningham (1995) define strategic partnerships as the pooling of specific resources and skills by cooperating organizations in order to achieve common goals as well as goals specific to the individual partners while retaining their separate entities. Furthermore, Lin and Darling (1999) describe them as long-term arrangements to exchange resources with other companies that go beyond the letter of contract in the commitment of both parties to achieve common objectives. Frankel et al. (1996) suggest strategic partnerships can be described as
processes where participants willingly modify their basic business practices with the purpose to reduce duplication and waste while facilitating improved performance.

Elmuti and Kathawala (2001) define strategic partnerships as strategic alliances between two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial whereas Mody (1993) suggests that an alliance is a flexible organizational mode allowing companies to bring complementary strengths together for the goal of experimenting new technological and organizational ideas. According to Isoraite and Mykolas Romeris (2009), a strategic partnership is an agreement between two or more organizations to cooperate in a specific business activity in a way that each benefit from the strengths of the other partners and gain competitive advantage. Gulati and Singh (1998) argue that strategic partnerships are voluntary arrangements between firms involving exchange, sharing and co-development of products, technologies or services. Moreover, Yoshino (1995) defines strategic alliances as partnerships between two or more firms that unite to pursue a set of agreed upon goals, but remain independent subsequent to the formation of the alliance to contribute and to share benefits on a continuing basis in one or more key strategic areas such as technology and products.

Doz (1996) explored cooperation concerning strategic partnerships with reference to five dimensions including goals, environment, tasks, processes and skills. Doz (1996) points out that agreements that are established with primarily short-term cost efficiencies in mind are generally customer-supplier networks while agreements in which a long-term value enhancement is the primary objective are strategic partnerships. Similarly, Narula and Hagedoorn (1999) identify the underlying motive of cooperation to be the differentiating factor between strategic partnerships and customer-supplier networks. Even though both types of partnerships are used by companies conducting international operations, the separation of these two types is important to understand the strategic dimension used in this study.

Figure 3 below illustrates the proposed differences of strategic partnerships and customer-supplier networks based on cost economizing motivation and strategic motivation. The cost-economizing motivation comes out when at least one firm within the relationship has entered the partnership to minimize its net costs, in other
words the company is cost economizing. These kinds of agreements are mainly customer-supplier agreements or vertical relationships within a value-added chain and embody a shorter-term perspective. On the other hand, when partnering firms have strategic motivation, their agreements are aimed at long-term profit optimizing objectives by attempting to enhance the value of a company’s assets. Consequently, when firms form strategic partnerships they forget their short-term profits in the hope that these partnerships provide greater profits in the long-term period. (Narula & Hagedoorn 1999)

![Diagram showing the perceived differences between strategic partnerships and customer-supplier networks.](image)

**Figure 3.** The perceived differences between strategic partnerships and customer-supplier networks. Adapted from Narula & Hagedoorn (1999).

While firm international activities can incorporate partnerships characterized by both of these motivations, the above figure is important distinguish strategic partnerships from standard partnerships where the cost economizing motivation is the primary goal of forming the partnership.
3.2 Types and characteristics of strategic partnerships

Strategic partnerships can have a variety of forms ranging from simple licensing agreement to more complex ones such as joint ventures, R&D contracts, joint R&D, minority equity alliances, joint production, joint marketing and promotion, enhanced supplier partnership and distribution agreements (Yoshino 1995). Closely related, Isoraite and Mykolas Romeris (2009) bring out partnerships types including joint ventures, outsourcing, affiliate marketing, technology licensing, product licensing, franchising and R&D as well as partnerships with suppliers, customers, distributors and competitors. However, a number of researchers (Das & Teng 1998; Gulati & Singh 1998; Yoshino 1995) agree that the basic forms of strategic partnerships include joint ventures, minority equity alliances and contractual alliances. Defined by Das and Teng (1998), joint ventures refer to separately incorporated entities jointly owned by partners, minority equity partnerships include an acquisition of equity shares by either one or more partner companies while contractual partnerships involve no equity transaction or creation of a new entity in an agreement. Furthermore, according to Yoshino (1995), arms-length agreements are partnerships in which collaboration may be nothing more than loose working relationships.

Isoraite and Mykolas Romeris (2009) define a joint venture as an agreement by two or more parties who come together to form a single entity to undertake a particular project when each of the companies have an equity stake in the individual business and share revenues, expenses and profits. On the other hand, affiliate marketing is an Internet related marketing medium through which referrals can be accurately tracked through order processes. Furthermore, technology licensing is a contractual arrangement through which trade marks, intellectual property and trade secrets are licensed to an external company and is mainly used as a low cost way to enter foreign markets. Closely related, in product licensing an external company is allowed to manufacture and sell certain products. Franchising, on the other hand, is a form of partnership in which the franchisees pay a set-up fee and ongoing payments to the franchising company. Finally, Isoraite and Mykolas Romeris argue that distribution relationship, in which businesses involved want more customers, are probably the most common form of strategic partnerships. (Isoraite & Mykolas Romeris 2009)
Figure 4 below illustrates the range of inter-firm organizational forms usually utilized in collaborative agreement activity and how firm internalization and interdependence are related to each type of agreement. The types of partnerships range from wholly owned subsidiaries, which represent complete interdependency between the companies as well as full internalization to spot-market transactions, in which totally independent companies engage in arm’s-length transactions while the companies remain completely independent of each other. Narula and Hagedoorn (1999) bring out that, in general, non-equity types of agreements may be better suited for the joint development of high-tech products and processes while equity agreements are preferred in lower-tech sectors. (Narula & Hagedoorn 1999)

![Diagram of inter-firm organizational forms](image)

**Figure 4. The range of inter-firm organizational forms. (Narula & Hagedoorn 1999: 290)**
Chan (1997) also uses the above-identified continuum and suggests that strategic partnerships lie within the intermediate range along the continuum, with market transactions limited to the purpose of exchanging goods or services on the spot at one end of the spectrum and more binding relationships such as joint-ventures or mergers at the other end. Consequently, Chan (1997) suggests that strategic partnerships involve mutual commitment not typically found in arms-length agreements but, on the other hand, have less impact on the partnering firms’ operations than joint ventures because they do not create new entity, do not involve cross-partner equity investments and do not pool resources indefinitely.

Universities are also play an important role as a form of strategic partnerships in this study because of their possible effect on firm international performance. Elmuti, Abebe and Nicolosi (2005) bring out that a growing number of scientists in public and private universities are involved in close relationships with commercial firms and, thus, increasing the importance of universities playing a role in strategic partnership activities. According to Santoro (2000), industry-university strategic partnerships usually take place within four important components including research support, cooperative research, knowledge transfer and technology transfer. Cyert and Goodman (1997) suggest that strategic partnerships between commercial companies and academic institutions are worth studying because of a number of reasons. First, these partnerships are growing in significance in terms of producing various patents, prototypes and licenses through collaborative research projects. Second, they serve as important basis for global competitiveness and the increasing demand for innovation in products and processes. Third, universities are used as stepping-stones for more complex collaborative activities with multiple firms, universities and other research centers. Fourth, university partnerships are also playing an important role in national R&D policies and affect the distribution of resources considerably (Cyert & Goodman 1997).

The above discussion indicates that companies may have multiple, different types of partnerships with different industry players. However, much of the discussion concerning strategic partnerships has typically focused on alliances between two companies (Elmuti & Kathawala 2001). On the other hand, according to Elmuti and Kathawala (2001), there is a growing trend towards multi-company alliances as
partnering activities increase their popularity as a vital business method. Similarly, Isoraite and Mykolas Romeris (2009) bring out that many global companies have multiple partnerships to coordinate these days.

Hennart (1988) studied how the transaction cost theory can be used to explain the choices between contracts, full ownership and joint ventures (JVs), in other words, to explain the efficiency of different governance structures of multinational corporations. Transaction cost theory puts its attention to cost minimization in terms of different organizational models. In particular, Hennart (1988) discusses about JVs and their usability in different circumstances by introducing a wide variety of JV characteristics and types. Knowledge, in different forms, is brought out to be an important factor when making such decisions. It is said that tacit knowledge, in particular, most often turns out to be expensive and even impossible to transfer between companies. Moreover, the transaction cost of such a transfer is usually impossible to define. Hennart (1988) further points out that tacit knowledge is more efficiently transferred when the transferor and the recipient are linked through common ownership. (Hennart 1988)

3.3 Benefits of strategic partnerships

There are a variety of reasons and motives for companies to form strategic partnerships. Researchers widely agree that organizations enter different partnerships to create and appropriate value (Callahan, Smith & Spencer 2013). Elmuti and Kathawala (2001) suggest that strategic partnerships can be effective ways to diffuse new technologies rapidly, to enter a new market, to bypass governmental restriction expeditiously and to learn quickly from the leading firms in a given field. Gulati and Singh (1998) bring out the following three main motivations to form strategic partnerships from a social network perspective: (1) transaction costs resulting from small numbers bargaining, (2) strategic behavior that leads firms to enhance their competitive behavior and (3) learning. The dimension of learning is important for this study because learning brings absorptive capacity into the context of strategic partnerships.
Arend and Amit (2005) suggest that firms engage in notable partnering activities based on their needs, incentives and opportunities. Furthermore, Solesvik and Westhead (2010) argue that the motives for strategic partnerships might be different between firms operating in cyclical industries and firms operating in stable industries. According to Isoraite and Mykolas Romeris (2009), through strategic partnerships, organizations can improve their competitive positioning, gain entry to new markets, supplement critical skills and share the risks and costs of major development projects. Marsh (2010) suggests that the incentive for a company to establish strategic partnership lies in how the relationship enhances performance and reduces risks, or both.

3.3.1 Achieving and sustaining competitive advantage

Many of the above-mentioned definitions of strategic partnerships are related to firm competitive advantage. Similarly, Das et al. (2000b) suggest strategic partnerships are aimed at achieving competitive advantage for the partnering companies. According to Saxena and Bharadwaj (2009), relationship theories suggest that inter-organizational relationships are means of understanding how organizations can attain and sustain competitive advantage. They further emphasize that a firm can develop valuable resources by carefully managing relationships with external entities such as suppliers, customers, government agencies and universities and, thus, gain and sustain competitive advantage by accessing its key resources in a way that goes beyond the boundaries of the firm.

Elmuti and Kathawala (2001) suggest that for many firms strategic partnering activities are the only way to become and stay competitive and sometimes to even survive in the contemporary business world where strategic partnering is seen as an essential ingredient in organizational strategy. This is especially the case with small companies that realize the advantages they can gain from strategic partnerships in sectors including marketing, distribution, production, research and development as well as outsourcing (Elmuti & Kathawala 2001). Moreover, strategic partnerships can be highly useful in raising entry barriers in an industry reducing potential threats from future competition and can this way provide and sustain firm competitive advantage (Wang 2007).
3.3.2 Outsourcing

Another reason for forming strategic partnerships, according to Elmuti and Kathawala (2001), is to outsource business functions such as marketing, production, accounting, sales or any other process to a company which can do it better and cheaper. This way, companies get access to cheaper means to conduct their businesses and increase their competitiveness. According to Baloh, Jha and Awazu (2008), companies are increasingly specializing in specific expertise, services and products, and thus, engage with business partners to supplement, expand and apply knowledge.

Outsourcing innovation is a contemporary phenomenon and driven by increased competitive pressures because, in the age of rapid innovation, organizations cannot sustain their skills and competences alone. Indeed, many organizations engage in outsourcing of innovation by purchasing knowledge from external entities. This is especially vital when a sudden need for a new knowledge with immediate requirement arises. Moreover, the purchasing company can choose to purchase only the innovation with highest value and incur neither the cost nor the risk of in-house innovation. Ultimately, if done properly, outsourcing to business partners can help companies to achieve sustained innovation and continuous competitive differentiation. (Balah et al. 2008)

3.3.3 Risk reduction and cost sharing

The global business environment has become increasingly complex in a way that, according to Isoraite and Mykolas Romeris (2009), companies alone cannot handle the costs that the complexity promotes. Thus, strategic partnerships are appealing to companies because of the cost savings achieved in executing operations. For instance, companies may seek to form partnerships to find the cheapest labor and production costs (Elmuti & Kathawala 2001). Also, partnerships can reduce the R&D burden of a single company (Isoraite & Mykolas Romeris). Baloh et al. (2008) suggest that by engaging in strategic partnerships organizations try to reduce the costs of internal knowledge creation.
The financial risk that is involved in pursuing a new product of production method may be too big for companies to undertake them individually (Elmuti & Kathawala 2001). To share the burden of these risks, companies come together to form strategic partnerships. According to Baloh et al. (2008), innovating alone in isolation can be costly and risky. As brought out by Rizova (2006), out of ten R&D projects, five fail, three are abandoned and two are eventually successful. The transaction cost theory suggests that the overlap of partners’ businesses benefits strategic partnerships in production and transaction gains due to a shared ground for the development of cross sharing of skills and technology (Chan 1997).

3.3.4 Growth strategies

Strategic partnerships are commonly used as strategic means for adjusting and diversifying to expand the scale and scope of company operations. For instance, organizations participating different intra-industrial and horizontal partnerships are often exploring for new geographical markets as well as new product markets. Consequently, strategic partnerships can help companies in mature industries to enter into new and emerging industries with fewer costs as compared to entering alone. Besides helping in terms of financial capital and experience, firms can also use strategic partnerships to overcome certain governmental regulations. (Wang 2007)

According to Isoraite and Mykolas Romeris (2009), organic growth is insufficient to meeting most companies’ anticipated rate of growth and a partnership could significantly increase the speed to market, which is essential in today’s business environment. Thus, strategic partnerships can facilitate company access to global markets. Elmuti and Kathawala (2001) also confirm that forming strategic partnerships with companies within other markets can make a company’s expansion into those markets much easier and less stressful.

3.3.5 Access to resources and technologies

Companies may use partnerships to obtain resources possessed by other companies that are valuable and essential to achieving competitive advantage. Brinkerhoff (2002) suggests that partnerships with other actors are pursued because these actors
have something unique to offer such as resources, skills, relationships or consent. Wang (2007) brings out resources including materials, human capital, financial capital, knowledge skills, expertise, technologies and experience as motives to form different partnership. Indeed, according to Varadarajan and Cunningham (1995), resource extensions and skills are common reasons for firms to enter strategic partnerships. Accordingly, the resource based view explains the motive for strategic partnerships coming from aggregating, sharing and exchanging valuable resources with other companies when these resources cannot be efficiently obtained through regular market exchanges (Das & Teng 2000). Furthermore, according to Das and Teng (2000), resource-based theory presents two incentives for the establishment of strategic partnerships. First, gaining access to additional resources possessed by other firms and, second, maintaining one’s own resources and identity. Thus, it is possible for companies to merge resources in incomparable ways across organizational boundaries to get competitive advantage over their rivals (Dyer et al. 2004).

Resource aspect of strategic partnerships is especially significant for small companies. This is because large firms have normally more abundant resources in capital availability, logistics, distribution, product manufacturing, marketing activities and other competitive requirements that are crucial for small firms attaining long-term success (Alvarez & Barney 2001). Partnering with larger organizations, small firms can obtain access to those resources as well as legitimacy that might otherwise be unavailable (Chang et al. 2008). According to Jarratt (1998), small and medium sized enterprises can overcome weaknesses such as poor financial position or low levels of expertise in production, marketing and management with the help of strategic partnerships. In these situations large companies can provide smaller ones with organizational capabilities that they lack. In return, larger firms may get access to new innovations as larger firms are said to lack with their innovative capabilities whereas smaller firms often thrive through innovation (Alvarez & Barney 2001).

Elmuti and Kathawala (2001) point out that all the companies are not able to provide the technology they need to effectively compete with their competitors. Thus, a company may seek a strategic partnership in order to gain access to the resources and competences owned by a potential partner without incurring the costs of having these resources within the firm. On the other hand, resource collaboration allows
companies to specialize in particular function in a value chain providing efficiency benefits while concentrating on its core competencies (Marsh 2010). According to Daghfous (2004), companies are increasingly dependent on collaborative technology transfer to face the ever-changing competitive landscape illustrated by rapid technological diffusion. Moreover, brought out by Baloh et al. (2008), partnerships can open the door to multiple knowledge sources and further suggest that accessing and integrating information from these sources can considerably enhance knowledge base of organizations and can help stir up sustainable innovation. This is especially the case with non-profit organizations that generally are limited in resources and skills (Elmuti & Kathawala 2001).

In terms of institutions of higher education, according to Elmuti et al. (2005), strategic partnerships between corporations and universities also have numerous potential benefits. They argue that those partnerships link the intellectual resources of a university with the problem-solving requirements of a company. The benefits of these partnerships include lower R&D expenditure, increasing innovation capabilities and opportunities to technology transfer. (Elmuti et al. 2005)

3.3.6 Company image

When partnerships do not have direct effects on firm performance, alternative reasons to form partnerships are based on social aspects of networks (Marsh 2010). According to Marsh, these benefits could include legitimacy and reputation, which can indirectly affect firm performance. Accordingly, the concern of this point of view is that company in the network is driven by the need for social interaction rather than perceived performance effects and, thus, the partnership does not have real effect on achieving competitive advantage. (Marsh 2010)

Accordingly, partnering activities can be used to signal certain elements of companies. By forming strategic partnerships with other companies, firms provide signals of the quality of their resources (Stuart et al. 1999). This is especially a great benefit for smaller companies that are building their organizational reputation (Gulati & Higgins 2003).
3.4 Firm international performance and strategic partnerships

According to Barnir & Smith (2002), strategic partnering has become an increasingly top-rated method of conducting business in foreign locations. For instance, firms can set up partnerships with local firms to speed up their entry into a new single market (Garcia-Canal et al. 2002). Reuber and Fischer (1997) suggest that firms gather more information about foreign markets through international strategic partners in the early phase of entering international markets. According to Garcia-Canal et al. (2002), a typical local partnership is formed by a multinational enterprise and a local partner with the aim of combining the former’s technology and products with the local knowledge and resources provided by the local firm.

Zahra and Hayton (2008) suggest that companies use international partnerships to enter foreign markets, learn about new industries and acquire new knowledge from foreign partners. For companies considering international expansion, creating strategic partnerships with another company or companies already present within a foreign market place is seen as an attractive alternative to pursue entry alone (Elmuti & Kathawala 2001). Elmuti and Kathawala (2001) suggest that with strategic partnerships smaller companies seeking business opportunities abroad may be empowered to carry out larger projects with less financial commitment as the financial burden of seeking new markets abroad may be too great for an individual firm to bear alone. In addition, as mentioned above, Isoraite and Mykolas Romeris (2009) suggest that technology licensing as a form of strategic partnerships are used as a low cost way to enter foreign markets.

In terms of international business activities, strategic partnerships are not merely foreign market entry modes (Garcia-Canal et al. 2002). Cross-border inter-firm collaboration provides several other benefits to the partnering firms as well (Chang et al. 2008). Lee, Lim and Tan (2000) point out that after a strategic partnership has been formed, it can promote to the enhanced strength of companies operating in overseas markets through advantages of complementary expertise, competitive advantage and increased bargaining power. According to Garcia-Canal et al. (2002), companies choose strategic partnerships both to expedite their internationalization process and, also, to increase their international competitiveness through economies
of scale, risk reduction and learning new capabilities. Chang et al. (2008) suggest that through partnerships with foreign partners, firms might increase social resources by achieving an important position advantage in the global network. Moreover, business strategy theory argues that when firms lack financial capital, experience or expertise to go abroad through international expansion, strategic partnerships provide companies with means to overcome these difficulties (Wang 2007).

In their study, Kennedy and Keeney (2009) found that strategic partnerships are initiated to take advantage of company synergy, reputation and credibility advantages among internationalizing small and medium sized enterprises. In addition, they found that partnerships serve as an important entry mechanism allowing companies to accelerate sales cycles and reduce risks in overseas markets. Moreover, according to Lee et al. (2000), strategic partnerships can contribute to the enhanced strength of companies operating in overseas markets through advantages of complementary expertise, competitive advantage and increased bargaining power. In terms of a new market abroad when there is much uncertainty and instability in that particular market, risk sharing and control is a common motive for companies to form strategic partnerships (Isoraite & Mykolas Romeris 2009).

Furthermore, Ojah (2007) has found wealth effects of strategic partnerships in the international context in terms of cost-efficiency. Accordingly, with the help of foreign partners, international strategic partnerships may ease companies to explore new market opportunities, reduce investment risk and establish distribution channels more efficiently and effectively (Chang et al. 2008). According to Lu and Beamish (2001), besides that partnerships provide companies with entry doorways into successive foreign countries, they reduce the chance of making mistakes in an unfamiliar foreign location. Inkpen and Beamish (1997) suggest that through partnering activities companies may gain access to embedded knowledge or skills of their strategic partner or partners allowing the smaller firm to increase market strength, visibility and credibility within the overseas market and a general improvement in international competitiveness may be reached by the company. Organizational learning theorists (Lyles & Salk 1996) argue that international alliances can increase the learning of new skills and capabilities that considerably improve a company’s ability to innovate, take risks and develop new revenue
streams. According to Lyles and Salk (1996), international alliances enable companies to learn from their partner’s experiences, systems and managerial practices. However, it should be pointed out that firms need a certain level of absorptive capacity to be able to utilize the knowledge they gain. Accordingly, as noted earlier, there is a link existing between firm absorptive capacity and strategic partnerships.

3.5 Success factors of strategic partnerships

To get the desired benefits and gains through strategic partnering activities, several factors need to be considered. According to Austin (2000) and Oliver (1990), a successful partnership incorporates ingredients including shared mission and values, expectation of mutual benefit, personal connection and relationships, shared power and risks as well as mutual trust. Similarly, Gulati and Singh (1998) highlight the importance of trust in strategic partnerships. Furthermore, alliance structure is said to have a major role in the partnership success (Parkhe 1993; Yoshino 1995). Yoshino (1995) found that majority of managers they interviewed believed that a partnership’s success depend on its structure. According to Das and Teng (1996), structural decisions impact almost all aspects of a partnership including operational processes, control mechanisms and exit possibilities.

Before starting to look for potential partnering activities, a firm needs to make itself an attractive partner to be recognized and considered as a valuable strategic partner. According to Barnir and Smith (2002), some of the characteristics that make a firm desirable strategic partner are having financial resources, technological knowhow, market position, reputation and unique managerial and other human resources. Because forming a partnership and becoming a partner is often dependent on what the firm can contribute to the partnership, a major challenge for companies, especially small ones, is how to make itself attractive as a potential strategic partner (Barnir & Smith 2002).

Elmuti and Kathawala (2001) suggest that the commitment of senior management of all companies involved in strategic partnerships is a key factor in the partnership’s success. They emphasize that without senior managements commitment partnerships
will not, first, receive the resources they need and, second, be able to convince others throughout the company of the vitality of the partnership. Elmuti and Kathawala (2001) also suggest trust building to be the most important and most difficult aspect of a successful partnership. They define trust by three forms including responsibility, equality and reliability. Crossan and Inkpen (1995) report that the survival of alliances is dependent upon the ability of partners to extract knowledge and skills from each other. Thus, knowledge sharing and learning have been recognized as essential attributes of a successful strategic partnership. This is an important finding for this study, because it indicates that absorptive capacity can enhance the success of strategic partnerships.

3.6 Drawbacks of strategic partnerships

Despite the potential for sustainable competitive advantage and other related value creation, many partnerships are not successful. The drawbacks of strategic partnerships are naturally closely related to the above-identified success factors of them. Thus, when a failure of a partnership does occur, some of the success factors may not have been fulfilled. While strategic partnerships offer the above-mentioned benefits, a company must be able to convert these into a competitive advantage with tangible benefits for the firm. According to Elmuti and Kathawala (2001), strategic partnerships are not simple or easy to create, develop and support. Isoraite and Mykolas Romeris (2009) remind that strategic partnerships are not suitable for every company and situation. Dyer et al. (2004) bring out that partnerships generally create very little wealth for shareholders while Kale et al. (2002) report that over half of partnerships fail.

A variety of possible reasons exist for why different partnering activities may not be successful. For instance, strategic partnerships are often troubled by interest conflicts between partnering organizations (Chang et al. 2008). This may lead to a possibility that firms expose themselves to opportunistic behavior by the partnering firms that may break off or change the agreements. This is especially the case when the partnering firms differ in terms of organizational size. For instance, Alvarez and Barney (2001) found that small entrepreneurial firms face several risks when partnering with larger companies. In particular, small firms are most at risk of being
taken advantage of by large alliance partners when the only resource they provide these partnerships with is a new technology. This is because large firms have more resources and, thus, greater potential to create economic value through the use of the technology in question.

Elmuti and Kathawala (2001) bring out that strategic partnering projects often fail because of tactical errors made by management. Moreover, partners may have different levels of investment and commitment to the relationship (Dwyer & Oh 1988). Indeed, Elmuti and Kathawala (2001) point out that the importance of relational risk, which is concerned with the probability that partner companies lack commitment to the partnership. According to Callahan et al. (2013), joint control challenges occur because of increased organizational complexity and because each partner may have a defective claim to the opportunities created. Das (2001) found that trust is one of the main contributors to minimize the risks that strategic partnerships provide. Kale, Singh and Perlmutter (2000) bring out the lack of organizational fit in terms of compatible cultures, decisions making processes and other systems. According to Elmuti Kathawala (2001), cultural clash is one of the biggest challenges that companies in partnerships face these days. They report cultural fit to include language, egos, chauvinism and different attitudes to business.

Hennart (1988) suggests that partnerships are fundamentally incomplete contracts because it is often almost impossible to completely specify the future contingencies that may appear during the implementation of the agreements. In terms of international strategic partnerships, alliances are exposed to an additional risk called international risk, which has its roots in national differences in terms of cultures, regulations, technological standards and business practices in general (Brouthers 1995). In addition, Elmuti and Kathawala (2001) suggests that strategic partnerships may create a future local or possibly global competitor when one partner of a partnership might be using the partnership to test a market and prepare a launch of its individual activities.
3.7 Summary and hypothesis formation

The above literature review of strategic partnerships shows that there are multiple explanations and motives for companies to form partnering activities with other organizations. In particular, a number of researchers argue that strategic partnering is a vital provider of firm competitive advantage in the international context and provides companies with multiple potential benefits to increase their international performance. The identified benefits include access to new markets, resources, information, skills and knowledge, decreased risks, costs and financial commitment as well as increased firm image and reputation. Furthermore, while there are drawbacks involved in partnership formation and performance, the existing research indicates that there are inevitable possibilities to increase company competitiveness though the usage of strategic partnerships.

Figure 5 on the next page summarizes the identified benefits that strategic partnerships can dispense to firm international performance. It should be noted that all the benefits introduced above could be exploited to enhance international performance, despite their division to separate subchapters. Moreover, as with AC, these individual benefits can be highly interrelated with each other when one benefit may be, for instance, a consequence of another.
Figure 5. The identified benefits of strategic partnerships to firm international performance.

Since the goal of forming strategic partnerships is to get access to the summarized benefits above and, ultimately, increase and sustain firm competitive advantage, the hypothesis of this study concerning the influence of strategic partnerships on firm international performance has a positive stance despite the introduced possibilities of partnership failures. Given the theoretical findings presented above, the following hypothesis is formed to empirically test whether the identified benefits of strategic partnerships to firm international performance have been acknowledged among the case companies.

**Hypothesis 2:** *An organization’s perceived competitiveness through strategic partnerships has a positive relationship with firm international performance.*

Perceived competitiveness concentrates on how company top management perceives, subjectively, that strategic partnerships are affecting firm performance. This is explained with greater details in the following chapter.
4 EMPIRICAL EVIDENCE

In this chapter, the research design and the empirical part of the study are provided. The first part of the chapter presents the sample data and its collection. The second part presents the measures for the purposes of this study. The third part introduces and analysis the results of the study.

The methodology of the study is quantitative research. Accordingly, statistical tools are used to determine the correlations between the studied variables. SPSS software has been used to run the statistical analysis of the study. First, the correlations of each variable are identified. Second, the regression analysis between the variables is conducted. T-test is used to test the statistical significance of the results.

4.1 Sample data and collection

The data were collected in Finland in 2013 with a structured questionnaire utilizing the key informant technique. In the questionnaire, the suggestions of Podsakoff, MacKenzie, Lee and Podsakoff (2003), were followed to alleviate the common method bias. The initial population comprised cross-industry sample of medium-sized Finnish companies that have at least 50 employees and 5 million euros revenue in order to make sure that the firms have adequately established organization, processes and routines. This made possible to take along smaller companies for which strategic partnering has been identified as vital source of international performance. Voitto+ database that is a service provided by Suomen Asiakastieto Oy was used to identify the companies. A total of 2451 companies were identified at that point as suitable for the sample. During the summer 2013 all the firms considered as eligible were contacted by phone, and during the first contact informants were identified, and they were asked if they were willing to participate in the survey.

Confidentiality was emphasized and a summary of the results to the respondents was promised. Of the 2451 companies, 1034 were reached after several attempts, and 637 companies agreed on answering in the survey. The questionnaire was web-based, and each respondent received a personal link to the questionnaire. A total of four follow-up e-mails were sent to the contact persons who had not responded to the
questionnaire by the time of sending each reminder letter. Final data was collected from 98 firms, representing a response rate of 15.4% (98/637). Most of the respondents were CEOs, but there were some R&D managers, technology managers, owners and chairmen of the board, which affirms their seniority and key position in the company.

Considering the possible non-response bias, ANOVA (analysis of variance) test were performed to check if there were differences between the respondents and with companies that did not answer the survey. The amount of employees (financial year 2011), revenue (financial year 2011), and gross result (financial year 2011) were compared between the firms in the original sample that did not answer the survey, and the respondents. There were no significant differences between the respondent companies and the population what comes to the amount of employees and the profitability (gross result). There was a slight difference in the terms of how big companies (considering revenue) answered the survey. The average revenue of non-respondents was (~99M€) almost twice as much as the average revenue of the respondents (~52M€). This can be explained by the fact that large companies’ CEOs rarely have time for replying research questionnaires.

It was further investigated if there are any differences among the respondents according to their response time (Armstrong & Overton 1977). The respondents were divided into two groups, first, firms which answered without any reminder messages and, second, firms that answered the survey after 1-3 reminder emails. This time, items from the questionnaire were added to the comparison including market performance (adapted from Delaney & Huselid 1996), and innovation performance (adapted from Alegre, Lapierda & Chiva 2006; Alegre & Chiva 2008). This test gave similar results as the previous one; there were no significant differences examining the number of employees and gross revenue, nor with regard the questionnaire based aspects, but there was a slight difference what comes to the revenue. In general, this is not a problem in the sense that the study is concentrating on SMEs.

Furthermore, following the instructions of Podsakoff et al. (2003), the Harman’s one-factor test was utilized in order to assess the risk of common method bias. An explorative factor analysis was conducted in which all the continuous variables were
inserted. The largest factor that emerged accounted for 27 percent of the variance. Therefore, it could be concluded that common-method-variance bias is not a major concern.

4.2 Measures

This study measures three different variables consisting of firm international performance, the level of firm absorptive capacity and the perceived competitiveness through strategic partnerships. Each variable incorporates several items, which have been determined based on prior research. The above-mentioned data have been used in order to discover the relatedness of the items to each company.

First, based on the study by Jantunen et al. (2005), company international success was assessed in a subjective manner in which respondents were asked to evaluate the extent of their satisfaction in the firm international performance on a seven-point Likert scale from one to seven. The variable comprised of six items with the following wording: (1) sales volume, (2) market share, (3) profit, (4) market access, (5) company image, (6) access to new knowledge. The Cronbach alpha value of the variable is .938.

Second, the respondents were asked to determine the level of absorptive capacity of their companies. As brought up above, there are several ways to measure firm absorptive capacity. For instance, R&D spending (Cohen and Levinthal 1990) and the number of patents as well as scientists and engineers employed (Zahra & George 2002) have been used as a proxy to measure firm AC. This study measures absorptive capacity as a firm specific aptitude and ability to absorb knowledge based on subjective assessment of key informants (e.g. Houston & Sudman 1975; Kumar, Stern & Anderson 1993). Based on the work by Zahra and George (2002), absorptive capacity has been divided into two subgroups called potential absorptive capacity and realized absorptive capacity. As Zahra and George (2002) brought out, the distinction between potential and realized absorptive capacity is important to be able to evaluate their unique contribution to firm performance, in this case, firm international performance. Accordingly, a total of 10 items have been divided between potential AC and realized AC. The former comprise four items with the
following wording: (1) Our firm has invested heavily in acquiring new information, (2) Our firm can identify and quickly acquire the required information, (3) Our firm tries to acquire new information as soon as it is available, (4) Our firm constantly tries to increase the number of information sources. The latter comprise six items with the following wording: (5) Our firm can learn new things effortlessly, (6) Our firm can easily interpret the acquired information, (7) Our firm is good at connecting new and existing information, (8) Our firm is good at combining information from various sources for the firm’s benefit, (9) Our firm has practices that enable the utilization of existing and new knowledge, (10) Our firm is good at utilizing new information in its operations. The Cronbach alpha value of potential AC is .746 and realized AC .904.

Third, the perceived competitiveness through strategic partnerships has been subjectively evaluated by using five different items, assessed on a Likert scale from one to seven. The respondents were asked the following question: Estimate how much the following partnership forms have increased firm performance. The items were presented to the respondents with the following wording: (1) partnerships with suppliers, (2) partnerships with customers, (3) partnerships with competitors, (4) partnerships with non-competing companies, (5) partnerships with universities and research institutions. Prior research indicates that these five types of strategic partnerships are among the most used forms (e.g. Isoraite & Mykolas Romeris 2009; Elmuti et al. 2005; Narula & Hagedoorn 1999). The Cronbach alpha value of the variable is .640.

Besides the above-mentioned direct measures related to the research question, control variables were added. The measured control variables included revenues (2011), international experience (the years since beginning of international activities) and industry (industry dummies with other industries as the base condition). The industry segmentation divided companies to six different industries including Metal, Chemical&Forestry, ICT&Electronics, Construction&Infrastructure, Trade&Transport and Services.

Figure 6 below illustrates the research design of this study and how the introduced measures (excluding the control variables) are related to the study and its research
question. It shows how, first, potential absorptive capacity and realized absorptive capacity are related the level of abortive capacity and, second, how partnerships with suppliers, customers, competitors, non-competing companies and universities determine the perceived competitiveness through strategic partnerships. Next, the figure illustrates how absorptive capacity and strategic partnerships are related to firm international performance which is determined by sales volume, market share, profits, market access, company image and access to new information.

Figure 6. The research design of the study.

4.3 Analysis and results

This subchapter presents the empirical results of the study. First, descriptive statistics of the data are presented. Second, regression analysis is provided to further test the set hypotheses. Third, based on the given results, an additional post-hoc test is conducted.
4.3.1 Descriptive statistics

A correlation matrix was computed in order to identify the relationships between the control variables, strategic partnerships, potential AC, realized AC and firm international performance. Table 1 below reports the means, standard deviations and Pearson correlations for the variables.

Table 1. Descriptive statistics and Pearson correlations.

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Int. exp.</th>
<th>Strategic part.</th>
<th>Potential AC</th>
<th>Realized AC</th>
<th>Int. perform.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>10.102</td>
<td>24.45</td>
<td>4.470</td>
<td>4.556</td>
<td>4.700</td>
<td>3.369</td>
</tr>
<tr>
<td>Sd</td>
<td>1.1128</td>
<td>19.814</td>
<td>.979</td>
<td>.940</td>
<td>.931</td>
<td>1.386</td>
</tr>
<tr>
<td>Correlations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Int. experience</td>
<td>.368***</td>
<td>.014</td>
<td>.073</td>
<td>.111</td>
<td>.206**</td>
<td></td>
</tr>
<tr>
<td>Strategic partnerships</td>
<td>.143*</td>
<td>.188**</td>
<td>.269</td>
<td>.114</td>
<td>.123</td>
<td></td>
</tr>
<tr>
<td>Potential AC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realized AC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.620***</td>
</tr>
</tbody>
</table>

*a In-transformed before the correlation analysis due to skewness; *p<.10, **p<.05, ***p<.01

Table 1 demonstrates that firm revenue has a significant relationship with firm international performance (.206**). This is logical as international profits, which are related to firm overall revenue, was one of the items to measure firm international performance. On the other hand, to some extent surprising is that revenue has also a significant relationship with firm international experience (.368***). However, international experience does not have a relationship with firm international performance among the respondents. Indeed, firm revenue is the only variable that international experience has a relationship with.

According to the correlations matrix, potential absorptive capacity does not have a statistically significant relationship with firm international performance (.204) and, thus, hypothesis H1a is not supported. On the other hand, there is a statistically significant relationship between the level of realized absorptive capacity and firm international performance (.366**) and supports the set hypothesis H1b. Moreover, there is a statistically significant correlation (.620***) between potential and realized AC conforming their complementary role. Conversely, though positive, the
correlation (.068) between strategic partnerships and firm international performance is unsubstantial. Accordingly, the results indicate that the perceived competitiveness through strategic partnerships does not contribute to enhanced firm international performance among the case companies and, thus, hypothesis H2 is not supported by this study. Despite this inconsistency between strategic partnerships and firm international performance, there is a significant correlation between strategic partnerships and potential AC (.143*) as well as strategic partnerships and realized AC (.188**).

4.3.2 Regression analysis

To further test the set hypotheses, a hierarchical regression analysis is used. Firm international performance is used as a dependent variable and the other above-introduced variables as well as the control variables as predictor variables. The variable inflation factor (VIF) scores are relatively low with a highest value of 2.146 and do not expose any potential problems in terms of multicollinearity (Hair, Anderson, Tatham & Black 1998; Cohen, Cohen, West & Aiken 2003). Logarithmic transformations were used to correct for the skewness where appropriate. The regression summary is presented in table 2 on the next page.

To find out the predictive values that the independent variables (strategic partnerships, potential AC, realized AC) of the study may add, table 2 provides two regression models. First, Model 1 incorporates only the control variables of the regression analysis and, second, Model 2 incorporates the control variables and the independent variables of the study. The R square of both models is relatively low and insignificant and, thus, indicates a low fit for the data. F values of the regression analysis indicate that Model 1 is statistically insignificant whereas Model 2 is statistically significant. The F change (3.628**) for model 2 is statistically significant and indicates that the independent variables significantly add predictive value to the regression analysis. This can also be interpreted from the increased R square and F values between the two models.
Table 2. Hierarchical regression analysis.

<table>
<thead>
<tr>
<th>Dependent variable:</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>International</td>
<td></td>
<td></td>
</tr>
<tr>
<td>performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>0.192(.169)</td>
<td>0.275(.168)</td>
</tr>
<tr>
<td>Int. experience</td>
<td>0.080(.100)</td>
<td>0.070(.100)</td>
</tr>
<tr>
<td>Metal</td>
<td>0.735(.575)</td>
<td>0.496(.551)</td>
</tr>
<tr>
<td>Chemical&amp;Forestry</td>
<td>1.039(.699)</td>
<td>0.594(.692)</td>
</tr>
<tr>
<td>ICT&amp;Electronics</td>
<td>1.349**(.629)</td>
<td>0.877(.614)</td>
</tr>
<tr>
<td>Construction&amp;Infrastructure</td>
<td>.504(.629)</td>
<td>-.040(.625)</td>
</tr>
<tr>
<td>Trade&amp;Transport</td>
<td>.501(.757)</td>
<td>-.101(.741)</td>
</tr>
<tr>
<td>Services</td>
<td>.503(.543)</td>
<td>.128(.529)</td>
</tr>
<tr>
<td>Strategic partnerships</td>
<td>-.015(.163)</td>
<td></td>
</tr>
<tr>
<td>Potential AC</td>
<td>-.035(.240)</td>
<td></td>
</tr>
<tr>
<td>Realized AC</td>
<td>.609**(.237)</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>.122</td>
<td>.257</td>
</tr>
<tr>
<td>F</td>
<td>1.099</td>
<td>1.889*</td>
</tr>
<tr>
<td>F change</td>
<td>1.099</td>
<td>3.628**</td>
</tr>
</tbody>
</table>

Notes: Standard errors in parentheses

*Logarithmic transformations were used in the analysis to correct for the skewness

*p<.10, **p<.05, ***p<.01

Consistent with Hypothesis H1b (an organization’s level of realized absorptive capacity has a positive relationship with firm international performance), the regression analysis confirms that realized absorptive capacity does have a significant relationship with firm international performance. Conversely, as did the correlation analysis, the regression analysis confirms that there is no direct relationship between potential AC and firm international performance as well as between strategic partnerships and firm international performance and, thus, rejects hypothesis H1a (an organization’s level of potential absorptive capacity has a positive relationship with firm international performance) and hypothesis H2 (an organization’s perceived competitiveness through strategic partnerships has a positive relationship with firm international performance) of the study.

4.3.3 Post-hoc regression analysis

Based on prior literature and the above-identified connection between firm AC and strategic partnerships, this connection is further analyzed and confirmed by
conducting a post-hoc regression analysis between the variables. This provides information of whether there are differences in terms of the direction of how firm AC and strategic partnerships are linked to each other. The variable inflation factor (VIF) scores with a highest value of 1.726 do not expose any potential problems in terms of multicollinearity (Hair et al. 1998; Cohen et al. 2003). Logarithmic transformations were used to correct for the skewness where appropriate. Table 3 below displays the hierarchical regression analysis in a two-directional way.

Table 3. Hierarchical regression analysis of AC and strategic partnerships

<table>
<thead>
<tr>
<th>Dependent variable: AC</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Dependent variable: Strat. part.</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue&lt;sup&gt;a&lt;/sup&gt;</td>
<td>-.037(.100)</td>
<td>-.030(.098)</td>
<td>-.035(.113)</td>
<td>-.026(.111)</td>
<td></td>
</tr>
<tr>
<td>Int. experience</td>
<td>-.005(.005)</td>
<td>-.005(.005)</td>
<td>-.002(.006)</td>
<td>-.001(.006)</td>
<td></td>
</tr>
<tr>
<td>Metal</td>
<td>.312(.291)</td>
<td>.391(.290)</td>
<td>-.403(.329)</td>
<td>-.481(.326)</td>
<td></td>
</tr>
<tr>
<td>Chemical&amp;For.</td>
<td>.145(.359)</td>
<td>.169(.354)</td>
<td>-.123(.406)</td>
<td>-.159(.400)</td>
<td></td>
</tr>
<tr>
<td>ICT&amp;Electron.</td>
<td>.513(.336)</td>
<td>.528(.331)</td>
<td>-.075(.380)</td>
<td>-.203(.380)</td>
<td></td>
</tr>
<tr>
<td>Const.&amp;Infras.</td>
<td>.695*(.358)</td>
<td>.632*(.354)</td>
<td>.323(.405)</td>
<td>.151(.410)</td>
<td></td>
</tr>
<tr>
<td>Trade&amp;Transp.</td>
<td>1.301**(.498)</td>
<td>1.342***(.490)</td>
<td>-.206(.563)</td>
<td>-.529(.582)</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>.480(.307)</td>
<td>.642**(.315)</td>
<td>-.834**(.346)</td>
<td>-.953***(.347)</td>
<td></td>
</tr>
<tr>
<td>Strat. part.</td>
<td></td>
<td></td>
<td>.195*(110)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AC</td>
<td></td>
<td></td>
<td></td>
<td>.248*(140)</td>
<td></td>
</tr>
</tbody>
</table>

R<sup>2</sup> | .172 | .212 | .382 | .433 |
F | 1.642 | 1.858* | 1.345 | 1.586 |
F change | 1.642 | 3.145* | 1.345 | 3.145* |

Notes: Standard errors in parentheses
<sup>a</sup>Logarithmic transformations were used in the analysis to correct for the skewness
*p<.10, **p<.05, ***p<.01

First, firm AC has been used as a dependent variable to examine how strategic partnerships affect firm AC. The regression analysis suggests that strategic partnerships have a significant role in predicting the level of firm AC. Furthermore, the significant F value (1.858*) confirms the statistical significance of Model 2 as a whole while F change value of (3.145*) is also statistically significant and indicates that strategic partnerships add predictive value in determining the level of firm AC. Second, the construct of strategic partnerships is used as a dependable variable in order to identify whether AC adds predictive value in determining the level of strategic partnerships. However, the models to evaluate AC as a predictor of strategic
partnerships are not statistically significant and do not provide a suitable ground to make further conclusions of the relationship in this direction.
5 CONCLUSIONS

The final chapter concludes the respective paper. First, a discussion of the overall study is provided. Second, a summary of the results of the study is presented. Third, managerial implications are brought up. Fourth, the theoretical contributions of the study are evaluated and the limitations are presented. Finally, possible future research directions are provided.

5.1 Discussion

This paper began by drawing attention to how globalization has affected the way companies compete and perform their business operations these days. It has been brought out that companies are required to find divergent methods of conducting their international operations to stay ahead and along with the increased competition. In particular, firm absorptive capacity and strategic partnerships have been identified as significant constructs for companies within the international business environment. Both concepts have been prescribed as important tools for achieving and sustaining firm competitive advantage. Prior research suggests that both the level of absorptive capacity (e.g. Zahra & Hayton 2008; Lane et al. 2001; Harris & Li 2009) and the usage of strategic partnerships (e.g. Garcia-Canal et al. 2002; Elmuti & Kathawala 2001; Ojah 2007) can greatly influence a firm’s success and performance in the international context.

As brought up, firm absorptive capacity has been reported to be one of the most important concepts to emerge in the organizational research in recent decades (Lane et al. 2006; Flatten et al. 2011). In their seminal study Cohen and Levinthal (1990) defined absorptive capacity as “an ability to value, assimilate and apply new knowledge to its commercial ends” and identified AC as a source of firm competitive advantage through the recognition, assimilation and application of new, external knowledge. More critical to this study, Zahra and George (2002) went a step further and introduced two different types of AC: potential absorptive capacity and realized absorptive capacity and suggested that realized AC, in particular, is a primary source of firm competitive advantage and performance. Furthermore, Todorova and Durisin
(2007) brought up major AC antecedents such as appropriability regimes, social integration, feedback loops and power relationships.

Respectively, strategic partnerships have received considerable attention and popularity among both researchers and organizations and have sometimes been considered as prerequisites for organizational competitiveness (Elmuti & Kathawala 2001) and as a response to globalization and the increasing complexity (Isoraite & Mykolas Romeris 2009). Several definitions to describe strategic partnerships have been provided. For instance, Mody (1993) suggests that an alliance is a flexible organizational mode allowing companies to bring complementary strengths together for the goal of experimenting new technological and organizational ideas whereas Brinkerhoff (2002) brought out that a partnership is a dynamic relationship among diverse actors, is based on mutually agreed objectives and is pursued through a shared understanding of most rational division of labor on the respective comparative advantages of each partner. Despite the variety of ways to define strategic partnerships, in this study, according to the definition by Elmuti and Kathawala (2001), strategic partnerships have been defined as “strategic alliances between two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial”.

The objective of the study was to empirically address the influence of absorptive capacity and strategic partnerships on firm international performance. In particular, the aim was to find out whether those two dimensions, individually, have a relationship with the international performance of the case companies. Accordingly, the following research question was put in place: What is the influence of absorptive capacity and strategic partnerships on firm international performance?

Based on the existing literature and prior empirical research, organizational investments in both absorptive capacity and the perceived competitiveness through strategic partnerships were expected to positively influence firm international performance and, consequently, the following three hypothesis were built and tested:

(H1a) An organization’s level of potential absorptive capacity has a positive relationship with firm international performance; (H1b) An organization’s level of realized absorptive capacity has a positive relationship with firm international
(H2) An organization’s perceived competitiveness through strategic partnerships has a positive relationship with firm international performance.

5.2 Findings

Consistent with the hypothesis H1b, the results support the predictions regarding the relationship between realized absorptive capacity and firm international performance. The results suggest that realized AC in particular, is an important construct for companies conducting their business operations on international scale. This indicates that without the abilities to utilize the gained knowledge, companies are not able to turn their knowledge into its commercial ends and, within the current context, boost their international competitiveness. The results concerning absorptive capacity and firm international performance support prior research (e.g. Park & Rhee 2012; Zahra & Hayton 2008; Jantunen et al. 2005; Autio et al. 2000), which have strongly indicated a positive relationship to exist between these two dimensions.

Furthermore, the study confirms the recognition by Zahra and George (2002), that potential and realized AC have separate yet complementary roles. They said that both of these types should coexist at all times to increase firm overall absorptive capacity. However, as the hypothesis H1a was rejected, it is important to acknowledge that, despite the importance of potential AC, realized AC is the primary source of company performance improvements as this study and Zahra and George (2002) suggest. Accordingly, the results of this study verify this respective notion that capability in realized absorptive capacity, in particular, is needed to increase firm performance and, in the context of the current study, firm international performance.

Contrary to the developed hypothesis H2, the study did not find a relationship between the perceived competitiveness through strategic partnerships and firm international performance. A number of reasons may exist for this outcome. First, as prior research indicates, strategic partnerships are not suitable for every company and in every situation (Isoraite & Mykolas Romeris 2009) and, for a variety of reasons, a great proportion of strategic partnerships fail (Kale et al. 2002). Accordingly, the perception that strategic partnerships increase firm competitiveness may not turn into performance increases in reality. In other words, a company and its management, in
particular, may perceive, subjectively, that strategic partnerships increase their competitiveness while there are actually no clear indicators of those partnerships to actually affect that way.

Second, the received results may also indicate that there are other reasons than pure partnership failures behind. For instance, one reason could be the long-term nature (Narula & Hagedoorn 1999) of strategic partnerships when the actual returns may be received later in the future and, thus, do not indicate current increased international performance. In addition, the case companies, or significant proportion of them, may not be actively involved in partnering activities and, thus, not considering them as crucial factors and sources of competitiveness in their business operations. Thus, the low relationship of the perceived competitiveness through strategic partnerships and firm international performance is not necessarily related to the identified drawbacks of strategic partnerships, but can also incorporate their minor importance for some companies as well.

An important finding concerning strategic partnerships was their significant relationship with potential and realized AC. The correlation suggests that strategic partnerships may affect a company’s level of absorptive capacity also identified by the additional regression analysis conducted. Accordingly, though not statistically proved by this study, based on the relationship between absorptive capacity and firm international performance, the results indicate that strategic partnerships may indirectly influence firm international performance through potential and realized AC, in particular. This is in line with the notion of Zahra and Hayton (2008) that absorptive capacity can act as an intermediary between firm partnering activities and performance. Furthermore, one of the motivators to form strategic partnerships has been reported to be the increase of organizational learning potential and, then, firm performance (Gulati et al. 1998; Lyles & Salk 1996). Moreover, Noblet et al. (2011) noted that absorptive capacity is greatly affected by organization’s position within knowledge networks and is also consistent with the identified results of this study.

Alternatively, while firm AC as a predictor of strategic partnerships was not statistically confirmed by the adjunct test of this study, the correlation indicates that organizational absorptive capacity may affect the perceived competitiveness through
strategic partnerships. This goes in line with the suggestion by Crossan and Inkpen (1995), that the survival of alliances is dependent upon the ability of partners to extract knowledge and skills from each other. Similarly, the finding confirms that of Lane et al. (2001) that partnership success and performance increases the more the partners acquire and assimilate new external knowledge. Altogether, it is important to acknowledge, despite the two directional relationship of strategic partnerships and firm absorptive capacity, that strategic partnerships may indirectly affect and increase firm international performance.

5.3 Managerial implications

The study has practical implications to practicing managers and companies conducting international operations. Prior research indicates that the two constructs, absorptive capacity and strategic partnership activities, are highly affected by managerial actions. For instance, Elmuti and Kathawala (2001) brought out that strategic partnering projects often fail because of tactical errors made by management. Similarly, Lenox and King (2004) argued that managers can directly affect organizational absorptive capacity.

The results concerning absorptive capacity and firm international performance highlight a need for managerial action that builds and supports organizational AC. A company should focus on the identified constituents of absorptive capacity in order to build firm knowledge competences and increase firm competitive advantage. Without adequate investments in R&D and other related knowledge, the company cannot recognize, assimilate and exploit new knowledge to its commercial ends. Furthermore, due to the significant role of managers in AC formation, managers need to concentrate on their personal capabilities to acquire, assimilate and exploit external knowledge to create firm competitive advantage.

Furthermore, this study indicates that managers should pay special attention to realized AC. As Zahra and George (2002) and the results of this study point out, in the absence of realized absorptive capacity, companies’ and managers’ ability to acquire and assimilate external knowledge fails in helping to create firm competitive advantage and enhanced international performance. Moreover, though companies
focusing on acquisition and assimilation of new external knowledge are able to renew their potential AC, they may endure from the costs of knowledge acquisition without gaining the benefits of exploitation. However, it should be pointed out that companies need to concentrate on both potential and realized AC due to their complementary roles. As Zahra and George (2002) suggested, companies focusing solely on realized AC, may gain short-term profits through exploitation, but will likely drop into a competence trap when not putting attention to potential AC as well.

Similarly, the commitment of senior management is reported to be a key factor in partnership success (Elmuti & Kathawala 2001). Managers need to clearly communicate and signal in the favor of partnering activities to get the required resources and credibility and, ultimately, organizational success. Furthermore, managers need to be aware of the real incentives and motives before forming strategic partnerships to reduce the risks of partnership failures. Consequently, strategic partnerships should not be created and entered just because they are trendy, but merely because of detailed expectations, requirements and expected benefits.

As brought out, the established value of strategic partnerships does not always materialize. In terms of the identified competitiveness through strategic partnerships, managers should identify what are the possible reasons of why this competitiveness does not turn into enhanced international performance. Indeed, while strategic partnerships can offer the above-identified benefits, a company must be able to convert these into an increased performance. Several company-related characteristics may hinder this specific process and managers need to be able to identify and shape these processes.

Based on the results concerning strategic partnerships and absorptive capacity, managers need to figure out how they could indirectly use strategic partnerships to, first, increase organizational AC, and, second, firm international performance. This strategy could be formulated through examining the constituents of absorptive capacity introduced above. Among a number of different options, an example could be company’s R&D operations. Cohen and Levinthal (1990) recognized investment in R&D to be the main constituent of organizational AC. Thus, a company could increase its level of absorptive capacity through an R&D strategic partnership and
then further, indirectly, enhance its international performance. On the other hand, the introduced motives for strategic partnerships included access to human capital and knowledge skills (Wang 2007) and access to multiple knowledge sources in general (Baloh et al. 2008). These connections are potential enhancers of firm absorptive capacity, which may then lead to increased firm international performance.

5.4 Theoretical contributions and limitations

The contribution of this study lies in creating links between, first, absorptive capacity and firm international performance and, second, strategic partnerships and firm international performance through subjective measures. Although there is a large amount of existing research concentrating firm international performance, view studies have concentrated on absorptive capacity, strategic partnerships and international performance in a conjunction. Moreover, in their study, Jantunen et al. (2005) propose future research to examine the role of different strategic orientations and knowledge-based assets in firm international performance. Thus, this study provides two contributions to the existing literature. First, it empirically tests the effect of absorptive capacity to firm international performance. In particular, the study identifies the different influences of potential and realized AC on firm international performance. Given that absorptive capacity is one of the most important concepts in contemporary organizational research (Lane et al. 2006), it is significant to evaluate its potential impact on firm international performance.

Second, in addition to absorptive capacity, the study empirically tests the impact of strategic partnerships to firm international performance. This is important, because strategic partnerships are increasingly substantial in the global economy (Elmuti & Kathawala 2001) and, yet, over half of strategic partnership efforts fail to provide the desired results (Kale et al. 2002). Indeed, the results contribute to the existing literature that strategic partnerships do not automatically increase firm performance. Furthermore, the study provides linkages between organizational absorptive capacity and strategic partnerships. It shows that these constructs relate with each other and may complementarily be used along with each other to sustain and increase firm international performance.
Regardless of the contributions and implications, this paper has a number of limitations. Given the small proportion of companies from the initial population who conducted the questionnaire, the generalizability of the results somewhat diminish. In addition, considering that the case companies all come from Finland poses a limitation to spread the results across different geographical locations as such without critical interpretation. On the other hand, because of the homogenization of contemporary business activities due to globalization, these findings can be applied to a variety of contexts outside of Finland as well. Moreover, because of the small size of the Finnish domestic market, a large number of Finnish companies are early on involved in international business activities strengthening the generalizability of the results.

In addition to the above-mentioned limitations, as quantitative studies in general, this study may have technical errors in performing the research. For instance, the results and their correctness are dependent on the respondents’ willingness and investment in responding to the questions accurately and truthfully. Moreover, the study uses subjective rather than objective measures to measure the variables used in this study and, thus, may not be as accurate as results coming trough objective measures. For instance, in terms of strategic partnerships, it should be noted that the study does not tell how strategic partnerships are affecting firm international performance per se. Rather, it is brought out how the perceived firm competitiveness through strategic partnerships is related to firm international performance. Furthermore, firm level of absorptive capacity is evaluated through subjective measures rather than using objective measures such as number of patents or R&D expenses. On the other hand, as discussed earlier in the study, the subjective measures gives suitable differentiation for the study as compared to earlier ones and is, despite the limitations, seen as a strength for the study.

5.5 Suggestions for future research

This paper deals with and covers several constructs, which have multiple dimensions to study further. In terms of firm international performance, absorptive capacity and strategic partnership, there is plenty of room and need for future research to study these concepts both individually and in conjunction. For instance, both the impact of
absorptive capacity and strategic partnerships to firm international performance in different industry characteristics should be studied more closely because of the different competitive challenges posed by different industry contexts. In addition, given that the results are based on data coming from Finland alone, future research could contemplate alternative data sources from other geographical locations to examine whether location specific characteristics pose any differences to the importance of the respective concepts.

Based on the proposition by Baron and Kenny (1986) concerning a mediating effect, future research is needed to study this effect in the context of strategic partnerships, firm AC and firm international performance. In this study, the possibility for such an effect was tested without significant results. However, this test of mediating effect should be repeated with alternative data to determine whether such an effect exist within the respective contexts. Positive results would support the notion that strategic partnerships actually affect firm international performance through firm absorptive capacity, which was not statistically proved by this study.

Furthermore, in terms of strategic partnerships, subsequent empirical research could more closely study how exactly strategic partnerships can influence firm international operations by directly posing questions concerning this relationship. Similarly, in terms of absorptive capacity, future research could study the direct relationship of organizational absorptive capacity and firm international performance. This would provide more detailed linkages between the two constructs and firm international performance by allowing managers to directly evaluate those connections instead of linking these dimensions indirectly, as done in this study. Moreover, in terms of firm absorptive capacity and strategic partnerships, more research is needed to evaluate the linkages between these two constructs. While this study and prior literature indicate a connection to exist, more empirical evidence is needed to bring up greater details of this particular linkage.
REFERENCES


