

How asymmetrical alliances impact firm performance and risk

November 4 2020, by Matt Weingarden

Researchers from University of Georgia, University of South Carolina, and University of Arkansas published a new paper in the *Journal of Marketing* that analyzes how asymmetries in pre-alliance network ties between a firm and its alliance partner affect the focal firm's financial performance and financial performance uncertainty.

The study, forthcoming in the *Journal of Marketing*, is titled "Effect of Alliance Network Asymmetry on Firm Performance and Risk" and is authored by Anindita Chakravarty, Chen Zhou, and Ashish Sharma.

Persistent high failure rates of new product alliances call for an identification of factors that might improve alliance outcomes. This research analyzes how asymmetries in pre-alliance network ties between a firm and its alliance partner affect the focal firm's financial performance and [financial performance](#) uncertainty. The research team discovered that direct-tie [asymmetry](#) has an inverted U-shaped effect on the focal firm's abnormal returns and a U-shaped effect on its risk. Indirect-tie asymmetry also has a U-shaped effect on the focal firm's risk. However, the focal firm's innovation quality and preexisting ties with its partner flatten these curvilinear effects.

Results suggest the following in dollar terms. To interpret the inverted U-shaped effect, in order to set a reference point let us assume that a moderate increase in direct-tie asymmetry increases [market capitalization](#) of a firm by \$100MM. A high increase in direct-tie asymmetry will lead to a lower increase of \$78.2MM in market

[capitalization](#). The above findings are the interpretation of the main effects. To interpret the interaction effects of innovation quality at moderate increases in direct-tie asymmetry, begin with the \$100MM lift in market capitalization due to a moderate increase in direct-tie asymmetry. In this scenario, if innovation quality of the firm is high, it can achieve a \$100.57MM increase in market capitalization. However, if innovation quality of the focal firm is low, it can achieve a \$98.04MM increase in market capitalization. To interpret the interaction effects of total interdependence, consider the \$100 MM increase in market capitalization due to a moderate increase in direct tie asymmetry. In this scenario, if the total interdependence of the firm is high, it can achieve a \$114.08MM increase in market capitalization. However, if the total interdependence of the focal firm is low, it can achieve a \$101.6MM increase in market capitalization.

In order to interpret the interaction effects of innovation quality at high increases in direct-tie asymmetry, begin with the \$78.2MM lift in market capitalization due to a high increase in direct-tie asymmetry as shown above. In this scenario, if the innovation quality of the firm is high, it can achieve a \$102.41MM increase in market capitalization. However, if the innovation quality of the focal firm is low, it can achieve a \$34.10 MM increase in market capitalization. To interpret the interaction effects of total interdependence, begin the \$78.2MM increase in market capitalization due to a high increase in direct-tie asymmetry. In this scenario, if the total interdependence of the firm is high, it can achieve a \$113.47MM increase in market capitalization. However, if the total interdependence of the focal firm is low, there is a decrease of market capitalization by \$64.23MM.

Chakravarty summarizes this as "A worst-case scenario managers should avoid—a combination of high direct tie-asymmetry and low total interdependence with the potential alliance partner."

Regarding risks associated with alliance formation, managers should note the importance of a potential alliance partner's indirect ties, specifically how well these ties are interconnected relative to the interconnectivity of their firm's own indirect ties. The research team calculates changes in the focal firm's predicted risk from a moderate increase in indirect tie asymmetry and finds a 68.7% decrease in the focal firm's risk. The corresponding decrease in risk is 24% when indirect tie asymmetry has a high increase. When high and low levels of the moderators are calculated, all combinations reduce predicted risk to different degrees, but one specific combination highlights a worst-case scenario. Specifically, a focal firm's predicted risk increases by 56.8% with a combination of high increase in indirect-tie asymmetry and low total interdependence.

Zhou explains that "In terms of risk, a worst-case scenario emerges that managers should avoid—a combination of high indirect-tie asymmetry and low total interdependence with a potential alliance partner."

This study highlights the need to assess a potential alliance partner's direct ties and indirect ties. Indirect ties of alliance partners are important to assess and direct and indirect ties relative to an [alliance](#) partner directly affect the focal firm's [market](#) capitalization.

More information: Anindita Chakravarty et al, Effect of Alliance Network Asymmetry on Firm Performance and Risk, *Journal of Marketing* (2020). [DOI: 10.1177/0022242920943104](https://doi.org/10.1177/0022242920943104)

Provided by American Marketing Association

Citation: How asymmetrical alliances impact firm performance and risk (2020, November 4) retrieved 24 May 2024 from <https://phys.org/news/2020-11-asymmetrical-alliances-impact->

[firm.html](#)

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.