

External Relationships and the Small Business: A Review of Small Business Alliance and Network Research*

by Christopher T. Street and Ann-Frances Cameron

In order to thrive, small businesses are often advised to develop relationships with external organizations that have the potential to assist business development, survival, and growth. A focus on the external relationships of the small business underlines the vital importance of external resources in moving a small business toward increased success and profitability. Covering the period from 1990 to 2002, this paper reviews the small business literature as it relates to the use of these external relationships (such as organizational partnerships, networks, and alliances). In response to both academic and practitioner demand for further research in this area, an exhaustive analysis of the relevant literature was conducted and three “meta” research questions representing the connections within this literature were formed. The resource-based view of the firm, resource dependency theory, and punctuated equilibrium theory are proposed as useful starting points for exploring these research questions and can give direction for moving forward in this research area.

Introduction

Although considerable debate exists regarding the risks and benefits of building relationships with other organizations for commercial purposes, few would disagree that forming and managing external relationships is an important strategy for

small business development. According to a recent management research report commissioned by the commercial services division of a major North American bank (Anon. 2003), a significant source of sustainable small business success is accessibility to formal and informal business networks and markets.

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The web of external relationships that surrounds any small business, whether referred to as a "strategic alliance" (for example, Miles, Preece, and Baetz 1999) or a "network" (for example, Curran et al. 1993), is capable of providing a wide variety of tangible and intangible benefits. What these benefits are, how they develop, and what factors facilitate or inhibit this development are all questions that have been individually studied for several years, yet the answers to these questions have not been reviewed in an inclusive and comprehensive manner. Consolidation and generalization of the results of this small business research uncovers not only what is generally understood about small business and external relationships, but also provides an important retrospective foundation for future research.

This paper applies McGrath's (1964) organizational systems framework to structure, analyze, and integrate the small business literature as it relates to external relationships. This review seeks to contribute to the field in three specific ways: by consolidating and integrating the different outcomes attributed to small business involvement in external relationships; by identifying the factors influencing these outcomes; and finally by outlining what appear to be the central questions in this area and proposing three potentially useful theoretical orientations which may hold promise in moving this research forward. This review also addresses a variety of calls for such research; BarNir and Smith (2002) recently stated that a better understanding of the factors of successful small business networks is required, whereas Kelley and Rice (2002) suggested that small business researchers should address questions involving the trade-offs in internal development versus external partnerships. This review represents a vital step forward in developing stronger theory in small business and external relationships research.

The paper proceeds in the following manner. The next section defines key terms and describes the review framework structure. The review methodology is then outlined, and the results of a comprehensive literature review are presented. A discussion of the research conducted to date is offered along with the proposal of three potentially useful theoretical perspectives for future research in the final section of this paper.

Framework Development

In this section we define our key terms: small business, external relationship, strategic alliance, and network. We will also introduce the review framework based on McGrath's (1964) organizational systems framework.

A variety of definitions exist for *small business*. For example, a small business is alternately defined in terms of *structural characteristics* such as the number of employees or number of functional divisions (Vinten 1999; Kohn 1997), *performance characteristics* such as amount of annual revenues or depth of the product line (Yap, Thong, and Raman 1994; Calof 1993), or both (Evans 1999; Dana 1998). Definitions also vary depending on factors such as industry type (c.f. Buick, Halcro, and Lynch 1998; Human and Provan 1996), or company age (Feindt, Jeffcoate, and Chappell 2002). We also observe that *small business* is a relative term that often refers to a firm that has fewer resources (for example, employees, revenue, or assets) when compared to others in its industry (Alvarez and Barney 2002). For the purposes of this review, and consistent with the use of the term in this literature, *Small Business* is defined as an independently owned and operated enterprise that is not dominant in its field or industry and which has relatively fewer resources than other companies in its market.

An external relationship is defined as a commercially oriented connection

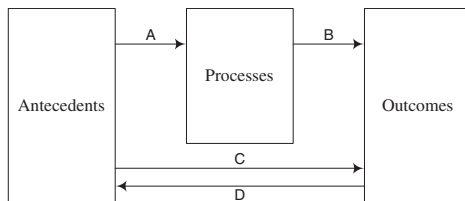
between a small business and other organizations. Two common types of external relationships are alliances and networks. An alliance is defined as “a close, collaborative relationship between two, or more, firms with the intent of accomplishing mutually compatible goals that would be difficult for each to accomplish alone” (Spekman, Isabella, and MacAvoy 2000, p. 37). A network is defined as a collection of relationships that binds a group of independent organizations together (Das and Teng 2002; Gulati 1998, 1995). Alliances and networks are instances of external relationships as they both involve commercially oriented interorganizational connections.

Analytical Framework Development

The purpose of this paper is to *synthesize* the small business and external relationships research and to *identify* and *categorize* variables studied and links between these categories so that the results are useful as a starting point for future small business research. However, this is no easy task as the small business literature involving external relationships covers a broad range of theoretical perspectives, levels of analysis, and research methodologies. Three criteria were used to select a suitable review framework: a theoretical framework should be independent of a specific theoretical perspective (facilitates *synthesis*), should be capable of logically integrating disparate results (facilitates *identification* and *categorization*), and should be comprehensive in that it allows us to include as many papers on the topic as possible (facilitates *synthesis* and *identification*).

Although several frameworks were considered (for example, Scott and Bruce's 1987 framework for small business development stages), McGrath's (1964) organizational systems framework best fits our criteria. When the framework was applied to a handful of papers as a preliminary test, it was found that

Figure 1
Literature Review
Framework



the results could easily be categorized despite significant differences between the papers selected. Other authors have also taken advantage of the adaptability of an organizational systems framework, using it as the basis for reviews on a wide variety of organizational topics (for example, Feindt, Jeffcoate, and Chappell 2002; Gioia, Schultz, and Corley 2000; Schilling 2000; Ford 1996; Cordes and Dougherty 1993).

McGrath's (1964) framework consists of inputs, processes, outputs, and the associations between them. Link "A" in Figure 1 represents the effect of antecedents on a process. For example, small business research suggests that environmental characteristics, such as industry (Beecham and Cordey-Hayes 1998) or geographic location (Buick, Halcro, and Lynch 1998), have an effect on external relationships and relationship formation.

The link denoted by "B" in Figure 1 refers to relationship activities and their associated outcomes, such as engaging in a collaboration process with a foreign partner to increase sales and market shares (Kai Ming Au and Enderwick 1994). Link "C" refers to direct relationships between antecedents and outcomes ("black box" approach) such as those drawn between a small business characteristic (for example, ownership of a key resource) and certain outcomes (for example, enhanced competitive

position) (Meyer, Alvarez, and Blasick 1997).

Prior experience with external partners, whether successful or unsuccessful, has been found to have an effect on future partnership outcomes (Das and Teng 1998), suggesting a reciprocal, or feedback, condition. This feedback relationship is represented by link "D" in Figure 1. The methodology used to review this literature is described in the following section.

Methodology

The literature review was conducted during the summer of 2002. It was estimated that collecting papers published from 1990 to 2002 would provide a manageable number of papers while still reflecting the most recent research efforts. We followed the search method advocated by Webster and Watson (2002), which describes a multistage iterative process designed to provide maximum coverage of a topic.¹

Papers were rejected during these stages because (1) they did not clearly deal with both small business *and* external relationships, (2) they had been identified in previous stages, or, (3) in the case of conference papers or working papers, they were clearly published as a subsequent journal paper. In total, 218 papers were collected, covering the period from 1990 to 2002. Research papers were distributed between journal papers (160) and unique conference proceedings (49), with manuscripts, working papers, and book chapters making up the remainder of the sample (9).

Key information (for example, research question, key definitions, vari-

ables, methodology, results) was captured from each paper.² Thirty-four additional papers were rejected at this point because (1) they did not meet the review criteria upon closer inspection, or (2) they were judged as having insufficient information to be of practical value. The papers were then coded according to the review methodology framework. An additional 44 papers were removed during this step: 30 papers were removed because they did not clearly describe key relationships (e.g., only presented descriptive data), whereas a further 14 papers were too ambiguous to code.³ The antecedent, process, and outcome variables were then independently classified into conceptual groups (for example, "Characteristics of the Entrepreneur," "Performance and Success") by us using Krippendorff's (1980) content analysis strategy. Differences between the two sets of classifications were discussed until we were satisfied that each grouping was as distinct and orthogonal as possible. The next section reports the results of this analysis.

Results

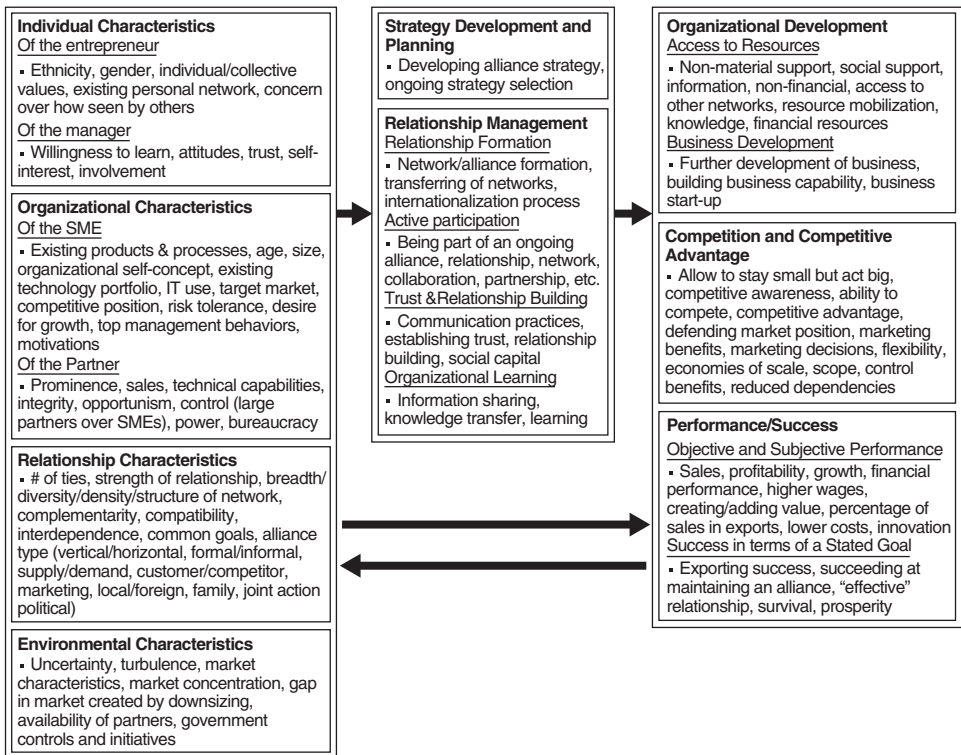
During the content coding and analysis, four antecedent categories, two process categories, and three outcome categories emerged. Figure 2 displays the categories that emerged, arranged according to the McGrath (1964) framework. Individual variables within each category are also listed. The authors and dates of research that falls under each category are listed in Table 1 for antecedents, Table 2 for processes, and Table 3 for outcomes. The following section explores each category, outlining the variables studied

¹Please contact the first author for a more complete description of the sources searched, the detailed review and analysis methodology, as well as the paper database of the full result set from the review process.

²This information is available by contacting the first author.

³The authors thank the independent reviewers for suggestions leading to seven additional papers being identified during the blind review process.

Figure 2
**Conceptual Model of External Relationship Influences,
 Management Processes, and Effects in Small Business**



within the category and gives representative examples of results found.

Antecedents to the External Relationship Process

Four antecedent categories, which follow a general structure that begins at the individual level and progresses to the organizational and finally to the environmental level of analysis, emerged.

Individual Characteristics. At the individual level of analysis, prior research has examined characteristics of the owner and/or entrepreneur, small business managers, and to a lesser extent, employees that are involved in the relationship. For

example, the ethnicity and gender of the entrepreneur can influence the number and type of business relationships the entrepreneur is able to access (Blisson and Rana 2001; Alizadeh 1998). As well, the existing personal network of the entrepreneur or small business executive is often leveraged to increase number of interfirm relationships of his or her business (BarNir and Smith 2002; Alizadeh 1999). A manager's willingness to learn and general attitudes toward partnering influences the knowledge transfer in the relationship (Beecham and Cordey-Hayes 1998), whereas his or her self-interest (regardless of what is best for the business) has a direct impact on whether or not the alliance will

Table 1
Antecedent Literature

Individual Characteristics	Organizational Characteristics	Relationship Characteristics	Environmental Characteristics
Of the Entrepreneur	Of the SME ^a	Aliouat and Denglos (2000)	Ahwireng-Obeng (2001)
Alizadeh (1999)	Ahuja (2000)	Alizadeh (1999)	Atkins and Lowe (1994)
Alizadeh (1998)	Alvarez and Barney (2001)	Autio and Garnsey (1997)	Ballantine, Cleveland, and Koeller (1992)
BarNir and Smith (2002)	Atkins and Lowe (1994)	Baum, Calabrese, and Silverman (2000)	Blisson and Rana (2001)
Blisson and Rana (2001)	Baird, Lyles, and Orris (1994)	Brown and Butler (1995)	Brush (2000)
Bruderl	Ballantine, Cleveland, and Koeller (1992)	Brush (2000)	Chrisman and McMullan (2000)
Preisendorfer, and Ziegler (1992)	Bonk (1996)	Cyr and Re (1999)	Davenport, Davies, and Grimes (1999)
Curran et al. (1993)	Bruderl, Preisendorfer, and Ziegler (1992)	Dickson and Hadjimanolis (1998)	Dollinger and Golden (1992)
Lipparini and Sobrero (1994)	Brush (2000)	Fulop (2000)	Eisenhardt and Schoonhoven (1996)
Moore and Moore (1999)	Brush and Chaganti (1995)	George et al. (1997)	Evans (1999)
Renzulli, Aldrich, and Moody (2000)	Buick, Halcro, and Lynch (1998)	Gilmore et al. (2000)	Guillen (2000)
Weaver and Dickson (1997)	Calof (1993)	Greve (1995)	Hoffman and Schlosser (2001)
	Carayannis, Kassicieh, and Radosevich (2000)	Hancke (1998)	Hoffman and Schlosser (2001)
	Chaston (2000)	Hill, McGowan, and Drummond (1999)	Jeffcoate, Chappell, and Feindt (2000)
	Donckels and Lambrecht (1997)	Hite and Hesterly (2001)	Johnson and Tilley (1999)
	Eisenhardt and Schoonhoven (1996)	Hoffman and Schlosser (2001)	Larson (1991)
	Gomes-Casseres (1997)	Hybels (1999)	Lee, Lee, and Pennings (2001)
			Masarel (1996)

Table 1
Continued

Individual Characteristics	Organizational Characteristics	Relationship Characteristics	Environmental Characteristics
Of the Manager	Hara and Kanai (1994)	Monsted (1994)	Masurel and
Beecham and	Kaufmann (1995)	Naude, Steyn, and Steyn	Janszen (1998)
Cordey-Hayes	Kelley and Rice (2002)	(2001)	McNaughton and
(1998)	Kohn (1997)	Oughton and Whittman	Bell (2001)
Cyr and Re (1999)	Miles, Preece, and	(1997)	Miles, Preece and
Dodd, Jack, and	Baetz (1999)	Oumlil and Oumlil	Baetz (1999)
Anderson (2002)	Mockler and	(1995)	Mockler and
Gibson and	Gartenfeld (2001)	Renzulli, Aldrich, and	Gartenfeld (2001)
Wingham (2001)	Naude, Steyn, and	Moody (2000)	Rosenfeld (1996)
Hoffman and	Steyn (2001)	Shan, Walker, and Kogut	Sarkar, Echambadi,
Schlosser (2001)	Oughton and	(1994)	and Harrison
Meyer, Alvarez, and	Whittman (1997)	Slowinski, Seelig, and	(2001)
Blasick (1997)	Oumlil and Oumlil	Hull (1996)	Shan (1990)
Oughton and	(1995)	Stearns (1996)	Sonfiled (1995)
Whittman (1997)	Sarkar, Echambadi,	Stephenson and Duncan	Steensma et al.
Smith and Holmes	and Harrison (2001)	(1994)	(2000)
(1997)	Shan (1990)	Tjosvold and Weicker	Weaver et al.
Tell (2000)	Stearns (1996)	(1993)	(2000)
Volery and Mensik	Stuart (2000)	Uzzi and Gillespie (2002)	Weaver, Dickson,
(1998)	Sulej, Stewart, and	Varamaki and Pihkala	and Gibson
Weaver et al. (2000)	Keogh (2001)	(1997)	(1997)
Young and Olk	Tambunan and Weaver	Volery and Mensik	Weaver and
(1997)	(1998)	(1998)	Dickson (1997)
	Weaver, Dickson, and	Weaver, Dickson, and	
	Gibson (1997)	Gibson (1997)	

^aSME, small and medium-sized enterprise.

Table 2
Relationship Development and Maintenance Literature

Strategy Development and Planning	Relationship Management			
	Relationship Formation	Trust and Relationship Building	Actively Participating and Managing	Organizational Learning
Planning Baird, Lyles, and Orris (1994) Lu and Beamish (2001) Weaver, Dickson, and Gibson (1997)	Ahuja (2000)	Cooke and Wills (1999)	Beamish (1999)	Beecham and Cordey-Hayes (1998)
	Alizadeh (1998)	Davenport, Davies, and Grimes (1999)	Blissom and Rana (2001)	Stephenson and Duncan (1994)
	Atkins and Lowe (1994)	Feindt, Jeffcoate, and Chappell (2002)	Bryson, Keeble, and Wood (1997)	
	Baird, Lyles, and Orris (1994)	Greve (1995)	Bryson, Wood, and Keeble (1993)	
	BarNir and Smith (2002)	Tell (2000)	Chaston (2000)	
	Bonk (1996)		Chen (1999)	
	Brush and Chaganti (1995)		Coviello and Munro (1995)	
	Brush and Lynch (1998)		Coviello and Munro (1997)	
	Buick, Halcro, and Lynch (1998)		Donckels and Lambrecht (1997)	
	Carayannis, Kassicieh, and Radosevich (2000)		Evans (1999)	
	Carr (2000)		Fariselli et al. (1999)	
	Curran et al. (1993)		Gilmore et al. (2000)	
	Dollinger and Golden (1992)		Golden and Dollinger (1993)	
	Eisenhardt and Schoonhoven (1996)		Hansen, Gillespie, and Gencturk (1994)	
	Fulop (2000)		Havnes and Senneseth (2001)	
	Hancke (1998)		Hull and Slowinski (1990)	
	Jones (1996)		Human and Provan (1996)	
	Kelley and Rice (2002)		Johannisson and Dandridge (1996)	
	Weaver et al. (2000)			
	Larson (1991)			
	Lipparini and Sobrero (1994)			
	Lee, Lim, and Tan (1999)			
	Lu and Beamish (2001)			

Table 2
Continued

Strategy Development and Planning	Relationship Management
Masurel (1996)	Kai Ming Au and Enderwick (1994)
Masurel and Janszen (1998)	Keeble et al. (1998)
McNaughton and Bell (2001)	Kelly, Schaan, and Joncas (2000)
Mockler and Gartenfeld (2001)	MacNabb and O'Neill (1996)
Oughton and Whittman (1997)	Malecki and Tootle (1996)
Rosenfeld (1996)	McGee (2000)
Rothwell and Dodgson (1991)	Moore and Moore (1999)
Shan (1990)	Morrison (1998)
Sonfiled (1995)	Premaratne (2001)
Steensma et al. (2000)	Prevarez (2001)
Su and Poisson (1998)	Reijnders and Verhallen (1996)
Tambunan and Weaver (1998)	Robson and Bennett (2000)
Tell and Lundberg (1996)	Shaw (1999)
Varamaki (1996)	Slowinski, Seelig, and Hull (1996)
Volery (1995)	Smeltz (1988)
	Sulej, Stewart, and Keogh (2001)
	Tjosvold and Weicker (1993)
	Volery and Mensik (1998)
	Wisniewski (2001)
	Young and Olk (1997)

Table 3
Outcome Literature

Organizational Development	Competition and Competitive Advantage	Objective and Subjective Performance	Performance/Success
Access to Resources Alizadeh (1999)	Alvarez and Barney (2002, 2001)	Objective and Subjective Performance	Success: Reaching a Stated Goal
Blisson and Rana (2001)	Bryson, Wood, and Keeble (1993)	Aliouat and Denglos (2000)	Alwhireng-Obeng (2001)
Carayannis, Kassicieh, and Radosevich (2000)	Chen (1999)	Autio and Garnsey (1997)	Alvarez and Barney (2001)
Coviello and Munro (1995)	Coviello and Munro (1997, 1995)	Ballantine, Cleveland, and Koeller (1992)	Beamish (1999)
Human and Provan (2000)	Forrest (1990)	Baum, Calabrese, and Silverman (2000)	Bruderl, Preisendorfer, and Ziegler (1992)
Johannisson and Dandridge (1996)	George et al. (1997)	Brown and Butler (1995)	Bryson, Keeble, and Wood (1997)
Kelly, Schaan, and Joncas (2000)	Gomes-Casseres (1997)	Chaston (2000)	Calof (1993)
Malecki and Tootle (1996)	Hansen, Gillespie, and Gencturk (1994)	Chen (1999)	Dilts and Prough (1989)
Prenaratne (2001)	Hill, McGowan, and Drummond (1999)	Cooke and Wills (1999)	Dodd, Jack, and Anderson (2002)
Stuart, Hoang, and Hybels (1999)	Human and Provan (1996)	Cyr and Re (1999)	D'Souza (1989)
Tell and Lundberg (1996)	Malecki and Tootle (1996)	Dickson and Hadjimanolis (1998)	Guillen (2000)
	Morrison (1998)	Feindt, Jeffcoate, and Chappell (2002)	Hadjimarcou et al. (2000)
	Oughton and Whittman (1997)	George et al. (1997)	Hara and Kanai (1994)
	Pfirrmann (1998)	Golden and Dollinger (1993)	Hoffman and Schlosser (2001)
		Gomes-Casseres (1997)	Hull and Slowinski (1990)
		Havnes and Senneseth (2001)	Johnson and Tilley (1999)
		Hite and Hesterly (2001)	Kaufmann (1995)

Table 3

Performance/Success

continue (Young and Olk 1997). One paper examined small business employees in regards to external relationships. However, this research only investigated employees in the context of forming their own network but did not examine specific characteristics of employees and how they influence organizational alliance processes or outcomes (Tell 2000).

Organizational Characteristics. At the level of the firm, this literature examines both the characteristics of the small business as well as those of the partnering firm. For example, small firms are more likely to form cooperative arrangements than larger firms (Shan 1990), but in relationships between businesses of unequal sizes, the smaller firm is often asked to take on the higher level of risk (Sulej, Stewart, and Keogh 2001). Also, businesses with significant inventions but lacking commercial, technical, and social capital are more likely to seek partners (Ahuja 2000). Research on characteristics of the partnering organizations demonstrates that small business alliances are particularly successful when they partner with large, foreign businesses (Hadjimarcou et al. 2000). As well, the greater the technological capabilities of partners the higher the rate of innovation of the small business (Stuart 2000), and the more prominent the alliance partners the better access the small business has to financial resources (Stuart, Hoang, and Hybels 1999). For the most part, organizational level characteristics tend to focus on firm resources, power, and control, key factors in an interorganizational relationship (Bamford, Gomes-Casseres, and Robinson 2003; Spekman, Isabella, and MacAvoy 2000).

Relationship Characteristics. Characteristics of the small business external relationship, such as relationship strength, network size, network structure, relationship type, goal compatibility, and existing trust, represent the largest area of research regarding antecedents. Find-

ings suggest that the strength or depth of the relationship positively influences financial performance (Uzzi and Gillespie 2002) and small business start-up (Greve 1995). Research on multiple connecting relationships also suggests that the size, density, and structure of the network can affect small business performance (Uzzi and Gillespie 2002; Hite and Hesterly 2001; Baum, Calabrese, and Silverman 2000) and successful business start-up (Renzulli, Aldrich, and Moody 2000). As well, the type of alliance (for example, formal versus informal, with public versus private partners) that should be sought depends on whether the focus is business start-up (Autio and Garnsey 1997), business growth (Autio and Garnsey 1997), or interorganizational learning (Stephenson and Duncan 1994). Relational compatibility and goal congruence among partners ensures that the small business will benefit from the alliance (Hoffman and Schlosser 2001) and overcome their resource constraints (Naude, Steyn, and Steyn 2001). Lastly, high levels of existing trust between potential partners leads to network formation (Volery and Mensik 1998; Oughton and Whittman 1997).

Environmental Characteristics. Research investigates how environmental characteristics specific to the industry, economy, government, and society that the small business resides in, impact the formation and ongoing management of external relationships. At the industry level, significant market share by a large chain store increases small business alliance formation (Masurel and Janszen 1998; Masurel 1996). It has also been suggested that downsizing within the industry creates gaps that can be filled by alliances of smaller businesses (Sonfiled 1995). Characteristics of the economy such as financial uncertainty and changing risk levels increases the popularity of alliances (Weaver et al. 2000) and influences the type of alliance strategies used (Weaver, Dickson, and Gibson 1997).

Targeted government programs and policies increase alliance formation (Ahwiring-Obeng 2001; Rosenfeld 1996), and government institutions can act as intermediaries to encourage the development of trust between alliance members (Davenport, Davies, and Grimes 1999). Society-level effects, such as the influence of national culture on alliance formation, are also studied (Steensma et al. 2000). However, the impacts of society on small business relationships have not received as much attention as the impacts of industry, economy, and government.

External Relationship Processes

Two top-level process categories emerged; strategy development and planning and relationship management, are discussed next.

Strategy Development and Planning. The literature regarding organizational strategy for small business relationships was found to be very slim. A small number of papers examined some partnering strategies commonly used and the outcomes of these strategies. Internationalization strategies, often used by small businesses for market expansion rather than product development (Baird, Lyles, and Orris 1994), are related to business performance (Lu and Beamish 2001). The alliance strategy that small businesses select depends on the level of environmental uncertainty or the strategy development process (Weaver, Dickson, and Gibson 1997). This use of external relationships to hedge against economic uncertainty by increasing the number of partners available and reducing resource dependencies was the primary (and only) strategy discussion found in the literature (Weaver, Dickson, and Gibson 1997).

Relationship Management. Several process themes described various dimensions of relationship management. Relationship formation, participation, trust

and relationship building, and organizational learning collectively represented over 90 percent of the research. Formation issues largely center on the process of finding potential partners, either through the development of new relationships (BarNir and Smith 2002; Ahuja 2000; Bonk 1996; Tell and Lundberg 1996; Volery 1995; Rothwell and Dodgson 1991) or in gaining referrals from others (Alizadeh 1998). Not surprisingly, the formation process is well studied relative to other processes, as Table 2 attests.

The remainder of the process-oriented literature represents management practices associated with managing and building relationships, and organizational learning. A small number of authors have examined the details of relationship management, such as how individual entrepreneurs can hand over their networks upon retiring (Gilmore et al. 2000), how to benefit from an alliance while maintaining independence (Slowinski, Seelig, and Hull 1996), how intermediary institutions can help develop trust between business partners (Davenport, Davies, and Grimes 1999), and how developing cooperative goals within the relationship contributes to developing the business (Tjosvold and Weicker 1993). In addition, the effect of external relationships on organizational learning and knowledge transfer (Beecham and Cordey-Hayes 1998; Stephenson and Duncan 1994) are discussed, but very briefly, and are relatively underdeveloped themes.

External Relationships and Small Business Outcomes

Three outcome categories emerged. Outcomes related to organizational development, competitive forces, and small firm performance/success are discussed next.

Organizational Development. Within this research, organizational development generally refers to the small firm's ability

to access needed resources and, to a lesser extent, business development. Conventional wisdom suggests that one primary motivation for an organization to join an alliance or participate in a network is to gain access to complementary resources (Spekman, Isabella, and MacAvoy 2000; Meyer, Alvarez, and Blasick 1997). Accordingly, it is not surprising that "access to resources" has been examined as an outcome in this literature. For example, gaining access to material resources such as financial capital or research and development facilities (Premaratne 2001; Malecki and Tootle 1996; Tell and Lundberg 1996), referrals and contacts (Stuart, Hoang, and Hybels 1999; Coviello and Munro 1995), as well as social support (Alizadeh 1999) are all shown or expected to be influenced by external relationships. It is interesting to note that, whereas resource access and mobilization are regarded as particularly important in the small business context, only nine studies covered this topic.

Although several papers mention business development as a benefit of forming external relationships, few actually concentrate on it as an outcome. The effect of external relationships on increased small business capability (Brush 2000; Chaston 2000) and start-up opportunities (Greve 1995; Tjosvold and Weicker 1993) represents the dominant perspectives under this general topic. Similar to research that focuses on resource access, examination of business development outcomes appears understudied relative to the importance placed on it by other authors (for example, Spekman, Isabella, and MacAvoy 2000; Doz and Hamel 1998).

Competition and Competitive Advantage. Prior research that examines outcomes related to competition effects and changes to competitive advantage cover a wide variety of subjects. Beneficial competitive outcomes of small business relationships include enhanced ability to

compete (Pfirrmann 1998), increased competition awareness (Human and Provan 1996), lower reliance or dependence on others (Skinner and Guiltinan 1986), as well as increased economies of scale and scope (Gomes-Casseres 1997; Oughton and Whittman 1997). Downsides of trying to gain competitive advantage through relationships have also been examined, such as the dangers of being appropriated by the larger firm (Alvarez and Barney 2002, 2001), or losing control when partnering with larger firms (Gomes-Casseres 1997; Forrest 1990).

Performance/Success. The most popular small business outcome themes in this literature deal with performance and success. The effect of external partnering on performance is considered in both objective terms such as sales, profitability, or lower costs (Chen 1999; Kai Ming Au and Enderwick 1994; Ballantine, Cleveland, and Koeller 1992), as well as in more subjective terms such as increased innovation and added value (Chaston 2000; Dickson and Hadjimanolis 1998; Monsted 1994).

Within this literature, *success* is typically meant to represent the achievement of a small business goal. For example, although risks do exist, a desire to increase international sales can be achieved by engaging a foreign partner (Dodd, Jack, and Anderson 2002; Guillen 2000). Other successful outcomes are planned increases in organizational, market, and product development (Prevez 2001; Bryson, Keeble, and Wood 1997; Varamaki and Pihkala 1997; Hara and Kanai 1994). In some cases, small business survival is also considered a successful outcome of external relationships (MacNabb and O'Neill 1996; Bruderl, Preisendorfer, and Ziegler 1992).

Links between Antecedents, Processes, and Outcomes

The results just discussed also reveal the links that have been studied between antecedents, process, and outcomes. For

example, antecedents such as the characteristics of the entrepreneur influence processes such as the type of relationship that develops (Blisson and Rana 2001), antecedents such as the characteristics of the relationship influence outcomes such as financial performance (Uzzi and Gillespie 2002), and processes such as working toward cooperative goals within the relationship influence outcomes such as business development (Tjosvold and Weicker 1993). These plus other examples demonstrate that the links of A, B, and C from Figure 1 have been studied. Although Figure 2, which displays a conceptual model of the primary constructs within this literature, retains the feedback link from outcomes to antecedents initially proposed in the literature review framework, it is notable that we found no studies that examined this association. We have no explanation for this observation other than to suggest that this association may have been overlooked in prior studies and that a significant research gap therefore exists regarding the longitudinal effects of repeated external relationship experience on the small business.

Taken together, Tables 1, 2, and 3 illustrate the wide diversity of research variables involved in the small business literature that has taken place on this topic. To date, these studies have applied a wide variety of theories to what appears to be an equally wide variety of research questions. The following discussion section proposes a series of three theoretical orientations that we offer as a possible roadmap of research opportunities for moving this literature forward.

Discussion

This review has brought together the small business literature as it relates to external relationships with other organizations in a way that allows us to compare and contrast this research across theoretical perspectives, levels of

analysis, and differing methodologies. We have specified and defined the domain of interest, identified dominant categories of research variables, both independent and dependent (antecedent characteristics and processes, and outcomes, respectively), and illustrated many of their interrelationships at the conceptual level. As stated earlier, our motivation for doing so was to contribute to the process of building solid theory in this domain. In a recent discussion of the theory building process, Christensen (2003, pp. 12–13) noted:

The process of building solid theory has been researched in several disciplines, and scholars seem to agree that it proceeds in three stages. It begins by describing the phenomenon that we wish to understand. . . . After the phenomenon has been thoroughly characterized, researchers can then begin the second stage, which is to classify the phenomenon into categories . . . in order to highlight the most meaningful differences in the complex array of phenomenon. . . . In the third stage, researchers articulate a theory that asserts what causes the phenomenon to occur, and why.

Consolidating, comparing, and contrasting this literature sought to address the first two stages of theory building. In the remainder of this section we attempt to reach the third stage of Christensen's (2003) process by examining what we believe may be some key questions in this area and proposing three potentially instructive theories for exploring these questions, toward the goal of further developing this research area.

Bringing It Together—Future Directions for Research

Applying a practical, useful theoretical perspective to the literature identified

and assembled thus far would be constructive in moving this research forward. Identifying how the categories just described might be related relies in part on generating new conceptual insights by applying an instructive theory in the hypothesizing process. We believe that we are far enough in our understanding of the literature to make some progress in this area. Adopting the perspective that "there's nothing so practical as a good theory," this section seeks to outline what appear to be the central research questions in this literature and to propose corresponding theoretical orientations that may be useful in further exploring these questions.

As a mechanism for integrating these studies together and moving this research forward, we suggest that the literature can be broadly represented by three "meta" research questions: how do small businesses derive value from an external relationship; what are the risks involved in engaging in external relationships; and how do these relationships develop over time? Although we acknowledge that there are other important questions being studied, these three do represent a significant amount of the research done to date and could be considered the "current state of inquiry." Although it is difficult to decide on a single, unifying theory that currently ties all this literature together, we do propose that three particularly useful theories, the resource-based view (RBV), resource dependency theory, and punctuated equilibrium theory, correspond to these three questions and can be applied as a rallying point for advancing the field. Many would agree that these are leading theories in the strategic value, power and control, and organizational process literatures, respectively, and as such provide a reasonable foundation for studying connections between the studies examined in this literature. Each theory focuses on different sets of variables corresponding to the type of question each

theory is typically applied to, and they can all be applied firmly within the context of small business management and external relationships.

The RBV is an industrial economics theory that examines the influence of resource ownership on competitive advantage and organizational performance (Barney 1991). The RBV suggests that higher business performance can result from proprietary access and control of superior resources, so long as these resources can be effectively protected from being used by others. The RBV emphasizes the role of strategic choice in regard to selecting, developing, and maintaining these resources, which can be represented as tangible assets (such as proprietary technologies) as well as intangible assets (such as patents or licensing agreements). The RBV provides a resource-orientated explanation to the question of how small businesses derive value from an external relationship.

Applying this theoretical lens, external relationships are viewed as resources. The resource-based perspective would suggest that the partnering decision is a direct function of both the resources that the small business is currently lacking and the assets or resources that a partnering firm can offer. Thus, the organizational characteristics of both a small business and their partner (in particular their resources, assets, and capabilities) would be of utmost importance in determining both the formation of a relationship and the resulting success of the relationship. Using the RBV of the firm, access to more resources, competitive advantage, and increased economic value (e.g., objective sales performance) would be expected outcomes of these external relationships.

The literature review surfaced many papers that fit or support the RBV of external relationships. Resources such as products and processes (Baird, Lyles, and Orris 1994), capital (Ahuja 2000; Calof

1993), or strong technological portfolio and patent counts (Kelley and Rice 2002; Ahuja 2000), are what make a small firm attractive to larger partners. Accessing the resources of the larger partner can result in outcomes for the small business such as enhanced competitive advantage and competitive awareness (Human and Provan 1996), increased sales growth and innovation (Stuart 2000), and higher market value (Stuart, Hoang, and Hybels 1999). Several researchers are careful to point out that smaller businesses need to ensure that the resources they are using to attract the larger partner are protectable, that is, the larger partner cannot just simply take the resource but rather needs the small business in order to leverage that resource most effectively. Developing a process rather than a single product (Alvarez and Barney 2001) is one way small businesses can protect their resources.

The RBV highlights several avenues for future research. For example, future research can determine what types of resources are best accessed and shared through relationships with larger partners, as well as the conditions under which sharing is facilitated and inhibited. Researchers can also explore methods for small businesses to maintain exclusive ownership of their own resources in addition to the one way mentioned by Alvarez and Barney (2001).

Resource dependency theory is an organizational theory that examines the influence of relative power and resource control differences on organizational activities, survival, and performance (Pfeffer and Salancik 1978). Resource dependency proposes a relationship between resource control and access and organizational performance and survival wherein the greater an organization's reliance on a second organization for an important resource (tangible or intangible), the greater the likelihood that the first organization will adapt their behavior to comply with the second's expecta-

tions. "Expectations" could be either formal (for example, small businesses focusing on building tangible assets in order to please a bank's loan collateralization requirements) or informal (for example, a smaller company being pressured into providing greater market access to a larger company than they receive in return). Resource dependency theory applies a relationship-control explanation to understanding the risks involved in becoming involved in external relationships and provides "an approach which essentially looks outside the firm for explanations of the patterns thru which firms allocate resources to new activities" (Christensen and Bower 1996).

Using this theoretical lens, external relationships are viewed as a control mechanism. Whereas the RBV would suggest that it is the resources and assets of the partner that are important, the resource dependency perspective would stress that it is the amount of control and power the partner has over the small business that determines formation and nature of the relationship. The partnering decision would be less influenced by forces internal to the small business and more influenced by external forces of other organizations and the general business environment. The relationship would be one characterized by unequal power and compliance with the larger organization's demands. Using the resource dependency perspective, key outcomes of the relationship include access to scarce resources that the partner controls, small firm survival, and increased stability. However, a very real danger of partnering with a larger and more powerful organization is that a small business can become overly dependent on their larger partner and lose control over their own business decisions.

The literature review uncovered many papers that fit or support the resource dependency perspective of small busi-

ness external relationships. External factors such as environmental conditions of uncertainty (Weaver, Dickson, and Gibson 1997) and market conditions of high competition (Eisenhardt and Schoonhoven 1996) force small companies to look for larger partners. Often though, the larger partners have more power and control and can force smaller businesses to take on more of the risk (Sulej, Stewart, and Keogh 2001). If the partners have too much power and are too bureaucratic, small businesses may be unwilling to form a relationship with them (Rothwell and Dodgson 1991) as they risk losing control of their own business (Gomes-Casseres 1997). Small businesses should also be aware of the larger firm's purpose in initiating a relationship as they may not really want an equal partner but are instead looking to eventually take over the smaller firm (Doz 1988). Overdependence on any single relationship can weaken overall performance (Miles, Preece, and Baetz 1999; Larson 1991) and creating additional linkages or forming a network of relationships is one way to reduce such dependencies (Skinner and Gultinan 1986). On the other hand, forming relationships with larger firms that have integrity and are trustworthy is associated with long-term survival of the smaller business (Meyer, Alvarez, and Blasick 1997).

Resource dependency theory highlights several areas for future research of small businesses and external relationships. For example, research could explore the boundaries at which the relationship benefits of increased stability and survival are outweighed by the risks of being overly dependent on and controlled by a larger partner. The literature could also give further direction to small businesses that find themselves in the risky position of being overpowered by their partner.

Punctuated equilibrium is a theory of organizational change that explains the

influence of critical events on organizational decision-making and performance (Romanelli and Tushman 1994; Gersick 1991). Punctuated equilibrium proposes that organizations succeed by evolving suddenly over brief periods of time, triggered by critical organizational events, with long periods of little change—equilibrium—in between. Punctuations, such as a small company signing an important licensing agreement with a major technology corporation to codevelop new products, trigger revolutionary periods for the small business where many significant changes might occur in a relatively short period, to be followed by a gradual “settling in” where the relationship solidifies (or falls apart) and the pace of change in the small business gradually slows. This theory provides an explanation of why, when significant events such as formation, termination, or significant modifications to an external relationship occur, they progress over short periods of time and involve very rapid, major adaptations that have significant effects on small business survival and success. Punctuated equilibrium theory provides a process-oriented explanation to the question of how external relationships develop over time and affect a small business.

Applying this theoretical lens, small business external relationships can be examined as a management process. This theory is a useful lens through which managers and entrepreneurs can think about the actual logistics of managing an alliance or partnership. The focus would not be so much on partner selection or relationship formation, but on quickly adjusting to changes and reaching a new equilibrium so that any new relationships do not hinder the ongoing business of the organization and so that the expected benefits of the external relationship can be realized. The theory of punctuated equilibrium would also be useful in understanding how and when to revitalize or terminate existing

relationships and can shed light on the planning, strategy development, and relationship management components of the literature review framework.

Compared with the RBV and resource dependency perspective, fewer papers were found that examine small business external relationships as a management process. The processes of building relationships and trust (Feindt, Jeffcoate, and Chappell 2002; Greve 1995), and creating space for open dialogue and communication (Tell 2000), need management attention during the initial phases following relationship formation. Government and other third-party intermediaries can sometimes be useful in monitoring these initial processes (Davenport, Davies, and Grimes 1999) and may shorten the settling-in period. Following this adjustment period, critical issues include managing the boundary or interface between organizations (Doz 1988), the coordination of the ongoing activities (Tjosvold and Weicker 1993), and using tools such as IT to manage the relationship (Bonk 1996). The theory of punctuated equilibrium can also be used to highlight timing issues such as when in the life of a small business is it appropriate to form an external relationship (Hill, McGowan, and Drummond 1999), and how to make decisions concerning continuity or termination of relationships (Young and Olk 1997).

The theory of punctuated equilibrium also suggests several areas for future research. For example, the element of time in small business relationship research has largely been ignored with little attention paid to the timing of events such as relationship formation, the settling-in period, and re-evaluating the relationship. In addition, research could explore the timing and process of subsequent "punctuations" or repeat relationships. The final section closes with a discussion of whether it is also possible to go beyond process and time questions and propose a unifying theory for bring-

ing this body of research further together.

Conclusion

This review consolidates, integrates, and categorizes the small business literature on external relationships and proposed three avenues for future research with the intent of assisting in building strong theory in this domain. We have provided a synopsis of the research themes within each category of antecedents, processes, and outcomes, as well as classifying and categorizing the research carried out along each theme. As Christensen (2003, p. 13) states, "The middle stage in this [theory-building] cycle—getting the categories right—is the key to developing useful theory." By identifying the existing gaps and suggesting directions to extend the research, our intent is to provide future researchers with the tools and guidance to develop and test effective theories for this area of small business research.

One outstanding question is whether it is possible to go beyond proposing the research questions and theories presented in the previous discussion and propose a single theory capable of comprehensively tying together the model illustrated in Figure 2. In other words, are the situations and effects studied in this literature disparate, or unified—is there a central question?

If there is a unifying research question for this research, it might be "what does a small business have to offer in a business relationship with other organizations, and how do you both mobilize and protect whatever it is that the SME has to offer?" Organizational and individual characteristics, risks, benefits, success, survival, when to partner, when not to, how to attract the other firm's resources, how to protect yourself, how the process unfolds; these all seem to relate to this central question. If there is a unifying theory, we propose that it may start with addressing this central question.

This review illustrates the current state of small business and external relationships research, and our intent is that it will assist with the accumulation of knowledge in this area. In all, we've identified three avenues, three unifying theories, and proposed a central question that the three theories can help address. Building stronger theories in this body of research will be of interest not only to management researchers, but to small business owners and policy-makers as well.

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