



## **Exploring the benefits of inter-firm collaboration: how institutional voids shape the benefits of collaboration**

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## 1.1 Abstract

Institutional voids are increasingly gaining precedence and research attention due to the increased participation of developing countries in global markets (Mair & Marti, 2009). This theory focuses on the identification of weaknesses in institutions and how these voids result in ineffective functioning of emerging markets (Mair & Marti, 2009). In this study, focus is on collaboration as a strategy used by the emerging markets to overcome the absence of institutional and regulatory frameworks, prevalent in their capital, labour and product markets.

Forty (40) South African small-medium enterprises were analysed to determine what the priority collaborative benefits are for firms operating in the emerging market context. The research shows that in emerging markets, collaboration benefits are based on a need to overcome institutional voids i.e. to reduce the costs and risks associated with weak institutions.

## 1.2 Keywords

Institutional void

Emerging markets

Collaboration

Networks

Business groups

### 1.3 Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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Prudence Bafedile Mogolola

07 November 2012

## 1.4 Acknowledgements

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## CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

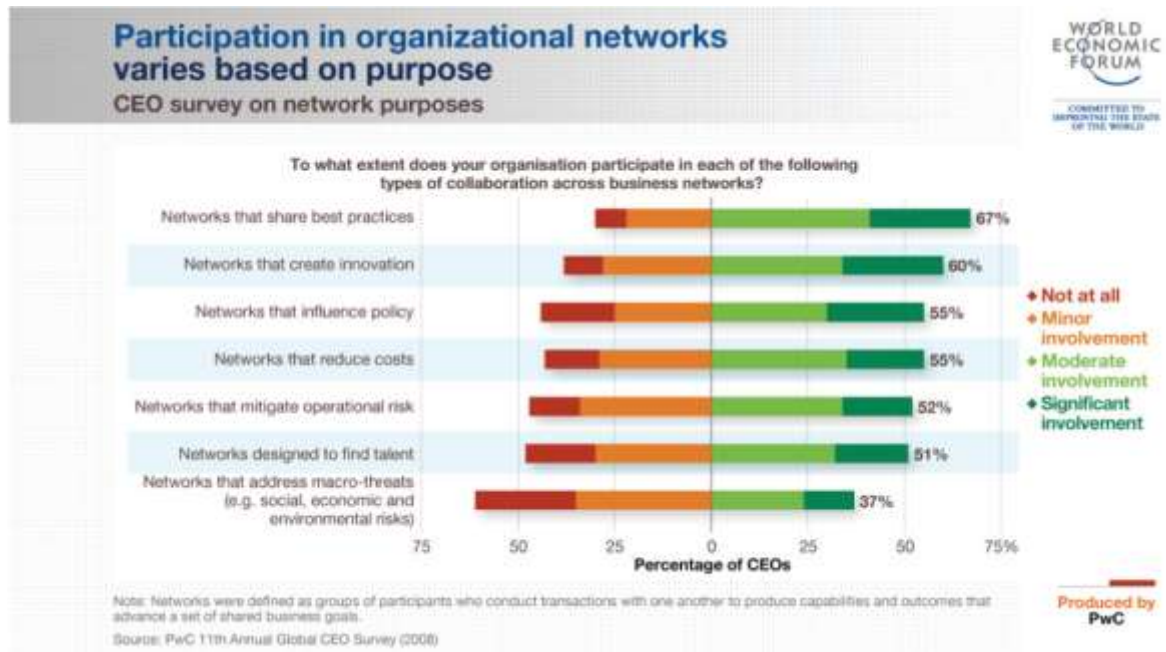
Emerging markets are the new hubs of growth and dynamism globally (Dhanaraj & Khanna, 2011). A large amount of investor attention is now focused on these markets as the return on investment is often expected to be exponential (Dhanaraj & Khanna, 2011). However there are limitations to operating in these emerging markets, which emanate from the existence of institutional voids. Institutional voids refer to the absence of institutions which facilitate the effective functioning of markets (Khanna & Palepu, 2010).

As a result of these institutional voids, firms have responded by “crafting new institutional arrangements” such as adopting collaboration strategies that seek to overcome these challenges by partnering with others (Mair & Marti, 2009; Dhanaraj & Khanna, 2011, p.419). These collaboration networks are aimed at overcoming the six classes of institutional voids: the absence of information between buyers and sellers, the lack of credibility and trust between buyers and sellers, the lack of insurance that transactions will be honoured and that there will be redress in cases of conflict, a lack of guarantees that sellers will get their products to customers, and a lack of confidence by buyers that promises made by the sellers are legitimate and verifiable.

Yet whilst this is the new reality, most executives are still focused on Western theories and are failing to take advantage of the opportunities presented by these markets (Puffer, McCarthy, & Boisot, 2010). This is reinforced by the survey done on networks which show an orientation towards networks focusing on best practice, innovation, policy, cost reduction, and operational risk. These benefits for collaboration are considered more significant than those that are focused on eradicating macro threats synonymous with institutional voids as defined by Khanna & Palepu (2010). These include weakened institutions, corruptions of rule of

law, lack of continuity in policies affecting business, exodus of capital, and threats to political stability.

**Figure 1 Participation in organisational networks**



Source: World Economic Forum 2012

Unless these macro threats labelled institutional voids are addressed, company executives will find that these increase the transaction cost of doing business with emerging market entrepreneurs, lead to a loss of legitimate sales and exposure to threats, bribes and reduced security of personnel (World Economic Forum, 2012). These institutional voids will therefore stifle the growth and performance of firms in emerging markets and make growth illusive.

The limited focus on these institutional voids, reinforces Dhanaraj & Khanna (2011) study on mental models of executives operating in emerging markets, in that even as they realise that growth will come from emerging markets, they are failing to conceive strategies to thrive within the market.



In emerging markets networks remains a dominant operating strategy even amidst the emergence of more formal frameworks. These networks are considered more important than formal institutions in reducing the uncertainty of operating in emerging markets (Puffer et al., 2010) and as such, contribute to improving the performance of firms operating in these environments.

It is for these reasons that in this dissertation, the benefits for collaboration, which is a dominant strategy for companies operating in the emerging market context, are analysed and contrasted to the benefits often cited by Western theory.

This is primarily to show that benefits of collaboration in emerging markets arises from institutional voids and are linked to substituting intermediary institutions such as information analysers and advisors, reputation or credibility enhancers, transaction facilitators, adjudicators, aggregators and distributors of services and products, and regulators (Dhanaraj & Khanna, 2011). These intermediary institutions serve to close the institutional gap and to allow for somewhat normal functioning and performance of markets.

## **1.2 Research rationale**

The first step in defining the necessary benefits for collaboration in emerging markets begins with an analysis of existing literature on institutional voids and collaboration in emerging markets. Using the framework developed by Khanna & Palepu (2010), the context is then analysed to determine the limitations of operating within the emerging market environment. The literature review on institutional voids and benefits is then juxtaposed with the insights gained about the emerging

market context, to determine how the environment affects the benefits of collaboration.

### **1.3 Research Objectives**

Zelbst, Green Jr, & Sower (2009) tell us that the formation of a collaborative network is dependent on members seeking benefit or a reduction in risk. Whilst there is consensus amongst Zelbsts et al.,(2009) and other theorists (Allee, 2009; Cao, Vonderembse, Zhang, & Ragu-Nathan, 2010; Stein & Ginevicius, 2010), on benefit as a necessary construct for developing collaboration, the context of emerging markets as defined by Khanna & Palepu (2010) adds a new dimension in shaping this construct.

A review of literature has shown that a body of work done on collaboration has been in the context of developed countries, with limited theoretical literature on small-medium enterprises (SME) operating in emerging markets (Mair & Marti, 2009). Given that collaboration is often the preferred strategy used by local firms to overcome challenges and improve the performance of firms in emerging markets, defining the benefits for collaboration will assist investors, local companies operating within the emerging markets, and multinational enterprises (MNEs) alike to determine the requirements for collaborating with SMEs (Khanna & Palepu, 2010).

In addition, the research provides insights into local norms and how they influence the institutionalisation of emerging markets. Such an understanding may present partnership opportunities that foster entrepreneurship and enterprise development necessary for economic growth (Delgado, Porter, & Stern, 2010). Furthermore, the research provides guidelines about what institutions need to be developed in order to operate within an emerging market context (Cuervo-cazurra & Genc,

2009). The research will therefore provide an understanding of the benefits for collaboration as observed through the lens of institutional void theory.

### **1.3.1 Summary of research objectives**

The objectives of this research can therefore be summarised as:

- To define the benefits for collaboration in an emerging market context
- To provide insights into local norms and how they influence the institutionalisation of emerging markets
- To provide guidelines about what institutions need to be developed in order to operate within the South African emerging market context

## **1.4 Research Scope**

### **1.4.1 Case for an SME focus**

The research aims to determine the benefits prioritised by SMEs when collaborating in an emerging world context. This study is conducted on a range of SMEs with a focus on inter-organisational relationships and does not include internal organisational collaboration. The relevance of inter-organisational collaboration is that it enables firms to “maximise value for the ultimate customer” (Zelbst et al., 2009, p. 678).

Small and medium enterprises are significant as they make an important contribution to economic development, particularly in emerging markets (Global Entrepreneur Monitor, 2009; Delgado et al., 2010). This relates to their ability to spur economic growth, to expedite learning and create employment (Global Entrepreneur Monitor, 2009; Delgado et al., 2010).

Dahan, Doh, Oetzel, & Yaziji (2010) highlight how:

“Strong local businesses are vital to the continued growth of the private sector in developing countries, and for supporting corporate-NGO alliances. They can provide products or services to foreign firms, and can help train and develop a country’s human resources. Local businesses attempting to innovate and develop new products and services can be strong partners for foreign firms because of their unique local market perspective” (p. 339).

#### **1.4.2 Types of collaboration networks**

To overcome the challenges that businesses face, collaboration can take many forms (Stein & Ginevicius, 2010). The study aims to investigate the benefits of all types of collaborative networks that SMEs adopt in emerging markets.

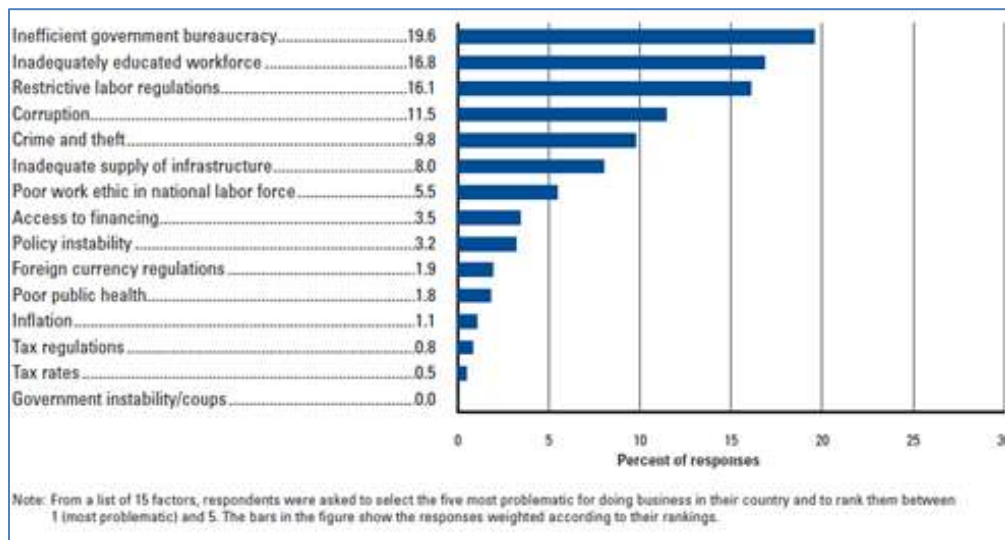
#### **1.4.3 Identifying institutional voids**

The framework by Khanna & Palepu (2010) is used to assess institutional voids in the context of this study. Khanna & Palepu (2010) categorises institutional voids according to how they manifest themselves in the political and social systems, capital markets, product markets, labour markets and the openness of the economy.

### 1.4.4 Case for South Africa

South Africa (SA) is a suitable case for this study because it represents an emerging market with significant growth prospects (World Economic Forum, 2012), yet business and growth in the country is limited by the challenges that Khanna & Palepu (2010) have cited as synonymous with emerging markets. The World Economic Forum report measures country competitiveness by analyzing the institutions, pillars, and factors that underpin national competitiveness (World Economic Forum, 2012). In their reports dated 2009 to 2012, South Africa's performance has been considered lackluster with the top most problematic factors for doing business linked to the absence of, or weak functioning of institutions. According to the World Economic Forum (2012), the most problematic reasons for doing business in SA, include the bureaucracy of institutions, inefficiency in the labour market, corruption, crime and theft.

**Figure 2 The most problematic factors for doing business in South Africa**



Source: World Economic Forum 2012

#### **1.4.5 Relevance of study to business**

Operating in competitive and dynamic environments has forced companies to operate outside the boundaries of their enterprises ((Cao, Vonderembse, Zhang, & Ragu-Nathan, 2010). Successful companies are those that are able to collaborate and work seamlessly with outside partners in delivering innovation, speed, and flexibility capabilities needed to compete in environments characterised by constant change (Dhanaraj & Khanna, 2011).

To achieve this, companies need to understand that the “functioning of the collaborative business is based on the compatibility of the collaborative business members’ interests” (Stein & Ginevicius, 2010, p. 439). This research aims to articulate these interests and their subsequent benefits such that firms operating in emerging markets have an understanding about the purpose for which partnerships should be created. In addition the research assists policy makers, particularly those involved in small-medium enterprise development, to understand the priority of institutional needs pertinent to business and different sectors.

Puffer et al., (2010) indicate that it is important for Westerners wanting to operate in emerging markets to understand the culture of business in emerging markets, and the extent to which businesses have relied on their trusted networks.

In addition by studying the South African context, the research aims to provide answers to Dhanaraj & Khanna (2011) who question whether Western theory best practises are applicable in an emerging market context. The research should also appeal to scholars who question that between developed and emerging markets.

## 2. CHAPTER 2: LITERATURE REVIEW

With the growing prevalence and importance of emerging markets on the global stage, institutional voids have become an area of increasing importance. Doing business successfully in emerging markets is more difficult than in developed economies as institutions lack the maturity necessary for sound, stable and fully regulated interactions. North (1990), who is an early advocate of institutional theory, is widely cited in research for providing an explanation that economic transactions are dependent on institutional constraints to reduce uncertainty (Zhang & Keh, 2009; Zhou & Peng, 2009; Dhanaraj & Khanna, 2011). In this research institutional theory is investigated in its applicability to emerging markets but with more emphasis on the absence of institutional constraints. North (1990) describes institutional constraints as formal and informal institutions that reduce uncertainty and relates them to “rules of the game” necessary for economic transactions to take place.

In contrast to developed markets, operating in the emerging markets - which are countries where economic growth is expected to come from - is characterised by the absence of such constraints, also known as institutional voids. “These emerging markets have become important contributors to today’s global markets” (Dhanaraj & Khanna, 2011, p. 684). Yet operating in this type of environment proves to be a challenge both for large and small companies (Mair & Marti, 2009). This growth opportunity is characterized by a lack of transparency, as well as uncertainty, and ambiguity (Dhanaraj & Khanna, 2011), resulting from the absence of specialised intermediaries, regulatory and contract enforcing mechanisms (Khanna & Palepu, 2010). Mair & Marti (2009) define these as “situations where institutional arrangements that support markets are absent, weak or fail to accomplish the role expected of them” (p. 419), and which Khanna & Palepu (2010) have named institutional voids.

Whilst Dhanaraj & Khanna (2011) describe how these institutional voids can be overcome through the creation of intermediary firms, they fail to recognize that collaborative networks can substitute the role of intermediary firms in bridging the voids in emerging markets. This literature review highlights the eminent voids in emerging markets and illustrates the role of collaborative networks in overcoming these voids. Whilst it can be argued that these networks are a temporal solution used by emerging market firms until the establishment of institutions, they form a predominant market culture for most economies in transition (Puffer et al., 2010).

Given the lengthy duration of institutionalising markets and the fact that collaborative networks are entrenched in market culture, the role of collaborative networks is an important aspect in emerging market businesses and therefore deserves careful study. According to Danis, Chiaburu, & Lyles, (2010) “managerial network intensity is strongly associated with firm growth early in the institutional transition process, but not later” (p.287). This implies that while the research does not ignore the inevitable establishment of institutions, it emphasizes the interim and predominant institutional arrangement utilized in such institutional environments. Puffer et al. (2010) point out those institutional arrangements should not be received lightly but should be considered appropriate and intelligent methods to adapt to emerging markets.



## 2.1 Institutional voids

Institutional voids exist within the political and social systems, capital markets, product and labour markets of any market system, but tend to be more conspicuous in emerging markets than in developed markets (Jansson, Johanson, & Ramstrom, 2007). The voids tend to affect SMEs more significantly (Puffer et al., 2010), and manifest themselves as follows:

### **Political and social systems**

The political and social systems define the context in which markets operate, including product, labour and capital markets (Dhanaraj & Khanna, 2011). In emerging markets, the role of government in business is usually blurred, the independence of the judiciary poor, ethnicity and culture play a significant role in dictating business practices, and corruption is prevalent. (Javorcik & Wei, 2009). Political and social systems characterised by such aspects negatively influence SME development and performance by increasing the transaction cost of doing business and limiting investment opportunities (Javorcik & Wei, 2009).

### **Capital markets**

Capital market institutions refer to the existence of institutions such as credit rating agencies, investment analysts, merchant bankers and venture capital firms which regulate the flow of capital (Dhanaraj & Khanna, 2011). The result of having such institutions and mechanisms is the availability and credibility of financial reporting and information necessary for investment decision making and trading (Dhanaraj & Khanna, 2011). In emerging markets these institutions are limited, making it difficult to make correct assessments of businesses and therefore restricting access to capital flows especially from international markets (Javorcik & Wei, 2009).

### **Product markets**

Product markets relate to the role of intermediaries in ensuring the availability and accessibility of knowledge and market research relating to local demand, product development and delivery (Dhanaraj & Khanna, 2011). In the emerging market context, business is complicated by their absence. According to Meyer, Estrin, Bhaumik, & Peng (2009) this is a source of market failure because buyers and seller do not have sufficient quality information to assess the products for which they intend to make a purchase. This is further exacerbated by the fact that reliability and quality of suppliers and buyers cannot be assessed because of a lack of credible assessors (Christmann, 2005).

### **Labour markets**

Labour markets relate to the availability of a sufficiently qualified and skilled workforce and includes the role and power wielded by labour unions in relation to labour markets (Dhanaraj & Khanna, 2011). Emerging markets are constantly faced with labour shortages and are often restricted by powerful labour unions (Khanna & Palepu, 2010). These labour market inefficiencies discourage the development of SMEs and limit country growth prospects (Khanna & Palepu, 2010). In addition, emerging markets are often characterised by significant skill shortages, particularly in management and engineering. Without the necessary management and technical skills, opportunities for innovation are narrow, thereby slowing down the transitioning from emerging to developed markets (Danis & Shipilov, 2012).

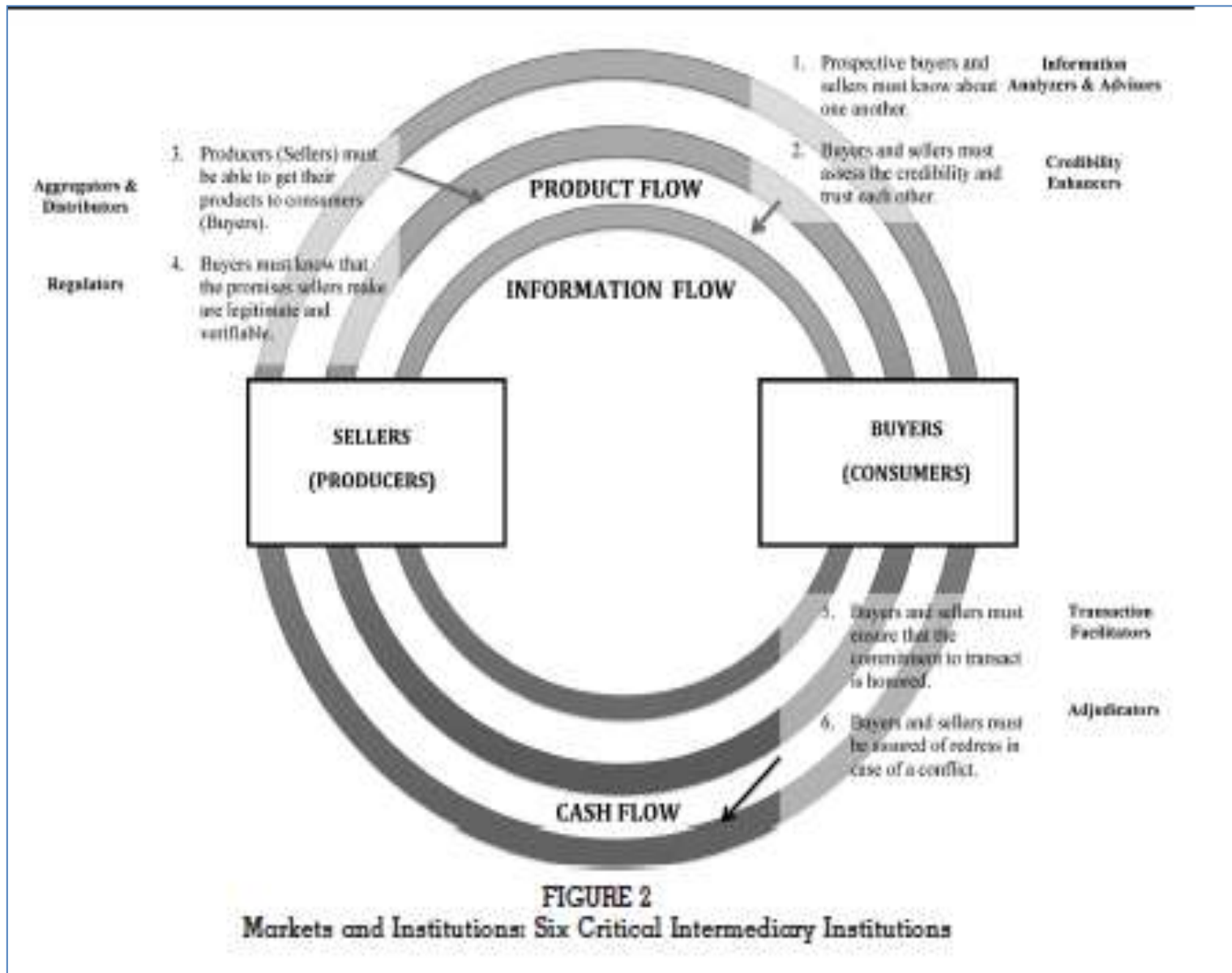
### **Openness**

Openness relates to whether a country has an appreciation for foreign direct investment; whether global intermediaries, executives

and citizens have freedom to move in and out of the country; and it relates to the existence of free trade agreements between countries and how significantly import tariffs affect company goods and raw materials (Dhanaraj & Khanna, 2011). The general situation in emerging markets is that with limited flow of qualified information, trade between countries is limited and there is limited transfer of skills resulting in slow institutional development (Javorcik & Wei, 2009).

As a result of these limitations, Dhanaraj & Khanna (2011) mention that surviving in these emerging environments involves taking cognisance of six classes of institutional voids. Each of these gives rise to six intermediary institutions: information analysers, adjudicators, reputation or credibility enhancers, transaction facilitators, aggregators and distributors of services and products, and regulators.

Figure 3: Six critical intermediary institutions



Source: Dhanaraj & Khanna (2011)

Their study heavily emphasizes the importance of intermediary firms. In this research however, the assertion is that these classes of institutional voids do not only give rise only to intermediary firms but also to collaborative networks that seek to overcome institutional voids. Collaborative networks are considered a particularly relevant solution given that the institutionalisation of markets in emerging markets is a

lengthy process (Khanna & Palepu, 2010). It can also be argued that establishing intermediary firms would also be lengthy given the bureaucracy of establishing businesses in most emerging markets (Mair & Marti, 2009).

According to Khanna & Palepu (2010) firms operating in emerging markets often resort to the creation of collaborative networks, such as business groups, as a necessary mechanism to overcome challenges presented by institutional voids. These are usually independent networked companies - often operating in diverse industries - brought together by some common interests. In emerging markets, their common interest often relates to overcoming institutional voids such that performance of firms within the group is enhanced. This is often achieved through leveraging on the business group's capital, labour and reputational resources (Khanna & Palepu, 2010).

For instance, a firm that wants to access finance for a business start-up can use the reputation of the established business group or network, to access capital (Mair & Marti, 2009). Without business schools and talent search firms to access a sufficiently qualified workforce, these networks often share the costs and facilities for training and as a result are able to create a pool of skilled workforce from which to access human capital. A firm is also able to use its networks name to enter new markets (Carney, Gedajlovic, Heugens, Van Essen, & Van Oosterhout, 2011) . In addition, because they offer some monitoring and enforcement within the group, they tend to be attractive to foreign investors wanting to do business locally (Khanna & Palepu, 2010). Business groups or networks are therefore better positioned to be able to gain access to international markets (Carney et al. 2011).

The added benefit of such an arrangement is that costs are shared across the network, which tends to lower the costs of accessing critical and often

expensive resources such as labour and capital (Vandermerwe, 2012). Carney et al. (2011), argues that whilst these affiliations do not contribute to overall business performance, they tend to place firms in much more favorable financial and labour positions.

Whilst traditionally collaboration was often about bringing complementary resources together and delivering benefit such as access to technology, knowledge gains, learning and innovation, business groups or networks are increasingly focused on eradicating the institutional voids (Delgado et al., 2010; Cao et al., 2010). Hence, in this research we seek to show that collaboration in emerging markets is about overcoming institutional voids in order to improve firm performance.

## **2.2 Advancing the collaboration theory**

Whilst the benefits for collaboration networks have been exhaustively studied, this study aims to expand on collaboration theory to show institutional voids have led to a change in the benefits of collaboration. In emerging markets collaboration benefits are related to overcoming and or reducing institutional voids. North (2005) indicates that firm performance depends on having institutions that work, it therefore makes sense that firms in emerging markets collaborate to achieve what institutions fail to achieve. This research utilised the lessons from Dhanaraj & Khanna (2011) to show how lacking institutions in emerging markets can be substituted by collaborative networks.

### **2.2.1 Collaboration correlates to credibility enhancement which improves performance**

#### **2.2.1.1 Credibility enhancement in developed markets**

In developed markets, the credibility of suppliers and customers is enhanced through the use of management standards certified by third party intermediaries such as the International Standards Organisation

(ISO). Independent institutions such as ISO provide some assurance about claims made about products and services (Dhanaraj & Khanna, 2011). Obtaining certification of these management standards is particularly important where reputation and credibility are considered necessary in establishing trust needed to perform inter-organisational transactions - such as in the absence of formal institutions that enforce contracts (Puffer et al., 2010).

These management standards reflect the extent of company commitment to good environmental, social and labour practices (Christmann, 2005). In addition, the advantage of applying management standards such as ISO is that they provide industry norms and acquiring these standards puts an SME in good social standing with communities, customers and suppliers. Therefore certification serves as a marketing and credibility enhancing tool which attracts customers looking for improved product quality (Christmann, 2005).

#### **2.2.1.2 Credibility enhancement in emerging markets**

However in the absence of third parties offering such certification, firms in emerging markets often revert to personal networks to achieve credibility and reputation (Stuart, 2000). This is in addition to Dhanaraj & Khanna's (2011) ascertainment that businesses seeking to enhance credibility to legitimize themselves as significant players, must use institutions that provide certification of claims made by suppliers and customers. Whilst certification by third party auditors is still important for self-regulation, the shortage of independent, qualified auditors (Christmann, 2005), and the speed with which these institutions are created (Khanna & Palepu, 2010) make this process ineffective in emerging markets. Furthermore whilst third parties such as ISO may be available, they may be too expensive for a SME in emerging markets. Therefore, as indicated by Stuart (2000), collaborating with a

well-known partner can achieve sound legitimization and credibility results without incurring high costs in implementation. In addition, through networks, firms can achieve reputational capital without bearing the transaction cost of institutionalising the third party function. By also aligning themselves to accredited suppliers and customers, SMEs are able to legitimize themselves within the markets (Khanna & Palepu, 2010). This is because accredited suppliers and customers have achieved credibility in the market and can become a referent of the new entrant.

### **2.2.1.3 Credibility enhancement and performance**

According to Stuart (2000), the credibility enhancing benefit of collaboration significantly improves the performance of small businesses operating in highly uncertain environments. Often the small business on entry is unknown and therefore is excluded from favorable pricing and terms - often enjoyed by regular customers or firms which have achieved credibility. However these limitations change once their credibility is enhanced. Business groups fast track this process by bringing the small business, its product offering and markets to the fore. Zhang & Keh (2009) concur and indicate that firms that are small and new tend to be disadvantaged by the lack of status and legitimacy and therefore rely heavily on interpersonal networks to further their interests.

Whilst these arguments highlight the credibility and performance benefits of collaboration, Ma, Yao, & Xi, (2009) caution that reputation enhancing networks can produce equally negative results. They argue that truly cohesive networks can be subject to 'group think'. Group think refers to a situation where group members fail to review various options open to them because of a need to please others in the group or to avoid conflict (Ma et al., 2009). As a result, this tends to not only limit how firms respond to markets, information and knowledge transfer but can also purposely tarnish the reputation of firms as soon as they want to exit the network



(Carney et al., 2011). This is because when a firm revolts against a firm in the business group, the conflict is not only limited between one or two conflicting firms but a number of firms within and beyond the firm's industry.

These arguments highlight that whilst there is still a place for certification as a means to validate suppliers, customers and their products, relationship based strategies used in emerging markets provide a solution to enhancing reputation and credibility (Puffer et al., 2010). According to the authors, such methods of reputation based transactions are deeply rooted in traditional societies such as in China and Russia. They assert that even with the formalisation of institutions, firms still prefer to transact within the network, suggesting that credibility established in the network is considered more valuable than that established through intermediary or external firms.

This may be attributed to fact that these collaborative networks function on the basis of compatibility of the collaborative business members' interests (Stein & Ginevicius, 2010), as well as trust (Zelbst et al., 2009). Firms prefer to transact with those they have prior experience with, as this provides some level of certainty which is often evasive in emerging markets. This highlights that until a firm can place trust in the formal institution, they will revert to traditional norms such as local networks with whom they have prior experience and trust, particularly if those networks have remained trustworthy (Puffer et al.,2010).

Therefore in emerging markets where the quality and reliability of SMEs is unknown, collaboration can create credibility enhancing benefits with subsequent improvement on performance (Stuart, 2000). Whilst the insights by Ma et al., (2009) remind us that the relationship between collaboration and credibility can also be negative, it does not discount the

existence of the relationship the research seeks to prove. It does however emphasize that there may also be a diminishing margin of returns to cohesive relationships - which firms should be cautious about. Based on insights from Ma et al. (2009), Stuart (2000), and Puffer et al. (2010); the research hypothesizes that collaboration is correlated with credibility of firms which subsequently leads to improved performance.

*Hypothesis One: Collaboration is correlated to credibility enhancement which improves firm performance.*

## **2.2.2 Collaboration is correlated to regulation which enhances performance**

### **2.2.2.1 Regulation in developed markets**

In developed markets, the availability of institutions such as independent agencies, commissions, and administrators ensures the accuracy of information flowing through capital, labour and product markets (Dhanaraj & Khanna, 2011). In addition these agencies govern how industry behaves and ensure compliance to rules and regulations. North (1990) defines the rules as formal constraints which relate to contracts, and rules as defined by the judiciary and economics. He defines informal rules or constraints as behavioural norms and practices that are embedded in culture and history (Zhang, 2011). Both formal and informal constraints lubricate transactions and allow for firms to transact broadly with a vast number of suppliers and customers thereby improving firm competitiveness and performance (North, 2005). However, their application tends to differ in the emerging market context.

### **2.2.2.2 Regulation in emerging markets**

In emerging markets such systems are less developed and governance and control appears to lie between two extreme continuums, that of state formal control or of self-regulation (Lad & Caldwell, 2009). The adoption of formal laws and regulations is pronounced when there is a perceived robustness of the institution in which the law is embedded (Puffer et al., 2010). Zhou & Poppo (2010) share the same sentiment that when the laws and rules are perceived to be more enforceable, there is greater likelihood of the transition from informal to formal institutions. This implies that the creation of market based institutions and regulatory institutions will not necessarily translate into their automatic adoption and use. North (1990) also indicates formal rules are more applicable when there are numerous stakeholders involved such as when a firm operates with more suppliers and customer and when opportunism presents high risks. However, when formal constraints are weak, informal constraints tend to dominate (North, 1990; Zhang & Keh, 2009).

Unfortunately these have their disadvantage as well, firms realize that self-regulation is not necessarily seen as providing complete protection against opportunism. As a result, firms call for more market based strategies (Zhang & Keh, 2009). Therefore informal mechanisms are increasingly being used to support the enforcement of formal methods such as contacts.

### **2.2.2.3 Regulation and Collaboration**

There is also another view that there is an increasing shift towards a median solution which encourages collaboration between firms needing control, in finding solutions to regulatory control and enforcement (Lad & Caldwell, 2009). Therefore this implies that the establishment of regulatory intermediary firms will become a secondary concern - after rules and norms have been agreed upon through a collaborative process.

Mair & Marti (2009) point out that it is usually the responsibility of government to enforce regulation, however in cases where the government has failed to accomplish this, business groups normally take over and establish methods that ensure self-regulation. According to Lad & Caldwell (2009), industry self-regulation is a process involving inter-firm and multi-sector collaboration. At initial phases of establishing a regulatory system, there is greater self-policing which eventually transitions to multi-sector policing involving the use of government and businesses to enforce rules (Lad & Caldwell, 2009).

Meyer et al., (2009) further emphasize the importance of such emerging market networks and relationship based strategies as regulators and enforcers of contracts and highlight that the benefit of self-regulation is that it overcomes the bureaucracy and control of governments.

#### **2.2.2.4 Formal versus informal regulation**

In addition, the choice between formal and informal regulation is often embedded in the cultural context. Puffer et al. (2010) highlight that the culture of emerging markets is of enforcement as opposed to litigation. In China for example, the concept of 'face' which can be loosely translated as "honour" is used as a mechanism to regulate the behavior of businesses (Jansson, et al., 2007). It relies less on formal contracts and more on personal and mutual respect and relationships.

#### **2.2.2.5 Weak legal frameworks**

Another challenge facing the emerging markets is weak regulatory institutions, resulting from a lack of independent and qualified regulators (Stuart, 2000). The prevalence of bribery and corruption has often cast doubt about how certification is acquired (Stuart, 2000). Therefore without reliable regulatory bodies, it becomes difficult to provide proper and accurate assessments and information required for effective functioning of markets (Lad & Caldwell, 2009). Again, this leads to greater reliance on

self-regulation achieved through group norms and standards established by partners who have trust based relationships (Jansson et al., 2007). These networks therefore offer benefits of control and solidarity which tends to mitigate against transacting with illegitimate firms. However North (1990) indicates that when the risk of deflection is high, firms often want to resort to more formal institutions.

#### **2.2.2.6 Regulation and performance**

There is also the negative element of self-regulation which suggests that the establishment of rules by local networks tends to lead to abuse of power, bribery, corruption and cheating, particularly when interactions are characterized by excessive exchange of favours (Zhang & Keh, 2009). The other risk factor associated with using personal ties and networks, is that these render firms more vulnerable to exploitation and opportunism because instead of formal contract, the only leverage parties hold is their reputation (Zhou & Poppo, 2010). This indicates that self-regulation should be an interim measure, leading to the development of more formal contract enforcement structures.

However, the research argues that with the entrenched culture of networks in emerging markets, until such time that legal framework are perceived to be enforceable, firms are more likely to continue to put their trust in informal networks (North, 1990). What these views indicate is the fact that transition towards rule based transactions does occur at later stages of institutional transition, yet prior to that collaboration serves to ensure regulation and enforcement (Zhou & Poppo, 2010).

According to Zhang & Keh (2009), firms with strong resource bases, low agency problems and well-structured and formalized routines are likely to use contracts as their means to ensure enforcement. In contrast, those operating in emerging markets often characterized by weak resource

positions, and informal relationship oriented organisational routines are more likely to resort to relationship based methods such as networks.

To conclude, the literature review provides evidence that it is not the establishment of laws that is doubted, but rather the adequacy of its enforcement and the levels of trust in the laws. It is when firms are confident of this enforcement that trade will extend beyond the network and improve firm performance.

*Hypothesis Two: Collaboration is correlated to regulation which improves performance*

### **2.2.3 Collaboration enables the adjudication of disputes**

#### **2.2.3.1 Adjudication in developed markets**

The western-based trust in institutions and the belief that these institutions will uphold trustworthy behaviour amongst business people often tends to be a fallacy for emerging markets (Puffer et al., 2010). In developed markets, there is a premise of fairness and fair play amongst business owners, which is also perceived to be enforceable by the judiciary (Puffer et al., 2010). In this context, the role of courts and arbitrators is to ensure the resolution of disputes and conflicts (Dhanaraj & Khanna, 2011).

#### **2.2.3.2 Adjudication in emerging markets**

In emerging markets legal institutions are either absent or can be considered weak and ineffective. Alternatively, as indicated by Zhou & Poppo (2010), their integrity is often questionable and considered unpredictable. Zhou & Peng (2009) corroborates what Puffer et al. (2010) say about legal effectiveness, stating that whilst it can be considered

relatively easy to lay down laws in these environments, it is significantly difficult to translate them into enforceable actions.

An ineffective legal system raises the transaction cost of doing business and, according to Zhou & Peng (2009), discourages transactions outside the scope of formal constraints particularly when dealing with partners outside the network. This is because firms cannot be guaranteed that they can take recourse if disputes occur. As a result this can confine trade beyond the network, and therefore limit a firm's access to the potentially large markets which often exist outside formal mechanisms. In addition, in such environments trading outside the network poses greater threats of opportunism, which can lead to high enforcement costs when legal institutions are weak. Therefore poor enforcement has adverse effect on economic performance.

### **2.2.3.3 Adjudication and performance**

As a result, SMEs faced with disputes regarding law and private contracts often seek adjudicator partners. This is because these partnerships often serve as safe havens where contracts and rules become enforceable and disputes can be settled (Carney et al., 2011). For example, by aligning to large business with political power, small businesses can dispute and influence political decisions that affect state economics (Stein & Ginevicius, 2010). In addition, private property is considered essential to wealth creation and in cases where the state fails to protect intellectual and private property rights, informal networks are created to achieve this (Puffer et al., 2010).

The role of partnerships for adjudication is also significant in ensuring the effective functioning of capital markets. In the event of hostile takeovers, developed markets use the judiciary to maintain the rules relating to hostile takeovers; whilst in emerging markets partnerships are created to fill the institutional void of the judiciary (Puffer et al., 2010). In India for

example, codes are established by a panel of collaborators to provide a channel through which firms can cooperate to resist hostile takeovers (Armour, Jacobs, & Milhaupt, 2011). Although the threat of takeover is limited in emerging markets, partner groups of local institutional investors and government representatives are often established to support firms under threat of a takeover (Armour et al., 2011).

#### **2.2.3.4 Adjudication and culture**

In emerging markets, the scope for the judiciary is also a limited by the role of trust based personal networks which serve to ensure that rules and norms are maintained (Puffer et al., 2010). Emerging markets are often characterized by cultural methods such Quaxi or Blat which use the premise of prior shared experiences as a basis for establishing a platform of trust needed for transactions. The principle of these informal methods is that of acquiring goods and services or resource shortages through favours and personal connections. These methods constitute strategic tools for building social capital in inter-organisational transactions, helping to facilitate business operations, open dialogues, acquire intelligence and build trust among network partners, which then helps to resolve or avert conflicts and wrongdoing (Puffer et al., 2010).

For example, in Chinese culture where honour is considered important, defectors or dishonorable members of the network would normally be shamed and cast out of society. As a result, norms tend to be upheld in order not to undergo such harsh punishment (Puffer et al., 2010). This culture is often so well entrenched that in China, the transition of institutional arrangements and the establishment of a legal system driven by the need to transact with the West, is often seen to be going against the cultural norm (Puffer et al., 2010). Norms such as personal ties and networks are often deeply ingrained in the history of emerging markets. This also shows alignment to North's (1990) theory that institutional



transition is dependent on the history and culture of country. Yet whilst there is often greater reliance on networks versus contracts, this may pose a significant loss of control for firms and subject firms to the dangers of group think - which can lead to errors in judgment and discouragement of risk taking (Puffer et al., 2010).

We can, however, conclude from the literature review that the need for formal adjudication institutions is moderated by the existence of networks that play the role of the institution and resolve conflicts and problems between partners. These networks provide firms with confidence that transactions will be honoured, and as result leading to increased transactions and better performance (Jansson et al., 2007). In addition, the social ties, norms and the long term tenure of relationships in the network ensures commitment to common interests, and hence a reduction in the need for adjudication (Jansson et al., 2007). Such trust based relationships can therefore substitute intermediary firms necessary for adjudication purposes, and improve performance.

*Hypothesis 3: Therefore collaboration is correlated with the adjudication of disputes which enhances performance.*

#### **2.2.4 Collaborative networks facilitate transactions**

In order to have well-functioning, market orientated firms, Zhou & Peng (2009) indicate that countries require formal and informal institutions that govern market competition, legal effectiveness, and information dissemination.

##### **2.5.4.1 Transaction facilitation in developed markets**

In developed markets, transaction costs are limited and reduced by the availability of formal transaction institutions that provide platforms for the

exchange of information, goods and services, support and consummating transactions (Dhanaraj & Khanna, 2011). The examples of transaction facilitators include stock, bond, futures exchanges, brokerage houses, online facilities such as eBay, commodities exchanges; credit card issuers; PayPal, executive recruiters, and on-line job advertisements (Dhanaraj & Khanna, 2011). Such mediums connect buyers and sellers, aggregate and distribute products and services to the customer (Khanna & Palepu, 2010)

However these are considered market based strategies applicable to more established markets and are often not feasible in emerging markets (Danis & Shipilov, 2012). In support of this view, Dahan et al. (2010) indicate that developing markets often fail to provide product or service offerings because of a lack of supporting mechanisms such as infrastructure, marketing media, distribution channels and financing services.

#### **2.5.4.2 Transaction facilitation in emerging markets**

In such contexts, networks play the facilitation role providing access to opportunities, resources, growth and high performance (Danis et al., 2010). Meyer et al. (2009) indicates that partnerships forms are used to access resources where market inefficiencies exist. In such instances, collaboration facilitates exchanges between buyers and sellers by reducing or minimising the transaction costs of searching for information, enforcement and bargaining when making economic exchanges (Mair & Marti, 2009).

#### **2.5.4.3 Transaction facilitation and performance**

Through regular interactions or meetings, networks serve to introduce members to each other, advertise new products and service offerings and advise about new best practices and technology (Khanna & Palepu, 2010).

The business group also acts as an insurer for firms thereby making it easier for firms to do business between each other. By trading within the network, firms can also arrange for easier payment terms and often find it easier to obtain debt guarantees because of existing relationships as well as the group's backing. Given the absence of financial analysts and therefore financial information, firm performance is evaluated and monitored from within the group, thereby placing firms in position to acquire funding much easier than if they had not been affiliated to a group (Carney et al., 2011).

Through collaboration, firms are able to achieve economies of scale and reduce transaction costs without the burden of developing the capability internally (Carney et al., 2011). For instance, whilst talent search firms and online mechanisms are used extensively in developed markets, these search facilities are often limited in emerging markets. As a result, talent is often trained and sourced from within a network. In addition, the networks ability to move talent within the network often means that they can bypass stringent labour union regulations and overcome barriers in the labour market (Khanna & Palepu, 2010).

The relationship between transaction cost theory and collaboration theory is further supported by Meyer et al. (2009) who indicate that partnerships can play a significant role in reducing information asymmetries that reduces exchanges between customers and sellers. This is because the close relationship with a diverse network allows for timely access to reliable information. Ma et al. (2009) indicate that business groups are often made up of industry leaders and political leaders who influence market dynamics, therefore information shared through the network is often current and qualified for use in making exchange decisions.

Similarly when the business environment is characterized by corruption, business owners reduce their business risk by aligning to those with significant political power (Mair & Marti, 2009). In addition to advising on future policy change and regulation, political connections add value to the network by helping to unlock resources that are hampered by corruption, limitations in bureaucracy and regulation (Puffer et al., 2010). This provides another platform for firms to reduce transaction costs and improve performance by limiting the need to search for information, talent and funds hampered by bureaucracy.

It is interesting to note an increase in the growth of emerging market internet usage and hence institutional development that can be expected to lead to the adoption of more market based strategies such as online mediums for transactions (Vandermerwe, 2012). However the literature review suggests that we can still anticipate that firms will in the interim - continue to make use of traditional networks to reduce transaction costs, facilitate transactions, and improve performance

*Hypothesis Four: Collaboration is correlated to transaction facilitation which enhances performance*

## **2.5.5 Collaboration enhances information analysis which enhances performance**

### **2.5.5.1 Information analysis in developed markets**

The role of an information analyzer is to prepare market research information (Khanna & Palepu, 2010). In developed markets, investment banks, credit rating agencies, the financial press and such firms are responsible for providing information on products and demand (Dhanaraj & Khanna, 2011). However in emerging markets where such institutions do not exist, firms often have to seek alternative means to collect

information and according to Dhanaraj & Khanna (2011), a resolution to the problem is the creation of information analysis intermediary firms.

#### **2.5.5.2 Information analysis in emerging markets**

In addition, Danis & Shipilov (2012) in their study revealed that the acquisition of management knowledge in emerging markets was conducted through personal networks. According to them, acquiring market knowledge involved ascertaining the credit worthiness of customers from other firms, and validating that information via personal networks. It also showed the importance of networks in Hungary, whereby collaborative networks were used as a source of information, even with the existence of market research firms. This suggests that information obtained through personal networks is especially valuable.

#### **2.5.5.3 Information analysis and performance**

Ma et al. (2009) support the notion that networks provide wide access to information and adds that networks provide new ideas that help firms adapt to the changing dynamics of their markets. These information flows are fostered by recurrent relationships between members of the business groups. Zhou & Peng (2009) indicate that firms undergoing serious process innovation and facing demand uncertainty find informal networks attractive in that they facilitate flexible information flows and coordination. These results suggest that information analysis positively contributes to improved performance.

These benefits may be explained by the absence of psychic distance between members of the network. Psychic distance relates limits the information flow from and to markets and tends to be limited amongst local partners because of shared values, norms and cultures, as well as similar

backgrounds in education, background and business practices (Cuervo-Cazurra & Genc, 2009). These factors provide a sense of prior experience, build reputation capital and create a basis for trust enabling open communication and more effective flows of information.

In this environment where information about prices and the markets is difficult to source, there is great reliance on vertical and horizontal channels of personal connections (Danis et al., 2010). The political power gained through connection is also recognized as providing quick and easy access to new rules and regulations (Puffer et al., 2010).

Yet these benefits of sharing of information in networks may be deflected by excessive cohesiveness in the network. Ma et al. (2009) argues that when firms are too tightly connected, they tend to fail to respond to market changes as quickly and with great flexibility, factors critical to achieve competitive advantage. This implies that personal ties can create some level of inertia and due to collective blindness and a failure to recognize changes in the environment (Luo, Huang, & Wang, 2012). This is based upon the premise about networks that when there is uncertainty about the change in the business environment, companies tend to adopt strategies followed by those with whom they have personal ties (Carney et al., 2011). In addition the effectiveness of the networks can be reduced by the need to reciprocate past favours - which also tends to hamper proper information analysis (Ma et al., 2009). That implies that whilst a firm may want to collaborate with an external firm, or adopt a strategy that differs from group, commitment to the business group tends to take precedence over what may contribute significantly to business performance (Carney et al., 2011).

The research does however posit that whilst there are advantages and disadvantages to the use of networks in information analysis, the literature review does indicate existence of a relationship, one that when used meaningfully, can enhance performance

*Hypothesis Five: Collaboration is correlated to information analysis which is correlated to performance*

### **2.5.6 Collaboration provides opportunities for aggregation and distribution**

Whilst some networks are designed to protect, others are established to expedite (Puffer et al., 2010). An aggregator is typically a strong company that becomes the intermediary between producers and customers (Marlow, 2010). According to Dahan et al. (2010), when developing markets lack critical supporting activities to enable firms to provide a product or service offering successfully. In such instances, aligning to partners offering “low cost matching and other value added services to suppliers and customers through expertise and economies of scale” can help to lower the transaction cost of doing business and thus, improves firm performance (Dhanaraj & Khanna, 2011, p. 689).

#### **2.5.6.1 Aggregation in emerging markets**

The benefits of aggregation can be seen in emerging markets where buyers often collaborate to buy goods together, find loans together, negotiate pricing and place pressure on each other to ensure that payments are made (Vandermerwe, 2012). Often such groups would be locked out of participating in traditional channels and would probably not have access to intermediaries. Therefore the affiliation to a group improves firm performance by lowering market access challenges (Carney et al. 2011). In addition business group affiliation lowers transaction costs

by providing opportunities to bargain and negotiate for better prices and buying terms (Khanna & Palepu, 2010).

### **2.5.6.2 Aggregation for supply and demand**

Firms may also aggregate to source supply and to distribute to partners in geographic proximities. Vandermerwe (2012) highlights that sharing is considered a norm in emerging markets, therefore it can be assumed that rather than sourcing from an intermediary, firms are more likely to create local groups and informally aggregate demand and sell to other sellers. She highlights Cemex as a case study where groups of customers called the 'socio' would pool together and save in order to fund housing projects.

### **2.5.6.3 Aggregation in the capital market**

This example also highlights how networks can be valuable to financial markets. It show us that through aggregating demand, firms in emerging markets are able to source funding for the development of their businesses, but also how firms gain more security and insurance that the debt will be paid. These arrangements offer finance institutions some security of payment since the role of the group is also to place pressure on members to pay loans. However Carney et al. (2011) caution that because of this access to finance, business groups tend to be overleveraged and partake in ventures that may not necessary add to the success of their business.

Other benefits of firms aggregating are that they can assess talent and skills important for supporting the operations of the firm (Cuervo-cazurra & Genc, 2009). According to Mair & Marti (2009), partnerships can fill voids that prevent the access and advancement of skills. Emerging markets are often characterized by skill shortages, which business groups often help to overcome (Mair & Marti, 2009). This can be linked to the fact that skills



sharing in the network is such that a less conversant participant is able to leverage off the complementary skills of a participant endowed with needed resources.

#### **2.5.6.4 Aggregation in the labour market**

Carney et al. (2011), highlight that the business group functions as efficient capital and labor markets and intermediary organisational form capable of mobilizing valued resources. Therefore in addition to financial market efficiencies achieved within the group, the talent market is another example of where institutional void networks substitute talent sourcing and management intermediaries. Whereas managerial training and talent sourcing in developed markets is conducted through business schools and similar institutions, in emerging markets business networks are often a preferred method for training and sourcing skills and talent (Danis et al., 2010).

#### **2.5.6.5 Aggregation to access markets**

Through aggregation, firms operating within a network are often able to access dispersed markets, but this can also be limited by the decisions taken within the networks. Because network capability, that is their ability to overcome institutional voids, is often rooted locally, most business groups tend to not participate in international market opportunities. This is often a disadvantage when compared to their competitors (Carney et al., 2011).

#### **2.5.6.6 Distribution in emerging markets**

Blanco (2007) highlights that distribution in emerging markets is often not a simple adaptation of its developed markets' counterpart. According to him emerging markets often lack distribution and advertising networks, have a fragmented transport sector and unreliable postal systems. Without

efficiency in infrastructure, Cuervo-Cazurra & Genc (2009) add that firms cannot successfully run their businesses. They highlight that the quality of infrastructure is important for firms to operate successfully and therefore where it is weak, firms have to find alternative methods to strengthen it. Chakravarthy & Coughlan (2011) indicate that distribution is often too remote and there is often an absence of intermediaries. In such instances firms depend on people versus automated methods of distribution, as well as on building local to local networks which lead to efficient and effective distribution.

#### **2.5.6.7 Distribution and performance**

Li, Ramaswamy, & Pécherot Petitt (2006) conceive the business groups to be able to stabilize the supply chain and the distribution systems. They argue that when firms are affiliated to networks and groups, they can use their reputational capital and relationships to distribute various products through the same distribution channels and to circumvent distribution bottlenecks.

Low cost distribution is particularly important in emerging markets (Vandermerwe, 2012). Emerging market consumers are largely low-income earners and as a result firms operating in this spectrum have to find low cost strategies to reduce distribution costs. In addition to Dhanaraj & Khanna's (2011) view of intermediary firms, this research perceives the exclusion of intermediation as a means to efficiently expedite the aggregation and distribution function. A case in point is the supply chain networks which expedite their goods and services and attempt to reduce costs by collaborating directly between producers, suppliers and customers (Singh & Chaudhuri, 2009). This strategy is suited for emerging markets where suppliers and producers are increasingly required to offer additional value added services and reduce cost pressures (Butner, 2010).

Aggregators and distributors are therefore able to improve firm performance by lowering distribution costs.

This is typically achieved by limiting the number of non-value adding or non-core activities in a value chain (Butner, 2010). Therefore absence of intermediary institutions, and hence middle-men, can be substituted by having collaborative partnerships between buyers and seller, similar to those advocated in supply chain theory.

The research is however not oblivious to the fact that without intermediaries, firms have to expend significant energy focusing on achieving these activities themselves, which may not be core to their business (Chakravarthy & Coughlan, 2011). Furthermore resource pressure tends to be more conspicuous in small to medium firms that are often stretched for resources and therefore prefer to focus on activities and constraints considered to be core to their business. In such instances intermediaries may be valued more than participation in a network (Chakravarthy & Coughlan, 2011).

Blanco (2007) mentions that as opposed to distribution in developed markets, managing the complexity of distribution in emerging markets is often dependent upon having strong relationships. The relationships enable firms to share best practice and find the most efficient methods to conduct distribution and supply chain within the emerging market context.

This provides further support to the argument that when formal institutions such as aggregators and distributors do not exist or are weak, informal partnerships can be used for such purposes (Jansson et al., 2007). Furthermore, this emphasizes the research argument, that collaboration can substitute intermediary firms and offer an aggregation and distribution benefit that improves firm performance.

## **CHAPTER 3: THE RESEARCH HYPOTHESIS**

The aim of this research was to establish the relationship between collaboration and the six classes of institutional voids. In the study, key lessons derived from literature review in chapter two were used to arrive at the following hypotheses:

### **3.1 RESEARCH HYPOTHESIS ONE: Collaboration is correlated to credibility enhancement which improves performance**

In the absence of formal institutions, reputation is key in building the trust needed to facilitate transactions between buyers and sellers. According to Puffer et al. (2010) reputation and honour can be built through interpersonal relationships within networks. It is this collaboration, and repeated transactions amongst players in a network, that can enhance the credibility of a firm. Puffer et al. (2010); Stuart (2000); Khanna & Palepu (2010) lean towards an overall more positive relationship between collaboration credibility enhancement, and firm performance. Therefore the study focuses on testing for a relationship between collaboration and factors of credibility and reputation enhancement' that lead to subsequent improvement in firm performance.

### **3.2 RESEARCH HYPOTHESIS TWO: Collaboration is correlated with regulation which improves performance**

Lad & Caldwell (2009) highlights that when the legal framework is weak or non-existent, firms often resort to self-regulation. This often involves inter-firm and multi-sector collaborating to set up standards and norms that govern the transactions between buyers and seller and members of the network (Lad & Caldwell, 2009). In addition, these formal and informal constraints allow for firms to transact broadly with a vast number of suppliers and customers thereby improving firm competitiveness and

performance (North, 2005). Based on these assertions, Hypothesis two is aimed at testing the existence of a relationship between collaboration and regulation and enhanced performance.

### **3.3 RESEARCH HYPOTHESIS THREE: Collaboration is correlated with the adjudication of disputes which improves performance**

Puffer et al. (2010) argue that it is not the establishment of laws that is doubted, but rather the adequacy of their enforcement. The literature review suggests that when firms cannot be guaranteed of recourse or doubt the credibility of legal courts and arbitrators, they prefer to transact amongst known and trusted partners of the networks. This is because these partnerships often serve as safe havens where contracts and rules become enforceable (Carney et al., 2011). In addition, the fast resolution of dispute allows for firm to transact widely and improve their performance (ref). It is on the basis of these arguments that in hypothesis three, the research aimed to test for correlation between collaboration and arbitration and their role in improving performance.

### **3.4 RESEARCH HYPOTHESIS FOUR: Collaboration is correlated to facilitation of transaction which improves performance**

Intermediary firms played the role of smoothing transaction by ensuring that a common language and business connections were created between buyers and sellers (Khanna & Palepu, 2010). Zhou & Poppo (2010) argue that a similar role could be played by members in a network who, through repeated and recurrent relationships, are able to provide facilities and platforms for buyers and sellers to meet and exchange information, goods and services. Therefore, research hypothesis four aimed to test the relationship between collaboration, transaction facilitation and performance.

### **3.5 RESEARCH HYPOTHESIS FIVE: Collaboration is correlated to analysis of information which improves performance**

Zhou & Peng (2009) argue that information analysis fosters improvements in firm performance by improving disclosure, information flows and knowledge about the marketplace, necessary to facilitate transactions between buyers and sellers. In addition, Ma et al. (2009) cite that network information enhances innovation and builds firm's adaptive capability or ability to scan and respond to the environment. Therefore hypothesis five seeks to test the relationship between collaboration and information analysis and their subsequent improvement on firm performance.

### **3.6 RESEARCH HYPOTHESIS SIX: Collaboration is correlated to aggregation and distribution which improves performance**

Through aggregation, buyer and supplier are able to lower costs and to provide access to markets. In addition, firms aggregate to find more efficient methods to overcome the distribution challenges that are often characteristic of emerging markets. Carney et al. (2011) refer to business groups and networks as an intermediary organisational form capable of mobilizing valued resources. They suggest that through collaboration and pooling together, firms are better able to navigate the labour, capital and financial markets and hence improve firm performance. Therefore hypothesis six seeks to test the existence of the relationship between collaboration, aggregation and distribution and their impact on firm performance

## **CHAPTER 4: RESEARCH METHODOLOGY**

In the preceding chapter, the research identified the hypothesis to be tested. In this chapter the research seeks to define the methodology to be used in order to test the hypothesis defined in chapter three.

### **4.1 Methodology**

In order to test the hypothesis identified in Chapter three, quantitative and explanatory research was used. The method is best suited in research which seek an understanding of the best predictors of an outcome variable. This method was appropriate for the research given that the objective of the research involved the identification of the best predictors for the two independent variables; performance and collaboration. In addition, quantitative research methodology was chosen for its ability to test a hypothesis and answer relational questions between variables (Williams, 2011). It included a three stage process highlighted below:

- The first stage of the research involved a review of literature to gather an understanding of existing theory on the benefits of collaboration for small-medium enterprises (SMEs) operating in emerging markets. Through such methods, the researcher was able to draw insights and make the hypothesis indicated in Chapter three.
- A qualitative data collection method in the form of a questionnaire was developed using constructs from the literature review and used to collect data for use in the study.
- Exploratory research methods were used to prove that collaboration substitutes the institutions necessary for effective functioning of emerging markets and therefore has a positive relationship with the hypothesis in Chapter 3.

## 4.2 Population

The population consisted of small to medium sized companies that were current and past participants of the Department of Trade and Industry programme called the Workplace Challenge Programme. The programme focused on improving the productivity and competitiveness of firms, and the participants are companies that had voluntarily sought the assistance of Productivity SA. Participants of this programme were companies considered to be conscious of continuous improvement and constantly sought new methods to improve their competitive positions, including collaborating with external partners. As a result, the participants were considered a good case of study in that they understood collaboration.

The questionnaire was targeted at Chief Executives officers (CEO) or those identified by company executives as having knowledge about collaborative networks and business groups that businesses participate in. This selection is based on the presumed understanding that in small–medium sized companies, it is the managing directors and chief executives who usually have hands-on access to every facet of the business and therefore a presumed holistic view of the business and its operations

## 4.3 Sampling method and size

A non-probability purposive sampling method was used because of its ability to select only those that are likely to answer the research questions and objectives (Saunders & Lewis, 2012). In the research, the sample consisted of firms that were knowledgeable about collaboration and could help answer the research questions. From the existing WPC database, forty (40) companies were sampled. These companies had less than 350 employees with a turnover of less than forty (40) million Rand, and therefore met the criteria of small to



mediums sized companies. In addition the companies were considered to have long standing collaboration relationships.

#### **4.4 Unit of analysis**

The unit of analysis was the benefits of collaboration for SMEs in emerging markets.

#### **4.5 Data Collection**

For the purpose of this research, data gathering was done using mixed methods survey research, combining telephone, interview and self-administered online questionnaires (Babbie, 2011). This was done to overcome the challenges of low response rates associated with using self-administered questionnaires. The self-administered online questionnaire method was chosen because data collected in this manner is independent of the researcher and therefore assumed to be without bias, therefore providing a true reflection of reality (William 2011). In addition, using an online mechanism was considered a quicker and cheaper method to reach geographically dispersed participants (Babbie, 2011). However, Babbie (2011) highlights that online questionnaires suffer from low response rates and therefore to increase the response rate, this method was supported by telephone surveys. Telephone surveys provided safe access to respondents and were quick to execute because clarifications can be made instantaneously (Babbie, 2011). Lastly both methods were supported by face-face surveys, these are advantageous because they allow the researcher and respondent to answer any clarification questions and are usually considered to produce more complete responses than on-line questionnaires (Babbie, 2011)

The questionnaire included a broad range of benefits derived from the literature review and constructs of the framework by Khanna & Palepu

(2010). The variables each had a five point Likert scale, which was used to obtain a rating of importance for each variable. Questionnaire development involved the use and modification of existing questionnaires. The questionnaires were piloted and necessary modifications made prior to distribution to the participants.

## **4.6 Research instruments**

### **4.6.1 Questionnaire Design**

The questionnaire was designed to gather data about the variables identified in Chapter three, and was designed using questionnaires from previous studies. Questionnaires are considered to be a cost effective and quick method able to gather data that could be generalised to the population (Creswell, 2009). In addition, such data could be statistically manipulated for explanatory purposes. This was an important consideration given that the objective of the study was to explain the relationship between dependent and independent variables.

To ensure that there was content validity, the variables used in the questionnaire were validated using the literature review. Each of these variables incorporated a five point Likert scale, necessary to determine the importance of each variable. The questionnaire consisted of four sections:

- Section one covered demographic information and sought information such as name of company, size of company, sector, age and most details about the firms collaborators.
- Section two consisted of items measuring the dependent variable performance.
- Section three consisted of items measuring the dependent variable collaboration.
- Section four consisted of 34 items measuring the independent variables of institutional void classes and proposed benefits.

#### **4.6.1.1 Measures**

The 34 variables were conceptually clustered according to the six classes of institutional voids drawn from the literature review. The literature review identified the key variables that were then used to validate and determine conceptual constructs for the six classes of independent variables measuring institutional voids. Previous questionnaires were reviewed and amended using key findings from Chapter two.

##### **Measures for performance**

The measures for the dependent variable, performance, were extracted from the study by Cao et al. (2011) and amended using key findings from Chapter two:

1. Our firm is successful in meeting its goals.
2. The performance of our firm exceeds that of our peers in the industry

##### **Measures for collaboration**

The dependent variable, collaboration, was extracted from the study by Carney et al., (2011) and amended using key findings from Chapter two:

3. Collaboration is important for the success of our firm
4. Our firm gains new business opportunities through collaborations
5. Our firm's success depends on building and maintaining collaborations

##### **Measures for credibility**

The four items to measure credibility were adopted from the questionnaire by Christmann (2005) and included:

6. Our firm and partners jointly improve quality of products

7. Our firm and partners jointly facilitates the achievement of management standard certification (e.g ISO etc).
8. Our firm and partners jointly build credibility and improve reputation with customers and suppliers
9. Our firm and partners jointly achieve brand advantage'

### **Measures for adjudication**

Items measuring adjudication were adopted from Sorenson, Folker, & Brigham (2008). The following items asked about firms perceptions of conflict and how conflict is handled in the collaborative network:

10. We exchange accurate information to solve the problem
11. We solve issues relating to property rights within the network
12. We try to bring all our concerns out in the open so that the issues can be resolved in the best possible way
13. We resolve conflicts relating to Intellectual property protection
14. We resolve governance issues

### **Measures for regulation**

Items to measure regulation were extracted from questionnaires by Cao & Zhang (2011) and included:

1. Our firm with partners jointly establish and agree upon industry norms
2. Our firm with partners jointly establish and agree upon standards
3. Our firm with partners jointly ensure the enforcement of standards and norms

### **Measures for transaction facilitation**

Items to measure transaction facilitation were extracted and adopted from Cao & Zhang (2011) and Ren, Ngai, & Cho (2010) who highlight that partnerships are forged for the purpose of achieving cost, strategic and technical benefit. These included:

1. Our firm and partners pool financial and non-financial resources (e.g. time, money, training)
2. Our firm and supply chain partners have integrated IT infrastructure and IT Resources
3. Our firm and partners share a platform for the exchange of goods and services e.g. middlemen

### **Measures for information analysis**

Items to measure information analysis were extracted and adopted from questionnaires by Cao & Zhang (2011):

1. Our firm and partners exchange relevant information about customer and supply demand and needs
2. Our firm and partners exchange information about market changes
3. Our firm and partners jointly discover new or emerging markets
4. Our firm and partners jointly learn the intentions and capabilities of our competitors

### **Measures for aggregation and distribution**

Items to measure aggregation and distribution were extracted and adopted from Khanna & Palepu (2010):

1. Our firm and partners jointly access and share raw materials and inputs
2. Our firm with partners have access to a deep network of suppliers
3. Our firm and partners provide new or improved logistics, distribution or delivery methods

### **4.7 Questionnaire Pre-Test**

The objective of the pilot test was to simulate the process of completing the questionnaire and to ensure that any biases, ambiguities, functionality problems are highlighted and removed. According Saunders & Lewis

(2011), pilot testing improves the quality of data collection by minimising the chances of questions being misinterpreted.

In this research, pilot tests were conducted with three clients that were deemed to be representative of the chosen sample. These are companies of sizes 0-50, 51-100, and 101-200 employees. In the pilot testing, Company One had less than 50 employees, Company Two had 60 employees, and Company Three had 135 employees. In deciding on the companies, attempts were made to also vary the tenure and perceived level of collaboration. This was done to confirm that all companies regardless of years in existence and collaboration experience interpreted the questionnaire in the same manner. According to Babbie (2011), interpretation of the questionnaire can differ because of language differences, technical acumen and professional backgrounds of respondents.

Company One and Two both had 11 years of experience but different propensities to collaboration; one was still considered emerging and therefore lacked sufficient systems and knowledge of best practices, whilst the other was more established. In addition, Company One was a local player with minimal global exposure, whilst Company Two was global player. Company Three had 31 years of experience and was part of a global alliance.

The pilot tests were conducted at the clients' facilities. The clients were sent a link to the questionnaire and in the presence of the researcher; the client logged on and concluded the questionnaire whilst giving feedback about any challenges and ambiguity observed with the use of the questionnaire. These pilot tests were timed to determine an estimate of the average time required to complete the questionnaire. Lastly, questions

that were either ambiguous or presented bias were subsequently removed or redefined.

## **4.8 Data Analysis**

Data analysis involves a process of trying to decipher results obtained from the questionnaire and make sense out of them. The data analysis process followed on from data collection and consisted of four broad steps:

### **4.8.1 Data management**

To analyse the data we used statistical analysis software, the IBM SPSS. Data received from the online questionnaire was uploaded onto a Microsoft Excel spreadsheet and arranged accordingly into a data matrix. This was a necessary format requirement for use on the statistical analysis software.

### **4.8.2 Identification of factors through a dimension reduction method**

Once the data was organised accordingly and loaded into the statistical software, factor analysis was then done to reduce the data into meaningful constructs. Factor analysis is a multi-step process used to reduce data and to determine meaningful factors included in a data set (Costello & Osborne, 2009).

Based on guidelines by Costello & Osborne (2009), only factors with an Eigen value greater than one were included in the analysis and items with factor loadings greater than 0.6 were considered significant. As per the guidelines by Costello & Osborne (2009), where a factor analysis returned items with lower loadings of less than 0.3 or had cross loadings across factors, these factors were removed in favour of items with higher loadings. In such cases, the factor analysis was then re-run. Factors were

then named according to their fit to the six classes of institutional voids identified in the literature review.

#### **4.8.2 Testing of internal reliability of items in each factor**

Cronbach's alpha reliability test was conducted for all factors retained in the factor analysis. The Cronbach's coefficient is a measure of the internal reliability of scale in the questionnaire and was used to assess the reliability of, and to validate the items in the questionnaire. The objective was to achieve a Cronbach alpha of ( $>0.6$ ) for the individual and combination of items in each factor. According to Gliem & Gliem (2003) the closer the Cronbach coefficient is to one, the greater the internal consistency of the items in the scale. The items with less than a 0.65 which according to Gliem & Gliem (2003) were considered to have low internal consistency were therefore dropped from the list. Prior to deletion, items were validated against literature to ensure the appropriateness of such actions. This process was used to finalize items to be used in the analysis.

#### **4.8.3 Calculate the averages for all items for a construct**

To conduct the regression analysis, the average score of the items in each factor is then taken to create a single scale score for each factor. According to Gliem & Gliem (2003) using the average scores improves the reliability of the scales.

#### **4.8.4 Regression analysis**

Inferential statistics method of multiple regression was used determine the relationship between dependent variables; collaboration and performance: and the variables identified from the framework of Dhanaraj & Khanna (2011). For the research, multiple regression was used to test each of the six hypothesis stated in Chapter 3. Multiple regression technique is credited for its ability to measure the relationship of several independent variables to the dependent variable (Albright, Winston, & Zappe, 2010). In



addition, multiple regressions provide an indication of the best predictors of the dependent variables. This method was therefore considered relevant because the research intended to test the assumptions made in Chapter three, that there were six independent variables that could explain performance and collaboration.

#### **4.8.4.1 Control variables**

The research controlled for size and tenure because it was anticipated that different size companies and the number of years a firm has been in existence may affect collaboration and performance.

#### **4.8.4.2 Multicollinearity**

The test for Multicollinearity was also conducted to check for variables which are redundant or best described by other variables and therefore should not be included in the research (Albright et al., 2010). The negative effect of Multicollinearity is that it can distort the results of the individual predictors in the regression analysis (Albright et al., 2010). Multicollinearity is indicated by variance inflation factor and a score of greater than ten is considered to reflect serious Multicollinearity.

### **4.9 Research Limitations**

The research made use of non-probabilistic methods and therefore the results could not be generalised to the overall population. By sampling from the WPC programme, meant that the research excluded other SMEs involved in collaboration. Whilst the research attempts to analyse the changing theory on collaboration, this study happens only in the context of South Africa and may not lend itself to other emerging markets.

The measures in the questionnaire were drawn from literature review which may limit the addition of other factors that drive collaboration. The

study could therefore be enhanced by conducting an exploratory interview prior to conducting to the development of the online survey.

## **5. CHAPTER 5: RESULTS**

### **5.1 Introduction**

The objective of this chapter is to describe the findings of the data collection phase covered in chapter four. The chapter includes a description of the sample, a summary of the demographic data and concludes with an analysis of the data collected. There is also a brief discussion of the findings, with the detailed discussion covered in chapter six.

### **5.2 Sample description**

An online survey was sent out to previous and existing Workplace Challenge Programme (WPC) participants. From the targeted 200, only 40 responses were received and therefore a 20% response rate was achieved. The response rate may be attributed to the culture of South Africa which fits the description of a country with a high power distance culture. According to Harzing (2000) it is expected that high power distance countries will have a lower response rate than those with a lower power distance. South Africa is a country characterized by high inequality and acceptance of hierarchical order (Hofstede, 1980). The fact that the research was targeted at CEOs and executives who occupy the highest level of organization and have high power distance, further supports the theory and provides explanation for the low response rates. Therefore researchers targeting this population should take cognizance of these country cultural dynamics.

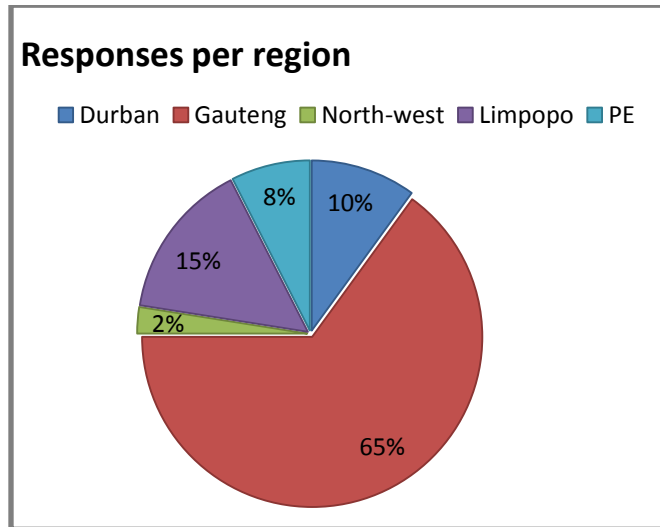
Initially, responses were solicited via email with a link to the questionnaire; this was then followed up in most instances by email and telephonic reminders. Due to a slow response rate online, a small percentage of surveys were concluded telephonically, at the client's facilities and in some case a hard copy of the survey was distributed in the programme's monthly steering committee meetings and then faxed back by the clients once completed.

To access clients in other regions (KwaZulu-Natal and Cape Town), permission was sought from the regional managers to use their facilitators to distribute the survey. This was done because the facilitators had direct working relationship and contact with the clients and it was assumed that this would increase the response rate.

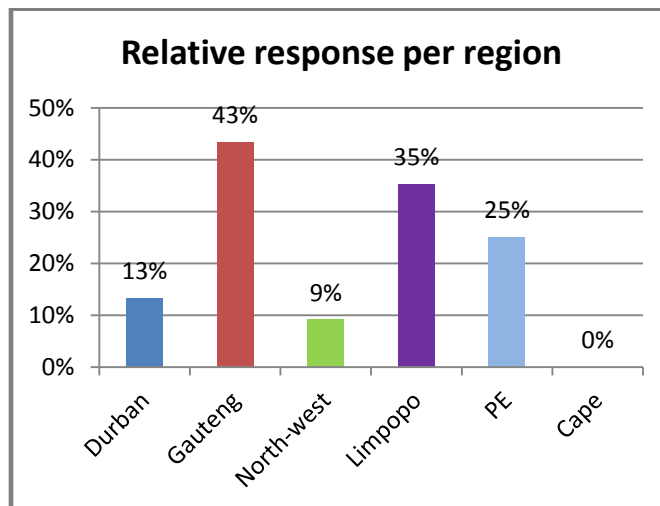
### **5.2.1 Response rate by region**

Gauteng region was the dominant region as far as responses were concerned and this was largely because the researcher had direct access and existing relationship with clients and facilitators in the region. The response rate in other regions was found to be considerably low, 10% in KwaZulu Natal, 8% in Northern Cape, 15% in Limpopo 2% in North-West and 0% in Cape Town. However, observation of relative response rates, that is number of responses in relation to the number of surveys that were distributed per region, showed a significant contribution from Limpopo and Port Elizabeth.

**Figure 4: Responses by region**



**Figure 5: Relative response rate**



### 5.3 Survey Data

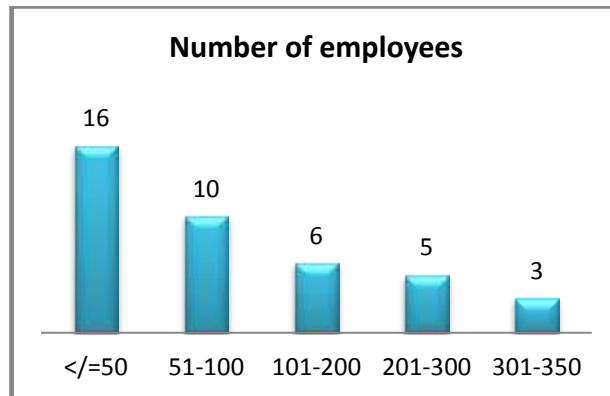
#### 5.3.1 Demographic Data

The first section of the survey focused on demographic data. The three questions that were asked included; what is your company size, how many years is the company in operation, and the industry your company belongs to. The results are presented below:

##### 5.3.1.1 Company size

The company size was measured as the number of employees in the company. 40% of the firms that participated had less than 50 people whilst larger firms with between 300 to 350 employees, constituted only 8% of the sample as shown in Figure 2.

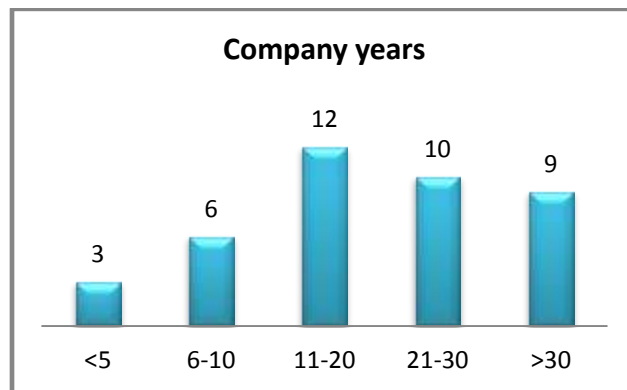
Figure 6: No of employees



##### 5.3.1.2 Years of existence (Tenure)

The companies surveyed were mature companies with greater than five years in existence. Only a small portion could be classified as emerging businesses with less than five years existence. This was consistent with the WPC programme's target market which is mature companies with greater than five years.

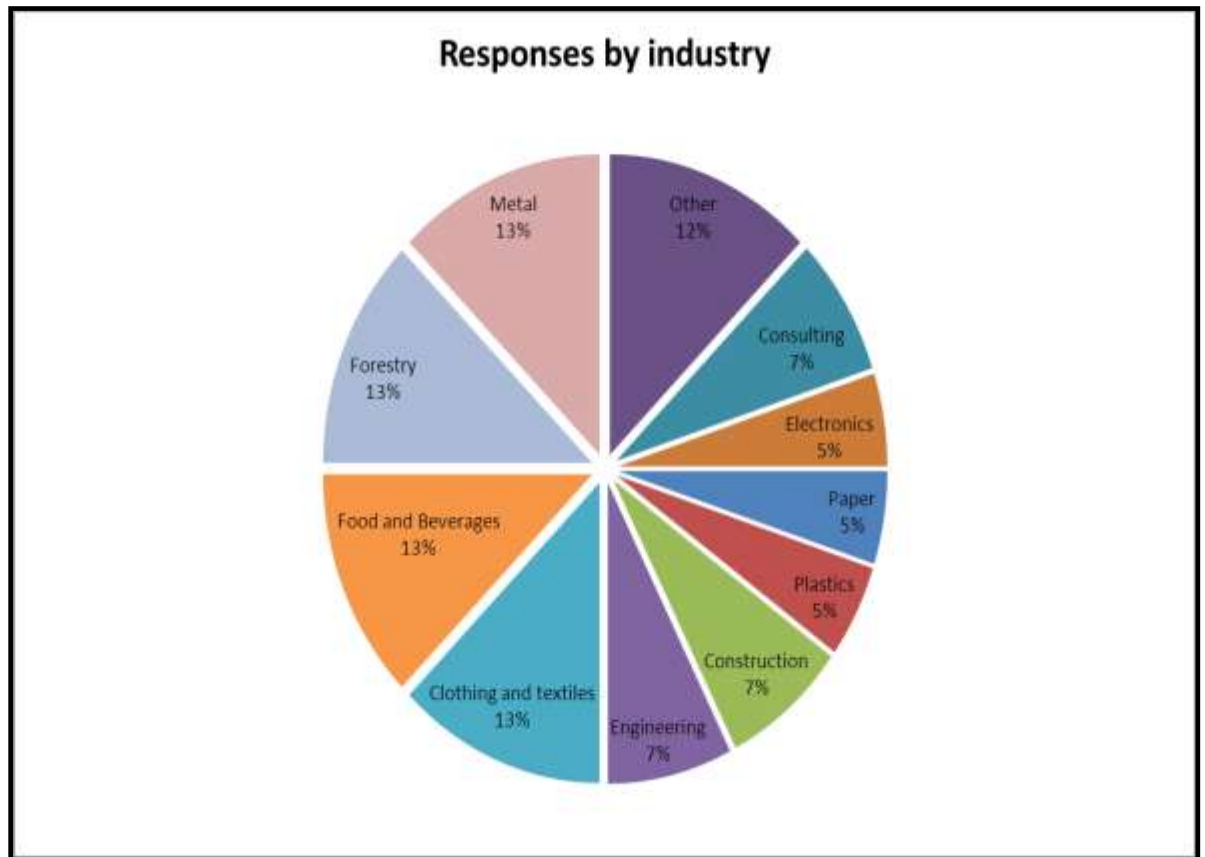
Figure 7: Years in existence



### 5.3.1.3 Industry

The sectors covered included agriculture, manufacturing and services. Responses from the services sector accounted for 12% of the total, whilst manufacturing sector accounted for majority (87%) and Agriculture (1%). The forty (40) companies that responded were from a wide variety of industries, with the dominant industries being metals, forestry, consulting and food and beverages, clothing and textiles.

Figure 8: Breakdown of respondents by industry



The industries categorized as “Other” accounted for less than 5% and included: agri-business, chemicals, medical, mining, plastics, and steel.

### 5.3.2 Partnerships

In order to help companies conceptualize their partnerships and to ensure that their responses were linked to existing partnerships, companies were requested to identify and list their formal and informal partnerships. Formal partnerships were classified as those where contractual agreements were in place, whilst informal partnerships related to those without formal contracts (North, 2005). This second section of the online questionnaire sought to gather data about each company’s most important partners.



### **5.3.2 Benefits of collaboration**

The third section focused on the benefits pursued through collaboration and their ranking of their importance as considered by the participants.

### **5.4.1 Analysis of results**

#### **5.4.1.1 Factor analysis**

Factor analysis was conducted to validate the construct/items of the survey that were used to measure the six classes of institutional voids, namely; credibility enhancers, transactional facilitators, information analyzers, adjudicators, regulators, aggregators and distributors. Whilst the items measuring these components and independent variables were initially grouped based on a review of literature, the factor analysis was used to validate these groupings. We made use of principal component factor analysis extraction method, varimax rotation plus multiple test runs to determine meaningful factors that existed in a data set (Costello, 2009). The number of factors chosen for rotation where based on the Kaiser criterion. That is, only factors with the Eigen values greater than one were retained. Eight factors were initially retained, however with the removal of items with cross loading and multiple reruns, only six factors were retained. Table One provides a summary view of the results of the factor analysis conducted.

#### **Table 1 Rotated Component Matrix**

Rotated Component Matrix<sup>a</sup>

	Factor					
	Information analysers	Transaction facilitators	Regulators	Aggregators	Adjudicators	Credibility enhancers
Jointly improve quality of products				.365	.509	
Jointly achieve brand advantages	.331		.776			.323
Jointly establish and agree upon industry norms and rules of			.724			
Jointly ensure the enforcement of standards and norms			.569	.502		
Resolve conflicts relating to intellectual property protection			.788			
Jointly provide intellectual property protection		.313	.878			
Exchange accurate information to solve problems together					.818	
Try to bring all concerns out in the open so that the issues can be					.849	
Are free to share new ideas and innovation	.396				.505	.491
Share a platform for exchanging information e.g on-line platforms	.325	.411				.644
Share an integrated IT infrastructure and IT resources that		.858				
Are a source of talent and new skills	.314	.476	.349	.357		.486
Provide mechanisms to source of skills and talent e.g. an on-	.424	.552	.344			
Share a platform for the exchange of goods and services e.g	.430	.600				
Pool together to access non-financial resources (e.g. time,		.339	.389	.527		.336
Jointly facilitate the achievement of management standard			.319	.575		.468
Help each other to build credibility and reputation with customers	.484		.370		.385	.453
Jointly access and share raw materials and inputs		.419		.707		
Pool together to reduce input and raw material costs		.337		.685		
Have access to a deep network of suppliers	.431			.763		
Share distribution channels	.576	.593				
Exchange relevant information about customer and supply	.732				.327	
Exchange information about market changes	.827					
Jointly discover new or emerging markets	.757		.365			
Exchange information about industry competition	.850					
Jointly learn the intentions and capabilities of our competitors	.785					.369
Pool together to access financial resources (capital, flexible		.762				
Receive favorable pricing from pooling together		.721		.363		
Establish efficient distribution channels	.664	.307		.309		
Achieve cost advantages from sharing a distribution channel	.585	.493		.371		

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

Whilst the constructs for the independent variables were initially developed based on a review of literature, the results of the factor analysis showed consistency to theoretical analysis conducted in Chapter Two. The six factors concluded upon were named: adjudicators, regulators, transaction facilitators, information analyzers, and distributors and aggregators.

#### 5.4.1.1 Results of factor analysis

To determine the items to be retained in each factor, items with high loadings and minimal cross loading were selected and checked for internal reliability. According to Costello (2009), items with loading factors greater than 0.5 are considered good choices.

### **Factor One: Information Analyser**

Factor One had five items with strong loadings of 0.65 and higher. According to Costello (2009), factors with five or more items are considered desirable and solid. The items in the factor related to sharing and disseminating of information and therefore the factor was conceptually named information analyser. These items carried a Cronbach Alpha of 0.935.

**Table 2 Factor One Information analyser**

33.Jointly discover new or emerging markets	.818
31.Exchange relevant information about customer and supply demands and needs	.650
32.Exchange information about market changes	.798
34.Exchange information about industry competition	.848
35.Jointly learn the intentions and capabilities of our competitors	.800

### **Factor Two: Regulators**

The items of the questionnaire related to factor two and carried an internal reliability of 0.894. The finding was that the questions fit the theory on enforcement and regulation and therefore the factor was named regulators.

**Table 3 Factor Two Regulator**

4. Jointly provide intellectual property protection	.853
5. Jointly establish and agree upon industry norms and rules of exchange	.806
7. Resolve conflicts relating to intellectual property protection	.792
10. Jointly achieve brand advantages	.788
11. Jointly ensure the enforcement of standards and norms	.684

**Factor Three: Adjudicator**

Questions related to factor three and carried an internal reliability of 0.827. If item “improve quality of products” was removed, the reliability could be improved to 0.913 (Refer to table 5). However a factor with less than three items is considered weak and unstable (Costello, 2009), and for this reason the item was retained. Item “free to share new ideas and innovation” also showed a high loading for factor three but had more cross loadings than item “improve quality of products”, and as a result was excluded from the analysis.

**Table 4 Factor Three Adjudicator**

8 Exchange accurate information to solve problems together	.818
9 Try to bring all concerns out in the open so that the issues can be resolved in the best possible way	.849
10 Improve quality of products	.509

The finding was that the questions related to problem solving and therefore the factor was named adjudicators.

Table five shows the Cronbach Alpha if item “jointly improve quality of products” is removed.

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
8. Exchange accurate information to solve problems together	8.03	3.051	.815	.622
9. Try to bring all concerns out in the open so that the issues can be resolved in the best possible way	8.13	2.779	.781	.664
1. Jointly improve quality of products	7.90	4.605	.511	.913

#### Factor Four: Credibility Enhancers

Questions correlated to factor four and carried an internal reliability of 0.76. The items related to credibility enhancing benefits and therefore the factor was labelled credibility enhancer.

**Table 5 Factor Four Credibility Enhancers**

16. Share a platform for exchanging information e.g. on-line platforms such as eBay, on-line job advertising, commodity exchanges etc.	.644
3. Help each other to build credibility and reputation with customers and suppliers	.384
2. Jointly facilitate the achievement of management standard certification (e.g. ISO etc.)	.713

#### Factor Five: Transaction Facilitators

The items related to the provision of methods to facilitate transactions and therefore were labeled transaction facilitators. The factor carried an internal reliability of 0.881.

**Table 6 Factor Five Transaction Facilitators**

17. Share an integrated IT infrastructure and IT resources that enable electronic transactions between buyers and sellers	.544
20. Provide mechanisms to source of skills and talent e.g. an on-line recruitment platform	.713
21. Pool together to access financial resources (capital, flexible payment arrangements and methods)	.762
26. Receive favorable pricing from pooling together	.721
18. Share a platform for the exchange of goods and services e.g. middlemen	.600

### **Factor Six: Aggregators and distributors**

Factor six related to pooling of resources in order to gain access to suppliers and was therefore considered an aggregation and distribution factor. The internal reliability of the factor was 0.818.

**Table 7 Factor Six Aggregators and distributors**

24. Jointly access and share raw materials and inputs	.780
25. Pool together to reduce input and raw material costs	.819
27. Have access to a deep network of suppliers	.560

In summary, Cronbach alpha is done to test the reliability of the items in each of the factors. The alpha of greater than 0.65 was achieved for each factor indicating that the items used to measure the factors had internal reliability. Each of the items used to measure the factors had a high internal reliability

In addition and as indicated in chapter four, internal validity was checked for the components of the survey measuring the dependent variables performance and collaboration. The reliability of the two variables measured at 0.662 and 0.870 respectively. Summaries of reliability statistics are shown below:

**Table 8 Summary of Reliability**

	Cronbach's Alpha	No of Items
Information analyser	.934	5
Regulators	.894	5
Adjudicator	.827	3
Credibility enhancers	.766	3
Transaction facilitator	.881	5
Aggregator and distributor	.818	3
Performance	.662	2
Collaboration	.870	3

### 5.4.3 Regression analysis

In order to test and respond to the propositions made in chapter four, regression analysis was done to determine the correlation of the six classes of institutional voids to two dependent variables namely; collaboration and performance. To conduct the regression analysis, average scores of the items in each factor is then used to create a single scale score for each factor. Multiple regression was used as it is considered the most effective method to derive a model that determines which variables are deemed the best predictors of the dependent variables (Albright et al., 2010).

### 5.4.3.1 Dependent variable: Collaboration

Tables 10 and 11 represent the results of the regression analysis with collaboration as a dependent variable. Table 10 indicates that adjudication and regulation (marked in green) are positively correlated to collaboration. Both factors have statistically significant relationships to collaboration ( $p < 0.05$ ).

**Table 9 Coefficients**

Model	Coefficients <sup>a</sup>						Collinearity Statistics	
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF	
	B	Std. Error	Beta					
(Constant)	1.731	.510		3.394	.002			
How many employees?	.002	.001	.192	1.426	.164	.788	1.268	
How long has your company been in existence? (Years)	.004	.005	.106	.832	.412	.889	1.125	
Regulation and enforcement	.342	.121	.466	2.823	.008	.525	1.904	
Adjudicator	.362	.141	.401	2.567	.015	.588	1.701	
Transaction facilitator	-.117	.176	-.148	-.668	.509	.293	3.407	
Credibility enhancer	-.015	.225	-.018	-.068	.946	.201	4.986	
Aggregator	.166	.136	.203	1.221	.231	.519	1.928	
Information analysis	-.165	.119	-.244	-1.380	.177	.458	2.181	
<b>a. Dependent Variable: Collaboration</b>								

The coefficient or Beta relates to a measure of change in the dependent variable as influenced by the change in the independent variable (Keller, 2008). In Table 11 we observe that the two control variable, firm size and firm age, are not significantly related to collaboration ( $p > 0.05$ ).

The coefficient for transaction facilitators, credibility enhancers, and information analysis (marked in red) show that changes in these independent variables create a negatively change in the dependent



variable. However these relationships are considered insignificant with p values greater than 0.05. The coefficient for aggregators show that changes in this independent variable positively affect the change in the dependent variable. However, this relationships is also considered insignificant with a p value greater than 0.05. Therefore information analyzers, transaction facilitators, aggregators and distributors, credibility enhancers are all insignificant to collaboration at a 5% significance level.

**Table 11 Model summary for collaboration**

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	16.112	8	2.014	4.846	.001 <sup>b</sup>
Residual	12.885	31	.416		
Total	28.997	39			

Dependent Variable: Collaboration  
Predictors: (Constant), Information analysis, How long has your company been in existence? (Years), How many employees?, Adjudicator, Regulation and enforcement, Aggregator, Transaction facilitator, Credibility enhancer

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.745 <sup>a</sup>	.556	.441	.6447059

a. Predictors: (Constant), Information analysis, How long has your company been in existence? (Years), How many employees?, Adjudicator, Regulation and enforcement, Aggregator, Transaction facilitator, Credibility enhancer

Table 11 represents the results of the regression model. The simple correlation represented by R value is 0.745 which represents high correlation of the dependent variable to the model. In the regression model, an important figure to observe is the R squared figure. R squared

relates to the percentage of variation in the dependent variable that is explained by the regression model (Albright et al., 2006). In the model summary depicted in Table 11, an R square value 0.56 means that 56% of variation in collaboration can be explained by adjudicator and regulator benefits, given that the other variables are insignificant. The adjusted R squared discounts the insignificant variables and reduces the correlation to 44%. The ANOVA table confirms that the model is significant in explaining collaboration ( $p < 0.05$ ).

#### **5.4.3.2 Dependent variable: Performance**

Tables 12 and 13 represent the results of the regression analysis with performance as a dependent variable. Table 12 indicates that adjudicators and transaction facilitators (marked in green) are positively correlated to collaboration. Both factors have statistically significant relationships to collaboration ( $p < 0.05$ ). The coefficient for aggregators shows that changes in this independent variable negatively affect the change in the dependent variable. The relationship of aggregators and distributors to performance is considered marginally significant with p values of 0.72.

**Table 12 Coefficients**

Coefficients							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.640	.485		3.385	.002		
How many employees?	.003	.001	.387	3.016	.005	.788	1.268
How long has your company been in existence? (Years)	-.013	.005	-.320	-2.647	.013	.889	1.125
<b>Adjudicator</b>	.617	.134	.685	4.605	.000	.588	1.701
<b>Transaction facilitator</b>	.355	.167	.448	2.127	.041	.293	3.407
Credibility enhancer	-.223	.214	-.265	-1.039	.307	.201	4.986
<b>Aggregator</b>	-.240	.129	-.295	-1.861	.072	.519	1.928
Information analysis	.012	.113	.018	.108	.914	.458	2.181
Regulation	-.043	.115	-.059	-.373	.712	.525	1.904

a. Dependent Variable: Performance

In Table 12 we observe that the two control variable, firm size and firm tenure are significantly correlated to performance ( $p < 0.05$ ). The coefficient for credibility enhancers and regulation (marked in red), show that changes in these independent variables create a negative change in the dependent variable, whilst changes in information analysers have a marginal to zero impact on performance. However, these relationships are considered insignificant with  $p$  values greater than 0.05.

Therefore regulation, information analysers, and credibility enhancers are insignificant to performance at a 5% significance level.

**Table 13 Model summary for performance**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.208	8	2.151	5.731	.000 <sup>b</sup>
	Residual	11.635	31	.375		
	Total	28.844	39			

a. Dependent Variable: Performance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.772 <sup>a</sup>	.597	.493	.6126

Table 14 represents the results of the regression model. The simple correlation represented by R value is 0.772 which represents high correlation of the dependent variable to the model. In the regression model, an important figure to observe is the R squared figure. R squared relates to the percentage of variation in the dependent variable that is explained by the regression model (Albright et al., 2006). In the model summary depicted in Table 14, an R square value 0.597 means that 60% of variation in performance can be explained by adjudicator, aggregator and transaction facilitator benefits, given that the other variables are insignificant. The adjusted R squared discounts the insignificant variables and reduces the regression correlation to 50%. The ANOVA table confirms that the model is significant ( $p = .000$ ) in explaining collaboration.

#### **5.4.3.3 Multicollinearity**

The test for multicollinearity in Table 11 and 12, shows that whilst some variables have higher correlation values, the variance inflation factor for each variable does not reach 10. A score of 10 is considered to reflect serious multicollinearity, which can distort the results of the individual predictors in the regression analysis. As this is not the case, we can assume the coefficients of the predictors in the model to be relatively stable and accurate.

#### **5.4.3.4 F-Values**

The results of the analysis also provide an F value, which provides a ratio of the between groups and within group variance (Albright et al., 2006). At a significance of 0.05, we can reject the null hypothesis that the population variances are equal and accept that the regulation and adjudication are related to the collaboration in our population.

#### **5.4.3.4 Results of the propositions**

With regards to the propositions made in chapter three, the results show that:

- Collaboration is not correlated to information analyzers ( $p > 0.05$ ), which is also not correlated to performance ( $p > 0.05$ ).
- Collaboration is not correlated to transaction facilitators ( $p > 0.05$ ), which is correlated to performance ( $p < 0.05$ ).
- Collaboration is not correlated to credibility enhancers ( $p > 0.05$ ) which is insignificantly negatively correlated to performance ( $p > 0.05$ ).

- Collaboration is correlated to adjudicators ( $p < 0.05$ ), which is significantly correlated to performance.
- Collaboration is correlated to regulators ( $p < 0.05$ ), which is insignificantly and negatively correlated to performance ( $p > 0.05$ ).
- Collaboration is marginally correlated to aggregators and distributors ( $p > 0.05$ ), which are negatively correlated to performance.

### **5.5 Summary**

The analysis in chapter five shows that collaboration for SMEs in South Africa is correlated to adjudication and regulation. Factors relating to credibility enhancers, aggregator and distributors, transaction facilitators and information analysers are statistically insignificant to collaboration. In addition, only transaction facilitators and adjudicators are significantly correlated to performance, aggregators and distributors have marginal significance and negative correlation to performance. The results also indicate that company size and length of time have no significant relationship to collaboration and are therefore not considered predictors of collaboration. Further discussion on the results will be covered in chapter six.

## **6. CHAPTER 6 DISCUSSION OF RESULTS**

The results presented in chapter five show adjudication and transaction facilitation as drivers for performance, firms are instead collaborating to overcome institutional voids arising from weak regulation and adjudication frameworks. This chapter discusses these findings.

### **6.1 Hypothesis One: Collaboration is correlated with regulation which enhances performance**

The results show that managers in South African SMEs perceive regulation and adjudication as the important benefits of collaboration and creating networks. Mair & Marti (2009) assert that the role of establishing rules and norms is often reserved for government, however when government fails, this is left for business groups, and hence firms, to resolve. The results therefore reflect failing mechanisms within the formal legal and regulatory structures of South Africa.

Despite the World Economic Forum (2012) stating that the South African legal framework is considered to be sound and efficient in terms of settling disputes and challenging regulations, the above results suggest that there may be gaps. This is particularly true in the case of the business environment which is often constrained by laws ranging from governance laws, consumer laws, to taxation laws, Black Economic Empowerment (BEE) and the other stringent labour laws (World Economic Forum, 2012). As a consequence, South Africa's regulatory regime is considered amongst the most problematic factors for doing business in the country (World Economic Forum, 2012).

This could explain why the perceived benefit of collaboration is linked to conflict resolution and the establishment and enforcement of norms and standards. These dynamics mean that businesses have to find ways to bridge government regulations, as well as to protect themselves from being penalized for non-compliance or confiscation of goods as a result of non-compliance. On the other hand, the stringent regulation surrounding South Africa's business environment may reflect the attempt by formal institutions to curb contaminant increase of non-compliant firms. According to North (2005), when firms are faced with significant regulations, their resolve is often to find mechanism to evade the rules - particularly if they do not serve self-interest. Therefore firms tend to seek institutional arrangements where they are protected and the cost of governance is seen to be reduced.

This protection can come from having well connected and diverse networks (Ma et al., 2009). Therefore the results show that SMEs are turning to the networks as they provide a means for firms to collectively analyse new rules and regulations, come up with strategies such as industry norms and standards to self-regulate, to lower governance costs and or to ensure compliance to the regulatory environment. In line with Stein & Ginevicius (2010), these networks offer a platform where firms can question and resist regulations. The results also reflect how these important regulations affect businesses, and that whilst regulation is insignificant and negatively correlated to performance, it is still so important that firms are joining networks to ensure its establishment and enforcement. Whilst regulation does not lead to performance, it often can lead to penalties if there is no compliance.

The result is reflective of the uncertainty in South Africa's business regulatory environment. This often stems from the power wielded by the unions and their influence on state economics. South Africa has a highly



unionized labour environment with powerful unions whose demands are often a cause for contention and who are often criticized for rendering the business environment uncertain. Khanna & Palepu, (2010), highlight this as characteristic of emerging markets and as in other emerging markets, when faced with uncertain regulatory environment, firms resort to informal mechanisms.

The study shows that regulation is viewed more as an impediment to performance rather than a means to limit the risk of opportunist behaviour which is required to provide firms with assurances that transactions will be honoured.

These results show misalignment between what business wants and what policy makers deem as necessary. According to North (2005) for performance to be achieved, there must be alignment between the formal and informal institutions and their enforcements.

## **6.2 Hypothesis Two: Collaboration is correlated with adjudication which enhances performance**

Adjudication involves resolving conflicts and enforcing regulations, in this instance, the model in Table 11 shows that adjudication and regulation are considered the important benefits of collaboration. These results indicate that business seek platforms where they can set industry standards and norms, ensure their enforcement, as well as resolve any conflicts that arise from them.

In addition, collaboration on the basis of regulation and adjudication makes sense, given that these aspects are often generic and affect industry equally and in the same manner. Therefore firms understand that no competitive advantage can be achieved by internalizing rules and

regulations that are a common feature faced by all firms and industries, and whose application often must follow the same guidelines.

The results also indicate the importance of having standards, the rule of law and more specifically its enforcement. Without enforceable rules and regulations which limit opportunistic behaviour, firms are unlikely to transact with strangers, thereby limiting competition. As a result, norms, rules and standards form the basic foundation for transactions (Meyer et al., 2009). For instance, firms will transact with a stranger if they are confident that a contract put in place will be enforceable and any disputes arising will be resolved. In this instance, the results imply that firms have limited confidence in courts and arbitrators to resolve their conflicts and are therefore resorting to networks. The disadvantage of this arrangement is that it limits collaboration and transaction to within the network as they are perceived as a safe haven, where opportunists will face recourse.

The link between performance and adjudication offers further insight because it indicates that whilst the context is constrained by regulations, firms view collaboration as offering a platform on which to reconcile disputes arising from conflicting regulations. Furthermore this adjudication and problem solving capability of firms, allows firms to improve performance.

The results also confirm the importance of and role of networks and collaboration in achieving laws and regulation. Lad & Caldwell (2009) argue that business groups and partners establish rules and norms and ensure the enforcement thereof. Meyer et al. (2009) further emphasize the importance of emerging market networks and relationship based strategies as regulators and enforcers of contracts. They highlight that without formal regulatory systems and in the absence of contract law and

property rights, firms need to rely more on network and relationship based strategies.

The results also indicate that firms have more trust in networks as means to establish norms and standards, as well as protection of these rights. This shows consistency in relation to the arguments made by Zhou & Poppo (2010). These authors highlight that managers in emerging markets will only resort to formal enforcement when confident that this will protect their rights; otherwise the tendency is to revert to networks.

### **6.3 Hypothesis Three: Collaboration is correlated to transaction facilitators which enhances performance**

The results show that transaction facilitators and adjudicators are considered to be important for firm performance. This means that performance is achieved when a firm and its partners collaborate to facilitate transactions and to resolve disputes related to transactions. This supports the argument by Khanna & Palepu (2010) who suggest that when firms are confident that transactions will be honoured, more transactions occur leading to improved performance.

The facts that facilitator transactions are not correlated to networks, but are considered important for firm success, means that other formal mechanisms or institutions are available to achieve the facilitation of transactions. Transaction facilitators enable buyers to connect to suppliers and as result should show a direct correlation to improved performance. Yet it is not considered a basis for collaboration. Whilst transaction facilitation is seen to improve performance, firms do not perceive these benefits as important for establishing networks. This implies that those institutions exist elsewhere and do not have to be filled by networks.

#### **6.4 Hypothesis Four: Collaboration is correlated to aggregators and distributors which enhance performance**

Overcoming aggregation and distribution challenges often involves pooling together resources and using economies of scale created by the network, to access capital and labour. The results of the research show that whilst there is correlation between collaboration and aggregator and distributor benefits, it is not considered important.

This may be related to the fact that collaboration for aggregation and distribution, whilst marginal, contributes negatively to performance. Firms pool together when faced with resource shortages or have distribution challenges; these results show that when this is not the case, collaboration for these resources will only yield diminishing returns. For example, Carney et al. (2011) highlight that the disadvantage of business groups is that because of their access to finance, they often tend to be overleveraged and make poor investment decisions. In addition, because of collective blindness, they often fail to make proper assessments of markets and therefore fail to enter relevant markets.

In South Africa, infrastructure is considered to be relatively good, finance is also accessible and various institutions, such as business schools, already exist to enable access to skills and talent (World Economic Forum, 2012). Therefore collaboration with the intent to aggregate and distribute goods and services, would only lead to marginal returns with firms duplicating these existing institutions.

#### **6.5 Hypothesis Five: Collaboration is correlated to credibility enhancement which enhances performance.**

The results show that credibility enhancement is insignificant and negatively correlated to both collaboration and performance. This implies

that firms are not in favour of using collaboration to enhance brand equity because filling this void will not lead to firm success.

The results also show that there is a perception that brand equity achieved through the network negatively influences collaboration. This may imply that they achieve the opposite, anti-competitive behavior. This often happens when small groups of firms work closely together to achieve brand advantages and leverage of the advantage of larger firms (Stuart, 2000). This tends to lock-out other industry players external of the network, therefore diminishing the power of collaboration. In cases of cohesive network, members can also purposely tarnish the reputation of firms as soon as they wish to exit the network (Carney, 2011).

These insights suggest that the negative perception about credibility enhancement as an important benefit for collaboration may simply be managers exercising caution and not wanting to cross boundaries that may lead to anti-competitive behaviours or collective blindness. In addition, it may simply be that this factor does not have significant input to firm success and hence it is not considered important for collaboration.

#### **6.6 Hypothesis Six: Collaboration is correlated to information analysis which enhances performance.**

The results show that information analysis is insignificant to firm performance and managers consider this factor to be unimportant for collaboration. This implies that firms are not in favour of using collaboration to analyze and respond to market changes. This may be because the ability to analyse markets relates to unique features of company strategic imperatives and competitive advantage and sharing this information widely may risk the flow of confidential information into competitor hands.

The results also show that there is a perception that information analysis negatively influences collaboration. This may imply that they achieve the opposite, anti-competitive behaviour. This often happens when small groups of firms work closely together but tend to lock-out other industry players. In these groups called “in-groups” the more information shared between a network and its partners, the less these firms are able to allow external members; therefore diminishing the power of collaboration. This cohesiveness can lead to collective blindness and can limit how firms respond to markets and limit information and knowledge transfer.

These insights suggest that the negative perception about information analysis, as important benefits for collaboration, may simply be managers exercising caution and not wanting to cross boundaries that may lead to anti-competitive behaviours or collective blindness. In addition, it may simply be that this factor does not have a significant input to firm success and hence it is not considered important for collaboration.

## **6.7 Role of culture**

Besides the availability of institutions, the results of the research may also be explained by the role of the cultural context and firm structure. Besides the benefits of collaboration in overcoming the six classes of institutional voids, the findings reflect an often negative or low correlation between collaboration and the six classes of institutional voids. The research sense is that networks are not fully leveraged and taken advantage of. According to Zhang & Keh (2009) and Zhou & Poppo (2010), this may be the result of local norms and culture which determine the response to collaboration in a particular society.

Puffer et al. (2010) indicates that individualistic cultures are less prone to collaborate, whilst those that have collectivist cultures, such as China and Japan, tend to rely more on collaboration as a means to achieve

competitive advantage. In the study, South Africa's individualistic culture may help to explain why business and firms are not using networks for strategic gains or imperatives - such as gaining brand advantage, credibility and reducing transaction cost. It simply is not in their cultural practice, hence the limited collaboration and choice to use networks to resolve voids that are generic and do not offer firms any unique capability i.e. regulation and adjudication.

### **6.8 Firm structure**

The results may also be explained by the assertions made by Zhang & Keh (2009) who argue that firms with weak resource positions can alter their power base by partaking in networks. Zhang & Keh (2009) also document that firms that are usually well governed internally have less use of networks. They also agree that origins of structure, culture and traditions would often shape the strategic actions of firms. Firms with more formalized structures and cultures are more than likely to revert to such formal constraints were they are available (Zhang & Keh, 2009).

Therefore in the study, firms may not be collaborating for transaction facilitators, credibility enhancers and information analyzers because they have good resource bases, internal capability to do so, are internally well structured and therefore prefer formal constraints when available.

### **6.9 Importance of legal institutions and frameworks**

The fact that networks are established for legal institutions and frameworks, even when they do not contribute to overcoming performance, is indicative of their importance in achieving the protection of rights and establishment of laws. The study emphasized the value of a regulatory framework over other benefits. It adds to the literature by North (1990) which highlights that the single most important impediment to economic growth is the absence of rules and their enforcement.

## 6.10 The importance of adjudication

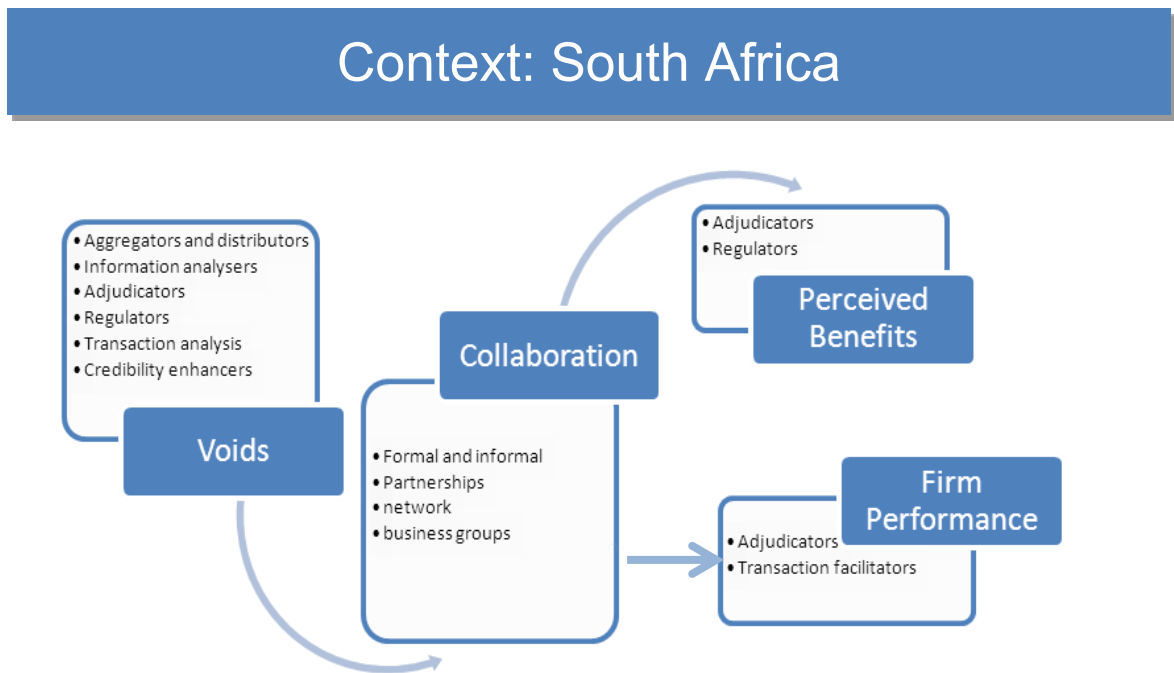
These findings also validate the importance of adjudication. Adjudication relates to providing assurances that transactions will be honoured and there will be recourse should this not be the case (Dhanaraj & Khanna, 2011). It therefore entails problem solving, which is often credited with improvement of quality and performance of a firm. Therefore it comes as no surprise that firms consider adjudication as important for both collaboration and performance.



### 6.11 Summary of discussions

These discussions can be schematically represented in a model (figure 10). The model provides a visual representation that explains the relationship between institutional voids and collaboration. It highlights that the benefits of collaboration are not only dependent on the institutional voids, but that institutional voids are dependent on the context. In addition collaboration is not performance driven but driven by the institutional voids. The literature review highlights that there is constant interplay between collaboration benefits and changes in context. For example, as the context continues to achieve institutional development, so too will benefits of collaboration mould or shape to these dynamics.

**Figure 9 Model for collaboration**



## **7. CHAPTER 7 CONCLUSION**

In Chapter six, an analysis of the research findings was completed and we now turn to the key lessons learnt and identify the implications for consideration by key stakeholders. The study achieved the objectives it had set out to achieve; an understanding of the benefits of collaboration as observed through the institutional void lense, an understanding of norms and how they affect collaboration, and also identification of missing institutions which are hampering economic development in South Africa.

### **7.1 Introduction**

Economic performance is dependent upon having formal and informal institutions that reduce uncertainty, and are necessary for economic transactions to take place effectively (North, 1990). Dhanaraj & Khanna (2011) mention that the absence of such constraints gives rise to six intermediary firms, and the study shows that in addition to intermediary firms these classes of institutional voids give rise to collaboration networks that serve a similar purpose.

### **7.2 Collaboration**

The study shows that collaboration is relied on in the absence of functioning institutions and offers firms several advantages. These include increased market access, access to capital, access to labour and the reduction of transaction costs associated with operating in emerging markets. Depending on the context, the study shows that firms will collaborate to overcome the six classes of institutional voids: the absence of information between buyers and sellers, the lack of credibility and trust between buyers and sellers, the lack of insurance that transactions will be honoured and that there will be redress in cases of conflict, a lack of guarantees that sellers will get their products to customers, and a lack of

confidence by buyers that promises made by the sellers are legitimate and verifiable.

However the choice to collaborate does not happen automatically and in order to improve their performance, firms will make choices to use collaboration over existing institutions if the following conditions are met:

### **7.2.1 Institutional frameworks**

If there is an existing institutional framework, firms will resort to formal institutions if these are functioning. This is best reflected in the South African context, where the study revealed that SMEs operating in a context with tough regulations will attempt to resolve the situation by establishing networks, an indication of failing formal mechanisms.

### **7.2.2 Cultural norms in emerging markets**

Zhang & Keh (2009) and Zhou & Poppo(2010), indicate that local norms and culture determine the response to collaboration in a particular society. They assert that cultural norms related to collaboration are often engrained in emerging markets and are often considered more valuable than formal institutions. Whilst formal rules change often, the use of collaboration as a norm may restrict the institutionalisation of markets, thereby maintaining the status quo of relying on collaboration.

### **7.2.3 Trust**

Firms will resort to formal institution if they believe and trust that transactions will be honored. Alternatively firms will resort to informal mechanisms such as collaboration which are considered safe-havens where transactions will be honored (Carney et al., 2011).

These informal mechanisms should however be viewed as a temporal solution and cannot substitute formal institutions. The

disadvantage of collaboration as an informal mechanism is that there is always the risk of opportunism (Zhang & Keh, 2009). This implies that the use of collaboration should be complementary to formal institutions.

### **7.3 Implications for policy makers**

Therefore this presents an important consideration for policy makers. It highlights that economic performance is reliant on an amalgamation of formal and informal institutions and reliant on their enforcement (North, 2005). Therefore in order to improve the performance of firms, the role of government in establishing formal institutions such as effective legal and regulatory frameworks, should not be understated. For economic development to occur, firms should focus less on crafting regulations but more on other key strategic imperatives that improve firm performance; such as building brands, innovation and entering new markets.

### **7.4 Managerial implications**

These findings are important for managers. The study demonstrates that collaboration can be used as an alternative means, to not only bridge institutional gaps in the emerging market, but to achieve competitive advantages. Furthermore collaboration can lead to improved performance through collaborating with partners to achieve information analysis, credibility enhancement, transaction facilitation and adjudication.

South African firms have limited themselves to collaborating on regulation and adjudication, and as a result are not taking full advantage of the benefits of collaboration. According to Ma et al., (2009), being a part of the network gives managers access to heterogeneous information that can be used to inform their strategy. Therefore it is encouraged that managers learn more about creating social ties and casting their networks far and wide.

In addition, emerging market firms are still culturally bound, meaning that established networks are important forms of informal institutions, and managers will need to understand these dynamics in order to successfully operate within such markets. This is an important point for managers and educators alike as it points to the fact that Western theory cannot be applied blindly but that local norms, culture and context must be considered.

## **7.5 Future research**

Whilst this study showed strong linkages between collaboration and the classes of institutional voids, it did not reflect how the choice between networks and intermediary firms is made. The study makes inferences that, where available, other classes of voids are filled by the existence of institutions. The study however does not specify the types of institutions and has therefore not excluded intermediary firms as possible forms of institutions that fill these voids. This therefore implies that there may be a complementary, rather than substituting, effect between networks and intermediary firms.

Given the time constraints and resource limits available to business owners to build networks, it can be anticipated that the role of intermediaries in filling the voids will continue and therefore cannot be ignored. This implies that as intermediary firms become a part of the context, the dynamics of networks will change to complement them.

The study questions whether collaboration can completely substitute intermediary firms, given its weaknesses and risks of opportunism. It is therefore recommended that a future study be done to determine the substitution versus complementary relationship between collaboration and intermediary firms

## 7.6 Conclusion

Whilst traditionally collaboration focussed on technology, innovation and knowledge, the study presents a new dimension to collaboration theory. One that is important for policy makers, scholars and investors operating in emerging markets - that in the new era of emerging markets, collaboration is key to overcoming institutional voids.

Depending on the context, collaboration networks can substitute intermediary firms and overcome the six classes of institutional voids. Therefore this research has provided important insight into the nature of collaboration, as well as its strengths and weaknesses. This will assist firms in their decision making regarding the nature of collaboration they should pursue, and is an important factor which should inform their thinking around doing business in other emerging markets,



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## APPENDICES

### Survey on the benefits of collaboration

#### Introduction

I am conducting research to determine how the business environment influences collaboration. The survey seeks to establish the benefits sought in collaboration/ partnerships and should not take longer than 20 min. All data will be kept confidential. Voluntary participation is encouraged and you can withdraw at any stage without penalty. If there are concerns, please contact me and my supervisor on the below mentioned contact numbers:

Researcher name: Prudence Mogolola	Research Supervisor Name: Prof Helena Barnard
Email: prudencem@productivitysa.co.za	Email: <a href="mailto:barnardh@gibs.co.za">barnardh@gibs.co.za</a>
Phone: 0769456318	Phone: 011 771 4000

#### The survey

Name of company:
Size (no of employees):
Sector:
Age of company (years):
Think of the important formal* partnerships that you have. With whom are they – name up to five. *Formal partners are those with whom you have formal contracts
<ol style="list-style-type: none"> <li>1)</li> <li>2)</li> <li>3)</li> <li>4)</li> <li>5)</li> </ol>
Think of the important informal* partnerships that you have. With whom are they – name up to 5. *Informal partners are those with whom you do not have formal contracts

1) 2) 3) 4) 5)		
Which THREE are most important? Name them	How many employees do they have? Select from: 0-50 <input type="checkbox"/> 51-100 <input type="checkbox"/> 101-200 <input type="checkbox"/> 201-250 <input type="checkbox"/> 251-300 <input type="checkbox"/> 301-350 <input type="checkbox"/> 351-400 <input type="checkbox"/> 401-1000 <input type="checkbox"/> >1000	Describe each important collaborator? Select from: Local Suppliers <input type="checkbox"/> Global Suppliers <input type="checkbox"/> Local Customers <input type="checkbox"/> Global Customers <input type="checkbox"/> Government <input type="checkbox"/> NGOs <input type="checkbox"/> Local Competitors <input type="checkbox"/> Global Competitors <input type="checkbox"/> Business groups (chambers) <input type="checkbox"/> Other (specify)
1)		
2)		
3)		

The following criterion measures the performance of the firm. (Answers must be provided on a 5-point scale from strongly disagree to strongly agree). Tick the appropriate rating

**1**strongly disagree **2**disagree **3**neutral **4**agree **5**strongly agree

1. Our firm is successful in meeting its goals.	1	2	3	4	5
2. The performance of our firm exceeds that of our peers in the industry	1	2	3	4	5

The following criterion measures collaboration in the firm (Answers must be provided on a 5-point scale from strongly disagree to strongly agree) Tick the appropriate rating

**1**strongly disagree **2**disagree **3**neutral **4**agree **5**strongly agree

3. Collaboration is important for the success of our firm	1	2	3	4	5
4. Our firm gains new business opportunities through collaborations	1	2	3	4	5
5. Our firm's success depends on building and maintaining collaborations	1	2	3	4	5

The following criterion relates to the benefits of collaboration. (Answers must be provided on a 5-point scale from strongly disagree to strongly agree) Tick the appropriate rating

**OUR FIRM AND PARTNERS:**

6. jointly improve quality of products	1	2	3	4	5
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7. jointly facilitate the achievement of management standard certification (e.g ISO etc).	1	2	3	4	5
8. help each other to build credibility and reputation with customers and suppliers	1	2	3	4	5
9. jointly achieve brand advantage	1	2	3	4	5
10. jointly establish and agree upon industry norms and rules of exchange	1	2	3	4	5
11. jointly establish and agree upon standards	1	2	3	4	5
12. jointly ensure the enforcement of standards and norms	1	2	3	4	5
13. exchange accurate information to solve the problems together	1	2	3	4	5
14. try to bring all concerns out in the open so that the issues can be resolved in the best possible way	1	2	3	4	5
15. resolve conflicts relating to intellectual property protection	1	2	3	4	5
16. jointly provide intellectual property protection	1	2	3	4	5
17. are free to share new ideas and innovation	1	2	3	4	5
18. resolve problems relating to governance	1	2	3	4	5
19. have a say in government policy pertaining to the business environment	1	2	3	4	5
20. have political power to influence government decisions that affect business	1	2	3	4	5
21. share a platform for exchanging information e.g on-line platforms such as eBay,on-line job advertising, commodity exchanges etc.	1	2	3	4	5
22. share an integrated IT infrastructure and IT resources that enable electronic transactions between buyers and sellers	1	2	3	4	5
23. share a platform for the exchange of goods and services e.g middlemen	1	2	3	4	5
24. pool together to create access to markets	1	2	3	4	5
25. provide mechanisms to source of skills and talent e.g. an on-line recruitment platform	1	2	3	4	5

26. pool together to access financial resources (capital, flexible payment arrangements and methods)	1	2	3	4	5
27. are a source of talent and new skills	1	2	3	4	5
28. pool together to access non-financial resources (e.g. time, training, human resources etc.)	1	2	3	4	5
29. jointly access and share raw materials and inputs	1	2	3	4	5
30. pool together to reduce input and raw material costs	1	2	3	4	5
31. receive favorable pricing from pooling together	1	2	3	4	5
32. have access to a deep network of suppliers	1	2	3	4	5
33. establish efficient distribution channels	1	2	3	4	5
34. share distribution channels	1	2	3	4	5
35. achieve cost advantages from sharing a distribution channel	1	2	3	4	5
36. exchange relevant information about customer and supply demands and needs	1	2	3	4	5
37. exchange information about market changes	1	2	3	4	5
38. jointly discover new or emerging markets	1	2	3	4	5
39. exchange information about industry competition	1	2	3	4	5
40. jointly learn the intentions and capabilities of our competitors	1	2	3	4	5