Alliance Formation as Growth Opportunity for Non-publicly traded Companies: A Value-added Service provided by Private Equity Investors

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We analyze the role of Private Equity firms (PE-Firms) as a governance mechanism, focusing on their role as social intermediaries, helping their portfolio companies to form alliances and thereby spurring entrepreneurial growth. Alliances as long term inter-firm cooperations are considered to be a main source of firm-innovation. External growth via alliances is especially important for small to medium sized companies (SME) – largely dominant in Europe (up to 99%) –, because their internal resources are limited. Since a few years, these facts lead governments to undertake actions aimed to create environments that boost inter-firm linkages and entrepreneurial clusters. In European countries, such actions are reinforced since the financial crisis (McCahery and Vermeulen, 2010; Glachant *et al*., 2008).

PE-Firms intervene in this context because they represent the most important source of capital for, mainly non-publicly traded, SME. They provide finance in return for an equity stake for each firm's life-cycle stage, ranging from venture capital to later stage financing solutions. As residual claimers, they generally stay on the board (or assimilate) and are active investors, providing their portfolio companies with managerial assistance and advice. They can therefore be considered a governance mechanism (Charreaux, 1997).

In our study, we investigate if PE-Firms are themselves able to help their portfolio companies form alliances. As active investors, do they provide their portfolio companies with the value added service of forming alliances in addition to managerial advice? More specifically, the study addresses the questions of how and why PE-Firms act as relational intermediaries to help their portfolio companies form alliances. Both questions are investigated in the light of the PE-Firms' contribution to the value creation process that comes with alliance formation.

Within the preponderant paradigm of efficiency, two main perspectives can be relied on in terms of value creation: the contractual view (mainstream theories: Williamson; Jensen and Meckling) and the knowledge based view, which underlies the resourced based perspective (Penrose; Barney). A growing body of literature analyzes the role of PE-Firms in alliance formation in the light of mainstream theories (Lindsey, 2002; 2008; Hsu, 2006; Ozmel *et al.*, 2013). They mainly show that PE-Firms help to form alliances by reducing market inefficiencies. However, by relying solely on those theories, it is not possible to account for a potential role of PE-Firms in rent seeking (Mahoney and Pandian, 1992) by detecting new growth opportunities and enabling their portfolio companies to take advantage of them by forming alliances. We endeavor to fill this theoretical gap and stress the necessity of relying on both perspectives (dual theory of the firm).

We rely on the French Private Equity market as ground for our investigations. Answers are provided by means of the dual theory of the firm (Cohendet and Llerena, 2005; Conner and Pra-

halad, 1996; Conner, 1991). The theoretical construct is tested empirically by means of a study with explanatory design, based on the pattern of evidence from a multiple case study with explanatory design, based on eight alliances formed in the presence of four French Private Equity firms. Results show that French PE-Firms do play a role in alliance formation. Those alliances are formed within their investment portfolio as well as with external companies. The roles that play PE-firms can be intentional (detecting new growth opportunities, driven by the PE-firm's competences) as well as non-intentional (reducing marked inefficiencies though, mainly, informal mechanisms such as reputation and trust). Furthermore, our study highlights the benefits of the joint use of these theories and the complementary nature of both theories in explaining the phenomenon as a whole.

Keywords
Innovation, Alliance Formation, Private Equity, Governance, Entrepreneurship, Knowledge Based View, Resource Based Perspective, Mainstream Theories.

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