



## Measures of strategic alliance performance, classified and assessed



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### ABSTRACT

Over the last three decades, strategic alliance performance has been an important research topic within the international business and management fields. Researchers have investigated a number of factors explaining performance but often find diverging results. Scholars have suggested that one reason may be that different performance measures are used as the dependent variable. But which differences exist and how can they matter? Against this backdrop, the present study makes three main contributions. First, we identify dimensions that illustrate differences and similarities between performance measures and provide a simple yet comprehensive classification of the different performance measures used in 167 empirical studies in the literature. Second, we suggest how differences in performance measures may influence construct validity under different circumstances. Third, we show that the differences have empirical implications for the results researchers get when using the measures. The study implications serve to improve researchers' ability to choose performance measures that are appropriate in a given situation and to help them assess the influence the choice of performance measure may have on tests of hypotheses regarding antecedents' influence on performance.

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### 1. Introduction

As international strategic alliances have proliferated so has research aimed at increasing knowledge on consequences of their use. One early line of study concluded, that more alliances are failures than successes (Harrigan, 1988; Killing, 1983), motivating a subsequent focus on identifying factors that influence alliance outcomes (Rahman & Korn, 2012). In a literature review focusing on the international joint venture (IJV) subset of alliances, Robson, Leonidou, and Katsikeas (2002) observed that some studies find that a given factor has a positive impact on performance, while others find that the same factor has a negative impact or no impact. They point out (p.411) that “[o]ne weakness of this stream of research is the use of diverse, and sometimes improper, measures of performance, which may explain inconsistencies in empirical findings”. This study aims to answer three questions arising from the above observations: (1) How do performance measures used in the strategic alliance literature differ? (2) From a conceptual point of view, how do these differences matter to the construct validity of the different measures? (3) From an empirical point of view, do these differences matter to the results researchers get when using these measures?

While no prior study has answered all three questions for all types of performance measures used in the alliance literature, several studies answer one of these questions for some types of measures. These studies can be divided broadly into three categories: (1) those reviewing performance measures used in the broader international and organizational studies literatures, (2) those reviewing performance measures used in the alliance literature, and (3) those empirically assessing the importance of differences between alliance performance measures through their correlations. Such diverse contributions provide the conceptual foundation on which our study builds.

The organizational performance literature, spanning three decades (e.g., Cameron & Whetten, 1983; Hult et al., 2008), has consistently identified three dimensions of importance: *domain of activities* (e.g., financial vs. operational); *level of analysis* (e.g., firm vs. inter-organizational unit); and *data source* (e.g., subjective vs. objective). Within the alliance literature, however, agreement regarding the categorization of performance measures is less pronounced. The distinction most often seen in reviews of this literature is the one between subjective and objective sources (Reus & Rottig, 2009). However, as illustrated by Ariño (2003), not all subjective and objective performance measures and not even all performance measures within these types, are highly correlated. The implication is that potentially more important dimensions than subjective or objective should be considered.

Our assessment gives rise to two conclusions. First, the alliance literature has not provided a classificatory scheme which

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distinguishes between performance measures via the dimensions recognized in the wider literature. Second, the alliance literature has a long way to go in the discussion of which constructs are reflected by the different measures, partly due to the lack of a classificatory scheme enabling a detailed discussion of how different dimensions of a performance measure may affect which constructs are in fact reflected. Our study targets these issues.

We systematically analyze performance measures used in 167 empirical articles about antecedents of performance. As per Christoffersen (2012), we identify four common overall types of performance measures: (1) accounting, (2) cumulative abnormal return (CAR), (3) stability, and (4) subjective measures. The distinction between these types of measures lies in *how* performance is assessed; or the *mode of assessment*, which is an extension of the classical data source distinction in that this mode of assessment distinction also takes into account how data from different sources are used. We then identify the second dimension, concerning the *construct assessed*, that is, *which* performance is measured. Here, we identify two sub-dimensions: *level of analysis* and *domain*, which are also found in the broader literature (Hult et al., 2008; Venkatraman & Ramanujam, 1986). The former relates to whether the alliance performance or the alliance's contribution to the partner's performance is assessed. The latter relates to whether operational, financial, or overall performance is assessed. In condensed form, we supply a classification of different performance measures used in the alliance literature via the following dimensions:

- (1) Mode of assessment (type of measure): How is performance assessed? (accounting/CAR/stability/subjective)
- (2) Construct assessed: Which performance is assessed?
  - (a) Level of analysis: The performance of which organizational unit is being assessed? (alliance/partner)
  - (b) Domain: Which domains of performance in that unit are being assessed? (operational/financial/overall)

Having identified the dimensions and their categories, we employ Bacharach's (1989) distinction between constructs and measures, and discuss whether, or rather under which conditions, the respective performance measures are likely to have better or worse construct validity; where construct validity is defined as *the correspondence between a construct... and the operational procedure to measure... that construct* (Schwab, 1980, pp.5–6). Finally, we employ a meta-analytical approach on data collected from the empirical articles to assess whether the use of different performance measures with assumed different construct validity influences the results researchers achieve.

We make three important contributions. First, we set apart dimensions illustrating differences between performance measures and provide a simple yet thorough classification of the different performance measures used in the alliance literature. Second, we contribute by suggesting how differences in performance measures influence construct validity under different circumstances thus improving researchers' conditions for choosing performance measures that are appropriate in a given situation. Third, we also show empirically that differences between performance measures are important as some performance measures are more likely than others to provide support for researchers' hypotheses. Collectively, this means that performance measures used in the literature are different and that differences are important for the researchers' findings. Researchers should keep differences in performance measures in mind when they choose performance measures for their own empirical work, but also when building upon other researchers' findings regarding the performance effects of a given antecedent. With one performance

measure that antecedent might be expected to have a positive influence, while with another performance measure it may have a more neutral or even negative impact.

## 2. Performance measurement literature

Seminal works on business performance measurement exhibit agreement concerning the key dimensions: domain of activities, level of analysis, and data source. Cameron and Whetten (1983) identified the dimension domain as arising "from the activities or primary tasks that are emphasized in the organization" (p. 270), while Venkatraman and Ramanujam (1986) argued that in a business context salient domains are financial performance, operational performance, and a combination of the two which represents the enlarged domain evident in strategy research. Similarly, Cameron and Whetten (1983) identified level of analysis as a dimension which reflects whether performance for an individual at one extreme or the society at another extreme is assessed, while Venkatraman and Ramanujam (1986) recognized firm – and strategic business unit (SBU) – level as examples within the business context. Cameron and Whetten (1983) identified the type of data as a final dimension and distinguished between objective data, stemming from organizational records, and subjective data stemming from interviews and questionnaire responses. Venkatraman and Ramanujam (1986) employed the terms secondary and primary in the place of objective and subjective.

More recently, Hult et al. (2008), in their comprehensive review of measures used in the international business literature, classified performance measures by data source (primary/secondary), level of analysis (firm/SBU/inter-organizational unit), and type of measure (operational/financial/overall effectiveness). From the explanations offered, type of measure refers to domain of activities.

In contrast, conceptualizations of performance in the alliance literature seem inconsistent and ambiguous (Robson et al., 2002). The distinction most often seen in reviews of the alliance literature is the one between subjective and objective data sources; as can be found in Nippa, Beechler, and Klossek (2007) and Reus and Rottig (2009). Yet, the examples of objective measures in these studies differ greatly. For instance, Nippa et al. (2007, p. 284) noted that "some studies apply objective performance indicators such as return on investment (RoI) or return on assets (RoA)", while Reus and Rottig (2009, p. 590) asserted that "researchers have used annual reports to collect information about the longevity or stock market reports to determine cumulative abnormal returns". This expansion of not only the data sources but also the way in which the data is used is recognized in Christoffersen (2012), which presents types of performance measures on the basis of how performance is assessed. Four central measures identified were accounting, CAR, stability, and subjective measures.

While these reviews employ the data source distinction identified in the broader literature, and recently the more refined mode of assessment arising from the use of data from the different sources, other alliance performance studies employ level of analysis and domain distinctions. For instance, the IJV literature reviews by Blanchot and Mayrhofer (1997) and Larimo (2007) supplement their distinction between objective and subjective measures by recognizing the level of analysis distinction by referring to performance of the IJV versus performance of the partners. Ariño (2003), on the other hand, recognizes the domain distinction and refers specifically to Venkatraman and Ramanujam's (1986) three domains in her empirical work on construct validity of performance measures; while Robson et al. (2002) identify financial, multidimensional, and stability performance and, thus, do not specifically use the same domains as those recognized in the broader literature. Indeed, some review

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