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Returns to US firms from strategic alliances in China: A knowledge-based view

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ABSTRACT

Drawing on the knowledge-based view (KBV) of the firm, this study compares value creation between US manufacturing and service firms entering China through strategic alliances. Using an event study applied on a sample of 192 manufacturing and 105 service firms, the results indicate that value creation for manufacturing and service firms differ. For service firms, having a Chinese state-owned-enterprise as a partner, marketing agreement, and/or Chinese partner creates greater value. These findings highlight the significance of knowledge acquisition versus accession in US–Chinese partnerships.

1. Introduction

Primarily in the form of strategic alliances (SAs), China has become a popular destination for US foreign direct investment. Event studies have shown that SA announcements create value for investing firms (Das, Sen, & Sengupta, 1998; Koh & Venkatraman, 1991). Since the majority of these studies have involved US manufacturing firms, our knowledge of the relative marginal value created by SA announcements for *service* firms remains understudied (Cheng, Fung, & Lam, 1998). To date, no event study has compared the value contribution of individual elements of SAs for manufacturing and service firms entering a foreign market, such as China. Evoking the knowledge-based view (KBV) (Grant, 1996; Grant & Baden-Fuller, 2004), we investigate empirically whether and the extent to which having a Chinese partner, a marketing agreement, and/or a state-owned enterprise (SOE) partner are valued in SAs that are interested in knowledge acquisition (exploration) and/or knowledge accession (exploitation).

2. KBV of SAs and hypotheses

2.1. SAs and knowledge acquisition/accession

The KBV views organizations as *generators* and *integrators* of knowledge to establish and exploit a sustainable competitive advantage (SCA) (Grant, 1996). The firm's knowledge base, a valuable resource according to the resource-based view, gives it a resource advantage that helps it create an SCA. For example, possessing a unique knowledge base in market and marketing knowledge is invaluable in establishing SCA.

Firms can produce knowledge internally or acquire/access knowledge externally by forming SAs with other firms (Grant & Baden-Fuller, 2004). Externally, knowledge *acquisition* occurs when a firm is able to transfer its SA partner's knowledge (Buckley, Glaister, Klijn, & Tan, 2009); that is, the SA provides a medium between partner firms through which they *transfer* knowledge (Inkpen, 2000). The acquisition of knowledge is affected by knowledge tacitness (Martin & Salomon, 2003), the degree of socialization between the partners (Pak & Park, 2004), and the absorptive capacity of each partner (Chen, 2004). In the acquisition of tacit knowledge, creation, integration, transfer, and application are difficult to separate from each other (Simonin, 1999). When transferring tacit knowledge, the firm's capabilities in applying this knowledge to create value for the firm becomes important (Kogut & Zander, 1992).

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Grant and Baden-Fuller (2004) contend that the primary advantage of alliances over both firms and markets is in *knowledge accession* rather than in knowledge acquisition. They argue that SAs make the application of knowledge more efficient by improving the efficiency with which knowledge is utilized. They assert that the value in knowledge accession is in the opportunity to apply many types of knowledge and increase specialization. Buckley et al. (2009) underscore this view: they contend that in knowledge accession, partner firms contribute knowledge to the SA and access each other's knowledge stock to achieve shared goals. Their purpose is not acquisition of knowledge, which would require duplication of one partner's knowledge by the other partner and specialized individuals to affect the transfer, decreasing the efficient use of knowledge and incurring a cost to the transfer (Grant & Baden-Fuller, 2004). In contrast, knowledge accession requires that the partners apply only their existing knowledge stocks (Kogut & Zander, 1992). Grant and Baden-Fuller (2004) feel that the purpose of alliance formation should not simply be greater organizational learning; it should instead be expanding each partners' alliance specialization through access, especially in technologically and economically turbulent and uncertain environments.

2.2. Value creation in US–Chinese alliances

Forming SAs has eased US firms' entry into the Chinese market, extended them opportunities for knowledge and technology sharing with local partners, and broadened marketing opportunities in the world's largest market while lessening investment costs (Beamish, 1993). Research has shown that SA announcements in China create value for US firms (Chen, Hu, & Shieh, 1991; Cheng et al., 1998; Hu, Chen, & Shieh, 1992; Ma, Sun, & Tang, 2003). However, how knowledge is utilized in the SA creates value differently for US manufacturing and service firms. In manufacturing SAs, US firms provide capital, technology, and management know-how, and the Chinese partners provide low-cost labor and knowledge of China's business and market environments (Dong & Glaister, 2006). A primary objective of these SAs is the transfer of knowledge from the US firm and the acquisition of knowledge by the Chinese partner. Acquiring knowledge involves learning by doing and may require the development of networks of specialization within the alliance and with the parent firm. By transferring production to China, value is created for US manufacturing firms by lower manufacturing cost, enhancing financial and market performance.

The number of event studies investigating service firms is limited, but results from the few studies show that forming SAs produce positive abnormal returns (Swaminathan & Moorman, 2009). Knowledge required to deliver a service is location-specific and has little value outside of the local market. Service firms forming SAs benefit from the knowledge and skill bases of their partners and not having to develop these skills and knowledge organically lowers their operating cost. Service SAs create value by accessing the partner's knowledge stocks, contributing and applying complementary knowledge to deliver the service (Grant & Baden-Fuller, 2004). Rather than creating value when the knowledge is transferred back to and internalized by the parent firm, knowledge creates value within service SAs. Although US manufacturing and service firms utilize knowledge differently, we hypothesize for both US manufacturing and service firms announcing SAs in China will generate positive abnormal returns, and that these abnormal returns will not differ significantly (Cheng et al., 1998). Thus, we expect that:

Hypothesis 1a. There will be positive abnormal marginal returns from the announcement of SAs for US manufacturing firms operating in China.

Hypothesis 1b. There will be positive abnormal marginal returns from the announcement of SAs for US service firms operating in China.

Hypothesis 1c. The positive abnormal marginal returns to US manufacturing and service firms will not vary significantly from their announcements of SAs in China.

2.3. Value of a Chinese partner

SAs typically bring together organizations with different knowledge portfolios (Grant & Baden-Fuller, 2004). While seeking new markets for existing products, manufacturing firms typically form SAs to transfer their manufacturing knowledge to host markets in exchange for access to that market. Knowledge in production processes and technologies is typically codified in established routines (Kogut & Zander, 1992). In US–China SAs, the Chinese partner typically acquires this type of manufacturing knowledge and technology from its US partner; in return, the US firm gains access to local product, labor, and financial markets and to contacts with Chinese business and government networks (Chiao, Yu, & Peng, 2009). The US manufacturer's products produced in these SAs do not typically require its direct engagement with customers; they are typically sold through independent retailers in China or are exported.

However, features embedded in services, especially inseparability, require that the SA apply tacit knowledge to deliver the service; the norms, values, and culture of the Chinese market will affect service delivery (Kaufmann & O'Neill, 2007). Since services are more marketing-based, their delivery requires a more effective response to the expectations and rituals of the Chinese consumer and the consumption habits and processes more than in manufacturing. This calls for greater integration of market and marketing knowledge; development and execution of service marketing strategy and its accompanying execution necessitates input and coordination of a wider range of specialized market-specific marketing knowledge. Further, overcoming liabilities of foreignness, of legitimacy and trust, and of organizational learning is likely to be more challenging for the service firm when compared to its manufacturing counterpart. Having a Chinese partner that will bring this strategic knowledge to the US firm will help it better overcome these barriers, help foster more effective market responses, and ease market acceptance, creating a richer, more Chinese-market-adapted resource advantage in its effort to create an SCA. Thus, we expect that:

Hypothesis 2. US service firms will have greater abnormal marginal returns when their SAs include Chinese partners than their US manufacturing counterparts.

2.4. Value of a marketing agreement

For service firms, the reputation of their brand(s) is affected not only by the quality of the tangible features embedded in their service, but also by adaptations they are able to build into their methods of delivery (Brady, Bourdeau, & Heskel, 2005). Unlike manufacturing firms that typically deliver their (typically more standardized) products to the consumer through independent retailers, service firms must control the quality embedded in their offerings from production to consumption points; this requires adaptation to market norms and assurance of quality in the offering and the delivery mode. Earlier event studies on the importance of having marketing agreements included in SAs conducted on mixed samples have not found evidence to support abnormal returns (Das et al., 1998; Koh & Venkatraman, 1991). Recent work using service firm samples only, however, has shown positive abnormal returns in the computer software and e-commerce industries (Park, Mezias, & Song, 2004; Swaminathan & Moorman, 2009).