



Entrepreneurial alliances as contractual forms

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Abstract

Advancing upon taxonomical research on interfirm alliances, we investigate the design of entrepreneurial firms' alliances in more fine-grained terms by focusing on the specific contractual provisions that firms negotiate into their alliance contracts. Drawing upon transaction cost arguments, we examine the determinants of the contractual complexity of collaborative agreements in the German telecommunications industry. The findings reveal that alliance contracts vary greatly in their complexity, yet contracts for non-equity alliances tend to be no more or less complex than those for equity alliances on average. Furthermore, multivariate findings on the roles of transaction-specific investment, relational capital, search costs, and so forth demonstrate that firms' contractual and governance choices have distinct antecedents.

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1. Executive summary

Inter-firm alliances offer benefits as well as pose challenges for entrepreneurial firms. For the potential benefits to be achieved, entrepreneurs have to pay attention both to the initial conditions that surround the exchange and to the processes by which they manage the alliance. Beyond contingencies such as partners' demographic and institutional characteristics or their prior experiences with each other, initial conditions include the way the alliance is structured, including alliance design characteristics such as the content of the contract or the alliance governance form. Alliance management processes involve pre-agreement activities such as partner selection and alliance negotiation, as well as post-agreement practices such as alliance evaluation and re-negotiation processes.

Despite the importance of initial conditions and managerial processes, not all of them have received enough research attention. Substantial research has been devoted to issues related to the partners' identities and prior relations, and on the decision to structure the alliance as an equity or non-equity agreement. However, little is known about the contents of alliance contracts. Further, it is often assumed that contract design goes hand in hand with the choice of alliance governance structure, and that equity alliances necessarily involve greater complexity than non-equity agreements. However, entrepreneurial firms have more degrees of freedom than depicted in prior studies of alliance governance.

This study examines the contractual design of alliances by entrepreneurial firms. After exploring the incidence of particular contractual provisions in alliances, we draw from transaction cost theory to examine some of the determinants of contractual complexity. In addition, we investigate whether or not these antecedents determine the choice of alliance governance form in a similar fashion. A survey was administered to entrepreneurial firms in the German telecommunications industry to examine their alliances, and in particular the contents of the alliances' contracts. These contracts tended to be fairly complex on average relative to other collaborative agreements and, with few exceptions, there were no significant differences in the use of specific contractual provisions across equity and non-equity alliances.

The evidence reveals that entrepreneurial firms tend to design more complex contracts when the costs of searching for a partner are higher, and the strategic importance of alliance is greater. Asset specificity leads to the choice of an equity alliance over a non-equity arrangement, but does not influence the contractual complexity of an alliance. In a similar fashion, we find that relational capital among alliance partners is associated with non-equity rather than equity alliances, but the extent of relational capital between partners does not differ systematically across alliances of varying contractual complexity. Firms appear to turn to a governance solution rather than a more incremental contractual solution when faced with the risks surrounding transaction-specific investment or the lack of relational capital. By contrast, firms design more complex contracts for strategically important alliances, but this factor does not shape the use of equity alliances over non-equity collaborations. On a general level, the evidence therefore underscores the fact that governance structures and contractual forms have different antecedents for entrepreneurial firms.

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