Journal of International Management 16 (2010) 247–261

Contents lists available at ScienceDirect

Journal of International Management

Fox School of Business
TEMPLE UNIVERSITY

Is experience valuable in international strategic alliances?

Jung-Ho Lai [a,*], Shao-Chi Chang [b], Sheng-Syan Chen [c]

[a] *Department of Finance, National Taipei College of Business, Taiwan*
[b] *Institute of International Business, College of Management, National Cheng Kung University, Taiwan*
[c] *Department of Finance, College of Management, National Taiwan University, Taiwan*

ARTICLE INFO

Article history:
Received 10 March 2008
Received in revised form 28 April 2009
Accepted 11 May 2009
Available online 1 July 2010

Keywords:
International alliances
Experience
Non-equity
Stock returns
Operating performance

ABSTRACT

This study investigates whether firms benefit from prior alliance experiences as they undertake international strategic alliances. Different from previous studies that mostly focus on equity joint ventures, this study investigates non-equity alliances. This specific investigation is essential, because the complexity and uncertainty associated with such alliances potentially magnify the benefits of experiential learning. With a sample of 629 international, non-equity alliances formed by US firms, our results confirm the contribution of ISA experience in general, as well as that of experience specific to partner's country of origin and alliance activity type. The results also reveal a contingent benefit of ISA experiences, where experience of technological cooperation and experience with alliance partners from emerging countries both add more to firm value. We derive consistent evidence, as performance is assessed either by the market's perception of ISA value creation, or by the post announcement operating earnings in practice.

1. Introduction

The last decade has witnessed a great proliferation of international strategic alliances (ISAs), as a means by firms to respond to global market integration and rapid shifts in technology. However, over half of the alliances formed end up failing, or have disappointing results (Alliance Analyst, 1998; Walter et al., 2008), raising the question of what firms can do to enhance the likelihood of ISA success.

Prior studies argue that one of the most important determinants of alliance success is a firm's cooperative experience. Learning from prior cooperation mitigates the ambiguity associated with the contract incompleteness of alliances, where firms gradually encode experiential lessons to refine their managerial metrics to guide future decisions (Anand and Khanna, 2000; Dyer and Singh, 1998; Sampson, 2005). However, the empirical findings are inconclusive on the benefits of increased alliance experiences, in that numerous engagements in alliances do not necessarily enhance a firm's performance in successive such activities.[1] This suggests a need for further investigation on the relationship between alliance experience and firm performance, thus we try to address this issue with further thought. Specifically, with regard to “what kind of experience matters”, our work investigates whether a firm's general ISA experiences (those concern alliance operations no matter where the partner firm operates and what activities the

* Corresponding author. Department of Finance, National Taipei College of Business, No.321, Sec. 1, Jinan Rd., Taipei City 100, Taiwan, ROC. Tel.: +886 2 23935263; fax: +886 943 858098.
E-mail address: julialai@webmail.ntcb.edu.tw (J.-H. Lai).

[1] Gupta and Misra (2000) and Kale et al. (2002) document a favorable market reaction to partnership announcements made by firms experienced in international cooperation. In contrast, both Barkema et al. (1997) and Merchant and Schendel (2000) fail to find significant benefits for firms who have accumulated experiences in cross-border alliances.

1075-4253/$ – see front matter
doi:10.1016/j.intman.2010.06.004

partnership engages in) and specific alliance experiences (those concern the specificity of the partner's country of origin and form of collaboration) contribute to a firm's gain from alliances.[2]

We argue that the investigation into specific experience is particularly important in the alliance context. Compared to the operating activities (e.g., manufacturing and administrative tasks) where experience benefit is well documented (Argote, 1999), alliances are more infrequent and heterogeneous (March et al., 1991; Zollo et al., 2002). This characteristic induces a hazard of improper application of prior lessons to successive deals, especially when the serial alliances take place in different cooperative contexts. Irrelevant experience may offer little help, or even induce negative results if an inappropriate strategy is confidently pursued.[3] A sequence of heterogeneous alliances could also be problematic, in that involvements in diverse types of cooperation prevent specialized learning in a specific dyad. Similar experiences, on the contrary, are more relevant to the focal event so that the generalization of prior experience may lead to positive consequences (Haleblian and Finkelstein, 1999). As a firm's alliance expertise evolves with the development of standardized and specialized routines from specific experiences, its capability to handle subsequent, similar alliances is thus enhanced, and the gains from deploying experiential learning become more accessible and immediate (Hayward, 2002).

In addition to the issue of experience specificity, this study further explores whether the degree of alliance complexity moderates the benefits firms reap from experience. Complex alliances bring about vaguely defined operations, which create a tacit set for firms to learn to manage it. Conversely, alliances with a lower degree of complexity have a relatively limited scope for firms to learn and improve from the experience gained. Evolutionary economics states that prior engagements equip firms with the capability to anticipate contingencies and respond to them in an effective manner (Nelson and Winter, 1982). This capability supposedly is more important as alliances become more complex where precise judgments are necessary.

In sum, we try to address the experience issue in such a systematic way with the following specific questions. First, do firms benefit from general ISA experiences, so that accumulation of general experience contributes to improved firm performance in successive ISAs? Next, is experience specific to a given dyad important? If so, in which form is such specific learning beneficial? Finally, is the influence from prior experience dependent on ISA-related characteristics? What factors can explain the heterogeneous impacts of experience on ISA performance?

In this study, we focus on cross-border, non-equity involved strategic alliances because their significant uncertainty and complexity shed light on the importance of experiential learning. The literature documents a higher governance cost associated with contract-based partnerships than with equity joint ventures (e.g., Pisano, 1989; Wang and Nicholas, 2005; Zollo et al., 2002), due to the relative weakness of the former's mechanisms for controlling joint activities, coordinating disparate objectives, and preventing opportunistic behaviors.[4] Operations in non-equity alliances are thus considered to be more uncertain and fragile. Similarly, an alliance that crosses national borders is more challenging than its domestic equivalent,[5] because of the more serious information asymmetry inherent in cross-border activities, and the greater diversity in partner characteristics arising from differences in cultures, politics, economics and so on (Hennart and Zeng, 2002). Consequently, it can be expected that a partnership based on a contractual, international relationship faces more problems than an equity-based, domestic alliance. Since this suggests that it is important for firms to progressively codify cooperative expertise for such relationships, our study on the experience benefits associated with alliance management thus focuses on international, non-equity alliances.

To date, there has not been a study that specifically addresses the experience issue in international non-equity alliances, with most of the literature focusing on equity alliances.[6] Given the mixed evidence for the experience effect in international joint ventures, our focus on non-equity alliances should yield new insights into this topic. This unique investigation is essential in light of the distinct experience implications between equity versus non-equity alliances, as well as the increasing popularity of such ventures conducted via contractual arrangements.[7] Despite their popularity, however, very little research has been done into understanding the mechanisms underlying experiential learning in such cases. To fill this research void, we examine the issue via constructing a comprehensive discussion that includes both general and specific experiences, as well as experiences obtained

[2] We investigate the specificity of ISA experiences in terms of alliance activity type and partner's country origin. While some studies have addressed the specific experience issue on the dimension of alliance partner (Goerzen, 2007; Hoang and Rothaermel, 2005), partner-specific experience may have effects beyond advances in management expertise (Sampson, 2005), such as reciprocity (Kogut, 1989), reputation effects (Kreps, 1990), trust development (Li et al., 2008), reduction in information asymmetry (Beckman et al., 2004), and obstacles to relationship-tie expansion (Goerzen, 2007). Since our concern is whether firms learn from experience to enhance the management expertise in alliances, we, different from these studies, investigate the experience effect specific to the partner's country and type of alliance activity.

[3] In their research on acquisitions, Haleblian and Finkelstein (1999) document an inappropriate generalization of prior experiences to the next acquisition which is superficially similar but inherently different.

[4] Literature states that control and profit sharing in contractual alliances are negotiated between parties and tend to be unstable over time, which contrast with equity alliances where control and rights to profits are based on predetermined, fixed equity shares (Wang and Nicholas, 2005). The formal dispute settling and monitoring system of joint ventures also outperform the weak, quasi-hierarchical structure of contractual alliances in organizing a more efficient coordination and control system (Zollo et al., 2002). Finally, equity participation in joint ventures mitigates threats of opportunism by aligning mutual incentives (Pisano, 1989).

[5] Empirical studies provide parallel evidences for the different cooperation difficulties between domestic and international alliances, where most domestic alliances are shown to significantly enhance firm value (e.g., Allen and Phillips, 2000; Chan et al., 1997; Koh and Venkatraman, 1991) but international alliances could have insignificant (Gupta and Misra, 2000) or even negative valuation effects (Lee and Wyatt, 1990).

[6] Gupta and Misra, (2000) document a favorable market reaction to cooperation announcements made by firms experienced in international joint ventures. Conversely, both Barkema et al. (1997) and Merchant and Schendel (2000) fail to find significant experience benefits in such cooperation.

[7] Studies report that non-equity alliances account for more than 50% of all collaborative arrangements across industries (Chan et al., 1997; Wisnieski and Soni, 2004).