

Equity versus non-equity international strategic alliances involving Danish firms: An empirical investigation of the relative importance of partner and host country determinants[☆]

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Abstract

A substantial literature has evolved focusing on the ownership structure of international strategic alliances (ISAs). Most of the relevant studies are theoretical in nature and concentrate on the conceptual factors that influence the choice between equity and non-equity structures. A smaller number of studies provide some empirical evidence on the importance of some of the conceptual factors. The theoretical literature highlights the potential influence of relational capital and transaction costs as determinants of ISA structure; however, there is little empirical evidence on the relative importance of these potential determinants. Moreover, there is only limited and indirect evidence bearing upon the impact of host country governance attributes on ISA ownership structure. In this study, we provide statistical evidence on the importance of potential determinants of governance mode choice for a sample of ISAs involving Danish firms. Our study documents how the determinants of governance mode choice vary in importance depending upon the “quality” of the governance infrastructure of the host country.

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1. Introduction

Dunning (1995) and others have noted the emergence and growth of international strategic alliances (ISAs) as an important development in the organization of international economic activity. A substantial literature has, unsurprisingly, evolved focusing on different aspects of the ISA process. One specific focus of research has been the forms of governance for ISAs and, particularly, the circumstances under which alliance partners will prefer equity or contractual governance modes (Das and Teng, 2000, 1998a).

A critical underlying issue in the choice of governance mode is the degree to which potential opportunistic behavior on the part of one or more alliance partners characterizes the relevant set of transactions in which the partners will engage. In the transaction cost literature, the characteristics of the underlying transactions are the primary determinants of risks of opportunism. In particular, relevant studies highlight the uncertainty and complexity associated with carrying out specific activities as major sources of difficulty in specifying and enforcing contractual agreements. The greater the costs and risks associated with monitoring and enforcing “arms-length” agreements, the greater the advantages of equity ownership structures in ISAs, *ceteris paribus* (Williamson, 1975; Oxley, 1999; Hennart and Zeng, 2005).

A recurring criticism of the transaction cost literature as it has been applied to ISA governance choice is that it fails to acknowledge the role that non-transactional attributes play in influencing the choice of governance mode. In particular, relational capital is suggested to be an important determinant of ISA governance, where relational capital has been defined as encompassing mutual trust, respect, understanding and friendship between individuals in a business relationship (Thuy and Quang, 2005). While there is an extensive literature discussing the concept of relational capital and its components, few studies have attempted to identify the empirical importance of relational capital attributes to perceived risks of opportunism and choice of ISA governance mode. Moreover, discussions linking relational capital to ISA governance generally fail to acknowledge that the linkage might be sensitive to environmental attributes of the host country, particularly the legal and regulatory regimes of the host country.

The primary focus of this study is to identify whether plausible determinants of relational capital significantly influence the choice of governance mode in a sample of ISAs undertaken by Danish companies. A related focus is to assess whether regulatory and political attributes of the host country influence governance choice, as well as whether the influence of relational capital attributes varies systematically with the “quality” of host country political and regulatory institutions. Holding constant proxy measures of transactional determinants of risks of opportunism, we find that partner attributes are, in fact, the strongest statistical determinant of choice of governance mode for the full sample of ISAs; however, the strength of these attributes depends upon the governance environment of the host country. Specifically, in host countries where political and regulatory conditions arguably contribute to relatively secure property rights, partner attributes are stronger determinants of governance choice than in countries characterized by relatively weak political and regulatory governance. These findings may advance our understanding of the underlying determinants of the critical governance choice decision in relation to the relational and environmental characteristics surrounding ISAs, an issue that remains large unexplored in the literature.

Our sample consists of a set of Danish companies that formed alliances with a wide range of foreign companies across a number of industries. In this regard, caution must be exercised in generalizing from our specific findings given the single country focus of our responding firms. The alliances are characterized as being either equity or non-equity ISAs. While we recognize that

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