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Ties that tear apart: The social embeddedness of strategic alliance termination

Gerrit Rooks[a,*], Chris Snijders[a,1], Geert Duysters[b,2]

[a] Eindhoven University of Technology, School of Innovation Sciences, Department of Human-Technology Interaction, P.O. Box 513, NL-5600 MB Eindhoven, The Netherlands

[b] Tilburg University, Tilburg School of Economics and Management, Department of Organization and Strategy, P.O. Box 90153, 5000 LE Tilburg, The Netherlands

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ABSTRACT

Strategic alliances between firms are inherently unstable, and many alliances fail before the planned termination date. Most studies of the instability of strategic alliances focus on internal factors, such as tensions between alliance partners. In the present study social networks, in particular the centrality of firms in an alliance network, are considered as factors explaining alliance instability. The study examines 1061 ICT-alliances that were formed in the period 1975–1989. As expected, it was found that differences in centrality increase alliance instability. Contrary to the expectation, the sum of centralities of firms in an alliance does not affect alliance instability.

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1. Introduction

Strategic alliances between firms are cooperative arrangements aimed at pursuing mutual strategic objectives (Das & Teng, 2000). Well known forms of alliances are joint ventures, research and development agreements, joint marketing agreements, and long term buyer–supplier relationships. In recent decades the number of strategic alliances and partnerships between firms has increased at a phenomenal rate (Contractor & Lorange, 1988; Hagedoorn, 1990, 2002). Although strategic alliances are seen as vital governance mechanisms to cope with increasing competitive pressures because of globalization and technological dynamism, they are not magic potions. Many alliances are terminated before the planned date. According to extant literature failure rates are about 50% (Das & Teng, 2000; Duysters, Kok, & Vaandrager, 1999; Park & Ungson, 2001).

Alliance instability has received substantial attention from researchers from various disciplines such as economics, international business, marketing, organization theory, and strategic management. Explanations of instability tend to focus on internal factors: attributes of firms in the alliance, or characteristics of the alliance itself. For instance, alliance instability has been associated with a lack of trust, or conversely with too much opportunism (Deed & Hill, 1998), a lack of organizational complementarity (Park & Ungson, 2001), differences in cultural background (Barkema & Vermeulen, 1997), too much competition and rivalry between partners (Das & Teng, 2000; Kogut, 1989; Park and Russo, 1996; Parkhe, 1993), ownership/control structure (Dhanaraj & Beamish, 2004), or inadequate management of the alliance (Ireland, Hitt, & Vaidyanath, 2002).

Scholars studying alliance instability hitherto neglected the social embeddedness of alliances. According to Park and Ungson (2001, p. 49) the external environment hardly plays

* Corresponding author. Tel.: +31 40 247 5509.
E-mail addresses: g.rooks@tue.nl (G. Rooks), c.c.p.snijders@tue.nl (C. Snijders), g.m.duysters@tilburguniversity.edu (G. Duysters).
[1] Tel.: +31 40 247 5596.
[2] Tel.: +31 13 466 2363.

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a role in alliance instability because "[. . .] once firms invest dedicated assets in an alliance, changes in the external environment become a less significant factor for alliance failure unless changes are adverse and revolutionary." This neglect of the social embeddedness of alliance instability is remarkable given the interest in social networks and alliances (Gulati, 1998). Research on alliances and networks has stressed the value of inter-organizational relationships for accessing resources and creating competitive advantage (Dyer & Singh, 1998). Networks shape knowledge transfer and learning processes (Uzzi & Lancaster, 2003); they affect the choice for technology acquisition by alliance or merger (Vanhaverbeke, Duysters, & Noorderhaven, 2002); they increase the survival chances of startups (Baum, Calabrese, & Silverman, 2000); and they affect alliance formation (Stuart, 1998).

Alliances are embedded in a space where other organizations affect their relative value to each partner (Ariño & de la Torre, 1998). To study this notion, social network analysis can be combined with ideas from the resource-based view of alliances. A central concept in the resource-based view is resource fit (Das & Teng, 2000). Resource fit refers to the alignment between one organization's resource need and another organization's resource provisions. When the resource fit declines, and an alternative partner provides better resources, an organization will be inclined to terminate the relation (Seabright, Levinthal, & Fichman, 1992). In this article it is proposed that resource fit is affected by the network positions of firms in the alliance. The focus in the article is on perhaps the most important network characteristic in inter-organizational networks: centrality.

Centrality refers to the extent to which the focal actor occupies a strategic position in the network by virtue of being involved in many significant ties (Wasserman & Faust, 1994). Several studies indicate that centrality is a crucial factor in influencing firm behavior and performance. For example, central firms are more innovative (Ahuja, 2000) and have higher growth rates (Powell, Koputt, & Smith Doer, 1996). Centrality is an attribute of a firm or a network, not a dyad (Wasserman & Faust, 1994). Hence, this paper focuses on the combination (sum and difference) of degree centralities of the firms that are involved in an alliance.

In the empirical analysis, technology alliances are those that develop or transfer technology. Technology alliances have become the cornerstone of many companies' technology strategies (De Man & Duysters, 2005). A recent survey among alliance managers (ASAP, 2009) has shown that technology alliances are significantly more prone to fail than other forms of alliances. Given the growing importance of technological competition and the low success rates of strategic technology alliances, more insights are needed to guide managerial practice and to increase our current theoretical knowledge about this type of alliance.

In an alliance all partners occupy some specific position in a social network, for reasons of clarity only alliances with two partners are considered in this study. The empirical analysis focuses on the termination of those technology alliances as a proxy for instability. Termination does not necessarily imply that an alliance failed. Alliances whose terminations were planned from the outset should not be considered unstable (Das & Teng, 2000; Inkpen & Beamish, 1997). Notwithstanding the contestability of survival and termination as indicators for instability (Anderson, 1990), many authors choose survival and termination as operational definitions of alliance instability because of the limited availability of information on contractual arrangements between alliance partners (Park & Ungson, 2001).

The research question in this study is: What is the effect of the combined centrality of firms in an alliance on the hazard of termination of that alliance? This is a first investigation into the importance of social network analysis in general in explaining the instability of alliances.

2. Theory and hypotheses

Technology alliances provide opportunities for resource sharing. They bring together complementary skills from the firms involved. Standard, atomistic neo-classical economics assumes that firms possess their own skills, knowledge, and expertise. A social network approach argues that external ties with other firms provides resources as well, and networks of relations with other organizations provide access to internal resources held by those organizations (Gnyawali & Madhaven, 2001). According to Eisenhardt and Schoonhoven (1996, p. 137), resources are the "strengths or assets of firms." In technology alliances, technology, knowledge, and skills are the most important resources.

Resources may have two different effects. First, alliance performance is influenced by the alignment (Das & Teng, 1998), or fit (Seabright et al., 1992) of resources held by alliance partners. Second, better access to external resources increases innovative performance (Ahuja, 2000). In the remainder of this section it is argued that resource fit is affected by differences in the centrality of firms. It is also argued that the total centrality of an alliance affects the alliance's access to external resources as well as the dissolution of an alliance.

A multitude of measures of centrality, each slightly different from the others, has evolved in the social network literature (Bonacich, 1987; Freeman, 1979). Freeman (1979), in his classic study on the measurement of centrality, distinguishes three main indicators of centrality: degree centrality, betweenness centrality, and closeness centrality. Degree centrality is the number of partners a firm is linked to directly. Betweenness centrality refers to the number of times that a firm is in between the shortest geodesic path of other firms. Closeness centrality refers to the average distance of a firm to other firms in a network. Degree centrality is often referred to as the most important centrality measure (Tsai, 2001) and is the focus in this study.

According to the resource-based view, firms enter into alliances to procure resources to maximize firm value (Das & Teng, 2000). Given a set of potential partners, firms try to select the partner best able to provide needed resources. It is the fit between the resources of the firms in the alliance that is an important selection criterion. The

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