

# MNC–SME strategic alliances — A model framing knowledge value as the primary predictor of governance modal choice

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## Abstract

This paper addresses a deficit in research on strategic alliance formation which, as noted by [Gulati \(1998\)](#) [Gulati, R., 1998. Alliances and networks. *Strategic Management Journal* 19, 293–317], has resulted in little attention being given to transaction costs and knowledge-based imperatives for alliance formation. In addition, [Contractor and Ra \(2002\)](#) [Contractor, F.J., Ra, W., 2002. How knowledge attributes influence alliance governance choices: a theory development note. *Journal of International Management* 8, 11–27] illustrated that theory on governance modal choice from the perspective of transactions costs and knowledge characteristics is underdeveloped, thereby proposing an interactive model predicting governance modal choice in an attempt to redress this imbalance. Using a multiple case study methodology the present study examines the important aspects of governance mode and knowledge exchange in strategic alliances between a multi-national corporation (MNC) and small and medium enterprises (SMEs). In doing so this paper qualifies the model proposed by [Contractor and Ra \(2002\)](#) [Contractor, F.J., Ra, W., 2002. How knowledge attributes influence alliance governance choices: a theory development note. *Journal of International Management* 8, 11–27], suggesting a model framing knowledge value as the primary predictor of governance modal choice as an appropriate framework to evaluate both the knowledge exchange relationships and governance modal choice relationships between MNCs and SMEs. Thus this paper advances theory on the motives for alliances, specifically, the effect on governance modal choice of a company’s desire to acquire or access knowledge. In addition the paper furthers theory on

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organisational learning and absorptive capacity focusing on their influence on governance mode, in the context of management strategy.

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## 1. Introduction

A notable characteristic of strategic alliances in the last two decades has been their increasing diversity and the associated multiplicity of formal governance structures (Gulati, 1998). In many instances governance modes imitate the control and co-ordination features associated with organisations. This is illustrated by Gulati's (1998) continuum, which positions joint ventures at one end and strategic alliances at the other. In recent years research on strategic alliance formation has concerned itself with transaction cost economics, with firm and industry level factors receiving considerable attention; however, in order to gain a comprehensive understanding of alliance formation, interacting variables such as organisational capability and knowledge exchange must be understood. Within this context, this paper examines five issues around MNC's and SME's strategic alliances; first, the strategic value of the alliance to both the MNC and SME; second, the identification of the predominant knowledge supplier; third, the motivation of both the MNC and the SME to enter strategic alliances; fourth, the learning or absorptive capacity of MNC's and SME's; and finally the knowledge appropriation concerns of partnering firms.

The paper commences with a brief introduction to the topic, followed by a literature review which presents an exploration of knowledge-based influences of an SME/MNC's choice of governance mode in a strategic technology partnership, based on theory developed by Contractor and Ra (2002). The literature review continues with an overview of pertinent literature regarding appropriation concerns and alliance governance, organisational learning, knowledge transfer, and governance modes. This is followed by the research methodology, which illustrates that the selection of the case companies was based on the propensity of precision engineering companies to enter strategic alliances, and that four such SMEs identified had a common alliance partner in Molex. This presented an opportunity for a multiple case study with a generic MNC (similar to study of Nokia Mobile Phones and five of its partners conducted by Vilkamo and Keil in 2001, which was used to develop theoretical arguments regarding the choice of strategic alliance governance mode) the results of which are presented in the main findings, discussion and implications, and conclusions.

## 2. Theoretical model

Previous literature (Gulati, 1998; Whetten, 1981) has examined the factors influencing appropriation concerns versus co-ordination considerations in alliances. Amongst those

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