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Governance structures in strategic alliances: transaction cost versus resource-based perspective

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Abstract

In this paper, we examine the pattern of resource alignment in strategic alliances and its relevance to the scheme of cooperation. This resource-based perspective is combined with the transaction cost model to interpret the governance structure of international strategic alliances undertaken by Taiwanese firms. We find that whilst the transaction cost model is powerful in explaining the choice between joint ventures and contractual alliances, the resource-based perspective provides useful insights into the choice between two distinctive forms of contractual alliances, namely, exchange and integration alliances.

Keywords: Strategic alliances; Transaction cost; Resource-based perspective

1. Introduction

Strategic alliances have gained increasing popularity across all business sectors in recent years, and emerged as an organizational design that enables firms to deal with the increasing complexity of building new sources of competitive advantage in order to compete in the global market. The formation of strategic alliances between two organizations combines competition and cooperation to create a collaborative strategy (Prahalad & Doz, 1987). Through strategic alliances, a firm can gain access to desired strategic capabilities by linking to a partner with complementary resources, or by pooling its internal resources with a partner possessing similar capabilities (Nohria & Garcia-Pont, 1991; Porter & Fuller, 1986). Such alliances create synergies between resources that enhance or reshape competition within the market.

Although resources play a central role in the formation of strategic alliances, conventional theories on strategic alliances have tended to emphasize structural elements within the alliances, such as market imperfections (Beamish, 1985; Harrigan, 1984; Stopford & Wells, 1972) or control mechanisms (Beamish & Banks, 1987; Buckey & Casson, 1988; Hennart, 1988), rather than the resources themselves. The term market imperfections implies that obtaining the desired resources from the market may be relatively inefficient, as compared to some form of resource-sharing scheme between the partners, and control mechanisms highlight the best way of owning and allocating resources within an organization. Both market imperfections and control mechanisms are related to transaction costs, with strategic alliances being considered a midway

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house between the market and hierarchy in obtaining resources. Conventional theories explain the circumstances under which resources should be obtained from strategic alliances, as opposed to being bought from the market or internalized within the firm. These theories say little about *what* kind of resources should be shared in strategic alliances and *how* such resource sharing should be organized.

The purpose of this paper is to fill this vacuum by providing empirical evidence to illustrate what kind of resources are shared in strategic alliances, and in what form, along with the presentation of a theory describing how these resources are to be shared between partners. Basically, we distinguish between two kinds of resource-sharing schemes in alliances: the first being the case where a partner offers a resource in exchange for another resource from the counterpart, the second being the case where both partners pool their resources for a common purpose. The first can be referred to as an 'exchange alliance,' within which resources are first exchanged and then utilized independently by each partner. In exchange alliances, although the objectives of the partners are distinct, they nevertheless cooperate in some way to achieve their respective objectives. The second may be referred to as an 'integration alliance,' wherein resources are integrated within a certain organization designed by the partners to perform prescribed functions which serve a common purpose for the partners, although the partners' ultimate goals will remain distinct. Whilst exchange alliances often entail 'outsourcing' activities, integration alliances invariably lead to a partial incorporation of the partner's activities into the firm's own organization. Partners have more control in integration alliances than in exchange alliances, integration alliances are also more structured than exchange alliances. Exchange alliances allow the partners to focus on their core competence whilst outsourcing those activities regarded as being of secondary importance. In contrast, integration alliances allow the partners to realize synergies by placing distinctive resources into one organization.

We show that the type of resources to be shared within an alliance determines the way in which they are to be shared. Some resources should be exchanged, whilst others should be integrated. The size of the firm also affects the resource-sharing scheme. The distinction between exchange and integration alliances lends great insights into those alliances governed by contracts. Whilst conventional theories are often geared towards the explanation of EJVs, for example, Killing (1983) and Beamish (1984), our theory covers the often-ignored, but increasingly important field of contractual agreements in strategic alliances. Contractual agreements offer a number of advantages over EJVs, such as greater flexibility, easier dissolution, a lower public profile, reduced legal encumbrances, ease of negotiation and renegotiation and a more transient and less institutionalized relationship between the partners (Johnson, Cullen, Sakano, & Takenouchi, 1996).

Our view on resource sharing is combined with the conventional theory in this paper in order to examine the pattern of international strategic alliances undertaken by Taiwanese firms, where conventional theory is taken to be the transaction cost theory. Transaction cost theory has had a profound influence on the analysis of inter-firm collaboration. Many analyses on the formation of domestic and international alliances utilize key concepts drawn from this body of literature. The theory regards strategic alliances as an organization form, lying between market and hierarchy, that minimizes transaction costs under certain circumstances. We find that the transaction cost theory is powerful in explaining the control mechanisms or hierarchical structures of strategic alliances, whereas the scheme of resource sharing is useful as a means of interpreting the choice between different forms of contractual alliance.

2. Theory and hypothesis

2.1. Transaction cost theory: the problem of governance

As an economic approach to organization, transaction cost theory attempts to explain why some institutional structures, other than markets, may be a more efficient means of governing economic activities. The literature accepts the dichotomy of market and hierarchy as the primary alternatives for exchanges, along with the assumption that opportunism dominates the behavior of the parties to the exchange. In principle, due to economies of specialization and the administrative and incentive limits of hierarchies, markets are a more efficient governance structure than hierarchies, unless a transaction is governed by special conditions (Pisano,