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Exploration and exploitation fit and performance in international strategic alliances

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ABSTRACT

Exploration and exploitation constitute two separate, potentially conflicting strategic choices for firms engaged in international strategic alliances. Our empirical study challenges the ambidexterity argument and demonstrates that exploration and exploitation are separate (though not necessarily antithetical) strategies with different antecedents and performance consequences.

Our results show that while competency similarity is conducive to upstream innovative performance, prior experience with the partner is potentially damaging for this type of performance and trust and cultural distance do not play significant roles. When the motive is efficiency and downstream market performance, prior experience with the partner instead is beneficial, as are high levels of trust and low levels of cultural distance. These findings have key implications for literature on strategic fit and alliance performance.

1. Introduction

Despite the centrality of the concept of fit in strategic management research, existing conceptualizations that aim to capture underlying fit-based relationships between partners in international strategic alliances (ISAs) are subject to several theoretical and measurement limitations. Conceptualizations of exploration and exploitation thus could benefit from greater theoretical coherence and consistency in empirical assessments. In response, we offer theoretical and empirical support to demonstrate how fit, within the contexts of exploration and exploitation, relate and yet still constitute separate strategic choices that influence the way relational antecedents link to distinctly different performance outcomes in ISAs.

Building on existing definitions (e.g., Geringer & Hebert, 1989; Glaister & Buckley, 1998) a strategic alliance involves two or more legally distinct organizations (parents), each of which *actively* participates, beyond a mere investment role, in the decision-making activities of the joint venture (JV). An international strategic alliance (ISA) implies at least one partner is headquartered outside the venture's country of operation or the venture has significant levels of operation in more than one country. Thus we define an ISA as an interfirm collaboration over a given international economic space and time for the attainment of mutually defined goals. Adopting Lavie and Rosenkopf's (2006) and Rothaermel's (2001) perspective, we further define international exploration alliances as ISAs that primarily engage in upstream activities to share and develop new knowledge; international exploitation alliances instead focus on downstream activities, such as marketing and distribution.

With these definitions, we can highlight how conceptualizations of fit in strategic management research tend to be imprecise regarding its role in any given context. For instance, most alliance studies adopt a contingency perspective

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(Harrigan, 1983; Lawrence & Lorsch, 1967), and scholars argue that alliance performance depends on the congruence between the global strategy and the structure of the parent companies (Gomes-Casseres, 1990; Harrigan, 1988). Yet few studies specify the role of fit for influencing the relationship between partner selection criteria and alliance performance. We consider a refined conceptualization and measurement of interpartner fit, in which strategic fit is a function of the match between task- and partner-related selection criteria (Geringer, 1991; Nielsen, 2003) and the motivational intent that underlies an alliance.

Accordingly, we start with a discussion of fit and its sources and continue with a review of research into alliance performance and the effects of fit. We integrate the resource-based view (RBV) and behavioral theories of motivational intent to propose that exploitation and exploration fit are distinctive. Our empirical study provides support for these fit constructs, with tests of their proposed effects on different types of alliance performance. Finally, we discuss our findings and their implications for future research.

2. Theoretical foundations

Strategy literature commonly applies the concept of fit to denote a congruent relationship between the firm and its environment or among its strategy, structure, and processes. Contingency theory (Lawrence & Lorsch, 1967) suggests that a firm whose internal features best match the external environmental demands will achieve superior performance. Miles and Snow (1978; see also Chandler, 1962) propose the need for alignment between the firm's business strategy and its structure, technology, and organizational processes, such that the absence of such a match leads to administrative inefficiency and undesirable performance. In acquisition-focused literature, Jemison and Sitkin (1986) distinguish strategic from organizational fit, arguing that strategic fit, which refers to similarities in technology, products, and markets, is distinct from organizational fit, or similarities in terms of organizational processes, such as culture, human resource policies, and administrative systems. However, fit consistently appears to shape the extent to which collaborative organizations realize synergies that support their success.

Existing fit constructs in the alliance literature tend to focus on either (1) resource-based matching of capabilities – such as partner characteristics (Geringer, 1988) or interpartner compatibility or complementarity (Beamish, 1988) – or (2) strategic congruence, such as strategic symmetry (Harrigan, 1988), strategic fit (Jemison & Sitkin, 1986; Saxton, 1997), or interfirm diversity (Parkhe, 1991). Manifestations of resource matching and strategic alignment in multiple alliance stages of development indicate that firms may seek to benefit from interpartner fit in multiple ways simultaneously (Nielsen, 2010b). Thus treating individual dimensions of interpartner fit as independent and assessing their performance implications separately may lead to inconsistent results. Prior research also articulates a link between interpartner fit and venture performance but uses different notions of alignment, such as of resources or strategic goals, which results in operational confusion (Venkatraman & Camillus, 1984) and inconsistent empirical findings.

Some researchers suggest indirect measures of fit in alliances, such as interpartner relatedness, parent–venture relatedness, or relative size, nationality, and international joint venture (IJV) experiences of the parent firms (e.g., Harrigan, 1988; Inkpen & Currall, 2004; Nielsen, 2007), as well as consensus in operational policies or alignment of bargaining power and management control (e.g., Yan & Duan, 2003). Measuring interfirm fit directly at the alliance level, as the simultaneous match between partner-related characteristics and strategic intent, may, however, increase the correspondence between fit and its operational measurement.

2.1. Fit and performance in ISAs

Conceptual opacity and measurement problems (in terms of both fit and performance) characterize extant research that examines the link between fit and performance in the ISA literature. Previous research on alliance performance largely focuses on the configurational features of the ISA parents, particularly in the early stages of partner selection and alliance formation. Significant attention focuses on formation motives, relational and structural characteristics of the partners, and their interactive contingencies for explaining ISA performance (e.g., Hill & Hellriegel, 1994; Murray & Kotabe, 2005; Shenkar & Yan, 2002). For example, Geringer (1991) argues that selection of an ISA partner is contingent on fit between task – (e.g., resources, skills) and partner – (e.g., size, objectives, operating policies) related characteristics. Harrigan (1986) maintains that strategic symmetry between partners occurs when they "possess complementary strategic missions, resource capabilities, managerial capabilities, and other attributes that have strategic fit such that the relative bargaining power of the partners is evenly matched" (p. 11).

Consistent with the RBV, alliances allow firms to trade strategic resources across their boundaries. When these resources are complementary, desirable performance arises due to synergistic effects. Among the very few empirical studies, Hill and Hellriegel (1994) test the performance effects of partner complementarity but fail to confirm the proposed positive effect. Other studies also focus on the interdependence of partners in terms of competencies and skills (Pfeffer & Nowak, 1976) and argue that the long-term mutual need for the partner's resource commitment is critical to ISA performance (Beamish, 1984).

Although authors thus have explored the notion of interpartner fit from various perspectives, we lack precise, concrete analytical schemes (Venkatraman, 1989) as well as well-defined conceptual models that specify the critical features and suggest appropriate measures. This has led to a disconnect between theory building and theory testing (Geringer, 1988; Yan & Duan, 2003). In addition, previous research often compares individual characteristics of the parent firms, separate from the