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Portfolio management of strategic alliances: An international business perspective

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ABSTRACT

This paper extends the Integration–Responsiveness (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987) international business framework of multinational companies (MNCs) strategies in order to explain the MNC's various approaches to managing strategic alliance portfolios. Our research shows that the alliance portfolios of MNCs differ significantly with respect to partner integration and partner heterogeneity. We argue that the choice regarding the management of alliance portfolios depends on the MNC's international strategy. The empirical results reveal the impact of local responsiveness through the partner heterogeneity, and the impact of MNC integration on the level of global partner integration respectively.

1. Introduction

The increasing importance of multinational firms (MNC) and strategic alliances on the global business environment leads to the question of how the MNC's choice of international strategy impacts its alliance portfolio management. This paper extends the theory behind international strategy in order to explain why global alliance portfolio management differs from MNC to MNC. More specifically, we extend the understanding of how the needs for local responsiveness and global integration (Ghoshal & Bartlett, 1993; Prahalad & Doz, 1987) lead the MNC to choose different types of partners and different levels of partner integration. The purpose of this paper is to propose a new theoretical approach linking a firm's international strategy and its alliance portfolio management. The study is motivated by three lines of argumentation.

First, globalization is posing new management challenges due to the geographic dispersion of the MNC's value chain. This has resulted in the rise of new organizational structures (Barkema, Baum, & Mannix, 2002), ranging from focused MNCs to global alliance constellations. Leading MNCs are increasingly using alliances in globalizing markets to increase their competitive advantage (Dunning, 2004; Harbinson & Pekar, 1997; Hoffmann, 2007) by cooperating with different types of players such as customers, suppliers, competitors and complementors (Brandenburger & Nalebuff, 1996). As such, the number of firms involved in cooperative relationships and networks has grown. For example, Vapola, Tossavainen, and Gabrielsson (2008) show that firms such as Nokia and Hewlett-Packard have alliance constellations that exceed four hundred members in the application development function alone. Further, given the scale and technology costs associated with global competition, many MNCs have focused on fewer activities internally and outsourced more to their partners (Barkema et al., 2002), thus cooperating *more extensively* with foreign firms. Contractor and Lorange (2002) forecast that alliances will play a major role in complex, interdependent and communicative globalizing markets.

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Second, the MNC's approach to managing geographical and functional differences via strategic alliances affects firm competitiveness, so any decision to partner rather than to develop a particular activity internally (Hennart & Larimo, 1998) is potentially consequential to the future success of the MNC (Dyer, 1996; Gulati, 1998). There are numerous studies exploring the impact of strategic alliances on a MNC's performance, and it has been shown that co-specialization, complementary partnerships and access to knowledge spillovers provide important benefits to the MNC (Dyer, 1996; Gimeno, 2004; Hamel, 1991; Harrigan, 1988; Parkhe, 1993; Sarkar, Echambadi, H, & Jeffrey, 2001; Stuart, 2000; Teece, 1987; Vapola & Seppälä, 2006). However, the focus of prior research in this area has been primarily limited to activity-based motivations, and there has been little research that addresses the impact of a firm's internal strategic orientation on its management of large numbers of external relationships. The MNC's performance regarding alliances is dependent on the overall management of the alliance portfolio rather than the individual alliance, thus placing the structure and strategic orientation of the alliance portfolio management at the center of phenomenon (Hoffmann, 2007).

Third, as alliances have become increasingly central to MNC strategy (Lorange & Roos, 1992), firms have found themselves dealing with issues relating to the management of large alliance portfolios (Gulati, 1998). Consequently, Hoffmann (2007) argues that alliance portfolio management has become an important strategic issue. While there is a wealth of literature both within the international strategy (Bartlett & Ghoshal, 1989; Birkinshaw, Braunderhjelm, Holm, & Terjesen, 2006; Doz, Santos, & Williamson, 2001; Kogut & Zander, 1993; Prahalad & Doz, 1987; Stopford & Wells, 1972) and the strategic alliance (Contractor & Lorange, 2002; Eisenhardt & Schoonhoven, 1996; Gomes-Casseres, 1996; Gulati, 1998; Harrigan, 1988; Khanna, Gulati, & Nohria, 1998; Ohmae, 1989) research streams there is less research explicitly examining the link between the two. Therefore, the theory explaining the phenomenon clearly merits further academic attention, including a strategic perspective drawing on international business theory.

In sum, to investigate different issues related to optimally managing a large number of alliances, this paper asks if and how the MNC's approaches to managing alliance portfolios vary with respect to its international business strategy. The paper develops three propositions and a theoretical framework based upon empirical data collected from five in-depth case studies including extensive archival research. This study addresses the phenomenon from the focal MNC perspective at the corporate level. Corporate strategy defines which business the MNC is engaged in. Thus, research on the MNC's alliances, from a corporate level strategic perspective, allows the research to access questions of boundary setting. Consistent with the corporate level strategy perspective, the case MNC's alliances are analyzed at the portfolio level, aggregating the motive for and purpose of each individual alliance, reflecting the overall strategy of the MNC's alliances. Therefore, the unit of analysis is the MNC's behavior and management characteristics with respect to the alliance portfolio as a whole.

In this paper, the MNC is defined as a multinational firm with significant tangible and intangible assets and hence the capacity to operate widely across the globe, with global learning as a critical source of competitive advantage (Bartlett & Ghoshal, 1989; Doz et al., 2001). We define alliances as all types of cooperative inter-organizational relationships that create and/or protect competitive advantage (Doz & Hamel, 1998; Hagedoorn & Osborn, 1997). An alliance portfolio is the set of all alliances that the focal MNC has with its external partners (Hoffmann, 2007). In this paper, alliances can range from equity-based joint ventures to alliance constellations.[1]

The remainder of the paper is organized as follows. First, we expand the theoretical framework of international business strategy to explain the MNC's alliance portfolio management approach. Second, we describe our data collection and methods. Third, we analyze the empirical findings and put forward three propositions. Finally, conclusions are drawn and future research directions are offered.

2. International strategic management perspective to alliance behavior

2.1. International strategic management research

International strategic management addresses a link between international strategy and firm organization. Scholars have sought to explain both why and how firms internationalize and thus differ in their constitution. Extensive research has been conducted addressing the issue from different perspectives. The first literature stream builds upon the internalization model of foreign expansion (Buckley & Casson, 1976) that suggests that MNCs will establish foreign activities in the case of strong ownership, location and internalization advantages (Dunning, 1981). The role of overseas operations is a key construct. This economic theory model assumes that MNCs systematically engage in a cost–benefit calculus of different entry modes (Rugman & Verbeke, 1992). Growth is a core perspective in generating an understanding of why firms internationalize their activities (Dunning, 2004). However, Johanson and Mattson (1988) comment that the internationalization model of foreign expansion "leaves out characteristics of the firm and the market which seem especially important in the case of 'global competition' and cooperation in industrial systems". An alternate approach to explaining MNC international strategy has emerged within the Nordic international business research tradition (Johansson & Vahlne, 1977; Luostarinen, 1979). While it also stems from the concept of the growth of the firm (Penrose, 1959), the behavioral perspective (Cyert & March, 1963) has strongly influenced the theoretical approach underlying the conceptualization of the firm (Johanson & Vahlne, 1990) and has brought attention to the development and diffusion of knowledge, as well as management mentality within the firm.

[1] Alliance constellations are defined as a set of firms linked together through alliances that compete in a particular competitive domain (Gomes-Casseres, 1996).