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How does risk (relational and performance) influence alliance termination: a research framework

Strategic alliance formations have been used in many industries as a strategy to capitalize on a number of benefits. However, despite their popularity and widespread use, strategic alliance formations are commonly known as highly unstable and less successful leading to a higher rate of alliance termination. This observation suggests the need for an investigation on the underlying reasons for alliance termination. This paper seeks to understand and develop a research model for explaining how risk (relational and performance) influence alliance termination. Consequently, this question takes on different nuances, since alliance risks, dichotomized as relational and performance risk need to be identified in order to explain their contribution for the alliance termination. The researcher aims to address the question ‘how does risk (relational and performance) influence alliance termination?’

Keywords: Strategic alliances; alliance termination; relational risk; performance risk; research framework, risk

Introduction

Four phases related to alliances are observed: antecedents, alliance formation, alliance performance and termination. Firms involved in alliances are subject to “co-opetion”, meaning that they inevitably cooperate but also compete simultaneously (Chao 2011). The incidence of strategic alliances has increased since the 1960s (Doz and Hamel 1998, Beamish and Delios 1997; Hagedoorn and Schakenraad 1994; Harbison and Pekar 1998; Pekar and Allio 1995) and this is largely due to their opportunities provided. Strategic alliances are described often as vehicles that enable firms to achieve greater objectives than they would be able to do on their own. Definitions for strategic alliance are long, but broadly speaking “strategic alliances can be defined as
purposive strategic relationships between independent firms that share compatible goals, strive for mutual benefits, and acknowledge a high level of mutual dependence” (Kale et al. 2000:218). The endeavors of achieving specific and mutually agreed objectives and interest, as much as possible, is gained through combining firms assets, capabilities and competencies (Wiklund and Shepherd 2009). Specific objectives include entering into new markets, creating a diverse line of products, learning knowledge and skills for managing new tasks, share the commitment of financing R&D investment and expenses related to manufacturing and/or marketing (Shakeri and Radfar 2017). The collaborative arrangement in the form of a strategic alliance plays an important role in the context of creating a competitive advantage and synergy for the firms by accessing and combining resources, skills, knowledge and risks between the firms (Standing et al. 2008). Strategic alliance establishment permits interfirm partnerships the opportunity to access and combine resources across firm boundaries (Ahuja 2000; Eisenhardt and Schoonhoven 1996). A key attribute of forming strategic alliances is also to benefit from complementary resource activities that drive firms into strategic alliances (Mohr and Spekman 1994; Borys and Jemison 1989).

During the alliance formation phase, partners communicate as well as negotiate about goals, that are determined to be achieved in the short-term as well as in the long term (Chao 2011), identify roles and responsibilities for the duration of the partnership and make decisions on many levels as for example concerning joint financing of R&D investments. Alliance performance remains an important area as this offers an opportunity to identify whether the collaboration is worthwhile or not and researchers have adopted different theoretical perspectives to understand alliance performance and often alliance outcomes measures are used to evaluate this. For example, based on Judge and Dooley’s (2006) research, the empirical transaction cost economics literature between 1993-2004 dealing with alliance outcomes has identified four types of alliance outcomes measures: (1) historical accounting measures, (2) market-based measures, (3) operational efficiency measures and (4) perceptual satisfaction measures. The four types of alliances outcomes illustrate that the literature distinguishes between objective and subjective measures. With common benefits created (Khanna et al. 1998), there is also the possibility that both or one of the partner is aimed at focusing on private benefits and therefore neglecting the objectives created at the formation of the alliance. Examples as such can give rise to conflicts leading to opportunistic
behavior and dysfunctional behavior resulting in poor and negative alliance performance and often in termination (Arino and De La Torre 1998; Ring and Van de Ven 1994).

This paper, however is not focusing on antecedents, alliance formation or alliance performance instead the central focus is on termination. As addressed at the beginning, the research question for this paper is as follows:

**RQ:** What role does risk (relational and performance) play in alliance termination?

This paper treats dissolution, premature termination and completed alliances with no intent to continue and extent the partnership as termination/terminated alliances and all three types of terminated alliances will be included in the sample of interest. As discussed in Das and Teng (1998, 2001) risk plays a key role in the inter-firm governance decision-making process, and whilst a number of factors for termination have been examined in the literature, the author argues that alliance risk, dichotomized in relational and performance risk has received less or no attention from the earliest literature up to now to explain alliance termination. Based on the earlier work by Nooteboom *et al.* (1997), Das and Deng (1998, 2001) and further continued and supported by Delerue (2004, 2005), Das (2004, 2005), De man and Rojakkers (2009) and Billeteri *et al.* 2013, alliance risk is composed of two forms of risk (Das and Teng 2001): relational and performance risk. Relational risk refers to “the probability and consequence of a lack of cooperation between partner firms” (Billitteri *et al.* 2013:934), whilst performance risk refers “to factors that may jeopardize the success of an alliance, even when the partners fully cooperate” (Billitteri *et al.* 2013:934). Since performance risk emerges from the external environment and therefore operates at the firm – environment level, they are exogenous and this could include facing risk of “uncertain investments, technologies, marketing decisions and so forth” (Billitteri *et al.* 2013:934). Relational risk, on the other hand emerges internally and therefore operates at the firm – firm level and thus are linked to endogenous factors and this could include facing risk of “shirking or cheating the partner, distorting or hiding information, illegitimately obtaining assets from the other firm and so on” (Billitteri *et al.* 2013:934), which as opposed to performance risk gives scrutiny by partner’s actions (Lo Nigro and Abbate 2011). Whilst environmental influences are sources of possible performance risk, opportunistic behavior from one or both firms (Williamson 1977) is a source of possible relational risk.
**Alliance termination**

Three forms of adverse results in alliances which was found to be acknowledged often by researchers were uncompensated transfers of technology, loss of technology, loss of proprietary information and operational difficulties and problems (Park and Ungson 2001). The literature on alliance termination is convoluted, as several definitions of termination have been used in the alliance literature, and several researchers have investigated different scenarios leading to different interpretations of evidence of termination and instability. For example, whilst alliance instability describes an unplanned termination or a major restructuring of an alliance (Inkpen and Beamish 1997), successful completions of alliances have been also used in the alliance literature to refer to termination (McCutchen *et al.* 2008). The JV literature reports several definitions of instability. Franko (1971) refers to an unstable JV, if a change in parent holdings to 50 percent or 95 percent ownership has been noted, JV stakes have been sold by a parent or when all assets have been sold prior to dissolving the venture (liquidation), whilst Banerjee and Mukherjee (2010) define JV instability “as a situation of complete partial buy-out (or sell out) of the JV by a JV partner” (Banerjee and Mukherjee 2010:604). Concertedly, these findings suggest that a shift in partner bargaining power have been identified as a notable factor leading to instability (Inkpen and Beamish 1997). This study includes both levels of terminations: successful completions and premature terminations.

Thus, to understand termination, researchers have identified various factors that drive termination within alliances. Kabiraj and Sengupta (2018) argue that the average life of a JV is estimated at 5-7 years, while in Harrigan’s (1988) sample of JV studied, it was only 3.5 years before they either separate amicably or sell their stake to the other partner firm. Further, few studies in the JV literature postulated that various changes concerning the JV may alter the value of the importance of the JV and therefore induce instability including shifts in partners’ strategic missions (Harrigan and Newman 1990), importance of the JV to the parents (Harrigan and Newman 1990), market competition between the partners (Kogut 1989), alliance experience between the partners (Blodgett 1992) and the investment environment of the host country (Blodgett 1992). Whilst Kogut (1989) chose venture termination as the only characteristic for explaining instability, Killing (1983) recognized a shift in JV control and venture termination as an underlying proof for instability. Within the alliance management literature, there is consensus that partnerships between firms evolve over time and that changes arising internally (firm-firm) and externally (firm –
environment) occur during a partnerships’ lifetime potentially influencing termination. Such changes, often concealed in unanticipated contingencies may raise difficulties to continue with the operations (Makino et al. 2007). Kabiraj and Sengupta (2018) identify them as endogenous and exogenous factors, which are often difficult to predict at the formation of the alliance.

Noticeably, several researchers have examined the underlying factors for instability through different lenses. The existing studies in JV literature associated the reasons for JV instability with the entry of a new firm in the industry (Banerjee and Mukherjee 2010) or with the availability of new technology created by the foreign firm (Kabiraj and Chowndhury 2008). A relatively recent body of literature contributed on JV termination including the works by Meschi et al. (2016), Westman and Thorgren (2016). It was not noted that researchers on the one hand focused significant attention on reasons for termination and this included examining factors inducing termination such as ownership distribution between partners (Blodgett 1992; Dhanaraj and Beamish 2004), the role of partner asymmetry within a partnership (Harrigan 1988; Park and Ungson 1997) the type of partnership (Dussauge et al. 2000; Kogut 1991; Park and Russo 1996), whilst another body of literature critically examined partner characteristics and how they influence partnership termination. Some of the works in this discipline are as follows: (e.g., Barkema et al. 1997; Hennart and Zeng 2002; Folta and Ferrier 2000; Lenartowicz and Roth 2004; Westwood and Posner 1997) postulating that differences in partners, cultural differences and misalignment of partners may lead firms to be terminated.

There are several other evidences for termination. McCutchen et al. (2008) built on Killing’s (1988) work on task complexity. McCutchen et al. (2008) found evidence that termination is induced by task complexity. Broadly speaking, task complexity “in an alliance refers to the level of difficulty in achieving alliance objectives” (McCutchen et al. 2008: 193). Especially the biotechnology industry creates complex alliances with “several characteristics such as huge R&D costs ($125–250 million per drug), long commercialization periods and very complex and lengthy regulatory (IRI/FDO) approval procedures” (Shakeri and Radfar 2017:289) suggesting a higher termination rate in this industry.

Concertedly, the studies on alliance termination provide important insights underlying the factors for alliance termination but it is noticeable that these studies ignore the role of risk (relational and
performance) that frequently arise during an alliance relationship and how risk (relational and performance) influences termination. In fact, there is not a single study in the literature that has investigated how relational and performance risk may have influenced termination of an alliance.

Proposed Research design

After developing the research framework, the paper will deploy a qualitative strategy since the researcher is interested to conduct a textual analysis using nvivo in order to understand to what extent risk (relational and performance risk) explain alliance termination. Using coding/codes on qualitative data the researcher is able to be engaged in a process whereby qualitative data can be “divided, grouped, reorganized and linked in order to consolidate meaning and develop explanation” (Grbich 2013).

Some comments on how you plan to develop the paper prior to discussion/presentation at the conference

Prior to discussion/presentation at the conference I will be developing the paper further. This means, that the remainder of the paper will include a review of the literature on relational and performance risk and opportunistic behavior, since they will also be part of the research framework. This section is expected to cover around 3000 words, excluding supporting tables, that will be developed in order to present the definitions on relational and performance risk as well as the definitions of opportunistic behavior. Additionally, the data collection section will be presented. Here, I will be explaining in detail the steps that went into the data collection and discuss what kind of data will be collected for creating the data set. This section is expected to cover 2000 words.

The data set will consist of strategic alliances and joint ventures. The researcher will identify terminated strategic alliances and joint ventures and create a data base with this information. In addition to this, following characteristics will be identified and included into the data set: duration of the alliance, headquarters, industry/SIC code, type of collaboration (exploration, exploitation or ambidextrous), type of activity (i.e. manufacturing services, research and development services, marketing services, supply services, mining services etc). The data base will be presented at the conference. The paper will consist of a methodology chapter plus evidence of data collection and
analysis, whereby the methodology chapter will include a critical discussion and detail of the rationale for using particular methods of collecting and analyzing data. For example, this section will discuss thoroughly the sampling strategy and coding. I am confident that I will be able to present at the conference, the research framework, the coding/codes, share with the track community the data set and explain the first draft of analysis and the way forward to turn this developmental paper in a full paper.

References


