International Strategy Alliance: Macro-Institutional Environment Perspective

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ABSTRACT

The strategic alliance has become the business model that international enterprises generally conduct in an era of global competition. While in cooperation, however, multinational enterprises face a changing global environment. In addition to the pursuit and control of their competitive advantage, they must adopt a more in-depth thinking of the impact and influence that the institutional environment brings. This study proposes an integrated conceptual framework to explore the impact of the overall institutional environment on international strategic alliances and departs from the institutional theory perspective, on the basis of three kinds of system types and isomorphic forces, to analyze the individual effects of the five stages of the lifecycle of international strategic alliances. Using the system environmental factors and the alliance lifecycle issues, the many propositions developed can provide the theoretical bases for future empirical studies of related topics and also provide the industry a reference for practical operations.

Keywords: International Strategic Alliance, Institutional Theory, Environment

INTRODUCTION

In the era of global competition, strategic alliance has become one of the main strategic programs of the international competition in the market and is the key strategy to reasonably allocate the resources of the global production (Nielsen & Gudergan, 2012). On the basis of the political, legal, and other restrictions in the host countries of the developing countries in the past, many enterprises passively adopt cooperation, and currently the majority of alliance strategy is based on strategic considerations. In addition, alliance objects evolved from a comprehensive cooperation by local companies abroad into the cooperation of activity stages of different value chains, and cooperative relations approached principles of more equity, mutual trust, mutual benefit, and win-win situations, in contrast to the past when the companies with more experiences or resources carried out the leadership of cooperation.

The alliance development process may experience different stages of alliance due to different cooperative behaviors and characteristics between partners. As each stage is faced with different situations, a variety of different management methods must be used to maintain the evolution of the alliance. Bronder & Pritzl (1992) divided strategic alliance into (1) strategic decision, (2) configuration of a strategic alliance, (3) partner selection, and (4) management of a strategic alliance. Simonin (1997) proposed four stages: (1) Identification and selection, (2) negotiations and consultations, (3) monitoring and management, and (4) termination of cooperation. To integrate the scholars’ prospects, this study summarized the alliance lifecycle into the following five stages: (1) Policy decision stage, (2) partner selection stage, (3) negotiation and configuration stage, (4) operation and management stage, and (5) cooperation termination stage. The purpose of this study on the basis of the viewpoint of the overall institutional environment is to conduct the proposition development of the issues related to the various stages and to provide practical advice to international strategic alliances.
Institutional theory emphasizes a wide range of institutional environments (DiMaggio & Powell, 1991); the organizational pressure of institutional environment come from government regulations, industry norms, professional bodies, and other units. Scott (1995) divided the institutional environment into three kinds: Regulatory nature, normative nature, and cognitive nature. The degree an organization to be accepted and recognized by the environment is called “Legitimacy.” In face of different environments, the organization must obtain a considerable degree of legitimacy to survive and to obtain benefits. To achieve legitimacy, the organization sometimes imitates organizational structure and behavior of other successful enterprises or mimic enterprises with legitimacy, thus showing isomorphism in the structure and behavior. In terms of subsidiaries of multinational enterprises, this phenomenon is even more common. In order to survive locally, the subsidiaries of multinational enterprises can then make themselves similar to local organizations. DiMaggio & Powell (1983) proposed a system through three mechanisms: Coercive isomorphism, normative isomorphism, and mimetic isomorphism, to shape the organizational structure and behavior.

**PROPOSITION DEVELOPMENT**

This study proposed on the basis of the classification of the institutional environments by Scott (1995) and DiMaggio & Powell (1983) three kinds of same type of mechanism to explore the connection between overall institutional environment and the relative issues in each lifecycle stage of the international strategic alliances. The Alliance Lifecycle was grouped into the following five stages: (1) Policy decision stage, (2) partner selection stage, (3) negotiation with configuration stage, (4) operation and management stage, and (5) cooperation termination stage. The following describes the proposition developments of the relevant issues of each stage.

**The Impact on the Policy-Decision Stage of International Strategic Alliances**

At the founding stage of strategic alliances, many things need to be prepared in advance, including (1) Scenario Analysis: Environmental analysis and organizational analysis; and (2) potential analysis: To confirm the purpose of cooperation, alternatives, and expected benefits. Evaluating whether or not strategic alliance is the best way of investment essential, but in addition to considering the environmental situation and its own conditions to determine the appropriate entry mode, often the economic investment regulations in many countries have set many restrictions, including entry mode, on the overseas multinational enterprises to invest in the country. For example, Japanese law provisions that other countries’ enterprises to sell their products in Japan must conduct technical cooperation and exchanges and other alliance acts with the local company. Especially in developing countries and emerging markets, in order to increase contribution of foreign investment to operate in the country, they provisioned the way of investment by law and other restrictions, and overseas multinational enterprises to invest in the local market, under such force and pressure, must conform to the limitations to obtain the legitimacy to survive.

**Proposition 1:** When the host country imposes restrictions through economic investment laws and regulations, the enterprises adopt a strategic alliance to enter the country’s market.

Studies by Murray & Mahon (1993) suggest that environmental turbulence and uncertainty, the discontinuous change of environment, rapid technological change, high financial risk, rapid market change, high political complexity, large-scale and complex projects, increased competitiveness, government protection or support, and other situations are all conditions suitable for adopting strategic alliances. When market change is large or fast in the host country, as entry in other forms, such as direct
setup of factories or acquisitions of local companies, will increase the cost of the multinational enterprises, and in consideration of timeliness, a strategic alliance is indeed a more suitable way to enter. The strategic alliance has a higher necessity, and if the changes in the local market are bigger or faster than the home country, as overseas multinational enterprises are not so familiar with local businesses processes as local enterprises, the risk of operating alone will increase.

**Proposition 2:** When there is a larger (faster) market change in the host country, enterprises adopt a strategic alliance to enter the country’s market.

The Impact on Partner Selection Stage of International Strategic Alliances

Dacin (2007) found that company performance depends on the choice of alliance governance structure and partners’ selection to meet the needs of the company’s legitimacy, and partner selection criteria is positively correlated with the special legitimacy demand of the company, which means companies prefer alliance partners to be able to efficiently meet its demand of legitimacy. Geringer (1991) divided partner selection criteria into two categories: (1) Task-related criteria: Resources (funds, equipment, technology, patents, personnel, market, channel, etc.) required to achieve a competitive advantage (target); (2) partner-related criteria: Partner’s nationality, culture, past alliance experience, structure of organizational size, and compatibility. And Bronder & Pritzl (1992) summarized fit of alliance partners as fundamental fit, strategic fit, and cultural fit, wherein fundamental fit means the partners and enterprises itself are complementary owners, whether it is complementary ownership of resources or core competencies, strategic fit means the partners and the enterprises own consistency such as target consistency, consistency of strategic direction, etc., and cultural fit means the partners and the enterprises own compatibility, covering cultural differences, technical differences, strategy differences, management, leadership, incentives, and other differences. When the degree of market concentration in the host country gets lower, market share is most concentrated in manufacturers, there are many competitors, the competition is more intense, and market uncertainty is high. Should the across-border enterprises wish to enter the local market, they will tend to find alliance partners of high complementary with themselves, such as cooperation with manufacturers familiar with the local operation or that own vast channels so that it is easier to achieve the synergy of the alliance.

**Proposition 3:** When the host country market concentration is low, the main reason that the enterprises choose alliance partners is the consideration of fundamental fit.

To view from the normative system, DiMaggio & Powell (1983) deemed that the higher the degree of the organizations participating in associations or professional associations, the higher the similarity of the organizations to other organizations, which indicates that the degree of other enterprises to participate in the associations will have a similar impact as the norms on the enterprises (Heugens & Lander, 2009). Meyer & Rowan (1997) also pointed out that the higher the relationship network between the organization and the members of the association, the higher the commonality within the industry. In the implementation of the international strategic alliances, if the host country’s association organizations or professional associations system is so sound as to form a strong normative system, the partners selected must own strong social network relations resources, in order to conform with the industry norms and more easily achieve the consistency of the operations in the industry for both goals.

**Proposition 4:** When the extent of the host country organizations participating in trade or professional associations is higher, the main reason of the enterprises for choosing the alliance partners is the consideration of strategic fit.
The degree of compatibility between partners plays an important role in the success of the alliance. In the event of cooperating with an incompatible enterprise, many policies become difficult to implement, the incompatible cultures will lead to a poor atmosphere of cooperation, and the alliance relationship will not be maintained long. When the culture of the host country where the object of multinational enterprises are located is quite distant from its home country, whether or not the alliance object is compatible with itself is one of the most important factors to consider.

**Proposition 5:** When the cultural distance of the host country and the home country is greater, the main reason of the enterprises for choosing the alliance partners is the consideration of cultural fit.

**The Impact on the Phase of International Strategic Alliance Negotiations and Configuration**

In the phase of the negotiations and configuration of the strategic alliance, the negotiation topic between both parties of the alliance contains the form of cooperation, the content of cooperation, regulations, powers and responsibilities vested, equity structure, and the length of time, of which the equity morphology and negotiation patterns are inevitably influenced by the local institutional environment. To view from shareholders’ equity, the alliance can be divided into equity alliance and non-equity alliance. Dacin (2007) found that the vast demand of the legitimacy of the company will be positively correlated with equity alliance (instead of non-equity alliance). Equity morphology of international strategic alliances in fact is most influenced by the investment laws and regulations of the host country, which is also a kind of mandatory pressure. Of course, other factors also affect the equity structure of the alliance, but are often not as important as the local laws and regulations.

**Proposition 6:** The economic investment laws and regulations restrictions of the host country will affect the equity morphology of the enterprise strategic alliance.

Negotiation is also an important topic of this stage. The alliance negotiating methods can be classified on a basis of negotiation motives such as integrative bargaining and distributive bargaining (Lewicki & Litterer, 1985). To analyze from the angle of interest, in integrative bargaining, both parties confront each other, and in the distributive bargaining, the direction of both parties is consistent. According to Hofstede’s (1980) “Individualism-Collectivism” of national cultural dimensions, the country that tends to an individualism culture places more emphasis on personal interests; the competition in the business fields belongs to the type of fighting alone and corresponds to the strategic alliance negotiations that strive for the results of “You lose, I win.” In contrast, the country adopting collectivism takes the individual as a part of the group, and the group’s success as the individual’s success; competition in the business fields is one of teamwork and corresponds to strategic alliance negotiations that seek win-win situations and mutual benefits.

**Proposition 7a:** When the host country’s culture tends to individualism, the strategic alliance’s negotiations tend to integrative bargaining.

**Proposition 7b:** When the host country’s culture tends to collectivism, strategic alliance’s negotiations tend to distributive bargaining.

**The Impact on the Stage of the Operation and Management of International Strategic Alliances**

Strategic alliances most fear the conflict between organizations, whether it is a conflict of interest or a conflict in trial operation (Kale et al., 2000), while trust can reduce conflict, contribute to the mutual relationship, lower transaction costs, and increase alliance performance. Krishnan (2006) by empirical research of 126 international strategic alliances samples in India found that trust and alliance performance
are positively correlated, and when the alliance internal dependencies are high, with low internal competition, low market instability, and low market unpredictability, the trust relationship and performance of the alliance are strengthened. Therefore, the mutual trust in the alliance is an important factor for strategic alliances, and in the alliance operation management stage, participation in mutual trust is most needed.

The political types in the world in general can be divided into two kinds, democracy and totalitarian. Democracy stands for freedom and openness, while totalitarian represents tyranny and dictatorship. Although cooperating with democratic countries will not necessarily be more beneficial than cooperating with totalitarian regime countries, generally speaking, due to the democratic country adopting the market economy, the market competition as self-regulating check and balance, and a set of transactional norms and system, the degree of mutual trust in the alliance is relatively high. In contrast, the political risk of the totalitarian political system is much larger than that of democracy. This severely affects acts and trading results in the business fields, and trust in the contrast becomes less important. By and by, the people do not trust each other in the business fields. The same situation can also occur if the strategic alliance is involved.

Proposition 8: When the host country’s politics is a democratic style, there is a higher degree of mutual trust in the strategic alliance.

The cultural differences between the countries are likely to result in mutual suspicion. Especially in the case of poor communication, misunderstandings are prone to occur. When misunderstandings grow for some time, the degree of mutual trust disintegrates, which results in conflicts of various sizes in the alliance, and the mutual trust shrinks further.

Proposition 9: The greater the cultural distance (customs are more far apart) of the local host country, the lower the degree of mutual trust in the strategic alliance.

The Impact on the Termination Stage of International Strategic Alliances

Toward the end stage of the alliance, the alliance performance will focus on mutual interests. However, the performance of the alliance is difficult to accurately measure. Harrigan (1988) proposed three alliance performance indicators: Alliance success rate, viability, and duration. Glaister & Buckley1 (999) deemed that they can be divided into two kinds, i.e., overall performance satisfaction and cost-benefit performance. And Anderson (1990) believes that the alliance founding stage should look at the subjective performance, while the alliance mature stage should look at the objective performance. On the basis of his classification, we can subdivide the subjective performance into (1) overall satisfaction: containing the rate of achievement, overall performance, partner performance, management performance, financial performance of the goal, and (2) individual satisfaction: containing the cost control, profitability, market share, etc. Objective performance includes: (1) viability: whether or not an alliance contract is existing, (2) stability: the transaction of organization and equity, and (3) alliance duration.

As the overall satisfaction of the strategic alliance will be subject to the goal and amount of interest achieved by the management of the Alliance, and the fast change of economic-related laws and regulations of the host country may lead to failure to respond for both or one of the alliance parties, or even the change in laws and regulations may shake the alliance-based model constructed by both sides, cooperation patterns may constantly need to be changed. So no side benefits, especially when the overseas investors’ risk of uncertainty is increased, resulting in unstable relations of the alliance, and the overall performance satisfaction will decrease accordingly.

Proposition 10: The faster the changes in economic laws and regulations of the host country, the lower the overall satisfaction of the strategic alliance will be.

Secondly, under the impact of the cognitive culture/isomorphic imitation, if the culture of the host country is of a high power distance, it may lead to poor overall performance satisfaction. For example, the
The caste system that has long been practiced in India due to religious factors is a strange culture; it deems that people’s caste, restricted lifestyle, social circles, diet, and marriage between different castes are insurmountable barriers. Although prohibited by the Constitution, the local habits and customs are hard to change. Now people in the metropolis have more opportunities to be in contact with foreigners. Also influenced more by foreign cultures, the caste system is less obvious, but in the countryside it is still deeply rooted. Some people think that the caste system is outdated, but because India’s population is large, it is also regarded as a kind of stabilizing forces of society. The India’s caste system is representative of a high power distance culture; its enterprises will also be affected by this system, and the classes in the organizations will be obvious. Just as the bureaucratic organizations have shortcomings, the socialist ideas as well as loss of efficiency will result in a lower overall satisfaction from the alliance.

**Proposition 11:** The higher the distance of the cultural rights of the host country, the lower the overall satisfaction of the strategic alliance will be.

Many factors directly and indirectly affect the duration of the alliance. As mentioned before, fast changes in the economic-related laws and regulations of the host country will result in the worsening of overall performance satisfaction of strategic alliances and further reduce the duration of the alliance. It can be viewed from two aspects: First, when both or one of the parties of the alliance due to frequent changes in regulations of the host country in the past expect it will also be so in the future, then the cooperation duration as agreed to by both parties will not be too long; second, changes in the laws and regulations resulting in changes to the originally negotiated conditions also make it possible to terminate the alliance relationship earlier.

**Proposition 12:** The faster the changes in economic laws and regulations of the host country, the shorter the duration of the strategic alliance will be.

In addition to the economic laws and regulations, in the high-tech industry, the degree of protection of the intellectual property of the host country also has an important influence on the alliance. In recent years, an increasing number of countries stressed the importance of intellectual property protection; the WTO wave in particular accelerated this system. The intellectual property not only protects the interests of the inventors, the intellectual property law can also be regarded as an incentive to stimulate innovation and invention. The country attaching great importance to the said law will not necessarily bring about a better performance, but it will prolong the duration of the alliance. In addition, as there is a period of time for the protection of the intellectual property such as patents, in order to enjoy the exclusive advantages brought by the patent or to derive the patent into commodities, R&D alliance after the patent is co-produced, coupled with the host country’s emphasis on the protection of the intellectual property to strictly prohibit counterfeits, will make the duration of the alliance longer.

**Proposition 13:** The more emphasis is placed on Intellectual Property Protection Act of the host country, the longer the duration of the strategic alliance will be.

In terms of national culture, the cultural differences presented different management practices in different organizations. The larger the cultural distance between both sides of the alliance, the higher the likelihood of the uncertainty risk or conflict expected to be produced; and the shorter the duration of alliance contract to be signed, the higher the possibility of terminating the alliance relationship halfway. In addition, if a shortsighted culture exists in the host country, products of a shorter lifecycle will be more suitable; or the more rapid and obvious the quick return on investment and the recovery rate for products of the alliance, the shorter the alliance period will be.

**Proposition 14:** The larger the cultural distance is between the host country and the home country, the shorter the duration of the strategic alliance will be.
Proposition 15: The more emphasis is placed on the short-term interests of the host country’s people, the shorter the duration of the strategic alliance will be.

The way an alliance is terminated is also an important indicator as to whether or not the multinational international strategic alliance has been a successful one. Murray & Mahon (1993) broadly divided the closing of the alliance into three categories: (1) The range of other common interests with partners ending the existing alliance is expanded to generate a new alliance; (2) both parties of the alliance achieved performance, but cannot see future collaboration routes or benefits, so they happily and amicably close the alliance; and (3) as the conflict cannot be resolved, the alliance is closed with hostility and pain. Of course, the factors that affect the way the alliance ends may be diversified and complex, among which the degree of the people of the host country in general to pay attention to the transaction contract is a factor worth exploring. The more the people place emphasis on the contract, on the one hand, the better both parties of the alliance can obtain mutual trust and protection by this contract; on the other hand, because the partners’ attention to the contract in the alliance process prevented breach of trust or violation of the contract, when the contracted duration of the alliance expires, both parties can separate happily and even look forward to the next alliance.

Proposition 16: When the host country attaches importance to the transaction contract, the way of ending the strategic alliances tends to be a happy one.

In addition, in terms of the national culture, a greater disparity of cultural differences may cause more conflict. If the ability of the management to resolve the conflict is poor, it may result in the termination of the alliance at any time, and such termination is certainly not pleasant, even resulting in lose-lose situations, much less re-cooperation next time.

Proposition 17: The greater the cultural distance between the host country and the home country, the more unpleasant the end of the strategic alliance tends to be.

CONCLUSION

In this study, three types of overall institutional environment and isomorphic forces were taken as the subjects, to explore their individual impact on and correlation with the five stages of the lifecycle of international strategic alliances. Further study is recommended to explore the related issues in various stages in accordance with the individual environment of the host country and the overall and individual environments of the home country’s point of view. Secondly, this study only provides an integrated conceptual framework, not yet analyzed through the empirical method. It is recommended that in future a larger number of samples be collected, to develop suitable assumptions and operational variables for conducting empirical research and to verify the propositions of the study. Thirdly, the impact of different theories on the various stages of the lifecycle of the international strategic alliances can be compared and re-verified by empirical method. Fourthly, the connotation factors of the strategic alliance are complex and may influence each other. The correlations among the various factors, issues, or variables can be understood in-depth, and the interference factors identified between correlations in future.
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