Like Chalk and Cheese? Governing alliances when partners differ.

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Abstract

In this paper we examine the choice for equity alliance governance structures among similar, and dissimilar, alliance partners. On the basis of 3724 alliances choices between 2009 and 2011 we capture the likelihood that firms choose an equity governance structure for their inter-firm relation. We explain the governance choice by looking at similarity measures of alliance partners, such as industry similarity, country similarity and experience with equity alliances. The results from our logistic regression show that firms with dissimilar partners, both in terms of industry and in terms of country, have higher odds of choosing equity governance for the alliance.

Theoretical contribution

In this paper we bring together three streams of empirical literature, studying equity versus non-equity governance choices of alliances (e.g. Globerman and Nielsen, 2007; Pisano, 1989; Sampson, 2009; Teng and Das, 2008); the empirical literature on partner selection and partner similarity in alliance formation (e.g. Luo and Deng, 2009; Pangarkar and Klein, 2002; Soda and Furlotti, 2014); and the empirical literature on alliance experience (e.g. Anand and Khanna, 2000). In our paper we combine these streams of thought in the following hypotheses:

Partners from a different industry and country

Hypothesis 1: *Firms that enter into an alliance with a partner from a different industry are more likely to choose equity governance.*

Hypothesis 2: *Firms that enter into an alliance with a partner from a different country are more likely to choose equity governance.*

Alliances in a different industry and country

Hypothesis 3: *Firms that enter into an alliance in an industry that is different from their own are less likely to choose equity governance.*

Hypothesis 4: *Firms that enter into an alliance in a foreign country are less likely to choose equity governance.*

Experience with equity governance

Hypothesis 5: *Firms with a larger experience in governing alliances through equity sharing are more likely to choose equity governance.*

In our paper we show that partner selection is an important factor in the governance choice of alliances.

Method

In order to include data on equity and non-equity governance structures, we combined two sets of data from the Thomson and Reuters SDC Platinum database on inter-firm relations; one on alliances in which equity is shared, and another on alliances in which no equity is shared. Our dataset contains information on 3724 alliance choices between 2009 and 2011, and includes 2040 choices for equity governance structures and 1684 choices for non-equity governance structures.

The dependent variable is a firm-level variable that reflects the governance choice of a firm entering into an alliance with another firm. It captures the likelihood that firms choose an equity governance structure for their inter-firm relation.
The independent variables include 'Industry similarity of partners', 'Industry similarity of firm and alliance', 'Country similarity of partners', 'Country similarity of firm and alliance', and 'Experience with equity'.
We control the results for 'Technology transfer' (whether technology transfer is part of the alliance), 'Industry of the alliance', 'Geographical base of the alliance partners', 'Alliance purpose', and the 'Year of the alliance formation'.

In this paper we use a logistic regression model to estimate the results.

Results

Variables	Model 1	Model 2	Model 3
	Coefficients/Odds ratios (robust standard errors)	Coefficients/Odds ratios (robust standard errors)	Coefficients/Odds ratios (robust standard errors)
Partner similarity - Industry - Partner in different division (0 digits in common) - Partner in same division (1 digit in common) - Partner in same major group (2 digits in common) - Partner in same industry group (3 digits in common) (Base category is partner in same industry; 4 digits in common)		0.329 / 1.389 (0.143)** 0.854 / 2.348 (0.198)**** 0.461 / 1.586 (0.212)** 0.110 / 1.116 (0.211)	0.325 / 1.385 (0.143)** 0.852 / 2.344 (0.198)**** 0.470 / 1.599 (0.212)** 0.127 / 1.135 (0.212)
Alliance similarity - Industry - Alliance in different division (0 digits in common) - Alliance in same division (1 digit in common) - Alliance in same major group (2 digits in common) - Alliance in same industry group (3 digits in common) (Base category is alliance in same industry; 4 digits in common)		0.079 / 1.083 (0.098) -0.033 / 0.968 (0.145) 0.064 / 1.066 (0.155) -0.307 / 0.735 (0.150) **	0.074 / 1.077 (0.098) -0.048 / 0.953 (0.145) 0.047 / 1.049 (0.156) -0.331 / 0.789 (0.150) **
Partner similarity – Country [b]		0.443 / 1.557 (0.177)**	0.446 / 1.562 (0.178)**
Alliance similarity – Country [b]		-0.872 / 0.418 (0.087)****	-0.881 / 0.414 (0.088)****
Experience [c]		0.027 / 1.028 (0.014)**	0.294 / 1.341 (0.099)***
Technology transfer [b]	0.656 / 1.926 (0.288)**	0.552 / 1.737 (0.293)*	0.539 / 1.715 (0.293)*
Industry - Agriculture, forestry, fishing - Mining - Construction - Manufacturing - Transportation, communications, electric, gas and sanitary services - Wholesale	1.314 / 3.720 (1.000) 1.834 / 6.258 (0.209)**** 1.228 / 3.416 (0.419)*** 0.243 / 1.275 (0.174) 1.048 / 2.851 (0.200)**** 0.083 / 1.086 (0.257)	1.278 / 3.586 (0.918) 1.875 / 6.523 (0.222)**** 0.928 / 2.529 (0.423)** 0.160 / 1.174 (0.178) 0.992 / 2.698 (0.203)**** 0.029 / 1.029 (0.259)	1.298 / 3.660 (0.900) 1.875 / 6.523 (0.224)**** 0.917 / 2.502 (0.415)** 0.149 / 1.160 (0.178) 0.978 / 2.658 (0.204)**** 0.022 / 1.023 (0.260)

- Retail	0.435 / 1.546 (0.323)	0.282 / 1.326 (0.330)	0.285 / 1.329 (0.336)
- Finance, insurance and real estate	1.272 / 3.566 (0.184)****	1.051 / 2.861 (0.195)****	1.028 / 2.794 (0.194)****
- Public administration	1.018 / 2.767 (0.911)	1.028 / 2.794 (0.916)	1.039 / 2.827 (0.902)
(Base category is industry: services)			
Continent			
- Africa	0.612 / 1.845 (0.648)	0.326 / 1.386 (0.684)	0.343 / 1.410 (0.685)
- Asia	1.252 / 3.499 (0.171)****	1.246 / 3.475 (0.184)****	1.225 / 3.404 (0.184)****
- Australia	0.462 / 1.587 (0.362)	0.488 / 1.629 (0.366)	0.493 / 1.637 (0.364)
- Cross-continent	0.825 / 2.282 (0.139)****	0.862 / 2.368 (0.207)****	0.845 / 2.327 (0.207)****
- Europe	1.059 / 2.884 (0.200)****	1.071 / 2.920 (0.215)****	1.045 / 2.844 (0.215)****
- South-America	1.852 / 6.375 (0.704)***	2.012 / 7.482 (0.730)***	2.022 / 7.554 (0.726)***
(Base category is continent: North-America)			
Alliance purpose			
- Production	1.282 / 3.605 (0.188)****	1.287 / 3.620 (0.189)****	1.281 / 3.601 (0.189)****
- Research and development	-0.319 / 0.727 (0.136)**	-0.290 / 0.749 (0.139)**	-0.286 / 0.751 (0.139)**
(Base category is purpose: offering products & services)			
Year			
- 2010	1.150 / 3.158 (0.154)****	1.208 / 3.346 (0.156)****	1.215 / 3.371 (0.156)****
- 2011	0.854 / 2.349 (0.120)****	0.875 / 2.400 (0.122)****	0.886 / 2.425 (0.122)****
(Base category is year: 2009)			
Constant	-2.507 / 0.082 (0.296)****	-2.602 / 0.074 (0.321)****	-2.613 / 0.073 (0.321)****
Model fit N=3724	Nagelkerke R^2 = 29.2% Wald Chi^2 = 337.52****	Nagelkerke R^2 = 33.4% Wald Chi^2 = 445.16****	Nagelkerke R^2 = 33.6% Wald Chi^2 = 442.83****

The results from our logistic regression show that firms with dissimilar partners, both in terms of industry and in terms of country, have higher odds of choosing equity governance for the alliance. We also conclude that firms with experience with equity governance have higher odds to choose an equity governance again.

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