Donor Supported Strategic Alliances in Developing Countries

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Donor supported strategic alliances in developing countries

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SUMMARY

Motivation, objective and background

In recent years, we have witnessed multinational enterprises (MNEs) changing strategies to exploit opportunities for division of labor on a global scale (Hansen *et al.* 2009). In consequence these have received growing interest among researchers and governments as 'agents of host country economic development' (Scott-Kennel and Enderwick 2005, p.105). A general consensus of this research is that 'FDI [Foreign Direct Investment] offers an additional channel for introduction of technology, innovation, new ideas, different organizational practices and new skills to a host country' (Scott-Kennel and Enderwick 2005, p.112). Another consensus is that these knowledge resources were introduced into the host country through linkages between the MNEs and a local firm and would in the longer term diffuse to other firms through e.g. demonstration effects and labor turnover (Giroud and Scott-Kennel 2009).

One type of linkages which constitutes a particularly intense linkage between foreign firms and local firms is joint ventures or other alliances between these. In the wake of the rise of 'alliance capitalism' (Dunning 1995) these have been mentioned as key mechanisms through which technology and know-how are transferred from foreign to local partner firms in developing countries (Hansen *et al.* 2009). In turn, for wider host country knowledge upgrading to occur these local alliance partner are to act as 'agents of diffusion'.

In a development context transfers of knowledge from developed country firms to individual developing country firms are naturally seen as beneficial, if such transfers entail subsequent diffusion to other host country firms. And indeed these prospects have prompted a number of development aid donors to engage such local agents of diffusion by providing financial support to foster development of collaborative alliances between private firms in developing countries and private firms in developed countries, typically the relevant donor country (Schulpen and Gibbon 2002). One example of this type of aid instruments is the Danish Business-to-Business (B2B) program, which 'supports each partnership with advice and finance' to promote 'the establishment of long-term, sustainable and commercially viable partnerships' …between firms in developing countries and Danish firms. The focus is to ensure a transfer of know-how and technology from the Danish partner to the local partners and the aim is 'strengthening of the local business development'. The ultimate objective is to 'contribute to poverty reduction by promoting economic growth and social development in developing countries' (Danida 2010, p.5).

Graphically the logic can be presented as in Figure 1:
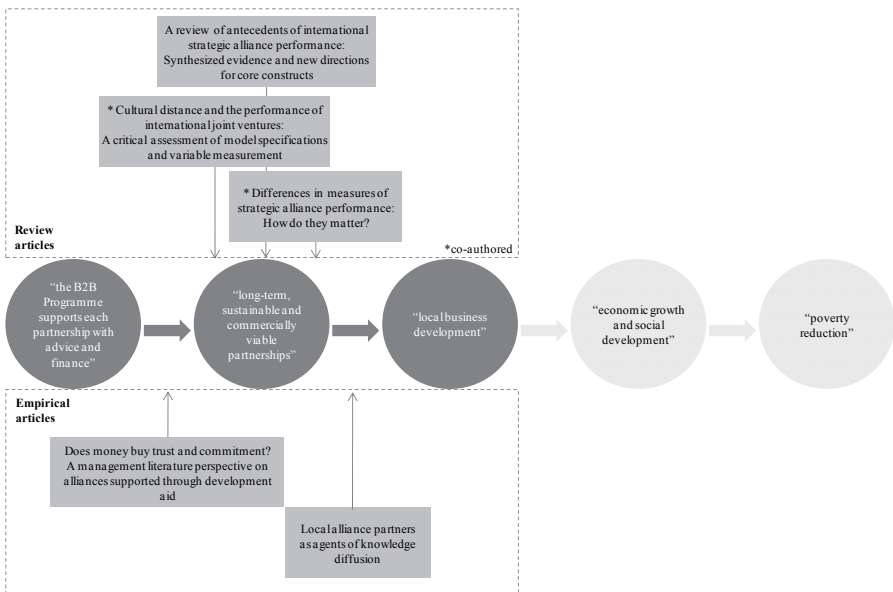
Figure 1: Logic of the B2B program

The graphical presentation reveals that the success of the program in terms of its ultimate objective depends on a number of links from support to poverty reduction. The overall objective guiding my efforts has been to contribute with knowledge regarding the first part of the alleged causal chain from support to local business development. More specifically I seek to provide insights providing parts of answers to such broad questions as whether and when the support provided in the B2B program leads to viable partnerships and whether they in turn lead to development of the broader local business environment.

Structure and role of individual articles

Figure 2 presents the structure of the thesis as well as the role of the individual articles in relation to the overall guiding objective of this dissertation.

Figure 2: Role of individual articles

The first step in my process was to get an understanding of 'long-term, sustainable and commercially viable partnerships'. What are partnerships, when can they be said to be viable, which factors affect their viability, and how is research pertaining to such questions carried out. Following Kuada and Sørensen (2005), which is to my knowledge the first peer-reviewed research pertaining to such partnerships, I decided to seek the answers in the vast strategic alliance literature. The following definition of strategic alliances supports that decision: 'Collaboration of multiple firms (at least two) involving their long-term commitment of resources to relationships that would serve strategic goals of partners' (Culpan 2009, p.7).

The upper part of Figure 2 shows that the dissertation contains three review articles pertaining to the literature on strategic alliances and strategic alliance performance in particular, as I quickly found that this branch was most relevant as I was more likely to find answers to the questions regarding the viability of alliances here than I was in branches focusing on for instance the motivation to ally.

In article 1 I identify the constructs most commonly suggested as antecedents of alliance performance and report the hypotheses related to these as well as the results of hypothesis testing. Article 2 focuses on one construct very often suggested as an antecedent of performance in international strategic alliances, namely cultural differences. Finally whereas article 2 goes into depth with one independent construct, article 3 goes into depth with the dependent construct performance and the differences among the measures used to reflect performance. As will be explained in the section outlining the contributions of the individual articles, articles 2 and 3 provide individual contributions to the alliance literature, however in the context of the overall guiding objective of this dissertation, they contribute only indirectly by adding depth to my understanding of the way researchers conceptualize, measure and theorize about independent and dependent constructs, respectively. In terms of the overall guiding objective they thus support the endeavors of article 1, which is used directly as a point of departure for the empirical articles of this paper.

Specifically, article 1 identifies trust and commitment as two variables which are particularly important for alliance performance and thus presumably, in the context of the alleged causal chain outlined above, for long-term sustainable and commercially viable partnerships. Therefore article 4 focuses on how the financial support given to promote the establishment of long-term sustainable partnerships, affect trust and commitment considered to constitute the relationship capital providing the 'long and sticky nature of the relationship' (Robson *et al.* 2006, p.588). Article 5 in turn focuses

on whether conditions of high trust and commitment, which are considered prerequisites for the success of the partnership as viewed from the point of view of the participating partners, will also entail success in terms of diffusion of knowledge to other local firms. Specifically I look at how trust and commitment between the partners of the alliance will affect the way local partners behave in terms of passing on knowledge to other local companies.

Contributions and implications

Article 1: A review of antecedents of strategic alliance performance: Synthesized evidence and new directions for old constructs

In this first article I provide a systematic review of 165 empirical studies on antecedents of strategic alliance performance. I provide the hitherto most detailed display of definitions, rationales, measures and findings for the constructs most often suggested as antecedents of alliance performance, and thus create an accessible pool of knowledge that is relevant for future research. Furthermore I draw on this pool of knowledge to build a model for future research; a model which highlights the often quite different rationales researchers advance to explain the association between a given construct and alliance performance. By making these explicit the model aids researchers in identifying tests that can be performed to test these different rationales improving our knowledge of not only the existence of associations between antecedents and performance but also the processes through which the associations arises.

While these contributions just mentioned are relevant to the alliance literature in general, the article also contributes directly towards the overall guiding objective of this dissertation, which is to contribute with knowledge regarding the first part of the alleged causal chain from financial donor support of alliances and to local business development. It does so by confirming an important finding in prior reviews of the alliance literature (e.g. Robson *et al.* 2002, Robson *et al.* 2006 and Ren *et al.* 2009), which is that behavioral constructs such as trust, commitment, cooperation and conflict are central to alliance performance and should be considered by both policymakers and business managers concerned with successful alliance. Article 1 also contributes less directly to the overall objective of the dissertation by leading me to the assertion that understanding sources and consequences of the behavioral aspects of alliances is central to understanding whether, or rather under which conditions, financial support to alliances between Danish firms and local firms from developing countries will lead to local business development. This assertion provides the base for the extensive focus on trust and commitment in the two empirical articles, articles 4 and 5.

Article 2: Cultural distance and the performance of international joint ventures: A critical assessment of model specifications and variable measurement

Article 2, which is a co-authored article, provides a critical summary and assessment of the empirical literature on the relationship between cultural distance and the performance of international joint ventures (IJVs). The existing literature reports inconsistent and largely statistically insignificant findings for the relationship. We add to this literature by analyzing 63 empirical studies of the cultural distance – IJV performance linkage and evaluating different proposed explanations of the weak empirical findings in the literature. We also contribute to the literature by suggesting steps for improving modeling of the relationship between cultural distance and IJV performance. The article does not contribute directly towards the overall guiding objective of this dissertation but does contribute indirectly by increasing my awareness that empirical findings on associations between two variables can be influenced by other aspects than the actual association of the constructs the variables are intended to reflect.

Article 3: Differences in measures of strategic alliance performance: How do they matter?

In this co-authored article we contribute to the alliance literature by showing that differences in alliance performance measures do not only exist, they also influence the results obtained when researchers test hypotheses linking antecedents to performance. We also develop theory suggesting how and why differences matter. We arrive at this contribution by firstly making a structured and comprehensive review of 168 prior empirical studies enabling us to identify three dimensions along which performance measures differ. Then we develop theory and hypotheses suggesting how differences may affect the results obtained. We then use the empirical findings of prior literature to test our hypotheses. Finally we present and discuss results, limitations and implications of our research. One important implication of our research is that differences between performance measures do matter and ought to be recognized by researchers when they perform research on antecedents of performance. Another implication is that more research focusing on the effect of the effect of the differences in performance measures should be carried out to improve the first stab of theory on the matter presented in the article. Very much in the same manner as article 2, this article contributes indirectly to the overall guiding objective of the dissertation by increasing my awareness that empirical findings on associations between two variables can be influenced by for

instance measurement of one of the variables and thus depends on other aspects than the actual association of the constructs the variables are intended to reflect.

Article 4: Does money buy trust and commitment? A management literature perspective on alliances supported through development aid

In article 4 which is the first of two empirical articles, I investigate how financial support given to foster alliances between firms in developing countries and firms in developed countries is likely to affect inter-partner trust and commitment which article 1 in this dissertation, in line with prior reviews, identified as central for positive alliance outcomes to prevail. Using primarily survey data obtained from 106 Danish partners engaged in alliances supported through Danida's B2B program, I find that the amount of support is indeed likely to affect trust which in turn affects performance. Opposite from what one might think without developing specific theory, but in line with the specific theory developed in the article, I find that the association between the amount of support and trust is negative. The results regarding commitment are less clear but do provide indications that commitment may be affected by the amount of support through at least two mechanisms providing opposing effects.

The finding that the amount of support may affect trust negatively contributes directly towards the overall guiding objective of this dissertation as it highlights the need to consider the manner in which support is given since it may impact the development of the very foundation of the future relationship. The finding suggests that there is a need to consider the conditions which support is given. The findings also indicate that under some conditions it may in fact be more productive to give less than more. Especially when considering the ever present scarcity of funds this is clearly interesting as it suggest the money given to support these alliances can possibly be of more use if spread to enable initiation of a larger number of alliances each of which may at the same time be more successful.

Article 5: Local alliance partners as agents of knowledge diffusion

In recent years researchers have suggested that linkages between local firms and multinational enterprises (MNEs) entering developing countries with superior knowledge can prompt knowledge upgrading of local firms. Prior research has focused on the role of the MNEs and has seemingly taken for granted that the local business partners to which MNEs are linked act to diffuse knowledge to other local partners. In this paper I address the unstated assumption that when local

business partners are successful in doing business with MNEs they will act as 'agents of diffusion' of knowledge to other local firms. I concentrate on local partners of strategic alliances as potential agents of diffusion and attempt to answer the basic question regarding whether conditions that lead to successful alliances will necessarily lead to knowledge diffusion. As article 1 highlighted that inter-partner trust and partner commitment are considered central conditions of successful alliances I explore whether these are also antecedents of knowledge diffusion to the local partner's suppliers, customers and competitors, respectively. I do so by developing and testing specific hypotheses based on a framework developed to enable researchers to analyze what influences the extent to which local firms will perform the role as agents of diffusion. The data used to test the hypotheses is obtained 102 Danish partners engaged in alliances supported through Danida's B2B program. I find that trust and commitment of the alliance partners seem to entail a behavior supporting diffusion to suppliers and customers and thus provide support for the unstated assumption about local partners' role as agents of diffusion to these parties but not to competitors. The article contributes to the literature on knowledge diffusion in developing countries by drawing attention to the importance of the role of the local partner as a complement to the existing focus on the MNE. The article also contributes with knowledge about the inter-partner conditions, that stimulate knowledge diffusion and suggests that conditions of trust and commitment do not only bring about benefits to the focal partners but also to other local companies not engaged in the alliances.

Data and research methods

Articles 1-3

The three first articles are review articles and thus use data from existing articles. Reflecting the different objectives of the three review articles as well as the different changes made as a consequence of different review processes, the articles to not contain exactly the same articles. However there is considerable overlap; all articles are based on empirical and cross-sectional journal articles hypothesizing and testing relationships between suggested antecedents and strategic alliance (SA) performance. The first article contains a sample of 165 international strategic alliance (ISA) articles published in journals up until spring 2011. The second article contains a subset consisting of 63 articles published up until spring 2009, focusing on IJVs and including some measure of cultural distance as either antecedent or control variable. This sample is also limited in terms of the journals from which the articles have been obtained. The third article contains 168 articles published up until spring 2009 and not only considering international alliances but also domestic alliances.

The articles were identified through meticulous procedures, which are described in individual articles, but are also briefly mentioned here. First relevant keywords were identified through reading of many years of research in top management journals. Then database searchers were made to identify potentially relevant articles. Then theses articles were sorted into groups containing relevant and irrelevant articles. Finally the relevant articles were read, leading to the identification of additional relevant articles.

When the relevant articles had been identified and read, data of interest in these was coded. For article 1 the most important coding was that used for categorizing independent constructs according to their similarity identified through definitions and theoretical arguments advanced to suggest and impact on performance. For article 2 the most important coding consisted of coding different types of measures of cultural distance and performance. For article 3 the most important coding was coding of the different types of performance measures identified. For all three articles it was also coded whether statistical findings indicated positive, insignificant or negative associations between performance and the independent variable of interest.

As for the analysis and presentation of the coded data, article 1 is narrative in that the results of prior research are narrated and supplemented with tables summarizing the findings in each of the articles. Article 2 used a vote-counting methodology tallying results to evaluate for example whether there are differences between results based one way of measuring culture compared to others. Article 3 uses a logistic regression model in SAS to test whether the type of performance measure used by researchers is associated with the likelihood that researchers get support for their hypotheses.

Articles 4-5

Prior to commencing the data collection for the articles 4 and 5, I collected interview data through on-site interviews with representatives of 10 Ugandan companies and with representatives of 10 Danish companies participating or having participated in alliances supported by the B2B program. The interviews served two purposes. The first purpose was to ascertain that the constructs trust and commitment, which article 1 suggested were important for alliances to be successful, were also considered important by the companies participating in the alliances of the B2B program. The interviews confirmed that impression. The second purpose was to identify issues that were particular interesting and could not be identified from behind my desk. Through the interviews I

identified that the financial support provided might have negative implications for the relational capital between partners inspiring me to commence developing the hypotheses in article 4.

Tests of the hypotheses in article 4 and 5 were based on a few archival data combined with extensive questionnaire data obtained through a survey administered to 132 present or former local partners and 199 present or former Danish partners in Danida-supported strategic alliances. Relevant partners were identified through the webpage of Danida. Email addresses for the local partners were obtained mainly via the help of Danida, who could give me email addresses of the local partners who gave Danida permission to do so. Some additional email addresses were obtained via the Danish partners. The email addresses of the Danish partners were obtained from telephone conversations. I identified relevant Danish companies and called them to explain them about the project and ask for their participation in the project. I obtained 68 completed answers from local partners and 130 from Danish partners. The survey data from the Danish partners were used to test hypotheses, while the fewer answers from the local partners were only used to assess validity of the answers from the Danish partners. Hypothesis testing was performed via structural equations modeling using MPlus.

Limitations and future research

While I believe that the articles contained in article shed some interesting light on the alleged causal chain in Figure 1 and 2, there are still many things that we do not know.

Regarding the first arrows in the chain, Article 1 showed that in fact there are very few constructs, for which we have a good understanding of their implications for the development and performance of alliances. This lack of understanding is even more prevalent, when the alliances in focus are atypical compared to those forming the base of prior research article reviewed in article 1. Thus for the alliance in the B2B program very little is known about what makes them viable, though article 4 gives a little insight.

Similarly article 5 sheds some light on the conditions under which the second may prevail, however this insight was limited to the conditions of trust and commitment of the alliance partners. Many more constructs surely affect this relationship and need to be investigated by future research before much practical advice can be given on the basis of research.

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