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Mariia Koval

Antecedents and Consequences of Unplanned Alliance Terminations

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Paper 1

Termination of R&D alliances: the role of dyadic and network governance

Koval, Mariia; Wathne, Kenneth H.; Hunneman, Auke & van Oest, Rutger

Paper 2

Alliance termination and firm idiosyncratic risk: the role of governance misfit

Koval, Mariia; Wathne, Kenneth H.; Hunneman, Auke & Wuyts, Stefan

Paper 3

Can alliance terminations create firm value in large alliance portfolios?

Koval, Mariia

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Antecedents and Consequences of Unplanned Alliance Terminations

Mariia Koval

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Antecedents and Consequences of Unplanned Alliance Terminations

by
Mariia Koval

A dissertation submitted to BI Norwegian Business School
for the degree of PhD

PhD specialisation: Marketing

Series of Dissertations 4/2018

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Mariia Koval

Antecedents and Consequences of Unplanned Alliance Terminations :

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2018

Series of Dissertations 4/2018
ISBN: 978-82-8247-134-3
ISSN: 1502-2099

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N-0442 Oslo
Phone +47 4641 0000
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To my family

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Preface

Four years of the PhD program... How does it feel to be a PhD student? Time flies very fast... but looking back, you understand how much invaluable knowledge and experience you have gained, how many interesting people you have met, and how many different moments you have lived. The main outcome of PhD studies is not simply a dissertation document, but the whole process behind it. Taking new courses, getting to understand new research field, meeting regularly your advisors, traveling to various conferences, getting support from your senior colleagues and supporting your peers, being in the role as a lecturer for the first time, and, of course, working on the dissertation itself are all the inevitable parts of the PhD process. So many people are involved in this process and, thus, have to be acknowledged.

First and foremost, I thank my Advisor, Kenneth Wathne, for his endless support and all the time and efforts he has invested in our work and my professional development. I am very grateful to Kenneth that he has always believed in me. Due to Kenneth, I have understood what high quality research means, how important is to develop a well-grounded theory and methodological rigor; and that there is always room for improvement. Kenneth has also shown me how to position my work in the academic world. I have also enjoyed our communication with Kenneth outside the academic walls, as Kenneth is very knowledgeable, kind and charismatic person. I have been very fortunate to work in close collaboration with Kenneth, and I am looking forward to continue our work and to develop many new interesting ideas.

Next, I would like to thank my co-advisor, Auke Hunneman, and my co-authors, Stefan Wuyts and Rutger van Oest, for always being very responsive and providing valuable feedback on the dissertation papers. I am looking forward to continuing our collaboration and publishing our papers soon.

I thank my Thesis Proposal Committee, Jon Sande and Sven Haugland, for their valuable comments on my thesis proposal that significantly contributed to the improvement of the dissertation papers. I also would like to thank Jon for all our discussions about research and for involving me in the course on B2B Marketing. I additionally thank Sven for his valuable feedback on my job market paper at the Nordic Workshop on Interorganizational Research in Stavanger.

I thank the administration of the Department of Marketing, Bendik Samuelsen, Sissel Berg, Ingvild Kobberstad and Kristine Seeberg, for always being very supportive and helpful, approving my applications and quickly resolving administrative issues. I also would like to

thank Ingvild for our warm conversations. Among others, I thank current and former faculty at the Department, Matilda Dorotic, Luk Warlop, Koen Pauwels, Ragnhild Silkoset, Henrik Jensen, Klemens Knöferle, Tuba Yilmaz, Carlos Velasco, Stefan Worm, Line Lervik-Olsen, Roy Elvegård, Elisabeth Falck, Carl Arthur Solberg, Sangeeta Singh, Harald Biong, Peter Jarnebrant, Alex Vossen, and Even Lanseng. I have enjoyed our communication a lot. I additionally thank Matilda for always being so supportive. I also would like to acknowledge Tuba Yilmaz, Stefan Worm and Carlos Velasco for helping me to prepare for the job market.

My work has significantly benefited from lots of useful feedback and suggestions provided by Chandler Johnson, Ajay Kohli, Robert Dahlstrøm, Erik Mooi, Fred Selnes, Sundar Bharadwaj, Dovev Lavie, and Olav Sorenson, among others. I gratefully acknowledge their help.

The great thing to have friends and PhD peers is that you can always share your joy and sorrow, and go together through the whole PhD journey. Among others, I would like to acknowledge Gennady Zavyalov, Nikolay Georgiev, Delphine Caruelle, Vita Galdike, Chi Hoang, Audun Reiby, Kateryna Maltseva, Olga Ungureanu, and Espen Jütte. While not having studied at the PhD program at the same time, I also would like to thank Sinem Acar-Burkay for always being so kind and supportive. Especially, I would like to acknowledge my dear and loyal friend, Daniela Cristian, for always being close and ready to help, sharing all the happy and sad moments. I much hope that we will not be far away from each other in future. I also thank my friends and PhD peers outside the Department of Marketing, Stefania Sardo, Beniamino Callegari, Olga Mikhailova, Bisrat Agegnehu, Ieva Martinkenaite, Anton Diachenko, Flladina Zilja, Daniel Massie, Asmund Rygh, Yuriy Zhovtobryukh, Yukun Ling, Afra Koulaei, Sebastian Sadowski and Tobias Otterbring, for all their support and great time spent together.

Finally, I cannot put into words how grateful I am to my family. Without enormous support of my mother, grandmother, grandfather, and uncle I would never have a courage to move abroad to continue pursuing my studies. I am so happy that I have listened to my mother's advice to choose Norway for PhD education. This was definitely the right choice. I am immensely grateful to my husband, Slava, for his decision to move together with me to Italy and then to Norway, being always close during all these years, doing everything to make it easier for me to focus on my work, and putting all the efforts to help me improve my papers. I am deeply indebted, and dedicate this Dissertation to my family.

Mariia Koval, 21 November 2017

Abstract

Despite their evident advantages, more than 50 percent of strategic alliances terminate prematurely. Still, little is known about causes of alliance terminations and even less is known about subsequent performance consequences for partnering firms. The dissertation seeks to answer the following questions: why do strategic alliances terminate prematurely and how do alliance terminations affect firm performance. The first paper investigates the antecedents of unplanned alliance terminations. The context of the study is R&D alliances. Specifically, the paper examines how governance of R&D alliances tend to reduce the risk of knowledge appropriation present in such alliances, and, consequently, the hazard of an alliance termination. The results show that dyadic and network governance structures play a complementary role in decreasing the hazard of an unplanned alliance termination. The second paper focuses on the consequences of an unplanned alliance termination for firm idiosyncratic risk. The paper examines whether the way in which an alliance is organized can provide insights into the effects of an unplanned alliance termination on firm idiosyncratic risk. The findings show that termination of the misgoverned alliance decreases firm idiosyncratic risk. Importantly, this effect is contingent on how long the alliance has lasted. The third paper studies the consequences of an unplanned alliance termination for firm value. Specifically, the paper examines the link between an announcement of an unplanned alliance termination and a firm's abnormal stock returns. The results show that an announcement of an unplanned alliance termination increases a firm's abnormal returns when a firm has a larger alliance portfolio. This effect is moderated by the amount of a firm's alternative resources (own or acquired), general partnering experience and experience with the same partner (i.e., partner-specific experience). The findings from the dissertation serve to enhance managers' understanding of the antecedents and consequences of unplanned alliance terminations.

1. Introduction and dissertation overview

Strategic alliances are defined as agreements between two or more partnering firms to pursue a set of agreed upon objectives such as the joint development, production and marketing of new products, services and technologies (Gulati 1995b). For example, in 1995 GeneMedicine Inc. and Corange International Ltd. entered into an agreement valued at \$100 million to develop and commercialize gene therapy products for treating cancer (Business Wire, 1995). Another example is the alliance established between Honda and General Motors in 2017, valued at \$170 million, where the purpose was to jointly develop a next-generation fuel cell system and hydrogen storage technologies (The National, 2017). Empirical research documents a significant growth in the number of such alliances in many industries (Schilling 2009). Over the last four years, more than 10,000 strategic alliances were formed worldwide (SDC Platinum Database).

A significant body of research in marketing and strategic management suggests that strategic alliances allow firms to access new markets and technologies, to achieve economies of scale and scope, and to share costs and risks with their partners (Kale et al. 2000; Mariti and Smiley 1983; Rindfleisch and Moorman 2001, 2003). Moreover, alliances can help firms adapt to environmental dynamism, enhance innovativeness and financial performance, signal social status and recognition and, consequently, achieve a competitive advantage (Cui and O'Connor 2012; Kale et al. 2000; Lahiri and Narayanan 2013; Rindfleisch and Moorman 2001; Stuart 2000; Wuyts et al. 2004).

Despite their evident advantages, strategic alliances are inherently risky (e.g., Das et al. 1998; Oxley 1997), with more than 50 percent of alliances terminating prematurely, shortly after they have been formed (Cui 2013; Cui et al. 2011; Kogut 1989). Still, to this day, few studies have examined the causes of *an unplanned alliance termination* (i.e., a termination before the completion of an alliance project) (e.g., Cui 2013; Cui et al. 2011; Kogut 1989). Moreover, virtually no research has been conducted on the performance consequences of an unplanned alliance termination for the alliance participating firms. In light of their prevalence and economic impact, research into the antecedents and consequences of an unplanned alliance termination is of crucial theoretical and managerial importance. *The aim of this dissertation* is thus to study both *the antecedents* and *the performance consequences of an unplanned alliance termination* for the alliance participating firms.

Prior research into the determinants of unplanned alliance termination suggests that alliances between similar firms are less likely to terminate prematurely (Harrigan 1988; Park and Ungson 1997). Conversely, incompatibility of partner resources, changes in partners' strategies and the availability of outside options are significant determinants of an unplanned alliance termination (Cui 2013; Cui et al. 2011; Greve et al. 2010; Greve et al. 2013). Researchers have also argued that an unplanned alliance termination can be explained by opportunistic behaviors by alliance partners (Greve et al. 2010; Polidoro et al. 2011). Opportunism is defined as "self-interest seeking with guile" (Williamson 1975, p. 6) and including "lying, stealing, cheating, and calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse" (Williamson 1985, p. 47). According to transaction cost economics, in order to minimize the risk of partner opportunism and to prevent an unplanned alliance termination, alliances should be appropriately governed (Heide 1994; Williamson 1985). Governance is "a mode of organizing transactions" (Williamson and Ouchi 1981) or "the means by which to infuse order, thereby to mitigate conflict, and realize mutual gain" (Williamson 2010, p. 216).

Although prior research has examined various alliance organizational forms (Fryxell et al. 2002; Hoetker and Mellewigt 2009; Krishnan et al. 2006; Lui and Ngo 2004; Luo 2002), we still know little about how alliance governance influences the hazard of an unplanned alliance termination. While there is a nascent body of research on unplanned alliance terminations that has examined the role of individual alliance governance structures (e.g., Dhanaraj and Beamish 2004; Greve et al. 2010; Kogut 1989; Polidoro et al. 2011), firms in practice rely on several governance structures at the same time (e.g., Bradach and Eccles 1989; Poppo and Zenger 2002). Yet, the specific consequences of governance combinations are not fully understood (Cao and Lumineau 2015). We still do not know whether 'plural alliance governance' play a complementary or a substituting role in preventing unplanned alliance terminations. Finally, no study has thus far examined the role of alliance governance in explaining the performance consequences of an unplanned alliance termination for the alliance participating firms.

In this dissertation, we aim to address the gaps in the alliance literature by examining *the role of alliance governance structures* in explaining an unplanned alliance termination and its performance consequences for the alliance participating firms. Importantly, alliances do not exist in isolation, but are embedded in alliance networks, where third parties also engage in alliances with each other (e.g., Wassmer 2010). The structural properties of such networks can have governance implications (e.g., Rowley et al. 2000; Wuyts et al. 2012). Thus, we

distinguish between dyadic and network governance structures. Specifically, when studying the antecedents of an unplanned alliance termination, we look at the *joint effects of dyadic and network governance structures* in inhibiting the *hazard of an unplanned alliance termination*.

When studying the performance consequences of an unplanned alliance termination, we examine whether alliance governance can serve to shed light on *the effect of an unplanned alliance termination on a firm's idiosyncratic risk*. Idiosyncratic risk reflects investors' expectations of firm-specific volatility that is unrelated to the broader financial market, and it is particularly sensitive to market inefficiencies and transaction costs (Luo and Bhattacharya 2009). Additionally, we examine whether *an unplanned alliance termination* can create *firm value* when a firm already has a large alliance portfolio (i.e., multiple alliances at the same period in time) and incurs substantial costs to monitor all of its alliances. In this dissertation, we show that an unplanned alliance termination is not simply the inverse of alliance success. An unplanned alliance termination can have *positive performance implications* for the alliance participating firms. More specifically, we demonstrate that an announcement of an unplanned alliance termination can reduce a firm's idiosyncratic risk and increase a firm's abnormal stock returns.

In sum, we ask the following research questions in this dissertation:

1. *To what extent do alliance governance structures serve to jointly impact the hazard of an unplanned alliance termination?*
2. *To what extent does an announcement of an unplanned alliance termination serve to impact firm idiosyncratic risk and abnormal stock returns?*

Theoretical background

Scholars rely on two dominant theoretical perspectives when studying strategic alliances: *transaction cost economics* and *the resource-based view of the firm*. Transaction cost economics view alliances as hybrid organizational forms, which are “organizational arrangements that use resources and/or governance structures from more than one existing organization” (Borys and Jemison 1989, p. 235). Serving to economize on costly market transactions, hybrids are placed “between markets and hierarchies” on a spectrum of organizational arrangements (Thorelli 1986, p. 37; Williamson 1985). They are characterized by higher flexibility than hierarchies and generate lower transaction costs than markets do when

transaction hazards are present. According to the resource-based view of the firm, firms form strategic alliances in order to access partner resources. Importantly, strategic alliances allow participating firms to share costs and risks (Eisenhardt and Schoonhoven 1996). Nevertheless, transaction cost economics assumes that strategic alliances are inherently risky due to the hazard of partner opportunism (Das and Teng 2000; Greve et al. 2010; Gulati 1995a; Polidoro et al. 2011). Opportunism is defined as “self-interest seeking with guile” (Williamson 1975, p. 6) and including “lying, stealing, cheating, and calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse” (Williamson 1985, p. 47). The hazard of partner opportunism is particularly pronounced in non-equity alliances (e.g., Gulati 1995a; Houston and Johnson 2000).

We examine the antecedents and the performance consequences of unplanned alliance terminations through the lenses of transaction cost economics and the resource based view of the firm. We believe that these two theoretical perspectives are not mutually exclusive but that they complement each other in enhancing our understanding of alliance terminations and, more broadly, strategic alliances as a phenomenon. We argue that an appropriate alliance governance structure reduces the hazard of opportunistic behaviors, and thereby serve to prevent an unplanned alliance termination. Importantly, we argue that if an unplanned alliance termination actually happens, under certain conditions it can be beneficial for the alliance participating firms. From a transaction cost perspective, an unplanned alliance termination may be appropriate if the alliance governance structure is too bureaucratic or if it does not provide sufficient safeguards from the risk of partner opportunism. From the resource-based view of the firm, an unplanned alliance termination allows a firm to abandon resources it cannot effectively monitor, and to optimize the alliance portfolio. We will discuss each of the theoretical perspectives in more detail in the following sections.

Researchers have acknowledged that firms rarely have only one alliance and usually manage multiple alliances simultaneously (e.g., Wassmer 2010). Thus, alliances do not exist in isolation but are rather embedded in alliance networks or so-called alliance portfolios. Wassmer (2010) distinguishes between additive and ego-network perspectives on alliance portfolios. From an additive perspective, an alliance portfolio is the aggregate of all strategic alliances a focal firm possesses at a specific point in time (Hoffmann 2005, 2007; Lavie 2007). Considering an alliance portfolio as a bundle of a firm’s external resources that should be effectively managed, we rely on an additive perspective when studying the performance consequences of an unplanned alliance termination for the alliance participating firms. From an ego-network perspective, an alliance portfolio is a firm’s ego-network, in which a firm’s

direct partners can also have strategic alliances with each other (Baum et al. 2000; Rowley et al. 2000). Importantly, the structural properties of such ego-networks can have governance implications (Burt 1992; Rowley et al. 2000; Wuyts et al. 2012). We rely on an ego-network perspective to introduce a *network governance structure* - alliance partners' joint brokerage position, as an antecedent of an unplanned alliance termination. We believe that both an additive and an ego-network perspective on an alliance portfolio are important to uncover unique theoretical mechanisms which could explain alliance dynamics. We discuss each of these two perspectives in more detail in the following sections.

Transaction cost economics

Transaction cost economics (TCE) belongs to the “New Institutional Economics” paradigm, which, in contrast to neoclassical economics, views the firm as a governance structure rather than a production function (Rindfleisch and Heide 1997). This view relies on Coase’s (1937) ideas that firms (or internal organizations) and markets are alternative governance structures, which can be relied on, depending on their levels of transaction costs. Transaction costs are the so-called “costs of running the system” that “include such ex ante costs as drafting and negotiating contracts and such ex post costs as monitoring and enforcing agreements” (Rindfleisch and Heide 1997, p. 31).

Oliver E. Williamson has extended Coase’s arguments considerably and identified two main transaction attributes that determine the reliance on firms and markets, namely, transaction-specific assets and uncertainty (Williamson 1975, 1985). Transaction specific assets are physical and human assets that are tailored to a particular transaction and thus cannot be easily redeployed without a loss of value. The second transaction attribute, uncertainty, describes transactions in which “the circumstances surrounding an exchange cannot be specified ex ante (i.e., environmental uncertainty) and performance cannot be easily verified ex post (i.e., behavioral uncertainty).” (Rindfleisch and Heide 1997, p. 31). Williamson incorporates two key assumptions of human behavior – bounded rationality and opportunism (Williamson 1975, 1985, 1996). Bounded rationality implies that individuals have limited cognitive abilities, time and information constraints that prevent them from acting perfectly rational when making decisions. TCE suggests that bounded rationality becomes more problematic when environmental uncertainty increases, so that not all the conditions of the transaction can be specified ex ante. Moreover, under the condition of behavioral uncertainty, bounded rationality hinders ex post performance verification. This generates additional transaction costs.

Opportunism is defined as “self-interest seeking with guile” (Williamson 1975, p. 6) and including “lying, stealing, cheating, and calculated efforts to mislead, distort, disguise, obfuscate, or otherwise confuse” (Williamson 1985, p. 47). Wathne and Heide (2000) distinguish between two forms of opportunism – passive opportunism and active opportunism. Passive opportunism can take the form of shirking, inflexibility or refusal to adapt to new circumstances. Active opportunism is reflected in behaviors that are explicitly prohibited (Wathne and Heide 2000). When a relationship is characterized by a higher level of asset-specificity, both forms of opportunism pose a significant threat to the alliance participating parties and, hence, increase transaction costs.

Bounded rationality and opportunism create an adaptation problem (Williamson 2002). If the costs associated with adaptation exceed the production cost advantages of the market, firms will vertically integrate (i.e., favor internal organization) (Williamson 1975). The assumption underlying this argument is that internal organization allows for the minimization of transaction costs through superior control and monitoring mechanisms. This allows a firm to detect partner opportunism and facilitate coordinated adaptation. Furthermore, being able to reward employees within a firm through, for example, promotion opportunities, internal organization may reduce the payoff from opportunism (Rindfleisch and Heide 1997). Finally, the presence of so-called atmosphere stemming from organization culture and socialization processes create convergent goals and reduce opportunism *ex post* within an organization (Williamson 1975).

Extensions to Transaction cost economics

Despite the TCE’s historic arguments for a discrete choice between markets and internal organizations, in the last decades, the TCE framework has been extended in a number of ways. Researchers now suggest that the advantages of internal organization can also be present in other organizational forms (Rindfleisch and Heide 1997). Examples include various hybrid mechanisms, ranging from contractual agreements (e.g., non-equity alliances) to equity arrangements (e.g., equity joint ventures) (e.g., Gulati 1995a; Houston and Johnson 2000; Pisano 1989). Relying on this more recent TCE literature, we examine whether two of the most studied alternative hybrid mechanisms, namely equity joint ventures and non-equity alliances, can serve to explain the hazard of an unplanned alliance termination and the subsequent performance consequences.

Existing research has primarily examined the role of dyadic governance (e.g., equity and prior ties) (e.g., Dhanaraj and Beamish 2004; Kogut 1989). Governance is a “mode of

organizing transactions” (Williamson and Ouchi 1981) or “the means by which to infuse order, thereby to mitigate conflict, and realize mutual gain” (Williamson 2010, p. 216). As evidenced by the existing body of research, these definitions comprise somewhat different phenomena, including 1) governance mechanisms that can be purposely deployed, and 2) governance structures which emerge over time in a relationship (e.g., Heide 1994; Parmigiani and Rivera-Santos 2011). While prior research has focused on individual governance structures, in practice, firms rely on several governance structures at the same time (e.g., Bradach and Eccles 1989; Poppo and Zenger 2002). We examine the combined effects of alliance governance structures on the hazard of an unplanned alliance termination. Importantly, alliances do not exist in isolation but are rather embedded in alliance networks, in which a firm’s direct partners can also have strategic alliances with each other (Baum et al. 2000; Rowley et al. 2000). The structural properties of such networks can have governance implications (Burt 1992; Rowley et al. 2000; Wuyts et al. 2012). Thus, studying alliance networks allows researchers to introduce network governance structures beyond strictly dyadic ones. In this dissertation, we extend the literatures on alliance governance and termination by examining the impact of both dyadic and network governance structures on the hazard of an unplanned alliance termination.

The interplay of dyadic governance structures

In the TCE literature, there is an ongoing debate on how the interplay between dyadic governance structures affects firm performance in ongoing relationships. A number of scholars view distinct dyadic governance structures (e.g., relational norms, contracts or hierarchical structures) as substitutes (Dyer and Singh 1998; Granovetter 1985; Gulati 1995a; Uzzi 1997). Some argue that relational norms provide more effective and less costly safeguards from partner opportunism than other governance mechanisms (Hill 1990; Uzzi 1997). Other researchers go even as far as to say that specific contracts can promote instead of hinder opportunistic behaviors through signaling distrust (e.g., Ghoshal and Moran 1996).

Conversely, other researchers (e.g., Poppo and Zenger 2002) argue that distinct dyadic governance structures (e.g., relational governance structures and specific contracts) serve as complements. Instead of inhibiting relational governance, specific contracts can promote trust and cooperation between parties dampening the risk of partner opportunism. Relational governance structure, on the other hand, can smooth possible complications and conflicts outside contract boundaries (Poppo and Zenger 2002). Moreover, cooperation enhanced by relational governance structure can stimulate contractual refinements that may further promote cooperation. While Poppo and Zenger (2002) find empirical support for their argument about

the complementary role of distinct dyadic governance structures in performance of ongoing relationships, the results of other empirical studies are mixed. Some of them find support for the argument about the substitution role of dyadic governance structures. Others confirm the complementary role, or find no significant results (Cao and Lumineau 2015)¹. In this dissertation, we examine the interplay between dyadic governance structures, such as prior ties and equity joint venture, in the context of unplanned alliance termination. Particularly, we investigate whether the above-mentioned dyadic governance structures play a complementary or a substitution role in decreasing the hazard of an unplanned alliance termination.

Network governance

Strategic alliances typically do not exist in isolation, but are embedded in alliance networks. Such networks can emerge when firms have multiple alliances simultaneously (e.g., Wassmer 2010). Firms' direct partners can also be engaged in alliances with each other, thereby forming indirect partnerships. A firm's alliances with direct and indirect partners constitute an ego-network (Baum et al. 2000; Burt 1992; Rowley et al. 2000). Depending on the configuration of firms' direct and indirect partnerships, ego-networks can have different structural properties.

The social network literature provides two central arguments regarding the advantages that certain network structures may create for alliance participating firms, namely, the "*closure argument*" and the "*structural hole argument*" (Burt 2005). The closure argument suggests that firms generate social capital by being embedded in a network of strongly interconnected parties (Burt 2005; Coleman 1988). Social capital are the resources that result from a firm's position in the social network (Bourdieu and Wacquant 1992). In contrast, the structural hole argument suggests that firms generate social capital from a network in which they are brokers between otherwise disconnected parties (Burt 1992, 2005).

Coleman (1988) claims that dense networks are able to govern (constrain) partner behaviors in a group and may promote cooperation. Alliance partners embedded in a dense network are less likely to behave opportunistically as their mutual partners will be immediately aware of such actions. In other words, since dense networks provide collective monitoring and sanctioning, the incentives to cooperate in such networks are higher. As such, dense networks

¹ For a detailed literature review on the interplay of formal and informal governance in interorganizational relationships, see Cao and Lumineau (2015).

serve as a trust-based governance mechanism in strategic alliances (Rowley et al. 2000). Importantly, strongly interconnected partnerships are not always beneficial for alliance participating firms because they do not give partners immediate access to novel information (Burt 1992; Granovetter 1973). This undermines a firm's possibility to capture new industry trends and consequently decreases its competitiveness. Therefore, dense networks are advantageous for promoting trust and cooperation, but often provide only redundant information (Rowley et al. 2000).

In contrast to dense networks, sparse networks can provide firms with access to unique information (Burt 1992). When a firm occupies many structural holes in a sparse network (i.e., connect many otherwise disconnected partners), it not only gets access to novel information, but it can also control the potential benefits from that information. Being a broker between disconnected partners, a firm is able to control and facilitate the exchange of information across the alliance network. On the other hand, contrary to dense networks, sparse networks do not allow for effective collective monitoring and sanctioning, as the possibly opportunistic behaviors of a broker are not immediately visible to other parties in the network. Therefore, sparse networks give firms a possibility to efficiently obtain and control information (resources), but they may not develop governance mechanisms to impede partner opportunism (Rowley et al. 2000).

Although the 'closure' and 'structural hole' arguments regarding the advantages of dense and sparse networks are conflicting, Burt (2005) argues that the contradiction can be resolved in a more general theoretical framework of social capital. Thus, brokerage positions allow firms to *create value* by providing timely access to unique information. In turn, closure can be critical for *value capturing* by dampening the risk of partner opportunism. In this dissertation, we study whether alliance partners' joint brokerage position in an alliance network can create value in R&D alliances and reduce the hazard of an unplanned alliance termination when the alliance is organized as an equity joint venture.

Misaligned governance

According to transaction cost economics, governance structures are relied on by firms to minimize the transaction hazards in interfirm relationships (Williamson 1985). TCE is a normative theory, predicting that governance structures that are aligned with transaction hazards will serve to improve performance (Noordewier et al. 1990). Stated differently, an alliance governance structure should *match* the transaction hazards present in an alliance. If

alliance governance structures are not aligned with transaction attributes (i.e., transaction specific assets and uncertainty), the alliance is characterized by *misaligned governance*.

We distinguish between two types of misaligned governance: *excess governance* and *a lack of governance*. Excess governance emerges if a hierarchical governance structure (e.g., internal organization or various equity arrangements like an equity joint venture) is chosen when transaction hazards are low. Despite their ability to provide safeguards from partner opportunism, a hierarchical governance structure suffers from low-powered incentives to create value and a reduced ability to quickly adapt to changing circumstances (Ghosh and John 1999). For example, employees of an organization may tend to pursue their personal goals and report only partially relevant information to the supervisor, thereby possibly creating communication distortion (Williamson 1975). Moreover, a hierarchical governance structure is characterized by ‘persistence behavior’ (Williamson 1975, p. 121). Incurred sunk costs pertaining to existing projects may prevent a firm from pursuing more promising alternatives (Williamson 1975). Thus, a hierarchical governance structure should only be chosen when the transaction hazards are high. Conversely, a lack of governance emerges when a firm chooses a non-hierarchical governance structure (e.g., various bilateral arrangements like a non-equity alliance or a contract) when the transaction hazards are high. Although these organizational arrangements exhibit high strategic flexibility due to the partners’ high-powered incentives (e.g., in the form of milestone payments), they are not able to provide the same safeguards from partner opportunism. Thus, a non-hierarchical governance structure should only be chosen when the transaction hazards are low.

Prior empirical research suggests that misaligned governance adversely affects firm performance in ongoing relationships (e.g., Leiblein et al. 2002; Nickerson and Silverman 2003; Sampson 2004; Sande and Haugland 2015). Leiblein et al. (2002) find that a misalignment between a firm’s governance decision to outsource or internalize production and transaction hazards undermines a firm’s technological performance. Similarly, Nickerson and Silverman (2003) show that firms that poorly govern a core transaction gain lower profits than their counterparts who choose the right governance structures. Sande and Haugland (2015) show that misaligned formal governance has a negative effect on end-product enhancements. Therefore, a firm should avoid relying on governance structures that are not aligned with the transaction hazards. In this dissertation, we examine whether termination of misaligned alliances can be beneficial, serving to reduce a firm’s idiosyncratic risks.

The resource-based view of the firm

The resource-based view of the firm (RBV) has recently become an influential theoretical framework in the management literature. The RBV conceptualizes a firm as a bundle of idiosyncratic resources (Penrose 1959; Rumelt 1984; Wernerfelt 1984). Specifically, Rumelt (1984) and Wernerfelt (1984) suggest that firm profitability depends on the internal development or acquisition of resources, the types of these resources, different ways of employing the resources, and their learning capabilities (Lavie 2006). Providing a more dynamic perspective on RBV, Dierickx and Cool (1989) argue that only the accumulated stock of nontradable, inimitable, and nonsubstitutable resources matter for a firm's competitive advantage. Such resources can be either tangible (e.g., financial assets, technology) or intangible (e.g., reputation, managerial skills) (Eisenhardt and Schoonhoven 1996). Importantly, the resources set the limits for a firm's strategic choices (e.g., which market to enter) and its expected profits (Wernerfelt 1984). Key resource constraints are shortage of labor or physical investments, shortage of finance, lack of sufficient managerial capacity, and lack of suitable investment opportunities (Mahoney and Pandian 1992).

The RBV perspective on strategic alliances and alliance portfolios

Eisenhardt and Schoonhoven (1996) extended the RBV by adding strategic alliances to the theoretical framework. According to Eisenhardt and Schoonhoven (1996, p. 137), strategic alliances are "cooperative relationships driven by a logic of strategic resource needs and social resource opportunities". Being in a vulnerable strategic position (e.g., high competition, innovative technologies, emerging markets), firms need external resources (e.g., technical know-how, cash or legitimacy). Thus, alliances are viewed as strategically important mechanisms to access partner resources necessary to overcome internal resource constraints (e.g., Wassmer 2010). Importantly, occupying strong social positions, firms also leverage their own resources to create alliance opportunities. For example, firms with large, experienced, and well-connected top management teams have assets (e.g., time, skills, status and connections) to form alliances frequently (Eisenhardt and Schoonhoven 1996).

When firms have multiple alliances simultaneously (i.e., when they have a portfolio of alliances), they get access to a broad range of alliance resources from various partners (Wassmer 2010). These resources allow firms to enhance their resource stock and their capacity to gain relational rents (Ahuja 2000; Hoffmann 2007; Lavie 2006). An important stream of alliance portfolio research has examined the relationship between alliance portfolio size and firm performance. The findings of these studies are mixed. Shan (1990) reports that a start-up's

number of alliances have a positive linear effect on its innovative output. In contrast, Deeds and Hill (1996) find a curvilinear relationship between a firm's number of alliances and the rate of new product development, suggesting a diminishing return from each additional alliance in an alliance portfolio after a certain threshold. Importantly, scholars have argued that in order to achieve maximum benefits from an alliance portfolio, firms should develop alliance capability (Anand and Khanna 2000; Hoffmann 2005; Kale et al. 2002). Alliance capability on the portfolio level is the ability to develop an alliance portfolio strategy, form an effective alliance management system, and coordinate and monitor the alliance portfolio (Hoffmann 2005). Hence, alliance capability is an important contingency factor in determining the effects of alliance portfolio size on firm performance. In this dissertation, we examine alliance terminations as a way to address a firm's existing resource constraints stemming from a larger alliance portfolio. We also study the extent to which a firm's own or acquired resources and its alliance capability, reflected in the firm's alliance experience, moderate the effect of alliance portfolio size on firm value, following an alliance termination.

Dissertation overview

This dissertation consists of three essays. In the first essay, we investigate the antecedents of unplanned alliance terminations. The context of the study is R&D alliances. Firms enter into R&D alliances in order to acquire and leverage knowledge (e.g., Li et al. 2012). At the same time, they also face a risk of knowledge appropriation (Katila et al. 2008; Li et al. 2008; Li et al. 2012; Sampson 2007). We argue that when the risk of knowledge appropriation is high, this can result in an unplanned alliance termination. Relying on transaction cost analysis, we examine how the governance of R&D alliances can reduce the risk of knowledge appropriation, and, consequently, the hazard of an alliance termination. Specifically, we study the joint effects of dyadic (i.e., an equity joint venture and prior ties) and network governance structures (i.e., partner's joint brokerage position). We argue that an equity joint venture and prior ties or partners' joint brokerage position should play a complementary role in reducing the hazard of an unplanned alliance termination. Furthermore, we submit that when R&D alliances are organized as non-equity alliances, both prior ties and partners' joint brokerage position can increase the hazard of an unplanned alliance termination. We conduct an event history analysis to estimate the hazard of an unplanned alliance termination. To obtain the correct estimates for the effects of governance mechanisms, we correct for possible endogeneity of the alliance

governance (i.e., the choice of an equity joint venture; the choice of an alliance with the same partner).

In the second and third essays, we examine the consequences of unplanned alliance terminations. While the formation of a strategic alliance has been shown to reduce a firm's idiosyncratic risk (e.g., Mani and Luo 2015; Thomaz and Swaminathan 2015), we still do not know how an unplanned alliance termination can influence firm idiosyncratic risk. It is important to note that alliance termination is not simply the inverse of alliance formation. The reason being that firms typically make idiosyncratic investments in the alliance over time (e.g., Seabright et al. 1992), influencing the effect of an unplanned alliance termination. In the second essay, we thus examine the link between an unplanned alliance termination and a firm's idiosyncratic risk. Drawing on transaction cost analysis, we investigate whether the way in which an alliance is organized can provide insights into the effects of an unplanned alliance termination on firm idiosyncratic risk. We argue that termination of a misgoverned alliance can be evaluated positively by the investors and may signal a firm's correction of a previous "governance mistake". Therefore, the termination of such alliance could decrease firm idiosyncratic risk. Importantly, however, we also argue that the longer the alliance has lasted, the more complicated the alliance termination will be. The termination of an older alliance can signal a loss of alliance-specific investments made by the alliance partners over time, and bear additional risk for a focal firm.

To test the theoretical arguments in the second study, we rely on *an event study*, which allows us to estimate investor expectations of a firm's own volatility (i.e., firm idiosyncratic risk) before and after the announcement of an alliance termination. To estimate the effects of misgovernance, we apply *a two-stage modelling approach* (Brouthers et al. 2003; Castaner et al. 2014; Leiblein et al. 2002). In the first stage, we estimate the probabilities of a firm's choice of an alliance governance structure based on transaction attributes. These probabilities allow us to calculate the levels of "excess governance" and "a lack of governance" in an alliance. In the second stage, we run a 3-level HLM regression to estimate the relationship between an announcement of an unplanned alliance termination and firm idiosyncratic risk when an alliance is misgoverned.

In the third essay, which is a singled-authored project, I study the implications of an unplanned alliance termination for firm value. Specifically, I examine the link between an announcement of an unplanned alliance termination and a firm's abnormal stock returns, relying on a resource-based view and an alliance portfolio perspective. By engaging in multiple strategic alliances, a firm forms an alliance portfolio. A larger alliance portfolio helps a firm

develop new opportunities and adapt to environmental dynamism, so that it may improve innovation and financial performance. However, a larger alliance portfolio can also undermine firm performance due to a firm's limited abilities to effectively manage and monitor multiple partners, and a firm's limited ability to absorb new knowledge. Thus, I examine the extent to which an alliance termination can create abnormal returns for firms with a larger alliance portfolio. I argue that an announcement of an unplanned alliance termination should increase a firm's abnormal returns when a firm has a larger alliance portfolio. In such cases, the announcement of an unplanned alliance termination signals a firm's intention to address existing resource constraints. Importantly, I argue that this effect is moderated by the amount of a firm's alternative resources (own or acquired), general partnering experience, and experience with the same partner (i.e., partner-specific experience). To test our predictions, I conduct an event study.

Alliance data

The data in this dissertation was compiled from multiple sources. We gathered data on unplanned alliance terminations and alliance survival over a 20-year period (1989-2008) from SDC Platinum and Factiva databases. In order to distinguish between planned and unplanned alliance terminations, we collected information on the circumstances leading to the terminations, relying on multiple data sources, including SDC deal-text statements, news stories published in Factiva, press releases from company websites and Edgar filings (i.e., company annual reports). The first essay focuses solely on R&D alliances formed in stable-tech and high-tech industries. These alliances are particularly sensitive to the risk of knowledge appropriation. To construct alliance partners' ego-networks, we collected data on alliance partners' direct and indirect partnerships from SDC Platinum database. The second and third essays focus on alliances with different activities (e.g., R&D, marketing or manufacturing). To calculate the change in a firm's idiosyncratic risk and firm abnormal stock returns, following an announcement of an unplanned alliance termination, we relied on stock return and firm financial data from CRSP and Compustat databases, respectively. The SDC Platinum database was also used to construct a firm's alliance portfolio, calculate alliance experience, and the number of acquisitions a firm has announced.

Dissertation structure

The remainder of this dissertation is organized as follows. Chapter 2 discusses the antecedents of unplanned alliance terminations. Chapters 3 and 4 focus on the performance consequences of unplanned alliance terminations. Chapter 5 discusses the results, their theoretical and practical implications, and identifies promising areas for future research.

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Paper 1

Termination of R&D alliances: the role of dyadic and network governance

Koval, Mariia; Wathne, Kenneth H.; Hunneman, Auke & van Oest, Rutger

Paper 2

Alliance termination and firm idiosyncratic risk: the role of governance misfit

Koval, Mariia; Wathne, Kenneth H; Hunneman, Auke & Wuyts, Stefan

Paper 3

Can alliance terminations create firm value in large alliance portfolios?

Koval, Mariia

5. Summary and conclusions

In this dissertation, we examined the antecedents and consequences of unplanned alliance terminations. More specifically, we studied whether the way in which an alliance is organized could explain both the antecedents and consequences of unplanned alliance terminations. We investigated the joint effects of dyadic and network governance structures on the hazard of an unplanned termination of R&D alliances. We also examined the effects of an unplanned alliance termination on a firm's idiosyncratic risk given the way in which the alliance is organized. Finally, we investigated the implications of an unplanned alliance termination for a firm's abnormal stock returns, when a firm's alliance portfolio is larger. The findings from this dissertation provide important implications for theory and practice.

Theoretical implications

In the first essay, we examined the role of alliance governance in reducing the risk of knowledge appropriation in R&D alliances and preventing their unplanned terminations. We found that dyadic and network governance structures played a complementary role in decreasing the hazard of unplanned termination in R&D alliances. Our results show that when R&D alliances are organized as non-equity alliances, prior ties and partners' joint brokerage position increase the hazard of unplanned alliance termination. Consistent with our predictions, we also find that equity joint ventures serve to reduce the increased hazard of an unplanned alliance termination stemming from prior ties and a higher joint brokerage position. Our findings significantly extend the limited research on unplanned alliance terminations by providing further insights into how alliance governance structures might serve to decrease the hazard of unplanned alliance termination (Cui 2013; Cui et al. 2011; Greve et al. 2010; Polidoro et al. 2011). More generally, our results contribute to the literature on the interplay between governance structures in interorganizational relationships (Cao and Lumineau 2015; Poppo and Zenger 2002). We show that dyadic and network governance structures jointly serve to mitigate the hazard of an unplanned alliance termination. In doing so, we also extend the growing body of literature examining the role of network governance structures in interorganizational relationships.

In the second essay, we examined the role of misaligned alliance governance (i.e., when an alliance governance structure does not align with the transaction hazards) in explaining the

relationship between an unplanned alliance termination and firm idiosyncratic risk. Our findings show that the termination of a misaligned alliance, whether characterized by excess governance or a lack of governance, may lead to a reduction in a firm's idiosyncratic risk. Importantly, however, we also find that the longer the alliance lasted, the weaker the effect of excess governance, and the stronger the effect of a lack of governance, respectively. These results contribute to and extend the existing research on misaligned governance in ongoing relationships (e.g., Mooi and Ghosh 2010; Sampson 2004; Sande and Haugland 2015). We show that an unplanned alliance termination can be seen as "a correction of a governance mistake". We also show that alliance duration moderates the effect of misaligned alliance governance on a firm's idiosyncratic risk, following an announcement of an unplanned alliance termination.

In the third essay, we examined how unplanned alliance terminations could serve to create value for an alliance participating firm. Specifically, we demonstrate how an alliance termination could create abnormal returns for a firm with a larger alliance portfolio, attributing this effect to a firm's resource constraints (i.e., limited abilities to effectively manage and monitor multiple partners and to absorb new knowledge). Our findings show that this effect is reinforced for firms with partner-specific experience and with access to alternative resources, but it is less pronounced for firms with general partnering experience. This study makes a significant contribution to the alliance portfolio literature (e.g., Cui 2013; Cui and O'Connor 2012; Hoffmann 2005; Lahiri and Narayanan 2013; Rothaermel 2001; Rothaermel et al. 2006). Our results demonstrate additional performance implications of unplanned alliance terminations and how firm value can be created by optimizing an alliance portfolio.

The results of the last two essays also have important implications for the literature on the marketing-finance interface. Specifically, they reveal a relationship between an unplanned alliance termination and key financial performance metrics in marketing (Katsikeas et al. 2016; Swaminathan and Moorman 2009), namely firm idiosyncratic risk and abnormal stock returns. Finally, the findings provide implications for the broader interfirm relationship literature, as we show that an unplanned termination of interfirm relationships, like strategic alliances, can have positive performance consequences for partnering firms.

Managerial implications

The results in the dissertation have important managerial implications. Firms enter into strategic alliances in order to gain access to new resources, markets, brands, and products

(Bucklin and Sengupta 1993; Swaminathan and Moorman 2009). This in turn helps firms diversify their product portfolios, expand the geographic reach, and consequently reduce idiosyncratic risk (e.g., Mani and Luo 2015; Thomaz and Swaminathan 2015). Moreover, strategic alliances allow firms to adapt to environmental dynamism, enhance innovativeness and financial performance, signal social status and recognition and, consequently, achieve a competitive advantage (Cui and O'Connor 2012; Kale et al. 2000; Lahiri and Narayanan 2013; Rindfleisch and Moorman 2001; Stuart 2000; Wuyts et al. 2004). Thus, strategic alliances are an inevitable part of a firm's marketing strategy.

Given that more than 50 percent of strategic alliances terminate shortly after their announcement (Cui 2013; Greve et al. 2010), it is critically important to know the answers to the following questions: *What are the causes of unplanned alliance terminations? What are the performance consequences of unplanned alliance terminations?* The dissertation finds that dyadic and network alliance governance structures can serve to lower the hazard of unplanned alliance terminations. Importantly, our advice to managers is to be cautious when relying solely on prior ties and partners' joint brokerage position as they can increase the hazard of an unplanned alliance termination.

Our findings also demonstrate that an unplanned alliance termination is not simply the inverse of alliance success, and can have positive performance implications for alliance participating firms. Specifically, the results show that the way in which the alliance is organized determines the performance effects of an unplanned alliance termination. Termination of a misaligned alliance is likely to be interpreted by an investor as a correction of a previous "governance mistake", resulting in a reduction in a firm's idiosyncratic risk. Thus, an unplanned alliance termination can actually serve as a solution to a problem of high cash flow volatility stemming from misaligned governance. Moreover, the findings suggest that terminating an alliance with excess governance can result in a reduction in a firm's idiosyncratic risk, as long as the alliance partners have made substantial investments and become locked-in. Thus, it is important for managers to understand early that the alliance is misaligned, and, if necessary, terminate.

The dissertation also demonstrates that unplanned alliance terminations can create firm value. Specifically, the results show that the announcement of an unplanned alliance termination is associated with higher abnormal stock returns when a firm already has a large alliance portfolio. Terminating an alliance in a larger alliance portfolio can signal to an investor that a firm intends to divert from existing resource constraints and improve the effectiveness of its alliance portfolio management. Moreover, the findings suggest that it is more beneficial to

terminate an alliance in a larger alliance portfolio if a firm's amount of alternative resources is larger, and when an alliance under the hazard of unplanned termination is with a repeated partner. Thus, the dissertation provides suggestions to managers on how a firm can create value by optimizing its alliance portfolio. Specifically, managers should terminate an alliance when a firm is not able to manage and monitor effectively a larger alliance portfolio. Furthermore, managers should terminate an alliance when, in addition to a larger alliance portfolio, a firm has a larger amount of alternative resources, or when the alliance under the hazard of unplanned termination is with a repeated partner.

To be able to extract maximum benefits from strategic alliances, it is critical for marketers to understand how to enhance the stability of alliances and prevent their unplanned termination. On the other hand, if an unplanned alliance termination is necessary, it is important to recognize the causes and consequences of alliance termination. Understanding the role of alliance governance should allow managers to take correct decisions when forming alliances, but also how to handle an alliance termination. In general, understanding alliance dynamics should help marketers decide how to organize an alliance in order to develop, produce and market effectively. Overall, the findings in the dissertation provide insights into how a firm can achieve a competitive advantage by appropriately managing its strategic alliances.

Future research directions

It is unlikely that firms will not continue engaging in new strategic alliances after having experienced an unplanned alliance termination. Importantly, the way a terminated alliance has been organized can have an impact on the governance structure of a firm's future alliances. As for future research, we plan to investigate how unplanned alliance terminations affect a firm's future alliances. To the best of our knowledge, only one study examines a similar question in the context of venture capital syndicates (Zhelyazkov and Gulati 2016). The main prediction in this study is that a firm's withdrawal from a venture capital syndicate will negatively affect the firm's reputation and, consequently, decrease the likelihood of a firm's investments in new venture capital syndicates. No study has examined the link between unplanned alliance terminations and a firm's future alliance options by looking at differences in alliance governance structures.

In this dissertation, we study alliances between two partners. A separate stream of research examines multipartner alliances (i.e., alliances between more than two parties) (e.g., Lavie 2007). The literature on unplanned alliance terminations overlooks the dynamics of

multipartner alliances. A notable exception is the study of Heidi et al. (2014). Importantly, no study has examined how different combinations of governance structures of multipartner alliances affect the hazard of an unplanned alliance termination. Because relationships between each pair of partners in a multipartner alliance might be different, the effects should not necessarily be the same as for alliances between two partners. Investigating the antecedents of multipartner alliance terminations is another important future research direction.

Finally, alliance governance structures differ in their ability to facilitate knowledge transfer and the way they provide access to novel information. By appropriately configuring its alliance portfolio, a firm can improve its innovation performance. Thus, a promising area of future research is to examine how different combinations of governance structures at a level of a firm's alliance portfolio influence firm innovation performance.

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