

M&A versus Alliances

The Impact of Partner-specific Alliance Experience on Governance Choice

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Leseprobe

Text Sample: Chapter 2.1, Governance experience - distinguishing different experience types: Through prior alliances, companies familiarize themselves with their partner as well as with the governance mode they choose, be it alliance or acquisition. This governance experience has an impact on a firm's future governance choices. Dyer et al. acknowledge this fact and explain how governance experience leads firms to develop competencies, routines and knowledge to manage issues that may arise during transactions. Such information can be helpful in subsequent alliances or acquisitions and results in a tendency of organizations to do what they are already good at. The remainder of this paragraph looks at different experience types that can be gained from alliances and acquisitions. As with all resources, organizations have two basic choices to acquire governance experience: 1) they can gain their own experience and use these insights in future transactions or 2) they can acquire the experience externally through imitation or by seeking professional transaction advisory. Moatti considers own experience and imitation as two distinct learning mechanisms that could act as substitutes or complements in the governance choice decision. On the one hand, she empirically shows that organizations tend to copy their competitor's governance choices for alliance or acquisition. On the other, her results imply that the probability to copy competitor's choices when engaging in an alliance decreases with own experience in alliances. The other organization's experience is thus used as a substitute for self-experience as long as there is a lack thereof. However, as the influence of a firm's existing own prior experience on governance choice is of interest in this paper, imitation behavior is neglected in the subsequent discussion. When a firm chooses to gain its own governance experience, it can do so through either alliances or acquisitions. Such prior experience can be seen as an opportunity to familiarize oneself with issues that might possibly arise in an acquisition or an alliance and develop routines to cope with them. The resulting organizational capabilities are known as relational capabilities and refer to the company's routines, strategies and abilities for interaction and management in inter-organizational relationships. Two types of relational capabilities are distinguished: 1) alliance capabilities, which refer to a firm's ability to interact with its partners in an alliance and 2) acquisition capabilities, which describe the organization's capability to deal with its acquisition partners. Some facets of relational capabilities can be built up from either alliances or acquisitions. Examples are the evaluation of a target's financial capacity, reputation and trustworthiness, contractual negotiations or the anticipation of a possible cultural clash. Wang and Zajac find that these aspects are transferrable within the same transaction type, but also from alliance experience to future acquisitions. However, a spill-over from acquisition experience to alliances could not be proven. Despite their similarity in some aspects, there are substantial differences between alliances and acquisitions and the resulting experiences, especially concerning the time horizon of the cooperation, personnel transfer or the degree of integration as mentioned in chapter 2.1. For this thesis, the focus is on the influence of alliance experience on governance choice while the impact of acquisition experience is omitted. One reason for this choice is that this paper aims to look at repeated cooperation between the same companies. If however acquisition capabilities were built up from an acquisition of one company by the other, the acquired company will be integrated in the acquirer's firm which makes a second

acquisition between the two firms less likely. Governance experience gained from alliances can be further subdivided into general, partner-specific and transaction-specific experience. General alliance experience describes the accumulated experience from any prior alliances with various partners. It enhances relational capabilities and routines for processes such as partner selection or alliance management. Partner-specific alliance experience goes beyond the improved understanding of the alliance process and includes 'the specific experience a firm has accumulated through recurrent alliances with the same partner, which may also facilitate interfirm trust and collaboration'. As the partners cooperate, they gain a better understanding of their respective management system, capabilities and weaknesses and develop routines for interaction. When firms gain partner-specific experience through alliances, they simultaneously expand their general alliance experience. The contrary inference is however not given, since general experience does not necessarily imply partner-specific experience. Transaction-specific experience from alliances is the most specific experience type and tightly linked to the respective business deal. It is thus not transferrable to other transactions. Due to the focus on prior ties with the same partner in this thesis, partner-specific alliance experience is looked at in subsequent chapters. For the remainder of the paper, the following concepts found in literature are treated as synonyms: 1) partner-specific knowledge in alliances as used by Wang and Zajac, 2) prior alliances as used by Villalonga and McGahan, 3) prior cooperation as used by van de Vrande et al. and 4) prior direct ties as used by Vanhaverbeke et al. These concepts are summarized under the common terms partner-specific alliance experience (PAX) or prior ties. Figure 2 gives an overview of the different governance experience types that have been described above and illustrates where PAX resides within this model.