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## GLOBAL STRATEGIC ALLIANCE MEMBERSHIP: MARKET VERSUS INSTITUTIONAL CRITERIA

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# **Global Strategic Alliance Membership: Market Versus Institutional Criteria**

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# **Global Strategic Alliance Membership: Market Versus Institutional Criteria**

## **ABSTRACT**

Global strategic alliances have become a major research topic within all areas of management research. However, existing studies focus on performance rather than on partner search and selection; and even the research on partner selection does not analyze the situation of an “existing” global strategic alliance evaluating potential new members. The purpose of this paper is threefold. First, we show that the evaluation criteria for new members need to combine market as well as cultural and institutional factors, e.g., a so-called “dual criteria approach”. Second, we analyze forces that propel existing GSAs to place more emphasis on such cultural and institutional criteria besides market ones. Third, we examine factors that can be used or considered as valid indicators for an applicant’s cultural and institutional identity.

### Keywords

Alliances; Culture; Dual Criteria Approach; Global; Institutions; Market Criteria; Norms; Strategic Alliances; Values

## **Global Strategic Alliance Membership: Market Versus Institutional Criteria**

### **INTRODUCTION**

A firm's ability to exchange knowledge and negotiate within a network of social relationships has become increasingly critical to success in today's global business environment. Most of the vast past research on global strategic alliances has, however, tended to rely primarily on economic and market performance analysis; it has thus, we believe, underestimated the complexity of such relationships and in so doing has tended to enhance less than fully our understanding of such structures and processes. Beamish and Killing (1997), Gulati (1998) and Spekman et al. (1998) for example provide a comprehensive recent review of the strategic alliance literature. Past research as set out in such overviews treats an alliance as a static entity and ignores the fact that it may undergo a life cycle (Spekman et al. 1998). This life cycle perspective, which has profound implications for partner selection, has not been adopted by and developed in previous studies in investigating this issue – as far as we can ascertain. Moreover, this past analysis has not sufficiently analyzed the role of uncertainty, complexity, and the importance of political contexts. In other words, past research on GSAs has only told part of the story.

In this paper, we highlight the role of institutional factors, such as cultural and social ones, as well as the conventional market and economic criteria emphasized in most previous research in assessing value and overcoming such highly uncertain and changing global economic environments in the selection of new members for existing strategic alliances. We believe that previous studies on partner selection have not sufficiently taken into consideration these institutional factors (Duysters et al, 1999; Hitt et al. 2000; Shenkar and Yan 2002). We are not, however, underestimating the role of one set of criteria at the expense of the other; rather, we seek to bring out the complexity of the issues involved in the “Dual Criteria Approach” that we later set out in this paper.

Research in global strategic alliances (to be referred to as GSA from now on) has shown that once analysis moves away from purely market and economic models of perfect information and frictionless exchange, it is clear that decisions on strategic alliance performance and new member selection in the so-called “real world” are

predicated on imperfect competition and co-operation based on cultural and/or social institutional factors, as well as relationships at a national or international level (Burt, 1992; Coleman, 1990; Granovetter, 1985; Keohane, 1988; North, 1990; North and Weingast, 1989; Olson, 1965; Ostrom, 1992; Putnam, 1988; Schelling, 1960). Related research in international relations and international political economy on co-operation and partnerships has also shown the importance of 'culture', involving beliefs, values, and norms as fundamental drivers of exchange, partnerships and co-operation (Axelrod, 1984; Cowhey, 1993; Jervis, 1988; Joynt and Warner, 2001; Schelling 1960, 1966; Snidal 1991; Sugden 1986; Young 1991).

In contrast to the transaction cost- and economics- oriented scholars, the more behaviourally-oriented institutional and social science researchers believe that co-operative exchange may not necessarily need be driven solely by opportunistic motives (Boisot and Child, 1988; Burt, 1992; Choi, 1994; Granovetter, 1985; Frank, 1988; Ouchi, 1980). These researchers, who include sociologists, psychologists and anthropologists, show that exchange relationships may be maintained even without invoking legal and contractual governance mechanisms of a formal kind. In this strand of research, factors such as culture, history, shared values and social norms play an important role in enforcing trust-based exchange, in a similar way to parallel research in international relations and international political economy studied the nature of path dependent historical criteria in successful collective action (Grieco, 1990; Haas, 1992; Keohane, 1988; Krasner, 1991; Martin, 1992, 1993; Mayer, 1992; Ostrom, et al., 1992; Putnam, 1988).

This paper aims to provide a conceptual framework for analyzing new membership selection for an "existing" GSA, when both market and institutional factors are already taken into account. Although market performance and indicators may be a primary factor in new membership, we suggest that others such as cultural, social or institutional indicators, which may often be embedded among the existing member firms, can also play an implicit role, as well as at some times even an explicit one, in the evaluation process for new members (Cowhey, 1993; Granovetter, 1985; Grieco, 1990; Keohane, 1988; Inman and Rubinfeld, 1997; North, 1990; Ostrom, 1992; Snidal, 1991; Stein, 1982; Weingast, 1997 Young, 1991). This suggestion is similar to the idea that any membership to a new club or association requires market as well as cultural, social or institutional credentials. However, the relative "critical mass" or "weighting" of the respective sides to the partnership may also be a

consideration. A “heavy-weight” GSA may have lesser problems perhaps with a much smaller partner in terms of compatibility; in this sense, size does matter.

To be more specific, the purpose of this paper is to analyze the criteria used in assessing new strategic alliance membership by the existing members of the GSA. We attempt to adopt the life cycle perspective advocated by Spekman et al. (1998) in examining this issue. Recent reviews of the strategic alliance research such as Choi and Lee (1997), Gulati (1998), and Spekman et al. (1998) show that this area, in particular, the evaluation of potential new partners by the existing members of GSA, has not been sufficiently addressed in the literature.

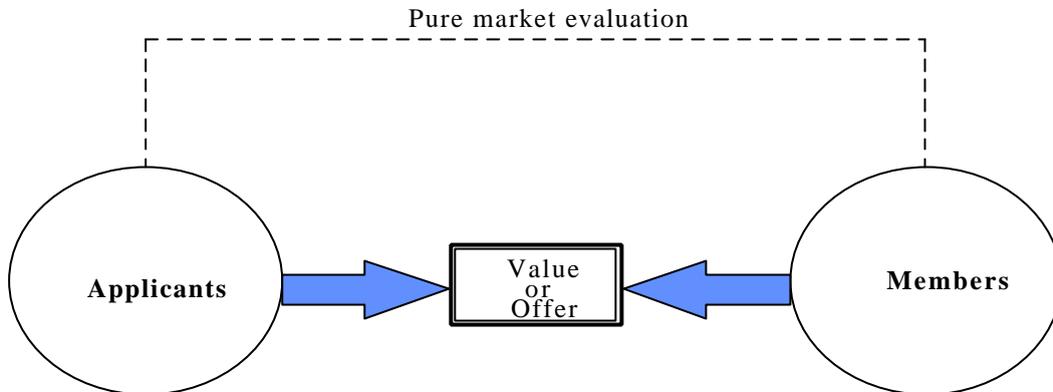
The major conjectures and contributions of this paper are as follows. First, we believe that cultural/social fit or compatibility is one of the key determinants of a GSA’s success. Therefore, an existing GSA, when evaluating a new applicant, should adopt a dual criteria approach that takes both economic/market and cultural/cultural qualifications of a new applicant firm into consideration. Second, we believe that certain factors such as uncertainty, complexity and difficulty in assessing an applicant’s value, will drive GSAs to place more emphasis on non-economic, cultural or social institutional criteria. Third, we believe GSAs, in assessing the institutional identity of an applicant, tend to focus more on certain indicators than others, for example, the embeddedness of an applicant in an existing social network (Gulati 1998). In this paper, we provide a preliminary but general framework for analyzing such cultural and social, as well as institutional identity factors and their role in setting the foundations of new membership evaluation of “existing” GSAs.

## MARKET VERSUS INSTITUTIONAL CRITERIA

The majority of global strategic alliances fail in a few years (Beamish and Killing, 1997; Bleeke and Ernst, 1993; Harrigan, 1988; Gulati 1998). The high failure rate of GSAs across the world of global business continues to be one of the most important areas of research in various areas of management research, including strategic management, international business and organization theory. Although selecting a “wrong” partner is supposedly one of the major causes for these failures, previous research has not paid sufficient attention to the issue. Beamish and Killing (1997), Gulati (1998) and Spekman et al. (1998) provide a recent comprehensive review of the literature on strategic alliances. The majority of the existing research has focused on market performance, rather than partner selection. Among the studies that investigate this issue (Bronder and Pritzl, 1992; Dwyer and Oh, 1988; Geringer, 1988; Lorange and Roos, 1993), scant attention has been devoted to the non-economic aspect of a partner’s qualification, with few exceptions (Bronder and Pritzl, 1992; Geringer, 1988). In particular, none of them investigates the scenario in which an existing GSA evaluates a new applicant.

Under a purely market or business based framework, the assumption is that the contribution and value of the firms applying for membership can be easily measured and evaluated and will thus serve as the only criteria of the international negotiations; thus there are no measurement costs or uncertainty and there will be clear transparency about requirements for new members. Figure 1 below shows the abstract system of anonymous exchange used in a purely market-driven model for analysing transactions and co-operation in joining an existing GSA. A general weakness of such a framework is the emphasis on outcomes, rather than processes, which helps to show the nature of the negotiations and co-operation that lead to particular outputs.

**Figure 1**  
**GSA's and Market Criteria: Business, Financial Data**



Research in international relations, politics and psychology on collective action (Olson, 1965) and co-operation all indicates the importance of non-market-driven criteria when an agent is to establish a cooperative relationship with others. Putnam (1988), developing the earlier works of Gourevtich (1978), Rosenau (1969), has analyzed the importance of two levels of analysis, in terms of domestic and international interactions in international co-operation. His analysis shows that such co-operative negotiations are neither purely domestic nor purely international, and need to take into account such dual causes and constraints as domestic welfare concerns, international economic laws and so on.

Likewise, in psychology, research demonstrates that in any collective decision making situation, decisions about the admittance of new members is rarely done through single, clear criteria, such as business or financial factors (Keohane, 1988; Olson, 1965, 1982; Ostrom, 1993; Putnam, 1988).

Furthermore, the analysis of partner selection also bears similarities to the recent research in organization theory that has begun to combine research on negotiations and coalition analysis (Murnighan and Brass, 1991; Polzer, et al., 1998). These works have blended the more economic and rational aspects of negotiation analysis with the more social and social psychological aspects of coalition analysis. Coalition research, which has similarities to work on collective action (Olson, 1965, 1982) in political science and international relations (Keohane and Ostrom, 1995), shows that once coalitions form, cognitive processes of social interaction lead to amplify certain salient aspects and characteristics of group members (Tajfel and

Turner, 1986). These boundaries and points of salience are the focal points, made famous by Schelling (1960), and who showed that shared values, beliefs can allow co-operation and co-ordination through such focal points.

The dual criteria approach to strategic alliance membership proposed in this paper is similar to the above, in that at one level of negotiations there are the economic criteria of new membership, which can be more widely understood by existing members and potential applicant firms. But at a second level of negotiations, there are the culturally or socially driven, institutional criteria that can be important in terms of long-term compatibility and co-operation with the already existing members of the strategic alliance. This dual criterion is related to the notion of “cultural compatibility or fit” that is discussed by a few studies on partner selection. Bronder and Pritzl (1992) acknowledge the importance of a “cultural fit” in selecting an alliance’s partner. Spekman (1988) emphasizes that selection of a good partner depends heavily on “goal congruence” between partners. Wilson (1995) points out the importance of social bonds and the role these play in alliance development and continuity. Industry practitioners also indicate that many alliances’ failures can be attributed to their ignorance of “cultural compatibility” among the alliance partners and a third to half of all failures attributed to the human dimension (Fedor and Werther, 1995).

This is not to say that “cultural compatibility” is a sufficient condition for success in alliance partnership formation, however. There are still alliances that fail even where the conditions for cultural match have been met. Similarly, there are alliances that perform well but where the partners are not culturally matched. In the paper, we are talking about the probabilities of success in alliance formation. From the studies cited above, it would seem that the probability of success is enhanced if the cultural fit is more appropriate. The question of how to measure this “fit” is however problematic.

It should also be recognized that cultural/social compatibility carries a wider meaning. It is manifested at both national and corporate level. Although a firm’s corporate culture is intrinsically linked to its national culture, a firm may find partners that are compatible at the corporate level but not at the national level or vice versa. The following figure can illustrate this point.

**Figure 2**  
**Corporate Culture and National Culture**

		Corporate Culture	
		High	Low
National Culture	High	(High, High)	(High, Low)
	Low	(Low, High)	(Low, Low)

GSA and potential applicants can locate in all four quadrants. For instance, a UK firm and a US firm may find themselves quite similar in terms of their national culture but vastly different in terms of their corporate culture. Similar situations can occur between a Chinese and a Korean or a Japanese firm. We believe that corporate culture is the dominating force in international business cooperation and the assessment of cultural/social compatibility at corporate level is influenced by the broader compatibility at national level but shaped by it. Therefore, we do not intend to dwell on the cultural/social compatibility issues at the macro level.

In the current context, e.g., where existing GSAs choose a partner among new applicants, we believe that, although business or market-based criteria are important in selecting such a partner, the integration of corporate culture between an existing GSA and its applicant proves to be vital to the success of their future cooperation. It is clear that whether or not this integration can be achieved critically depends on the social/cultural compatibility between an existing GSA and its applicant. Therefore, we believe that an existing GSA, when it evaluates an applicant, should adopt a dual criteria approach, which emphasizes both market and institutional criteria, in order to be successful. Hence:

*Proposition 1:* The adoption of a dual criteria approach by an existing GSA when it evaluates a new applicant will increase the likelihood of the alliance's future success

This proposition is based on the premise that given other things being equal, the higher the cultural/social compatibility between an existing GSA and its applicant, the more likely the alliance will be successful. Adopting a dual criteria approach will enable an existing GSA to better identify a culturally/socially compatible partner among a group of new applicants. The reasons why the adoption of dual criteria approach enhances the probability of a GSA being successful are further elaborated as follows. First, trust among alliances' members is a critical determinant of an alliance's success (Bleeke and Ernst, 1993; Buckley, 1992; Yoshino and Rangan, 1995). Therefore, trust may be considered as the "cornerstone of the strategic partnership (Spekman, 1988). Trust can increase cooperation and collaboration, improve relationship flexibility, increase quality, lower the costs of co-ordinating activities (Smith, Carroll, and Ashford, 1995) and improve alliance productivity and efficiency (Aulakh, Kotabe and Sahay, 1996; Ring and Van de Ven, 1992; Sitkin and Roth 1993).

Trust can also be a powerful control mechanism for governing economic transactions (Bradach and Eccles, 1991; Dyer, 1996; Gulati 1995). Research indicates that the development of trust between alliance partners is significantly influenced by the culture of the alliance participants (Jennings et al., 2000). For socially/culturally compatible firms, due to their shared values, beliefs, norms or common practices, it is relatively easier for them to develop trust and therefore increase the odds of their alliance being successful. Trust, therefore, may be higher where cultural fit is optimised.

Second, although the lack of trust will hinder the effective communications and collaboration among alliances' members, the lack of proper mechanisms or channels through which effective collaborations and communications can be conducted is another reason to be blamed. For a GSA consisting of culturally/socially compatible members, besides the fact that trust is relatively easier to develop among its members, it is also more likely for such a GSA to establish mechanisms or channels to facilitate its members' collaboration and communications. Trust, therefore, may here reduce transaction costs.

Moreover, cultural/social compatibility among its members also enables GSAs to establish a more flexible governance structure and to cultivate the contribution and value of each member, including the newly joint ones. These

advantages collectively will increase the likelihood of a GSA's success. Compatibility, therefore, may also reduce transaction costs.

We also believe that existing GSAs are more inclined toward adopting this dual criteria approach. The intuition is as follows. Existing GSAs have already established a set of explicit or implicit beliefs, rules, norms or common practices, e.g., an alliance's corporate culture (as distinct from the wider cultural setting that the alliance members may belong to) which enables each member to function properly. GSAs' members jointly create this culture over the course of their cooperation and via repeated interactions through which they have become aware of the difficulties in working with members from various backgrounds, in particular, members from different cultural backgrounds. Therefore, they are acutely aware of the importance of accepting a culturally/socially compatible member into this "club" in order to preserve an existing corporate culture. We believe that for new firms potentially joining an existing GSA, the existing members will tend to depend further on such exclusive exchange based on alliance norms, beliefs and historical transactions. For example, existing members will rely on traditional criteria and to prefer new members firms presenting a lower, culturally and/or socially defined psychic distance (O'Grady and Lane, 1996), in combination with the more tangible, business and financial factors and criteria for new membership. Such "psychic" distance has been a widely researched factor in preventing the implementation of particular international partnerships. On the contrary, for a firm that is not currently in a GSA, even though it may have prior alliance experiences, the dual criteria approach that strongly emphasizes the cultural/social criteria may not sound as obvious or as necessary as for those existing GSA members. Hence,

*Proposition 2:* Existing GSAs are more likely to adopt a dual criteria approach when evaluating an applicant compared to firms that are not involved in GSAs

Although we believe that existing GSAs have a higher tendency to adopt a dual criteria approach, this tendency is also subject to a set of factors that are to be discussed below.

## **FACTORS DRIVING THE ADOPTION OF A DUAL CRITERIA APPROACH**

Research in non-market transaction societies by anthropologists and legal researchers has shown how selection of co-operative partners is carried out in such societies (Landa, 1994; Posner, 1980; White, 1970). Under conditions of uncertainty, which often occur as trade and exchange spreads into broader territories, such societies have a tendency to use “fixed” identity characteristics to determine optimal co-operative exchange partners; all negotiations are restricted by the drivers of fixed identity. This criterion of fixed identity is that of relatedness or closeness of the actors and in many such non-market exchange societies, this is based on ethnic background and kinship. It may also apply to homogeneous groups such as the overseas Chinese in Asia; the East Indians in East Africa; the Syrians in West Africa; the Lebanese in North Africa; the Jews in medieval Europe; the Medici merchant-bankers in 15th century Florence (Choi, 1994; Geertz, 1978; Greif, 1989; Landa, 1994; Posner, 1980; Sahlins, 1965). This phenomenon is similar to firms choosing to internationalise initially towards countries that represent a lower, psychic distance (O’Grady and Lane, 1996), in terms of cultural and social values, structure and so on; it may be analogous to our emphasis on the importance of institutional identity in reducing such psychic distance by the existing members of a GSA towards new applicant firms.

A good contemporary illustration of this phenomenon we may cite is the case of “Sino-foreign” joint ventures in the People’s Republic of China, where a foreign GSA partner, say in Hong Kong or the Overseas Chinese domain, may choose a culturally compatible domestic Chinese state owned enterprise. Again, even if not as culturally close as in this example, a Japanese or South Korean GSA partner may be relatively more at ease with a PRC applicant than one from a psychically distant culture. Since not all GSAs are always made with culturally or socially close partners, there may be situations where these conditions are necessary and where they are sufficient or both.

Compared to economic or market-based criteria, which are straightforward and “objective” in the sense that applicants’ qualifications can often be quantified and therefore are comparable across firms, institutional criteria are subjective and intrinsically complicated. Hence, the adoption and implementation of a dual criteria approach can be a difficult and time-consuming task. GSAs may be reluctant to

pursue it even though they are aware of its importance. However, under certain circumstances, GSAs are compelled to endorse such an approach in evaluating its potential partners. We believe the following factors have strong influence on a GSA's motivation to adopt a dual criteria approach: environmental uncertainty and turbulence, complexity of future task and difficulty in assessing an applicant's values and contributions.

### *Environmental Uncertainty and Turbulence*

The international environment is complex with information uncertainty and characterized by actors moving to gain a competitive advantage, combined with intercultural differences (Larson, 1988). The nature of negotiations for new members in any GSA is becoming increasingly complex, with mixed motives in most decision making (Schelling, 1960). Therefore, uncertainty and turbulence in environments where GSAs operate exert strong influence on GSAs attitude toward such a dual criteria approach. In a highly uncertain and volatile environment such as emerging markets in Asia and South America, unexpected yet significant events that either directly or indirectly affect a GSA's business operation occur on a regular basis. Responsiveness of a GSA, for example its speed to adjust its strategies and respond to these events, is vital to its survival. Such responsiveness critically depends on the flexibility in a GSA's management. A flexible management style is more likely to be established among socially/culturally compatible firms due to their shared beliefs, values and norms through which an implicit understanding can be generated.

In a highly uncertain and turbulent environment, member firms, under enormous anxiety and pressure, are more likely to pursue opportunistic behavior to preserve their own interests. Unfortunately, in such an environment, no contractual or legal arrangements can sufficiently safeguard the pursuit of a GSA's common interest and to prevent members' selfish behaviors. Trust is believed to be able to reduce the need to create formal, costly governance mechanisms and lower the cost of coordinating exchange (Jennings et al, 2000). Trust, as discussed previously, is more likely to be established among socially/culturally compatible firms. Trust also breeds mutual commitment and effective collaboration, both of which are indispensable for a GSA to operate successfully in an uncertain and turbulent environment. Under this circumstance, existing GSAs, therefore, are more likely to be compelled to adopt a dual criteria approach which can better identify culturally/socially compatible

members, hence, ensure the development of trust and flexibility in the alliance's management and at the same time, reduce the cost of monitoring its member firms.

Therefore,

*Proposition 3:* High uncertainty and turbulence in environments where GSAs operate will make GSAs more likely to adopt the dual criteria approach and accept applicants that are socially/culturally compatible with their existing members

### *Complexity of the Task*

Firms form alliances to achieve certain strategic goals. These tasks vary in their achievability due to the level of complexity, hence, the level of difficulties involved. Complex tasks require higher level of coordination and cooperation. Moreover, strategically critical knowledge is often tacit and can only be transferred and shared successfully through certain informal channels (Choi and Lee, 1997). The development of trust will certainly increase the members' willingness to collaborate and share knowledge. It is more likely for culturally/socially compatible firms to create the amount of trust needed for massive cooperation and at the same time, establish proper channels and mechanisms through which tacit knowledge can be effectively transferred and shared. GSAs are more keenly aware of the importance of cultural/social compatibility among its members in achieving certain goals, especially goals that are intrinsically complex and require massive amount of cooperation and collaboration, for example, information sharing, knowledge exchange and transfer. Therefore, they are more likely to adopt dual criteria approach if the task is complicated.

*Proposition 4:* Complexity, e.g., the perceived difficulty of the future task, will make GSAs more likely to adopt the dual criteria approach and accept applicants that are socially/culturally compatible with their existing members

### *Difficulty in Assessing an Applicant's Values*

We also believe that difficulty and uncertainty in assessing an applicant's potential value influence GSAs willingness to adopt a dual criteria approach. In many cases, the contributions or the values of an applicant to existing GSAs may not be tangible assets, such as technological or financial resources. In fact, many of these

potential contributions can only be utilized or materialized through repeated interactions. In other words, critical information and knowledge are tacit, which is difficult to be shared via formal channels, such as by bureaucratic procedures (formalization, standardization and centralization) or by quasi-formal ones such as meetings, seminars or conferences. Thus, the value of such social knowledge that can often be measured only over time and over repeated interactions, may be more effectively exchanged in more socially embedded relationships, values and beliefs (Burt, 1992; Coleman, 1990; Granovetter, 1985; Jervis, 1988; Keohane, 1988; Kogut and Zander, 1993; Putnam, 1988; Schelling, 1969, 1978). That is to say, this kind of knowledge is often transferred or shared through informal social/cultural channels such as chats, parties, and other forms of social gatherings. Because culturally/socially compatible firms are more likely to fully utilize these contributions, the more difficult it is to assess an applicant's future contributions, the more likely it is that GSAs will adopt a dual criteria approach, which enables GSAs reduce potential errors in their partner selection.

The identification of this compatibility factor is driven by the life cycle analysis proposed by Spekman et al. (1998). In their study, they identify seven stages of the life cycle of an alliance and discuss the key business activities involved in each stage. We believe that GSAs are fully aware of the key business activities that will be undertaken by alliance members. In order to make the future implementation of these key activities successful, they have to make sure that the value to be contributed by an applicant firm is substantial and utilizable. Therefore, if such an assessment is difficult, a GSA will be more likely to adopt a dual approach that will ensure the "intangible" value of an applicant to be materialized in later stage of this alliance. Therefore,

*Proposition 5:* The difficulties in assessing applicants' value or potential contributions will make GSAs more likely to adopt the dual criteria approach and accept applicants that are socially/culturally compatible with their existing members

However, the relationship between the difficulty in assessing value and the adoption of a dual criteria approach is also moderated by the centrality of an applicant's function in future cooperation, e.g., the importance of these contributions

to the success of the GSA. The more critical these contributions are, the more likely a GSA will focus on social/cultural criteria and adopt a dual criteria approach.

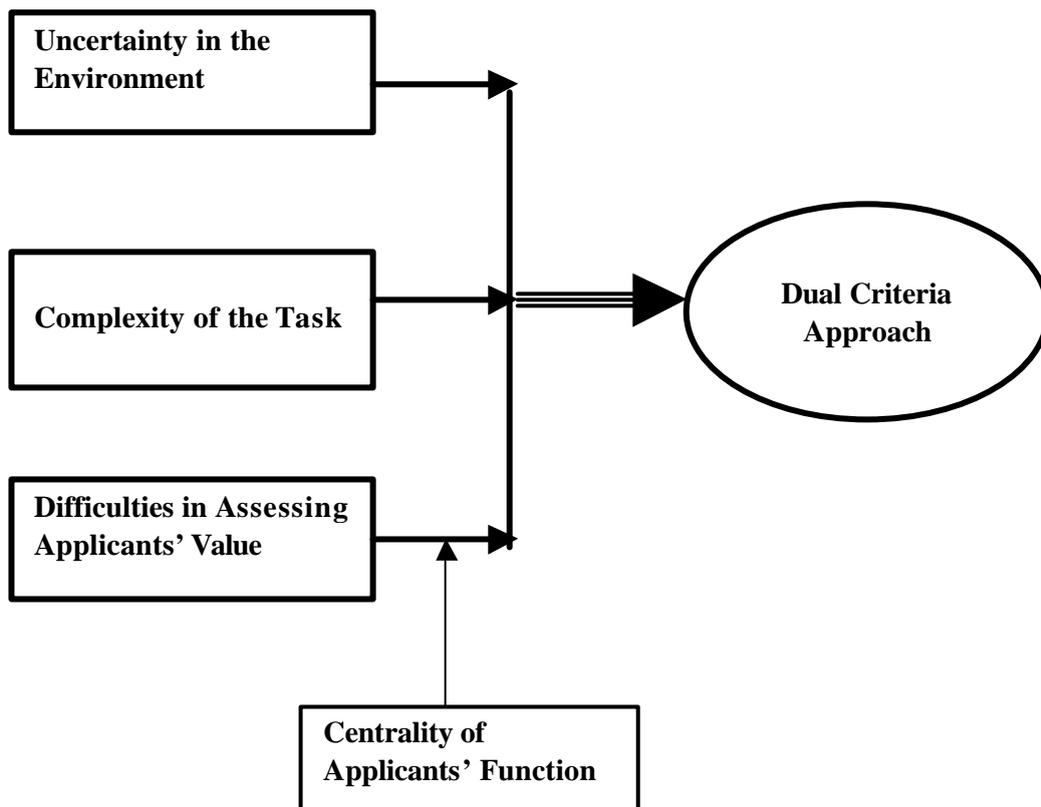
Therefore,

*Proposition 6:* Centrality of the applicants' function in future cooperation will make GSAs more likely to adopt a dual criteria approach and accept applicants that are socially/culturally compatible with their existing members.

The conceptual framework on factors driving the adoption of a dual criteria approach as described by these propositions is demonstrated by figure 3.

**Figure 3**

**Drivers for Dual Criteria-Based Partner Selection**



## ASSESSMENT OF APPLICANTS' INSTITUTIONAL IDENTITY

Assessing the economic or market-based qualifications of an applicant is relatively easy because business and financial data and performance measures may be clearer to determine, although accounting conventions and corporate transparency may vary across cultures and countries. However, it is a difficult task to assess the institutional (for example cultural/social) qualifications of a firm. The knowledge or information that potential new applicant firms submit to an existing GSA can often be tacit and uncodifiable and its quality is difficult to ascertain.

With difficulties in measuring assets such as cultural and social fit, we believe that existing members tend to further depend on external cues and indicators of social/cultural or institutional identity that are embedded in the social structure of member firms (Mayer, 1992; Moravcsik, 1991; Putnam, et al., 1993). This point means that such external cues or certification, if identified, are more highly trusted, and more accurate indicators of the criteria used for admissions of new applicant firms. In this section, we provide a general framework for analyzing such social, institutional identity factors and their role in setting the foundations of new membership evaluation of existing GSAs.

As defined by Burt (1992), actors in the market and within social structures are a synthesis of two networks:

*“...the foundation is a network of constraint generating relationships - some mixture of kinship, authority, and intimacy relations. Built on top of the foundation is a network of real and imagined embedding relationships.”* (Burt, 1992, p. 268)

We believe that this dual nature which helps determine an actor's social or institutional identity is also linked to the idea of market signals (Schelling, 1969; Spence, 1973) which help communication and identification under uncertainty. The concept and importance of signals have been analyzed in depth in the context of international co-operation and partnerships in such works as Jervis (1985, 1988), Krasner (1991), Sebenius (1992), Larson (1988), and Fisher, et al. (1991). Milgrom and Roberts provide a more general definition of signals:

*“...signals demonstrate to others the actor’s intentions or abilities or some other characteristic about which the actor has private, unverifiable information.”* (Milgrom and Roberts, 1992, p. 134)

There are at least two potential problems of using signals in assessing new members of an existing GSA. First, the existing GSA members may be screening and following negotiations patterns according to certain path-dependent, homogeneous beliefs, and cognitive maps of reality, which may not be an accurate measure of reality (Schelling, 1960, 1966; Jervis, 1985). As analyzed by Burt (1992), certain networks may become so dense that they may actually hold back the dissemination of important changes in reality that have occurred outside the network; thus their negotiations and information sets could be incomplete and out of date (Raiffa, 1982). It is clear that relationships (*guanxi*) in many parts of Asia may be very complex and therefore be beset with ambiguous signals. Related to this issue is the analysis of Granovetter (1973, 1985) and the importance of certain weak ties, or relatively less homogeneous relationships, in developing objective views and judgments of the external environment.

Second, market signals can be manipulated by firms for strategic ends in their international negotiation positions. In an increasingly media dependent world with decreasing communication costs, there is a plethora of signals from numerous countries; signals can be fuzzy and difficult to evaluate (Haas, 1992; Ikenberry and Kupchan, 1990; Jervis, 1988; Keohane, 1988; Polyani, 1966; Putnam, 1988).

Recognizing the limitations of using signals to assess the institutional identity of an applicant, GSAs may rely on indices. A distinction now needs to be made between signals and indices. “Indices”, as defined by Jervis (1985), are:

*“....statements or actions that carry some inherent evidence that the image projected is correct because they are believed to be inextricably linked to the actor’s capabilities or intentions.”*

(Jervis, 1985, p. 276)

Indices, unlike signals, cannot be as easily manipulated. In some sense, an index is an external, institutional type of signal that cannot be manipulated (Choi and Lee, 1997; Jervis, 1985; Kreps, 1990). The ability to use indices depends on a firm’s particular, or rare experience, such as past success, that other firms competing for

entry into the existing GSA cannot easily imitate. Success breeds success and reinforces trust. Therefore,

*Proposition 7:* GSAs tend to rely more on indices rather than market signals because the former are perceived as more trustworthy and credible in reflecting the true institutional identity of an applicant.

*Proposition 8:* Giving other things being equal, established and more successful applicants are more likely to be accepted into an existing GSA, compared to relatively new applicants or applicants that have not previously actively engaged in GSAs.

The reason is obvious because applicants' past success, their alliance experiences, and their embeddedness in social network serve as strong indices. Providing information on commitments to long run business strategies, changing of senior management and successful past business ventures with major international firms are institutional indices rather than market signals. Indices are more truthful and trustworthy (Jervis 1985, 1988; Schelling 1960, 1966) and can thus be subtle, but potentially more powerful in achieving points of salience, or shared focal points (Schelling 1960) between existing GSA members and potential applicant firms.

## FACTORS DRIVING INSTITUTIONAL IDENTITY

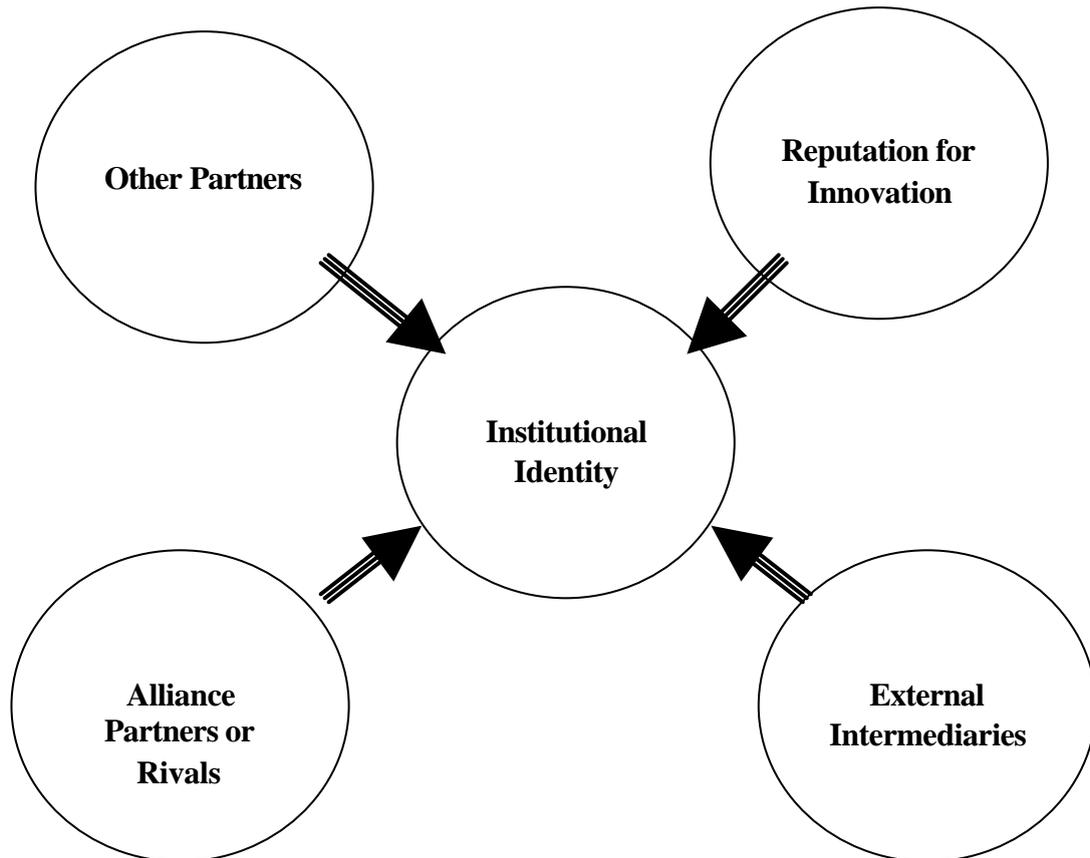
International negotiations for the consideration of new GSA firms by existing member firms thus includes the more tangible and measurable business, financial and market criteria, along with the more intangible social, psychological and institutional identity factors. The factors driving social or institutional identity have been analyzed by researchers such as Burt (1992), Podolny (1993), Choi and Lee (1997). The key intuition is that there are certain drivers of identity, which help to certify or, “legitimize” the overall, value, content and potential of the GSA applicant firm’s potential contribution (Garrett, 1993; Keohane and Ostrom, 1995; Martin, 1993; Moravcsik, 1991). This overall value and legitimacy can include not only financial and business contributions but also whether the potential new GSA applicants have compatible general beliefs, culture and value systems.

We believe there are four major indices or drivers of institutional identity which can help to determine whether a new applicant firm is accepted by the existing members of the GSA; although we believe these are the four major criteria, there could be additional factors, as is often the case in the realities of complex evaluations and negotiations. First, an applicant’s other business partners or clients is a driver of identity; thus other business contacts with firms that are already members of the existing GSA is an implicit index that certifies the potential applicant firm. This is because this illustrates a certain compatibility between the applicant and the existing GSA members (Garrett, 1993; Martin, 1993). Second, the ability and reputation for commitment to innovative products, not only R&D but also new management ideas, can serve as another driver of identity (Haunschild, 1994; Olson, 1992; Putnam, et al. 1993). This index shows an applicant firm’s willingness to be flexible, which is often required of any members of any rapidly expanding GSA, and especially of new members.

Third, a firm’s close relationships and networks, whether they be with collaborators on joint technology projects, or competitors in certain industries, can also be an index of institutional identity; such collaboration or competition again shows that the applicant firm has a similar status (Frank, 1988; Haunschild, 1994; Keohane and Ostrom, 1995) to existing GSA member firms. Fourth, outside external sources of information such as Standard and Poor indexes in financial markets, consumer reports are written by private organizations, business magazine evaluations

of economic and business situations. These external regional and international intermediaries, often linked to media and communication provide another objective source of legitimacy and institutional identity for potential applicant firms (Krasner, 1991; Larson, 1988; Putnam, 1988). These indices are shown in figure 4 below.

**Figure 4**  
**GSA Applicant Firm's Institutional Identity: Four Drivers**

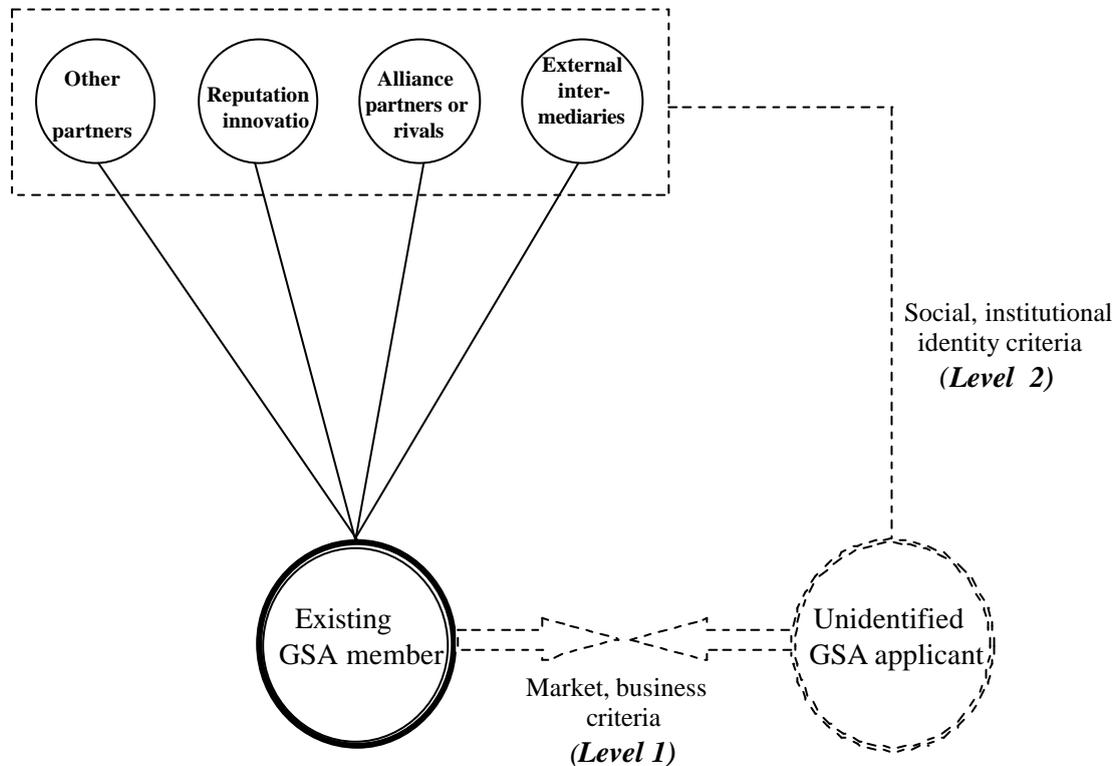


*Proposition 9:* An applicant firm's driver of social, institutional identity to an existing GSA is determined by the following four indices: other business partners; reputation for innovation and change; network of collaborating or competing firms of similar status; evaluation by external intermediaries, especially in the media.

These four indices and drivers of institutional identity facilitate the nature of evaluation of criteria for new members to an existing GSA. This helps illustrate Coleman's (1990), Burt's (1992) and Granovetter's (1985) research on the importance of relationships within the social structure and how it influences market and business

competition as well as the related collective action literature on international co-operation (Keohane, 1988; Olson, 1965, 1982, 1992; Putnam, 1988; Schelling, 1966). The nature of membership of an existing GSA is between being ranked or socially and institutionally identified by existing GSA members, versus being unranked or unidentified by the existing GSA members. Such institutional identification provides the legitimacy to facilitate new membership and acceptance by existing GSA members. This dual criteria framework to GSA membership is shown in figure 5 below.

**Figure 5**  
**GSA Members and Applicants: Two-level Analysis**



## CONCLUSIONS

To sum up, despite the ongoing vast research literature on global strategic alliances, we have found that there has been a scarcity of research on the nature of partner selection. Among a limited number of studies which examine partner selection issues, none of them explicitly investigate factors that propel an existing GSA to adopt a dual criteria approach. In this paper, we have analyzed the criteria by which members of an “existing” global strategic alliance evaluate potential new applicant firms. Since the majority of global strategic alliances fail within a few years (Gulati, 1998), we believe that such membership criteria issues are an important area of management research. Firms increasingly try to join prestigious existing GSAs. The criteria for membership may include not only business or financial factors, but also cultural, social, and institutional factors such as psychic distance, legitimacy, and history. The purpose of this paper was to combine such aspects of GSA membership criteria. We believe adopting such a dual criteria approach in selecting partners will enhance the likelihood of a GSA’s success. We also discuss factors that propel firms to adopt this dual criteria approach.

We introduced the distinction between firms’ signals, which are more market, business and finance based and which can be manipulated, and “indices”, that may be more culturally and socially based and less subject to such manipulation (Jervis, 1985; Schelling, 1969). Because the value of an applicant to an existing GSA can be relatively intangible, such external cues or indices are used by existing GSA members to determine the value or quality of an applicant firm’s potential contribution. Such indices then form an additional criterion or institutional identity, which can help to influence the probability of an applicant firm being allowed to join the GSA; such institutional identity drivers thus provide greater legitimacy for the applicant firm. We believe the framework is a general one that applies in most situations involving membership restrictions and collective action (Olson, 1965), but especially in a global setting whether there is complexity, diversity and uncertainty.

Further research is warranted on the following issues. First, we believe there is a need to analyze in more depth the ways in which a firm’s institutional identity can be measured and recorded. Potential trade-offs between market, business and financial valuation, and institutional identity and legitimacy would be an especially important topic of research to specifically establish. Second, it will be interesting to

investigate empirically the relative importance or weighting of these factors in driving a GSA to adopt a dual criteria approach. Third, there is a need to develop further research on the dynamics of how potential applicants to existing GSAs can develop their signals and indices in order to successfully join the members of the GSA.

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