4 Value creation in alliances – a meta-analysis

Prior research on the relationship between alliance activities and shareholder value creation has produced varying results; furthermore, a systematic review of past research based on quantitative methods is lacking for alliances. The major aim of this chapter, therefore, is to integrate previous empirical research on shareholder value creation in alliances via a meta-analysis.

The theoretical background of past research on the link between value creation and alliances is summarized and on the basis of the underlying theories several hypotheses concerning this relationship are derived; the hypotheses are then empirically tested via meta-analytic techniques and general conclusions and suggestions for future research are presented.

4.1 Introduction

The importance of co-operative mechanisms in today’s business environment has led a steadily growing number of researchers to examine the relationship between alliance activities and shareholder value creation. The issue has been addressed in both strategic management (e.g., Das et al., 1998; Koh and Venkatraman, 1991) and financial economics literature (e.g., Chan et al., 1997; Chang and Huang, 2002) with varying outcomes. Some studies find that alliances create value for the participating firms (e.g., Chan et al., 1997; McConnell and Nantell, 1985), while others do not (e.g., Chung et al., 1993; Finnerty et al., 1986). Furthermore, those studies that do identify a positive relationship between alliance activities and shareholder value creation are inconsistent in identifying the conditions under which value creation in alliances occurs; most empirical studies have only investigated a small number of variables and often focus on new effects instead of integrating factors that have been previously confirmed to influence shareholder value creation.

A number of researchers have looked at the differential benefits firms receive from the various types of alliances (e.g., technological vs. marketing); other factors that have previously been investigated include partner size, industry relatedness of partners, previous co-operation experience, and location of partners. The vast majority of studies considered the impact of joint ventures on the performance of firms, many of them in an international context; the results of these joint venture studies are heterogeneous. Joint ventures represent just one form of alliances, but there are various other types of co-operative mechanisms that are also worth looking at in more detail. So far, few studies have examined the different benefits firms receive from joint ventures as well as contractual alliances. Accordingly the empirical analysis in this chapter should not only investigate the general alliance-firm
performance\textsuperscript{14} relationship, but also analyze performance differences between the two alliance types, namely joint ventures and contractual alliances.

Given the number of empirical studies addressing the subject and the diversity of results, the need for a comprehensive analysis of past research is self-evident; a systematic review and consolidation of previous research, based on quantitative methods, is currently lacking. In light of the shortcomings of traditional narrative reviews and vote-counting methods (Hunter and Schmidt, 1990), meta-analysis is seen as the appropriate method in order to statistically integrate results across these studies.

With this in mind, two main questions are addressed in the following:

1. Do alliances create value, as measured by the stock market, for the firms forming them?\textsuperscript{15}

2. Which determinants influence value creation in alliance activities?

### 4.2 Theoretical background and hypotheses

#### The overall effect on value creation

Transaction cost theory, theories of strategic behavior, and the theory of organizational knowledge and learning are the most frequently applied theories in explaining the rationale for and the benefits and costs of alliances. According to transaction cost theory, an alliance might positively relate to performance if the transaction and production costs in an alliance are less than those of other modalities, such as intra-firm and market coordination (Hennart, 1988). According to the theories of strategic behavior, an alliance may increase a firm’s value if it improves the parent firm’s competitive position vis-à-vis rivals (Kogut, 1988). Further arguments in favor of value creation through alliances are provided by the theory of organizational knowledge and learning, which views alliances as a means by which firms can learn and develop new skills or seek to retain their existing capabilities (e.g., Contractor and Lorange, 1988 or Kogut, 1988).

Most empirical studies on value creation through alliances consider only one of the various theoretical perspectives and fail to integrate complementary explanations of shareholder value creation. Furthermore, some financial economics and strategic management scholars base their explanations solely on “synergy arguments” derived from the M&A literature, according to which the pooling of resources or the transfer of capabilities in an alliance creates value in a way that each of the parents could not achieve by acting alone (Inkpen, 2001).

\textsuperscript{14} Where firm performance refers to the stock market appraisal of a specific alliance announcement

\textsuperscript{15} The author investigates the performance consequences of individual alliances for the firms that form them and not the performance of the alliances themselves (see also Gulati, 1998a).