Joint ventures versus contractual agreements:
an empirical investigation

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Abstract In this paper, we empirically investigate the determinants of the governance form of strategic alliances. We use a database with 1,344 worldwide alliances in several industrial sectors. In contrast with previous empirical studies, we find that alliances undertaking R&D activities are more likely to use loose forms of organization (contractual agreements) than more hierarchical ones (joint ventures), and this result is even stronger when the alliance takes place in technologically sophisticated sectors. Moreover, we show that alliances between rival firms tend also to be organized with forms closer to arm’s length transactions. When the scope of an alliance is multidimensional or the alliance is an international one, however, firms prefer more hierarchical organizations such as joint ventures.
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**JEL Classification**  D23 · L22

**Introduction**

In the last 25 years, there has been a dramatic increase in the number of interfirm strategic alliances. Companies all over the world ally to overcome difficulties in nearly every business activity. However, in spite of the well known potential advantages of cooperation, the instability and the difficulties in the governance are commonly recognized features of strategic alliances. According to Inkpen and Ross (2001) the failure rate of joint ventures is close to 50%. Gonzalez (2001) goes even further and estimates that as many as 70% of alliances fail.

A factor of primary importance in determining the likelihood of success or of failure of an alliance is the way in which it is organized, that is its governance form. The dominant approach in dealing with this aspect of strategic alliances is certainly that of the Transaction Costs Economics (TCE). At the most basic level, the main issue addressed by TCE concerns the mode of governing transactions. The two extreme forms of governance that are considered are contracts (market) and ownership (hierarchy). According to TCE, in an ideal world without transaction costs all exchanges would be carried out by independent units through the market. It is only in the presence of frictions or, more generally, of market failures that hierarchical organizations arise. That is, hierarchy is seen as a substitute for the market when the latter fails to work properly (Williamson 1985). When applying this approach to alliances, TCE theorists classify these arrangements into two broad categories: equity and non-equity. The former group is composed of joint ventures and minority equity positions. The label “non-equity alliances” includes a variety of different organizational forms whose common feature is that they do not involve the sharing of equity; that is, the relationship between partners is purely contractual. In light

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1 The instability of strategic alliances has been documented in a number of contributions. See Bleeke and Ernst (1992), Doz et al. (1989), Kogut (1989) and Morris and Hergert (1987) among others.

2 The literature on strategic alliances is extremely developed and encompasses a variety of different theoretical approaches including, but not limited to, Transaction Costs Economics, Resource-Based Theory, Real Option Theory, Strategic Management, Resource Dependence Theory and Institutional Theory. For a brief discussion of these theories see Gray and Wood (1991) and Smith et al. (1995). For a more recent and comprehensive contribution see Contractor and Lorange (2002).

3 According to Gulati (1995), treating joint ventures and minority equity positions as a single category can be justified because “...a direct equity investment by one firm into another essentially creates an equity joint venture between one firm’s existing shareholders and the new corporate investor”.

4 Simple networking and more structured forms of governance such as technology exchange agreements, joint research agreements, co-production and co-development are all included in the category of non-equity alliances.