STRATEGIC ALLIANCE GOVERNANCE FORMS

Renato Rodrigues de Lyra*, T. Diana L. van Aduard de Macedo-Soares**

Abstract

This article presents the results of bibliographical research with a view to identifying the principal factors that should be considered by firms when choosing the most appropriate governance form for a new strategic alliance. It contributes to the body of knowledge regarding factors that influence the choice of governance form in strategic alliances, by seeking to incorporate concepts and proposals available in the internationalization and corporate governance literature to the alliance governance field. It thus also intends to provide guidance on recommended governance forms and practices for executives of firms that operate in strategic alliances at domestic and international levels.

Keywords: Alliance Governance, Relational Governance, Contractual Governance

*Department of Business Administration, Pontifical Catholic University of Rio de Janeiro- PUC-Rio, Rua Marquês de São Vicente, 225, 22453-900 Rio de Janeiro, RJ, Brazil
Tel: (+55 21) 9100 4500
Email: renatolyra@iag.puc-rio.br; renato@alphalyra.org
** Department of Business Administration, Pontifical Catholic University of Rio de Janeiro- PUC-Rio, Rua Marquês de São Vicente, 225, 22453-900 Rio de Janeiro, RJ, Brazil
Tel: (+55 21) 76666637
Email: tdiana.vanaduardmacedosoares@gmail.com
Website: www.strategy-research.com

I. Introduction

The main studies of alliances between firms focus on the formation of strategic alliances, how alliances create value and the evolution of strategic alliances. In contrast, relatively little research has been carried out on alliance governance. Yet, as Kale and Singh (2009) argue, governance plays a key role for the successful management of strategic alliances. This is relevant because many alliances fails (Bamford, Gomes-Casseres and Robinson, 2004) and one of the reasons is a lack of alliance management mechanisms, especially governance mechanisms (Kale and Singh, 2009), and another reason is a member's opportunistic behavior (Das 2005).

The objective of this article is to present the results of a bibliographical investigation, which sought to identify the principal factors that should be considered when choosing the most appropriate governance form for a new strategic alliance. Thus it intends to be a source of guidance regarding governance practices and forms for executives of domestic and international firms involved in strategic alliances.

This article has a particular concern with international alliance governance because there are differences between countries that influence the governance forms adopted by firms. These differences are typically related to cultural aspects, legal systems and the enforcing of laws (Smirnova, Naudé, Henneberg, Mouzas and Kouchtch, 2011, Wang, 2007, Naicker and Saungweme, 2009).

This article is organized in seven parts. In the first four, it presents the results of research that sought to identify in the literature the main issues addressed regarding strategic alliance governance (Part II), and the main governance structures used – dividing them into formal (Part III) and relational structures (Part IV). In the next two parts, it discusses alliances and networks in an international context (Part V) and strategic aspects related to the governance chosen (Part VI). It concludes with some recommendations for managers and researchers concerned with the effective governance of strategic alliances (Part VII).

II. Strategic alliance governance

The research at issue here adopted Gulati's (1998) definition of strategic alliances: **strategic alliances** are voluntary arrangements between firms involving the exchange, sharing or co-development of products, technologies and services. According to Thorelli (1986), strategic alliances are quite common in international business, due largely to the importance of trust in trade between nations. Other motives are the risks and difficulties associated with international trade.

Corporate governance (Carvalhal, 2006) refers to a system that organizes and balances organisms and powers within a firm. The term is usually related to the management, control, and distribution of rights and responsibilities between a firm's various participants and the monitoring mechanisms established by its controlling shareholders. Carvalhal observes that the different definitions of corporate governance agree that it consists of "*a set of principles and practices that seek to minimize potential conflicts of interest between the firm's agents*".

Carvalhal's analysis of corporate governance suggests that the study of governance between two firms began with **Agency Theory**. According to this theory, an alliance or network consists of an association of firms with a network of explicit and implicit contracts that establish the functions, rights and duties of all participants. In this case, companies use imperfect contracts to achieve balance between conflicting objectives, given that it is difficult to foresee all potential future conflicts between shareholders and a firm's management. According to this theory, a governance structure's main concern is to develop efficient mechanisms that assure alignment between member firms.

In an alliance or network, governance involves the use of authority and collaboration structures in order to manage resource allocation, and to coordinate and control actions of the organizations involved (Provan and Kenis, 2008). In recent years, the analysis of governance mechanisms in strategic alliances has focused on contracting efficiency, in which a trade-off between contractual and hierarchical arrangements determines the form of governance, the latter typically considering joint venture formation (Mitsuhashi, Shane and Sine, 2008).

Another approach to alliance governance involves relational analysis. Morgan and Hunt (1994) distinguish between discrete transactions with a short duration and well-defined beginning and end, and relational transactions that are related to previous agreements and last longer. These authors suggest that commitment and trust constructs are essential to a relation because they help to preserve it, increase resistance to the adoption by one of the parties of alternatives outside the relation and reduce the risk perceived by both parties in the relation.

In line with these arguments, Das (2005), in an analysis of the risks of strategic alliances, considers that risk in alliances may be divided into performance risk and relational risk. The former is similar to what occurs naturally in a single firm (without considering the effects of an alliance or network), while the latter – relational risk – is typical of strategic alliances or networks. Relational risk in alliances and networks arises from the possibility of one of the parties behaving in an opportunistic or selfish mode, such as withholding or distorting information that is relevant to the partners, or failing to engage in activities or provide resources that are necessary for the alliance's success.

In order to minimize relational risk, Das suggests the use of governance mechanisms designed to improve the relationship. These mechanisms involve contracts (supply relationships, R&D agreements, licensing), equity-based agreements (joint ventures or minority stakes), relationship specific assets, monitoring, a participative decision-making process and training on alliance processes and behaviors.

The academic terminology describing governance processes and structures has no consistent pattern, and the meaning of terms and classifications varies considerably. This research adopted a distinction used by Hoetker and Mellewigt (2009), characterizing governance in its formal and relational mechanisms. Other categorizations of governance used in the literature are "contractual governance" (Nielsen, 2010, Lee and Cavusgil, 2006, Ferguson, Paulin and Bergeron, 2005), "procedural governance" (Nielsen, 2010) "informal governance" or "informal control" (Dekker, 2004, Puranam and Vanneste, 2009). In some cases, the term relational governance describes alliance governance in general, not distinguishing between formal and informal alliance governance mechanisms (Macedo-Soares, 2011).

The terms "contractual governance" and "procedural governance" consider only some aspects of formal governance and relational governance, respectively, so the classification chosen in this article is more appropriate as it is broader than the others. The use of the terms "informal governance" and "informal controls" was not considered to be appropriate, because "informal" implies "not usual", "not regular" and "not established", which is not appropriate when dealing with the management of relations between firms. In contrast, the term "relational" is associated to relational transactions as defined by Morgan and Hunt (1994), and is commonly employed by other scholars.

Formal governance mechanisms are non-personalized processes (independent of the people involved), based on objective metrics and supported by contracts. Relational governance mechanisms, on the other hand, are based on relations characterized by a high level of communication, exchange of information and trust. These relational mechanisms are usually linked to particular individuals and their relationships (Eisenhart, *apud* Hoetker and Mellewigt 2009). Some examples of relational mechanisms are the creating of inter-organizational teams, task forces, committees, direct inter-organizational contacts, a shared decision-making process, and alternative ways of resolving disputes or even the transfer of managers between alliance partners. In order to analyze relational governance mechanisms it is also necessary to define the concept of **relational capital** which refers to the level of trust, respect and friendship that develops between partners due to individual-level interactions between parties (Kale, Singh and Perlmutter, 2000).

III. Formal governance mechanisms

According to the literature, the main formal governance structures in alliances and networks are joint ventures, contractual alliances and alliances with minority stakes. Equity-based alliances can be divided into joint ventures and alliances with minority stake (Gulati and Singh, 1998), with greater hierarchical control in the former than in the latter.

Osborn and Baughn (1990) argue that equity-based alliances are the best formal governance structure to align objective and to reduce the possibility of opportunistic behavior, as the partner companies distribute results (positive or negative) obtained through the joint venture. In addition, it is easier to implement monitoring mechanisms in a joint-venture as it does not require a complete specification of activities, behaviors or processes. These authors warn that it may be difficult to manage shared ownership in a joint venture, and this may lead to slower decision-making. In Brazil, the recent case involving Vivo, a leading firm in the mobile telephony market, is an eloquent example of this problem. Vivo was originally formed by a joint venture between two European operators (*Telefonica Móviles and Portugal Telecom*) which had to be dismantled due to their controlling shareholders' divergent objectives.

Another formal governance structure involves the use of contracts as a control mechanism. Some authors – for example, Chen and Chen (2003) – argue that the use of contractual controls offers advantages over the use of joint ventures, such as a greater flexibility, easier dissolution, lower public impact, easier negotiation (comparing to equity negotiation) and a lower legal liability. However, the effectiveness of using contracts as control mechanisms in alliances may be limited, especially in cases where there is a significant concern with the problem of appropriation in the alliance. In this situation, a structure that allows a greater degree of hierarchical control may be desirable.

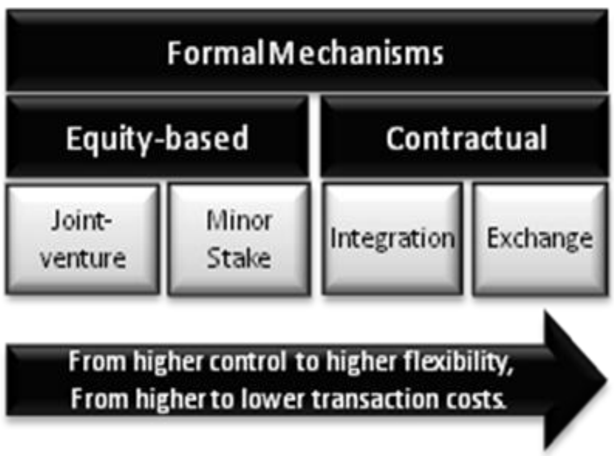
According to Das (2005), contracts determine the policies and procedures that should be followed by alliance partners, but their preparation is costly in terms of resources (managerial, legal or financial). As the contract gets more detailed, its marginal benefits become lower and its incremental cost becomes greater. In addition, it would be illusory to expect that contracts – no matter how detailed – could provide a complete protection against future uncertainties. Thus, contracts may not be effective in the long term and would be more appropriate for short-term situations. In the view of Das, alliances based on equity agreements are more effective in reducing the risk of opportunistic behavior by its agents.

In addition to the distinction between alliances controlled through equity or contracts based on the transaction cost theory, Chen and Chen (2003) propose a second distinction within the contractual alliance group: alliances involving the exchange of resources and those involving integration, in which partners share resources. They argue that the exchange or sharing of resources influences the choice of the appropriate governance mechanism – joint venture or contractual.

Based on these classifications, Figure 1 shows different types of formal governance mechanisms. The level of control associated with each mechanism reduces as we look at Figure 1 from left to right, in opposition to the flexibility of the firm in relation to the alliance. In other words, a joint venture is the formal governance mechanism that allows for a greater level of control, but at the cost of less flexibility. In contrast, contractual exchange alliances represent lower control levels, but are more flexible.

The transaction costs associated with each governance mechanism are expected to diminish as the firm moves from joint ventures towards contractual governance mechanisms.

Figure 1. Formal Governance Mechanisms



Regarding factors that lead firms to select a formal governance structure, Osborn & Baughn (1990) analyzed 153 alliances and verified that firms that wish to conduct research tend to form joint ventures to reduce the risk of appropriation – in line with other results presented in the literature (Teng and Das, 2008, Gulati and Singh, 1998). On the other hand, in environments characterized by high levels of technological uncertainty, firms prefer to use contractual structures owing to their greater flexibility. Osborn & Baughn (1990) refer to contract-based structures as "quasi markets" and to joint ventures as "quasi hierarchies". In this context, agreements involving the sale or transfer of technology are considered "quasi markets" and joint development agreements are "quasi hierarchical".

In another study, Teng and Das (2008) examined 765 alliances in order to verify the influence of the most critical factors in the choice of forms of governance, considering only formal mechanisms. In their sample, they verified that the following factors were significant: alliance objectives (e.g. R&D development or joint marketing), managerial experience on alliances and existence of international partners (international alliances tend to be based on equity, a formal mechanism). Gulati and Singh (1998) show that when alliances involve international partners, European firms tend to have greater use of equity-based agreements, in contrast with Japanese and U.S. firms, where this behavior is not particularly significant.

IV. Relational governance mechanisms

Most studies of strategic alliance governance have analyzed the formal aspects of these relations. However, academics in the corporate strategy area are increasingly focusing on the relational aspects of governance. Dyer and Singh (1998), for example, who consider that one way of gaining competitive advantage in an alliance is through effective governance mechanisms, identified two relational factors that can facilitate effective governance. These are i) partners' skills in the use of self-enforcing mechanisms, i.e. those that do not involve third parties (e.g. trust and reputation), and ii) partners' skills in the use of informal mechanisms that sustain the alliance. They observe that governance based solely on contracts would rely on judicial or arbitration courts to solve conflicts, which is money and time consuming. As an example of the importance of relationships, they cite the case of industries in which customers' specifications can lead to innovations (as in the case of scientific instruments).

According to Dyer and Singh (1998), self-enforcing mechanisms are more effective than mechanisms that involve other parties (such as the judicial system, for example), because they reduce transaction costs and maximize initiatives that create value. The reduction of transaction costs is due to the belief that the parties involved will divide alliance benefits appropriately (reducing the cost of preparing detailed contracts). Moreover, in the case of self-enforcing agreements, monitoring costs are also lower and adaptation to the partnership is easier. These authors also point out that self-enforcing agreements have an advantage over contracts because they are less subject to the limitations of the moment (time dimension), whereas formal contracts tend to reflect the prevailing conditions of the relationship at the time of the agreement.

According to Kale *et al.* (2000), relational capital creates a basis for learning and the transfer of knowledge, as well as for reducing the risk of opportunistic behavior by one of the parties involved. Indeed, in a survey of 212 firms, Kale *et al.* (2000) verified that relational capital is significantly related to the degree of learning attained and that a conflict management process based on intensive contacts and communication is positively related to learning success. They also found a positive and significant relation between the use of relational governance mechanisms and the protection of proprietary assets. These authors suggest that, in the context of an alliance, relational capital may help firms achieve a balance between the acquisition of new capabilities through alliances and the protection of firm-specific assets or knowledge.

Trust constitutes one of the main aspects of relational capital. It influences governance structure and alliance performance, as shown by the study undertaken by Gulati and Nickerson (2008). They analyzed how preexisting inter-organizational trust influences the choice of governance structure and hence the relationship's performance, and found that a high level of inter-organizational trust increases the likelihood of a less formal (and less expensive) governance structure. These authors suggest that trust causes a substitution effect in the choice of governance structure, improves the relationship's performance and reduces the level of inter-organizational conflict, no matter which type of governance is used.

An interesting point in the case of Gulati & Nickerson is that they do not consider trust as a governance mechanism per se, but as a moderating factor. They mention that various studies suggest that relational trust may be a substitute for formal governance, arguing that the main issue is not the role of trust as a substitute or complement of a formal governance structure, but, rather, in which circumstances it can improve the relation's performance as a substitute for formal governance structures or as a complement.

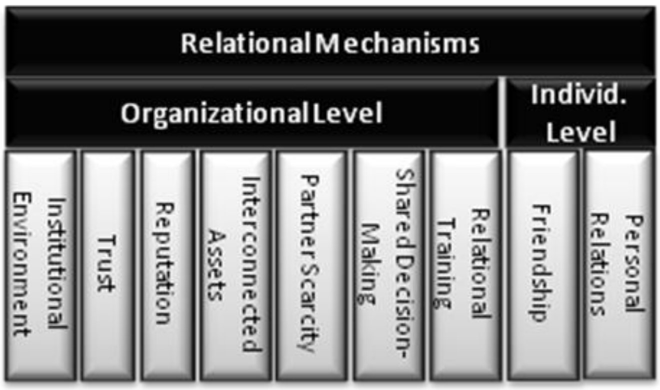
Thus, Wittmann, Hunt & Arnett's (2009) study confirms the findings of Gulati & Nickerson and other researchers, by showing that a view based on relational factors (trust, commitment, cooperation and communication) complements a resource-based view (RBV). According to these authors, the Resource-Based View emphasizes the link between alliance resources and performance and helps us understand how to coordinate and employ these resources. However, it does not explain how to improve and develop the relationship between firms. In an alliance or network, firms manage to gain access to other firms' resources, but do not control these external resources. Thus, the governance of the relation between parties to an alliance should also be based on relational factors in order to facilitate an indirect control over resources.

The division between formal and relational governance mechanisms is also pronounced in Hoetker and Mellewigt's study (2009), in which they try to find an "ideal" configuration between formal and relational governance mechanisms in German telecommunication sector firms. These authors suggest that the ideal configuration depends on the assets involved in the relationship. Formal mechanisms are more appropriate if relations involve physical assets (that are easily quantifiable) and relational mechanisms are better suited to the case of knowledge-linked assets, due to the inherent difficulty of specifying processes and expected results. In addition, their results suggest that the lack of fit between the governance mechanisms and the type of assets involved may hamper performance. Indeed, they found evidence of a relation between asset type and form of governance. In their research, they found a positive relation between relational governance and the performance of alliances involving knowledge-based assets, and a negative relation between relational governance mechanisms and the performance of property-based alliances. However, they did not find evidence of a relation between formal governance mechanisms and alliance performance. They thus argue that the development of relational mechanisms may lead to unnecessary costs when the relation involves property-based assets.

In a relational governance structure, various mechanisms allow conflicts to be resolved based on open communication and a preference for achieving solutions that benefit both parties (Kale et al., 2000). However, a relational governance structure cannot be created overnight. A series of interactions between teams from each firm is necessary to develop personal ties that foster cooperation and growth in inter-organizational trust (Hoetker and Mellewigt, 2009).

Although the use of relational governance mechanisms has several advantages, one must not ignore the disadvantages. The first is that such mechanisms cannot be enforced (or are, at least, difficult to enforce) in relations between firms with a short history of contacts and that have not yet been able to develop the personal processes and relationships needed to establish relational mechanisms. Secondly, it may take longer to set up a relational agreement than a formal one. This is the case of relational societies that require a certain degree of trust between parties before a relation can be developed. Thirdly, firms may end up prolonging a low-performance relationship due to a greater acceptance of unexpected aspects (e.g. costs) in order to maintain the relationship (Hoetker and Mellewigt, 2009). However, we should point out that maintaining an underperforming relation is above all a managerial decision and not inherent to the relational governance model (although it may be induced by this model).

Figure 2. Relational Governance Mechanisms



Adopting a different approach, Nielsen (2010) defines contractual governance as the distribution of rights between the alliance partners through the use of contracts, directly affecting the alliance's structure. He uses the term **processual governance** to describe the coordination of procedures and interactions related to the knowledge management process during an alliance's evolution. In his view, an efficient governance structure is the result of an adaptation process and that procedural governance refers to the continuous coordination between parties, through which the related firms learn to adjust their activities to those of their partners. The approach proposed by Nielsen addresses aspects of formal governance (in the contractual case) and relational governance (in the relational case) that do not conflict with the other proposals regarding governance presented above.

Based on these classifications, Figure 2 presents a list of relational governance mechanisms. Relational mechanisms of an organizational nature have a greater level of control than relational mechanisms of an individual kind. The latter are usually associated with executives (such as an account director) who manage to develop partnerships with other firms based on their personal relations.

V. International context

The relation between firms and the governance model adopted depends on the context of each country in which these firms are located. Although corporate governance typically deals with the relationships between stakeholders in a single firm, cross-border comparisons of governance systems may serve to illustrate countries' different characteristics. For example, in countries where family firms or small groups of shareholders with effective control of firms (in contrast to firms with diluted control) predominate, the level of conflict between a firm's shareholders and agents is relatively low. This is so because the person or group that controls the firm (controlling shareholder) also usually controls the firm's managers. In these firms, the greatest conflicts exist between the controlling shareholder and minority shareholders (Carvalhal, 2006). This is the case in Brazil, where the corporate governance structure focuses on protecting minority investors. In countries which use the Anglo-Saxon corporate governance model, in which control is diluted among a large number of shareholders, the main conflict of interest addressed by the corporate governance structure occurs between a firm's managers and its shareholders.

Corporate governance systems also vary according to countries' respective legal environments, especially with regard to law enforcement. La Porta, Lopez-De-Silanes, Schleifer & Vishny (1998) classify corporate governance models according to the legal system: the common law system, which exists in most English speaking countries, and the French civil law system, which is based on Roman law. These authors consider that many countries have low levels of legal investor protection due to their civil law system.

This is the case of some Latin America and Southeast Asia countries, where a highly concentrated ownership structure involving a small number of shareholders characterizes the governance system. There is often a single controlling family and a clear separation between dividend and control rights (Carvalhal, 2006).

Data from the World Bank's "Doing Business" project (www.doingbusiness.org) is an evidence of the low level of protection afforded to investors in some countries. This project assesses the business environment in various countries and one of the main points assessed is contract enforcement. This indicator assesses the time, cost and number of procedures involved from the beginning of the court case to the end of the dispute, for small and medium-sized firms. Table 1 shows some examples of differences in the ease – or feasibility – of enforcing contracts in some countries or regions (2010 figures). Note that it takes an average of 300 days to resolve a commercial dispute in the USA - typically absorbing 14.4% of the amount claimed, and a court case in India takes on average 1.420 days and absorbs almost 40% of the amount claimed. Thus, contractual mechanisms are not particularly efficient in countries where it is difficult to execute these court cases or where the cost of doing so is remarkably high.

Table 1. Ease of enforcing contracts (source: www.doingbusiness.org)

Economy	Num. of procedures	Amount of Time (days)	Cost (% claimed)
East Asia and Pacific	37.3	531.8	48.5
Latin America & Caribbean	39.8	707	31.2
Australia	28	395	20.7
Brazil	45	616	16.5
Chile	36	480	28.6
China	34	406	11.1
Germany	30	394	14.4
India	46	1.420	39.6
Japan	30	360	22.7
Mexico	38	415	32.0
Russia	37	281	13.4
South Africa	30	600	33.2
Unites States	32	300	14.4

Besides each country's legal context, another factor to be considered is the fact that some markets – especially in emerging countries – are in a transition stage. For example, Smirnova *et al*. (2011) made a study of Russian firms and found that inter-organizational relationships were strongly influenced by the country's transition process, its business culture and personal relations. They called attention to the fact that trust between firms in present-day Russia is low, but can be compensated by interpersonal trust.

Nielsen (2007), in a study of Danish firms' alliances with foreign firms, also found significant differences between alliance performance and the characteristics of partner firms' countries of origin. In his research, he evidenced significant relations between alliance performance and factors such as collaborative knowledge, trust, complementarity and cultural distance – with this last factor showing how perceived cultural differences can affect an international alliance's performance.

Cultural aspects also play a prominent role in governing alliance structure, remarkably in societies that value inter-personal relationships in negotiations, as in the case of China, Japan and Brazil. It is thus argued here that, in such societies, companies should develop an appropriate balance between formal and relational governance, avoiding too formal governance structures based solely on contracts and monitoring mechanisms. This view contrasts with that of Johnson and Neave (2006), for example, who believe (based on a transactional approach) that managing cultural differences in cross-national alliances requires a higher degree of monitoring.

Wang (2007) highlights the differences between concepts usually addressed in the relationship between firms and the corresponding concepts used in China as, for example, in the case of the differences between relationship marketing and Chinese *Guanxi*, or between trust and *xinyong*. The term ***Guanxi*** (formed by the words Guan [door / gate] + xi [connection]) usually refers to social relationships or connections based on mutual interest and benefit, and a link between partners related to the existence of reciprocal obligations and the expectation of continuous cooperation. In the case of trust, Wang indicates that there are significant differences between the concept of trust and ***xinyong*** – the closest equivalent in Chinese – and that it has little impact on the development and maintenance of *guanxi* (in contrast to the central role usually attributed to trust in the study of relationships between Western firms). Wang suggests that, instead of trust between parties, obligations and mutual assurances guide the relationship in *guanxi*. In addition, the author emphasizes the universal nature of relationship marketing: the relationship network is open to other partners, especially as trust between the parties involved characterizes Western societies. In contrast, a more closed network characterizes a *guanxi* because Chinese society limits trust to those who are the closest ones (typically members of the same family).

In sum, besides the characteristics of different types of formal and relational mechanisms (with their advantages and disadvantages), the choice of governance model for an alliance or network between firms from different countries should take into consideration aspects such as the ease (or difficulty) of enforcing legal contracts, cultural differences in relationships and other characteristics of the countries involved, such their level of development.

VI. Strategic aspects

The main issue regarding the governance of an inter-firm relation is to select an appropriate control mechanism. It should maximize results and minimize the risk of opportunistic behavior in the partnership.

Academic literature illustrates different factors that influence the choice of governance mechanisms, such as alliance objectives, the industry in which the firm operates, its size, the level of technological uncertainty, the resources involved, inter-organizational trust and previous relationship ties (see examples in Table 2). These diverse factors are typically related to the efficiency of governance mechanisms in terms of their ability to reduce transaction costs. However, academic research into firms' global strategies has shown that, when setting up alliances or networks, multinational firms are more concerned with establishing their global strategic positioning than with transaction costs per se (Osborn and Baughn, 1990).

In line with the issue of the influence of strategic factors on governance structures, Hoffman (2007) analyzes how firms manage a portfolio of alliances, using a classification of three different strategies that can enable them to face a complex environment characterized by change. Thus, firms can: 1) **adapt** reactively to changes in their environment 2) actively **shape** the development of the environment, or 3) seek to **stabilize** the environment, avoiding organizational change.

In order to develop the second strategy, firms may engage in a large number of alliances in order to develop new resources, new capabilities or exploit existing opportunities. In this situation, firms need to use flexible ways of managing this set of relations efficiently. Even in the case of an environmental adaptation strategy, firms need to enhance their resource use and flexibility without undertaking large investments. They also need to develop flexible mechanisms to manage the various alliances they establish. Only firms that are seeking to stabilize their environment can use more formal and rigid mechanisms, as in the case of longer term supply or distribution contracts.

Table 2. Examples of factors affecting the choice of governance mechanisms

Factors	References
Strategic fit between partners	Macedo-Soares (2011), Nielsen (2010)
Enforcement of agreements	Dyer and Singh (1998), La Porta et al. (2000)
Type of **asset** involved	Chen and Chen (2003), Kale et al. (2000), Hoetcker and Mellewigt (2009)
Partner **commitment**	Morgan and Hunt (1994), Pillai and Sharma (2003)
Trust between partners	Morgan and Hunt (1994), Dyer and Singh (1998), Gullati and Nickerson (2008), Pillai and Sharma (2003)
Cultural aspects	Wang (2007), Smirnova *et al*. (2011)
Management **experience** of partners	Teng and Das (2008)
Technological **uncertainty**	Osborn and Baughn (1990)
Non-availability of other partners	Dyer and Singh (1998)
Asset **interconnection**	Dyer and Singh (1998)
Relation-specific investments	Dyer and Singh (1998)
Organizational **moment**	Mitsuhashi et al. (2008)
Alliance **objectives**	Hoffmann (2007), Teng and Das (2008)
Existence of **international partners**	Teng and Das (2008)
Joint **research and development**	Osborn and Baughn (1990), Teng and Das (2008)
Ownership structure of firms involved	Carvalhal (2006)
Number of alliances managed	Hoffmann (2007)
Network of relationships of parties involved	Rowley *et al*. (2000)
Pre-existing **relationships**	Hoetcker and Mellewigt (2009)
Reputation of partner firms	Dyer and Singh (1998)
Size of firms	Osborn and Baughn (1990), Chen and Chen (2003)

Besides formal and relational aspects and those related to the firm's strategic goals, it may be necessary to consider the effect of the **organizational moment** on the choice of a form of inter-organizational governance. Mitsuhashi *et al.* (2008) examined the choice of a form of governance in 1510 franchises operating in North America. They suggest that the form of organizational governance evolves over time. Therefore, the organizational moment – defined as the tendency to maintain or expand the emphasis and direction of previous strategic actions – may be used to predict the form of governance adopted by the firms analyzed and an explanation of the choice of the forms of governance should incorporate dynamic processes.

The question of the organizational moment can be associated with the use of relational governance mechanisms, which depend on the development of a minimum level of trust and communication between the firms involved that may not exist at the beginning of an alliance or network between firms. In this case, even if the firms consider that relational governance mechanisms are the most appropriate for the relation they are building, they may begin the relationship by instituting formal governance mechanisms. This would be the case of a technology-development agreement characterized by a high level of innovation and uncertainty that, at the beginning would use more detailed contracts, stringent monitoring processes and conflict-resolution processes involving third parties.

Figure 3. Main Alliance Governance Mechanisms

This view is in line with Hoetker and Mellewigt (2009), who argue that formal governance mechanisms are not so dependent on pre-existing interactions, and suggest that the initial activities of an alliance should involve more agreements related to proprietary assets than knowledge-based assets. Firms could thus adopt relational governance mechanisms progressively, as trust and other relational attributes develop. This thesis is also corroborated by Mitsuhashi *et al.* (2008), who argue that even the efficient use of contracts (as a form of governance) does not take into consideration the dynamic processes involved in the evolution of a firm's governance. Reuer and Ariño´s (2007) findings also support the idea that prior alliances between firms lead them to specify fewer provisions relating to the coordination of the alliance. This reduction in the contractual provisions for alliance coordination suggests that these provisions could have been replaced by relational governance mechanisms.

In relation to the progression from formal governance to relational governance (in situations where the latter is more appropriate), Gopalakrishna Pillai and Sharma (2003) observe that at each stage of the relation, both transactional and formal factors are present, and the factors linked to a relational approach may diminish after having attained a peak. This reduction in relational factors may signal the beginning of a disagreement or a change of strategy by one of the parties involved. The importance of complementing formal with relational governance mechanisms is also defended by Macedo-Soares (2011).

Finally, from the perspective of gaining sustainable competitive advantage through alliances or relationship networks, Dyer and Singh (1998) suggest that formal mechanisms are easier to imitate than informal ones (relational). They argue that informal mechanisms are socially complex, specific to each relation, and take longer to develop than formal ones, characteristics that contribute to the inimitability of informal mechanisms and consequently their competitive advantage, in accordance with the Resource-Based-View. They observe, moreover, that from this view an individual firm should seek to protect – instead of share – proprietary knowledge in order to maintain its competitive advantage. However, from a relational viewpoint an efficient strategy may be to share its knowledge with its partners gradually, even knowing that part of this knowledge may end up with their competitors. In return, the firm would gain access to knowledge held by the partners.

VII. Final considerations

This article presents the results of research that identified the main factors that should be considered when choosing the most appropriate governance form for a strategic alliance. Special emphasis was put on international relations as they involve each country's different characteristics that may influence the choice of governance mechanisms. Existing governance mechanisms were classified into formal and relational mechanisms as this classification is simple enough to be used by other researchers and broad enough to classify any governance mechanism. A summary table with the main strategic alliance governance mechanisms is given in Figure 3 (Lower level classifications are not shown for the sake of simplicity, as they were presented in Figures 1 and 2).

From the literature review at issue in this article, it became obvious that alliance management not only requires a suitable balance between formal and relational mechanisms, but also faces the challenge of resolving eventual conflicts between these two types of mechanisms.

It is relevant that in a study of 184 technology-intensive US firms that aimed at verifying the alliance performance impact of contractual-based and relational-based governance, Lee and Cavusgil (2006) found a significant positive relationship between relational-based governance and alliance performance, but did not find support for the relationship between contractual-based governance and alliance performance. This result is in keeping with the need of greater flexibility for coping with turbulent environments, and suggests that alliances with greater technological uncertainty require proper relational mechanisms for achieving effective management. In the same study, Lee and Cavusgil also found a negative and significant interaction between the effects of contractual-based and relational-based governance, suggesting that in technology-intensive firms contractual-based governance may hinder relational mechanisms.

Therefore, in an alliance the firm should evaluate both its formal and relational governance mechanisms so as to strike the right balance between these and contribute to more effective alliance governance and, consequently, performance.

Table 3 presents a set of questions formulated on the basis of our study that can be used as a check list to help firms assess their governance mechanisms. (Note that for contractual governance mechanisms, Table 3 uses a set of indicators of contractual provisions developed by Parkhe (1993) and used by Reuer and Ariño (2007) to analyze contractual complexity).

Given the large number of factors involved in the choice of governance mechanisms – especially in globalized environments - as well as the different views of the firm and the environment that can be adopted (resource-based, positioning and relational), this choice is hardly a simple task. It should be supported by appropriate assessment tools with integrative characteristics, an example of which is the ***Global Strategic Network Analysis Framework***, proposed by Macedo-Soares (2011) for firms that operate globally. Indeed, it is fundamental that firms use analytical tools that emphasize strategic fit in order to help align the form of alliance governance used with their corporate strategy, so as to minimize the risk of opportunistic behavior and avoid the unnecessary costs of developing mechanisms that are not appropriate for a given situation.

Further research is thus recommended on how to ensure the necessary strategic alignment of alliance governance, considering the importance of striking the desirable balance between formal and relational governance mechanisms, using as starting point the main factors for governance form choice identified and discussed in this article.

Table 3. Assessing formal and relational governance aspects

Contractual Complexity Indicators
Does the contract specify periodic written reports requirements?
Does the contract require prompt written notices from any departure from the agreement?
Does the contract specify rights to examine and to audit
Are there specifications of the types of information that are subject to confidentiality agreements?
Is proprietary information used even after termination of the agreement
Does the contract have detailed termination clauses?
Does the contract have detailed arbitration clauses?
Does the contract have lawsuits provisions?
Relational Mechanisms Indicators
To which extend the institutional environment favors the alliance?
Is there a high level of inter-organizational trust between the partners?
Can the alliance relationship impact partners' reputation?
Are there important interconnected assets in the relationship? Are they important for all partners?
Are there other suitable partners in the market?
Are there shared decision-making routines for alliance decisions?
Are the employees involved in the partnership processes trained for ensuring relational processes?
Does the relationship depend on one or more key persons in the organization?

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