Chapter XV

Reducing Agency Problem and Improving Organizational Value-Based Decision-Making Model of Inter-Organizational Strategic Alliance

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ABSTRACT

This chapter employs a cross-theory perspective by combining the four theories of agency theory, resource-dependent theory, resource-based theory, and knowledge-based theory, intending to explore the impact of inter-organizational strategic alliance on organizational value-based decision-making model and intellectual capital. Drawing the related variables upon making the literature review, analysis and inference, it infers 18 propositions and builds up a conceptual model. As a result, it is found that different formation factors of inter-organizational strategic alliance not only have significantly impact on an agency problem, but also have positive or negative impact on core resource and core knowledge strategic alliance. It is also found that...
when there is an inter-organizational agency problem, it will further increase the agency cost, and impact on the organizational value-based decision of inter-organizational strategic alliance in the future. Furthermore, the authors hope that researchers understanding through the governance mechanisms of inter-organizational core resource alliance and core knowledge strategic alliance are more matured, it will be more effective to prevent the appearance of agency problem and reduce agency cost and will be more helpful to the increase of organizational intellectual capital and the creation of organizational value.

INTRODUCTION

As there is a tendency towards global economization, many researchers are concerned about the issue of inter-organizational strategic alliance. First, when citing resource-dependent theory to study the issue of strategic alliance, Boyd (1990) found that when external environment uncertainty is raised, an inter-organizational merger is encouraged, ensuring the acquisition of rare resource. Second, the problem of how an organization uses the mechanism of strategic alliance to increase asset return ratio, reduce cost and raise organizational efficiency can be studied from a transaction cost perspective (Hennart, 1988; Oliver, 1991; Williamson, 1981). Third, some researchers adopt the perspective of strategic behavior theory to explore how the mechanism of inter-organizational strategic alliance increases organizational competitive advantage (Davlin & Bleackley, 1988; Kanter, 1990; Porter, 1990). Fourth, the perspective of unified theory has been taken to integrate internalization theory, market failure and transaction cost theory, proving organizational strategic alliance to be the best choice of business operation model (Contractor, 1990). Fifth, from the perspective of network theory, some researchers explore how an organization merges with other organizations through network relationship alliance so as to obtain competitive advantage (Jarill, 1988; Johanson & Mattson, 1987).

After literature reviews related to inter-organizational strategic alliance can be derived, it is clearly understood that most of the researchers have agreed with the argument that if an organization adopts appropriate strategic alliance, it is helpful to the reduction of operation cost, enlargement of economic scale, development of new product, acquisition of low capital cost, increase of profit and after-tax earnings, and improvement of financial performance (Auster, 1989; Contractor & Lorange, 1988; Souder & Nassar, 1990). Besides, strategic alliance enables the development of new market and new product, and the increase of market share and sales growth ratio in terms of marketing performance (Badaracco, 1991; De La Sierra, 1995; Harrigan, 1987). Furthermore, through the resource integration and synthetic organizational development of strategic alliance, an organization can undertake some general research and development (R&D) projects, obtain new knowledge or new technology and increase its competitive capability (De La Sierra, 1995; Gulati, 1999; Harrigan, 1987; Porter, 1990).

As we know, most of the researchers in the past agreed with the argument that strategic alliance can improve an organizational performance. But after examination of the evolution indicator of strategic alliance performance from the literature, this chapter finds that most of the literature uses either subjective or objective methods to measure the strategic performance. Thus, many controversial arguments on this issue are found:
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