Competition Forum Vol. 6 (1), 2008

Reducing CAGE Distances through International Sister Cities: A Relational View of Strategic Alliances

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EXECUTIVE SUMMARY

This research proposal draws on the CAGE (cultural, administrative, geographical, and economic distances between two countries) framework (Ghemawat, 2001) to examine institutional factors that shape alliance tenure, count, and performance. Differences in corporate and national logics are ameliorated as alliances are established and become embedded in sister city relationships, which serve as macro superstructures that facilitate firm level exchanges on a global-local interface.. The exploration of this multilevel twinning effect adds to the international business literature on regional economic integration. A multi-level, combined paradigmatic study design will be employed to analyze alliance data on firms both headquartered in 160 focal cities and in non-focal cities in the U.S., Canada, China, and Korea for the years 1988 to 2008.

Keywords: Alliances, Sister Cities, CAGE Framework, Multilevel, International Business

INTRODUCTION

Alliances are becoming an essential feature of firms' overall organizational structure, yet studies have reported failure rates as high as 80 percent, usually leading to the dissolution of the alliance or acquisition by one of the partners (Geringer & Hebert, 1991; Kogut, 1989). Since firms' competitive advantage increasingly depends not only on a company's internal capabilities, but also on the types and the scope of its relationships with other firms (Parkhe, 1993), alliance performance merits scientific scrutiny for the benefit of scholars and managers alike. Firms that are able to manage the daunting circumstances in entering a new country reap the benefits of first mover advantages, including being the first participants in new product markets, reputation effects, and economic advantages of sales volume and of preemptive domination of distribution and communication channels. In emerging economies and other countries exhibiting high CAGE distances from developed countries, such advantages are difficult to establish without good relationships with home governments (Hoskinsson, Eden, Lau, & Wright, 2000). Thus, sister cities induce early relationships with local governments that confer tangible benefits, such as access to limited licenses, that establish a positive momentum for the alliance relationship.

Alliances form to capitalize on synergies, which derive from firms that are sufficiently different from one another to gain from collaboration, yet similar enough to sustain the alliance (Parkhe, 1991). The management literature studies examples of alliances that began with cost or risk-economizing (Mowery, 1988), strategic (Hagedoorn, 1993), or skill-acquisition motivations (Hamel, 1991). Indeed, due to the temporary and comparatively flexible nature of alliances, partners are expected to derive the maximum value possible and get out when competitive circumstances shift (Boston Consulting Group, 2005). Given the opportunistic tendencies partners are predisposed to, another purpose of this proposal is to extend the literature on alliances by introducing socio-political relationships as a moderator between a given alliance motivation and optimal alliance performance. Social capital is an important but often overlooked component of successful strategic alliances. Trust is the foundation through which social capital can be leveraged to achieve alliance success (Ireland, Hitt, & Vaidyanath, 2002). Social capital is defined here as a firm's long-term relationships with other companies or social constituents, including government authorities, that have important resources. The assertion contends that to overcome the probability of alliance failure, both partners need to acknowledge that the key is not to just go after the resources, but to cultivate the relational aspect that will eventually culminate in the attainment of resources (Inkpen & Beamish, 1997).

Cremer, Gounder, & Ramasamy (1996) note that, "a trade mission to a country which includes visits to a sister city is almost certainly a winner, whereas a one-off trade mission to any country will be almost certainly a failure." The underlying theme of reduced institutional distance inherent in sister city relationships explains some of the prevalent problems for firms that seek alliances without some form of auxiliary support. Assuming a trickle-down effect of institutional distance reduction from the city level to the firm level, similarity between the sister cities in the cultural, administrative, geographic, and economic distance (CAGE) factors (Ghemawat, 2001) would influence alliance relations in a positive manner. That is, the CAGE components that need to be aligned as much as possible for an alliance to fulfill its synergistic pursuits are already matched to the extent possible through sister city relationships. The foundation of further alliance development is established through city level congruence on institutional distance and solidified through frequent interaction by officials.

Since the early 1980's, globalization has fostered symbiotic relationships between cities across the world, creating a new category of institutional phenomena termed the "sister city." More than 11,000 pairs of cities in some 159 countries have entered into sister city arrangements, originally motivated by cultural understanding but more recently recognized for their economic potential (Cremer, de Bruin, & Dupuis, 2001). With unprecedented alliance activities in today's increasingly interconnected yet culturally sensitive world, firms going abroad face the dilemma of global integration and local responsiveness (Prahalad & Doz, 1987). Sister cities exhibit potential in bridging the local-global divide through providing operational guidance in local markets yet promoting global awareness through the union of cultures. Sister cities reshape the institutional environment by supplementing traditional bureaucratic structures and processes (Zelinsky, 1991), allowing more flexibility for firms pursuing international alliances. The presence of institutional voids and governmental restrictions in emerging markets (Khanna & Palepu, 1997), combined with increasing salience of these markets for Western firms, makes exploration of the sister city phenomenon particularly germane for its international business implications. This research proposal aims to examine the role of sister city relationships in facilitating the formation of and the subsequent stability of alliances in the international arena.

The underlying assumption for anchoring firm alliances in a sister city context is that beyond strategic concerns, firms go where they feel welcome and supported. In an increasing number of countries, large enterprises are subject to the oversight of officials not only at the national level but also at regional and city levels. In Russia, China, Malaysia, and numerous other countries, local authorities often play a dominant role in any approval process for foreign firm establishment (Vernon, 1998). The indispensible nature of relational capital, in emerging market countries in particular, is reflected in firms becoming effective monopolies in their home markets on account of network relationships and close business-government ties (Hoskinsson et al., 2000). Using Chinese data, Peng & Luo (2000) find that interpersonal ties between enterprise managers and government officials are more important than ties with managers in other firms in influencing firm performance. Analyzing state ownership of corporations through "pyramid controlling mechanisms," La Porta, Lopez-de-Silanes, & Shleifer (1999) estimate that the government owns more than 65 percent of all available shares in Chinese publicly listed corporations. The extent to which government officials have stakes in local businesses in emerging markets in Asia further confirms the need for firms to appease government interests that are tied to local business interests (Graham & Marchick, 2006). In light of the almost inevitable confrontation with local governments, sister city relationships can provide economic opportunities in a supportive environment (Cremer et al., 1996). Moreover, there are growing attempts by local governments to act as a catalyst in capitalizing on new opportunities for innovation and cooperation presented by globalization-localization forces (Cremer et al., 2001).

RESEARCH GAPS

Although prior research has explored the transformation of an economic exchange into a socially embedded relationship, using a socio-psychological lens to shed light on the social interactions and sentiments of parties to facilitate repetitive economic exchange (Ring & Van de Ven, 1994), more research on the reverse instance can shed light on the alliance formation and execution process. Specifically, by explicating the institutionalization process that firms in a sister city context undergo, relative to that of firms establishing alliances without such context, this research proposal is a first step in delineating conditions under which firms can derive value from socio-political institutions. Since cooperative inter-organizational relationships that are poorly matched with environmental conditions have a higher probability of failure (Aldrich, 1979; Powell, 1990), political and social ties that evolve from mutual identification should hold significant implications for firms that enter into alliances through such overarching relationships.

Research relating the role of sister cities to economics is not new, although its potential significance for international strategic management has not been explored. Ramasamy and Cremer (1998) discuss the concept of international sister relationships as an effective instrument to foster closer cultural and economic links between countries. Cremer, de Bruin, & Dupuis (2001) further emphasize the importance of embedded partnership ties in sister cities, what they term "municipal-community entrepreneurship," in deriving sustainable economic and social benefits for cities. Zelinsky (1991) examines the sister city phenomenon through a policy lens, describing the political and economic interests of participating nation-states that may be at odds with official policy. Although such studies generate insight into the significance of the sister city at a macro level (i.e. country) and meso level (i.e. city), little is known about the implications of this ubiquitous institution at the firm level. Alternatively, research on the role of sister city relationships in organizational collaboration has emerged in academic domains other than management, such as that on nursing schools (Riner & Becklenberg, 2001). Indeed, a search of the management literature yielded no attempt to draw connections between sister city relationships and firm strategy.

Empirical research has focused on strategic alliances through various theoretical lenses, such as the resource based view (Afuah, 2000; Ahuja, 2000a; Anand & Khanna, 2000; Eisenhardt & Schoonhoven, 1996; Hamel, 1991; Hitt., Dacin, Levitas, Arregle, & Borza, 2000a; Lampel & Shamsie, 2000), social network theory (Ahuja, 2000b; Baum, Calabrese, & Silverman, 2000; Chung, Singh, & Lee, 2000; Gulati, 1999; Kraatz, 1998; Madhavan, Koka, & Prescott, 1998; Powell, Koput, & Smith-Doerr, 1996; Tsai & Ghoshal, 1998; Walker, Kogut, & Shan, 1997), organizational learning and evolutionary perspectives (Ariño & de la Torre, 1998; Barkema, Bell, & Pennings, 1996; Barkema, Shenkar, Vermeulen, & Bell, 1997; Doz, 1996; Nagarajan & Mitchell, 1998; Shenkar & Li, 1999), knowledge based view (Dyer & Nobeoka, 2000; Inkpen & Dinur, 1998; Kale, Singh, & Perlmutter, 2000; Lam, 1997; Lyles & Salk, 1996; Mowery, Oxley, & Silverman, 1996; Simonin, 1999), transaction cost economics (Glaister & Buckley, 1996; Gulati, 1995; McGee, Dowling, & Megginson, 1995; Parkhe, 1993; Young-Ybarra & Wiersema, 1999), institutional theory (Baum & Oliver, 1991), and a combination of theories (Lorenzoni & Lipparini, 1999; Stuart, 2000).

This proposal introduces international sister city relationships as a policy instrument through which institutional distance can be reduced, so as to facilitate longer and more financially-productive alliances between firms from different countries. As such, the proposal is a first attempt at explicating international alliance dynamics through a particular mechanism in a socio-political, or relational, framework. Institutional distance is defined as the degree of similarity/difference between the regulatory, normative, and cognitive institutions of two countries (Kostova, 1996) and is argued to affect firm ownership strategy through liability of foreignness (LOF) (Eden & Miller, 2004). The CAGE framework (Ghemawat, 2001) is employed to measure the regulatory, normative, and cognitive aspects of institutional distance between countries from which the sister cities in our sample are chosen. Then the sister city relationship is shown to reduce the CAGE distances between countries in cultivating alliances between firms. Sister city relationships are an avenue through which local government can play an active and positive role as a facilitator and in some cases even as a broker for businesses from different countries (Ramasamy & Cremer, 1998). The objective of this proposal is to examine how sister city relationships can contribute to better alliances between firms from countries affected by CAGE distances.

Sister Cities

Though initially a mechanism through which post-World War II conflict was mitigated, sister cities in the modern sense embody purposes, according to former U.S. President Dwight Eisenhower, "to increase international understanding and foster world peace by furthering international communication and exchange at the person-to-person level through city-to-city affiliations" (Ramasamy & Cremer, 1998). This proposal seeks specifically to extend this conception by developing an understanding of the macro- micro- *meso* dynamic in which the macro level sister city institution facilitates micro level interpersonal exchanges between diplomatic representatives, who in turn broker meso level alliances between firms from the respective cities. The activities sister cities typically undertake, including trade (exports and imports), tourism, education, youth exchanges, mayoral visits, cultural events and investment activities, underline the continuing importance of people-to-people encounters (Ramasamy & Cremer, 1998). The unique and repeated instances of personal exchanges on an international scale lie at the core of both friendship and understanding, lending to mutual trust and networking. The latter conditions provide support for investment activities, which either develop from personal brokering between government authorities or through sister-city instigated symposia on trade and business (Ramasamy & Cremer, 1998).

There are a number of key features unique to sister-city relationships. The first of these is that the relationship is cemented by the signing of a formal agreement, which is almost always executed by mayors. Second, agreements are designed to impart indefinite tenure for the relationship. Third, because the relationship is an ongoing one, it is not limited to one single project, but covers a range of shared activities (Cremer et al., 2001). Originally, sister city relationships were based on some form of similarity- similar name, climate, historical or economic function, export structure, geographical location or physical infrastructure, or simply shared individual contacts and private initiatives. Zelinsky (1991) claims that the choice of a sister city is not a random process but is based on a number of criteria including "historical connections, shared economic, cultural, recreational and ideological concerns, similar or identical place names, and, to a certain extent, the friction of distance."

CAGE Framework

Upon inspection, these antecedents to sister city ties are precisely factors that serve to reduce the CAGE distances in order to facilitate firm-level transactions. The CAGE framework of distance presented here considers four attributes: cultural distance (religious beliefs, race, social norms, and language that are different for the target country and the country of the company considering expansion); administrative or political distance (colony-colonizer links, common currency, and trade arrangements); geographic distance (the physical distance between the two countries, the size of the target country, access to waterways and the ocean, internal topography, and transportation and communications infrastructures); and economic distance (disparities in the two countries' wealth or consumer income and variations in the cost and quality of financial and other resources) (Ghemawat, 2001). Therefore, similar name and historical function mitigate cultural sensitivity, similar export structure mitigates administrative sensitivity, similar climate, geographical location or physical infrastructure mitigates geographical sensitivity, while similar economic function mitigates economic sensitivity. To the extent that high institutional distance effects high LOF and induces firms to choose an intermediate ownership strategy (Eden & Miller, 2004), the reduction of institutional distance through sister city relationships serves to mitigate LOF and encourage a higher ownership stake, or alternatively, more commitment in an alliance.

Besides reducing the institutional distances between firms seeking alliances, sister cities usually experiment constantly to realize the ensemble of activities that ideally suits their particular resources and objectives (Zelinsky, 1991). The implication for firms is that the ongoing trial and error phase that should ideally transpire between prospective alliance partners would have already occurred at the city level, reducing the risk of incompatibility in the CAGE factors. In so much as the forbidding barriers of culture, language, educational background, and distance with cross-border partners engender lower levels of learning and knowledge transfer in alliances (Mowery, Oxley, & Silverman, 1996), and increase partner tendencies to engage in opportunistic behaviors (Reich & Mankin, 1986), the sister city institution markedly promotes pre-alliance formation of trust and increases the probability of alliance success. The greater the ability to rely on trust, the lower the transaction costs as proxied by time and effort required of parties to negotiate, reach agreements, and execute a cooperative alliance (Ring & Van de Ven, 1994). Indeed, sister cities share another crucial commonality with alliance partners in that both relationships are formed with shared objectives. For instance, as per their signed sister-city agreement, the Waitakere City-Ningbo relationship is one of sharing ideas, knowledge and technology, akin to most modern firm alliances (Ramasamy & Cremer, 1998).

Reducing Cultural Distance Through Trust

Firms going abroad overlook cultural distance most often amongst the four CAGE dimensions. In the CAGE framework, cultural distance stems from differences in languages, religions, national work systems, values, norms, dispositions, and lack of connective ethnic or social network (Ghemawat, 2001). As extensive research has shown, culture affects the beliefs, perceptions, and behavior of individuals (Kirkman, Lowe, & Gibson, 2006), and firm-level characteristics such as conflict management, decision-making, and leadership (Adler, 2002; Kirkman et al., 2006). Also evident is that a two-way relationship exists between culture and business, where understanding another culture contributes to investment success while engaging in business provides cultural understandings with a reliable and lasting base (Ramasamy & Cremer, 1998), which is equally if not more relevant for firms entering alliances. Cultural distance can be at the root of interpersonal barriers between partners in an alliance, which may cause friction that interferes with doing business efficiently (Gomez-Mejia & Palich, 1997). Through sister city arrangements, cities fulfill one of their original roles as meeting places between different people and cultures, promoting trust between partners through firm-level alliance activities.

As long as firms seek out diverse alliance partners on an international scale and semi-globalization (Ghemawat, 2003) sustains the persistence of cultural differences, the most efficient means to economize on the resulting uncertainty is through cultivating trust. Ramasamy & Cremer (1998) note that the earlier phase of the sister city movement was dominated by the idea of international friendship through the understanding of other cultures. There is a tacit understanding that sister city relationships should be characterized by "genuine reciprocity of effort and benefit, with neither community profiting at the expense of the other" (Zelinsky, 1991). These induced norms of reciprocity and mutual commitment to an alliance curb opportunism and reduce the risk of moral hazard, in turn minimizing transaction costs relative to value created through the alliance.

In the foreign direct investment literature, increased knowledge and experience in a foreign country was found to decrease the transaction cost and uncertainty of operating in faraway lands (Buckley & Casson, 1981; Dunning, 1981, 1988). Especially in emerging economies, where reciprocity characterizes the relational transactions between firm managers and city officials (Luo, 2001), the facilitation of economic exchanges between firms through informal political ties would promote not only swift trust (Jarvenpaa & Leidner, 1999) in today's hypercompetitive business environment, but deter opportunistic and boundedly-rational behavior (Williamson, 1975) on the part of the alliance partners. The uncertainty characteristic of such environments even prompt decision-makers to forfeit the optimal use of resources for greater security derived from working with firm mangers that appear more trustworthy due to similar operating philosophies or values (Benson, 1973; Galaskiewicz, 1985). Although the counter-argument can be made that such complete trust based on diplomatic ties, rather than substantive dealings in the past, increases the probability of malfeasance due to the greater potential payoffs, two mechanisms from sister city relationships would dispel this concern.

First, managers of emerging market firms capitalizing on sister city relationships would hesitate more than non-sister city alliance managers before reneging on agreements or engaging in other destructive acts for fear of their city officials "losing face" as referrals for the alliance relationship (Lee & Green, 1991). Though the underlying dynamic is universal, the face concept is particularly salient for people of Confucian culture since their concern with other people's judgment and status maintenance is claimed to be a key to explaining much of their behavior (Redding & Ng, 1983). Face is lost when conduct or performance falls below the minimum acceptable standard or when some essential requirements corresponding to one's social position are not satisfactorily met. The individual in a Confucian culture has no choice but to satisfy these requirements; failing to do so would threaten one's standing in society (Ho, 1977). To the extent that a failed alliance initiated from personal exchanges in a sister city relationship reflects poorly on the accountable officials and may sabotage future referrals from the government to the local partner, managers would likely refrain from one-off opportunistic acts.

Second, the institution of the sister city *ipso facto* engenders a temporal duration that exceeds the tenure of alliances that arise from such relationships, which instills a "shadow of the future" into the alliance, reminiscent of an incomplete prisoner's dilemma game. In addition, regardless of their initial objectives- economic, international understanding, cultural, education or sports- sister cities in general adopt a long-term view, with sentient representatives (Ramasamy & Cremer, 1998). The prospect of continuing interaction, signaled by expectations of a durable and strategically desirable relationship, increases the likelihood of cooperation by encouraging strategies of reciprocity (Axelrod, 1984). Therefore, although trust is not sufficient to guarantee trustworthy behavior, and may even generate inequity on a scale larger than if trust were absent, instances of fraud and conflict-driven coalitions become sufficiently statistically infrequent to uphold the power of personal relations and reputation (Granovetter, 1985).

Hypothesis 1: Alliances formed through sister city relationships will have longer tenures than those not formed through sister city relationships.

Reducing Administrative Distance through Filling Institutional Voids

Especially prevalent in Asian economies is the "public-private partnership" between municipalities and local firms (Luo, 2001; Cremer et al., 2001), which means Western managers need to maneuver this complex network in order to tap the Asian market. The sister city emphasis on person-to-person contact through the involvement of government officials and non-governmental agencies like community groups, friendship societies, and service associations serves to benefit firms from more relational-based cultures as well as those from developed economies seeking to enter Asian markets through contacts. Without visible and active support from the mayor and city councilors and other leading local personalities, initiatives and activities in China lack credibility and clout (Cremer et al., 2001).

Indeed, Asian economies tend to operate more through individual authority, integrity and networks or *guanxi* more than procedures, contracts and organization (Tse, Pan, & Au, 1997). The mayoral and dignitary exchanges particular to the sister city institution no doubt cater to the Asian concept of 'face' (Ramasamy & Cremer, 1998), embedding potential firm-level alliances in a solid network from the beginning. Through sister cities, these firms can develop capabilities for relationship-based management in their environment that substitute for the lack of institutional infrastructure (Hoskisson et al., 2000). Essentially an investment promotion mechanism (Wells & Wint, 1993), sister cities help local governments promote local economic development and employment growth by attracting highly mobile and flexible production, financial and consumption flows into its space (Harvey, 1989).

By providing potential alliance partners an infrastructure from which to negotiate and operate, sister cities reduce the probability of adverse selection as a preliminary filter of undesirable cities. Adverse selection generally arises from doing business with people of whom one has no knowledge (Fama & Jensen, 1983). Assuming that sister cities adequately form the first line of defense, firms can enter the partner selection phase less haphazardly than without the sister city relationship as a benchmark, deliberating on partner suitability based on established sister city administrative compatibility. Even though compatible sister cities may not guarantee a harmonious alliance relationship, the benefits of aligning firm policies with city level institutions are greater than the costs only for those firms with a high level of suitability, so only firms suited to engage in a particular alliance will strategically align itself with city level institutions. For instance, firms suited for participation in high-tech alliances will adopt favorable policies toward proprietary property protection and expropriation risk despite the costs of doing so, because the payoff from expanding its domain of potential alliance partners is high only for firms with the motivation and capability to enter such alliances. As such, sister cities not only elicit signaling from firms prospecting for alliance partners but hold the relational resources to facilitate alliances that converge on administrative stance.

Besides the city-level referral effect on alliance formation, sister cities from Asian economies such as China also serve as conduits for the globalization gap between developed economies and emerging markets. Firms from developed economies tend to target domestic and international alliance partners directly for market-seeking, efficiency-seeking, resource-seeking, or strategic-asset seeking motivations (UNCTAD, 2006), while firms from emerging economies recently joining the World Trade Organization (WTO) tend to rely more on macro-level promotional institutions and micro-level Diaspora exchanges to establish business deals with potential alliance partners (UNCTAD, 2006). This is consistent with Khanna and Palepu's (1997) observation that intricate relations between business and government appear to be the norm throughout the developing world. Indeed, Peng & Heath (1996) argue that it is difficult for emerging market firms to grow internally or through mergers and acquisitions owing to lack of property rights and unstable political structures. By pooling and coordinating resources through network contacts and personal relations, these firms can achieve economies of scale and scope and organizational learning through alliances (Hoskisson et al., 2000). In establishing an exclusive relationship between two parties at potentially varying stages of the investment development path and of disparate membership in international economic organizations (UNCTAD, 2006), sister cities fill an institutional void in reducing administrative distance.

Sister city relationships are carried out largely at a grassroots and local body level and do not rely on the support or patronage of national governments (Cremer et al., 2001). Indeed, Zelinsky (1991) suggests that some American cities have adopted sister city relationships as a way of expressing disapproval of and resistance to official American policies, pairing with 91 Nicaraguan cities in 1990. Specific to the institution of the sister city is the creation of links made for purposes largely outside the auspices of any central government involvement, which confers firms involved independence from administrative restraints at the national level.

Hypothesis 2: More alliances will be formed through sister cities from Asian economies that emphasize relational exchanges than those from developed economies that emphasize arms-length transactions.

Reducing Geographical Distance through Distal Ties

Because multinationals in large metropolitan cities can engage in more liquid business transactions without the aid of diplomatic ties, due to saturated information flows, partner referrals, and thus lower search costs (Gulati, 1999), I conjecture that sister city relationships will explain more variance in alliance formation for firms from smaller cities. In contrast to larger, more developed coastal cities such as New York, Vancouver, Shanghai, and Seoul, smaller cities tend to be more confined in terms of international economic activities due to their landlockedness and lower visibility on the international business community radar. Since sister city ties *ipso facto* transcend landlockedness, geographic size and remoteness of the country, lack of land border, and occasionally differences in climates, firms seeking to establish alliances can overcome geographic distance from the CAGE framework by first exploring potential partners through sister city relationships.

Firms from small countries tend to have a higher involvement in international investment and overseas production compared to firms from large countries. Whereas local demand is often sufficient to achieve economies of scale in large countries, small country firms must seek overseas markets to achieve similar economies (Narula & Hagedoorn, 1999). Applying this logic to the sub-national level, smaller firms from larger cities already benefit from localization economies, while big firms from smaller cities will need to leverage other markets and thus will show a greater propensity to achieve similar economies of scale.

Firms headquartered in smaller cities in effect support the economic welfare of such company towns yet may lack the reputational and financial clout to enter emerging economic regions (Kanter, 1995). Hence they may have more incentive to seek foreign markets through political ties established from sister city relationships. Using such a platform, these firms benefit from the personal bonds between city officials that in turn trickle down to the firm level. The consequent twinning of firms from sister cities in effect models a small world condition (Kogut & Walker, 2001), whereby robust distal ties surmount the barriers of geographic distance.

Hypothesis 3: More alliances will be formed by large firms from smaller sister cities than by firms of similar size from larger sister cities.

Reducing Economic Distance through Resource Commitment

The motivation behind a sister city relationship formation should dictate the path of the ensuing relationship, including its spillover effects on firms. Resource commitment refers to a phenomenon whereby decision makers allocate some resources- their money, time, even their identities- in the hope of attaining some goal or goals. For instance, longer and more frequent interactions between a pair of sister cities engender higher sunk costs into the formation of trust and in turn increases the opportunity cost (i.e. diplomatic ties) of opportunistic behavior that forfeits an alliance. If both sister cities have already committed asset-specific investments to the macro level relationship, then further resource commitment, especially if combined with earlier assertions for firm managers to preserve government officials' face (Kanter, 1994), can trickle down to the meso level and serve an informal governance role in preventing moral hazards. Thus the frequency of prior interactions at the city level raises the cost of exit for alliance partners, as diplomatic exchanges develop over time to create sister city specific information spillovers (Ramasamy & Cremer, 1998). In effect, it becomes not only in the economic but also in the psychological best interests of the partner firms to find ways to preserve their socially embedded relationship (Ring & Van de Ven, 1994).

The dedication of the local government in promoting its sister city affiliation indicates the degree of resource commitment transpired at the macro level and is evaluated using two criteria in the sociology literature (Ramasamy & Cremer, 1998). First, presence of a permanent staff establishment to manage the affiliation is evidence of a serious commitment. Second, a dedicated budget allocation suggests significant bearing of the sister city relationship in the municipal agenda. It is important to note that the human and capital resource allocation is not assumed to be dependent on size of the city, since importance placed on the sister city relationship can plausibly be idiosyncratic to the city in question. Finally, explicit indication of economic goals in the sister city agreement should also proxy for the level of resource commitment that would further the meso level commercial goals of the cities (Cremer et al., 2001).

Therefore, resource commitment forms a symbiotic relationship between the sister city relationship and firms that reinforce each other's existence. Since the resource base of sister cities is broad, local governments mobilize significant resources beyond their own budget allocation through direct financial support from the business sector (Ramasamy & Cremer, 1998). Since firms constitute the most important source of assistance in capital and in kind for the overall development of a sister city relationship (Cremer et al., 2001), and often provide such assistance with the objective of obtaining contacts in a sister city for future business endeavors, the interdependence between the business sector and sister cities thus generates more alliances for the continued advancement of both. The concomitant allocation of energy and funds for the advancement of the sister city relationship to an extent equalizes the economic situation of both sub-national parties, reducing economic CAGE distance in the alliance context.

Hypothesis 4: Alliances from sister cities with a higher resource commitment to the economic basis of the sister city relationship will perform better than those from sister cities with a low commitment.

SAMPLING AND DATA COLLECTION

This type of research requires a multi-level, combined paradigmatic study design with quantitative and qualitative data from government sources and interviews, since the relationship at the city level between two sister cities is hypothesized to affect the number of alliance formations and performance at the firm level. A framework that encompasses factors at different levels is necessary to fostering better conceptualization (Hoskisson et al., 2000). As well as the need for further careful theory building, there is an important need for development of a case study approach in research in emerging economies (see Cho, Kim, & Rhee, 1998). Therefore, this study intends to combine alliance outcome data from data sources such as Compustat for U.S. firms; BVD Orbis, Osiris, Mint Global and Compact Disclosure's 'Worldscope Global' for non-U.S. firms, Chinese and Korean governments, as well as surveys.

Since Luo & Peng (1999) and Luo, Tan, & Shenkar (1998) reported response rates of around 25 percent from mail surveys in cultures deficient in trust norms between respondent and researcher, this research will also employ personal interviews with local officials and firm managers. Collaborative projects with local researchers using face-to-face interviews may be a key means to gain access to data sources (Lee & Miller, 1999). Indeed, analysis of strategy issues frequently requires the gathering of subjective information from directors of enterprises (Hoskisson et al., 2000). As well, structured content analysis (Miller and Friesen, 1977; Jauch, Osborn, & Martin, 1980; Chen & Hambrick, 1995) will be used to directly identify actual alliance interactions of sample firms using an extensive review of public information. A predesigned, structured coding schedule will be used to perform the content analysis.

The alliance counts from cities with sister city relationships in U.S., Canada, China, and Korea, is compared against alliance counts from those cities without sister city relationships. The countries are selected because of the preponderance of sister cities in these countries. Indeed, attempts by China to free up its economy and open up the country to tourism have spurred Chinese efforts to establish a myriad of sister city links. Another important motivation is the size of the global economy accounted for by Canada, China, and Korea, three of the top ten largest trading partners of the U.S. (Graham & Marchick, 2006). Finally, in today's age of hyper-globalization, it is crucial to business success to develop an appreciation of the unmitigated East-West cultural gaps (Luo, 2001) through examining the effect of sister city relationships on firm alliances.

The sampling period will be from 1988 to 2008 since China's economy only opened up to foreign direct investment after 1984 (Graham & Marchick, 2006). Twenty cities with sister city relationships will be randomly sampled from each of the four countries and all alliances stemming from these cities' sister city relationships are counted. Another twenty cities from each of these four countries without or with dormant sister city relationships will be randomly sampled, from which total alliances between firms from these cities and firms from random cities are counted. Firms headquartered in the combined 160 cities will be identified and their alliances counted.

Variables and Measures

Sister city: a broad-based, officially approved, long-term partnership between two cities in two different countries. This is a dummy variable with the presence of a sister city relationship coded as 1 and no sister city relationship coded as 0. **Firm size:** based on revenue from sales, to mitigate bias from using asset size for the size of manufacturing firms, since alliances are increasingly formed between firms engaged in services or knowledge creation (Contractor & Lorange, 2002). Data will be drawn from Compustat for U.S. firms and from Compact Disclosure's 'Worldscope Global' data base for non-U.S. firms. **City size:** Segal's (1976) estimate of the productivity-city size relationship is for the entire urban economy rather than just for the manufacturing sector. It indicates that cities with a population of two million or more have an "agglomeration effect" that "makes units of labor and capital 8 percent more productive" than in cities with populations between 250,000 and two million. Therefore cities with more than two million people will be considered as large and coded as 1 while those with less than two million will be considered small and coded 0. **Firm origin**: firms from the U.S. and Canada are coded as 1 for developed country status while firms from China and Korea are coded as 0 for developing country status (UNCTAD, 2006).

Trust: 4-item scale from Sarkar et al. (2001): 1) Both firms were generally honest and truthful with each other, 2) Both firms treated each other fairly and justly, 3) Both firms found it necessary to be cautious in dealing with each other, 4) Relying on each other was risky for both firms. **Resource commitment**: measured with four items: specific economic objectives from sister city agreement, the number of dedicated staff to the sister city relationship, the size of the budget for the sister city relationship, and the percentage of assistance derived from the business sector. An economic objective is defined as trade or investment goals, excluding tourism goals, stated in the formal agreement signed at the inception of the sister city relationship. This is a dummy variable with the presence of an economic objective coded as 1 and no economic objective coded as 0. A large budget is defined as more than US$20,000 per year, as spending on sister city relationships by local governments in New Zealand averaged US$12,000 in 1995, taking into account that New Zealand places considerable importance on sister city relationships yet has small city populations. A small budget is defined as less than US$20,000 per year (Cremer et al., 2001). Business sector assistance is defined as financial or human resource assistance from for-profit businesses in either city of a sister city relationship.

Alliance: alliances as conceptualized here encompass joint ventures, joint R&D agreements, technology exchange, direct investment, and licensing, whereby two or more firms agree to pool their resources to pursue specific market opportunities (Gulati, 1995). **Alliance count** is the number of alliances formed between any two firms from 1988 to 2008. **Alliance duration** is the number of years transpired between the inception of an alliance and its termination, counted for alliances from sister city relationships and for firms from non-sister city relationships between 1988 and 2008. **Alliance performance**: 7-item scale adopted from Sarkar et al (2001): 1) The collaboration provided a very effective medium of learning, 2) Collaborating with this partner was a wise business decision, 3) Our strategic objectives going into the venture were achieved, 4) The owner's objectives (in terms of specifications, schedule, quality) were met, 5) A quality job was done on the project, 6) Overall, the project was efficiently carried out, 7) The venture was profitable for our firm.

Control Variables

Organizational fit: adopted from Sarker et al., (2001), is a 3 item scale assessing: 1) Resource Complementarity: i) Both firms needed each other's resources to accomplish their goals and responsibilities, ii) The resources contributed by both firms were significant in getting the bid, iii) Resources brought into the venture by each firm were very valuable for the other, 2) Cultural Compatibility: i) The organizational values and social norms prevalent in the two firms were congruent, ii) Executives from both firms involved in this project had compatible philosophies/approaches to business dealings, iii) The goals and objectives of both firms were compatible with each other, iv) The chemistry was right between the two firms, 3) Operational Compatibility: i) Technical capabilities of the two firms were compatible with each other, ii) The organizational procedures of the two firms were compatible, iii) Employees of both firms had similar professional or trade skills. This control is need to show that the presence of a sister city relationship explains variance over organizational fit. **Alliance governance (equity vs. non-equity)**- coded as (1, 0). Sister city relationships should explain additional variance in partner interaction beyond governance structure. **Prior alliance experience with firm from partner country**: coded as (1, 0) for yes or no, since experiential learning can account for variation in the dependent variables. **Nationality**: coded on a nominal scale.

Aside from national differences, sister city relationships should explain some variance in alliance performance

DATA ANALYSIS

The Heckman procedure will be used to eliminate selection bias. **H1:** A one-sided t-test will be performed to see if alliance duration of alliances from sister city relationships were longer than those from non-sister city relationships. **H2:** A one-sided t-test will be performed to see if firms from developed economy sister city relationships form more alliances than firms from Asian sister city relationships. **H3:** A one-sided t-test will be performed to see if large firms from small cities form more alliances than small firms from large cities. **H4:** A one-sided t-test will be performed to see if alliances from sister cities with higher financial and human resource commitment perform better than those from sister cities without such commitment. Hierarchical linear modeling will also be employed to test whether the nested relationships of alliances within sister city relationships are present.

Since alliances could potentially subsist in the absence of value creation, due to increased commitment of resources, it is important to establish the benefit of sister city relationships for alliance performance as well as for survival. In line with this logic, performance data is examined for alliances from sister city relationships and compared to that of alliances from non-sister city relationships. The comparison between alliances from sister city vs. non-sister city relationships is intended to show increased survival in the former, although it cannot be causally determined whether such alliances would exhibit extended survival without the precedence of sister city institutions. Moreover, the relative longer durations of alliances from sister cities may be because of terminations in alliances from non-sister cities. However, the design for my purposes would not permit an analysis of failures in alliances, which may be due to exogenous reasons such as a natural disaster, a shift in a political regime, the death of a CEO from the alliance, or for endogenous reasons such as a shift in organizational commitments, structural arrangements, or performance, completion of a business deal, or conflict between the partners (Ring & Van de Ven, 1994).

Because of the difficulty in obtaining systematic city-level investment data, especially in China, this study aims to gain insight into the sister city alliance dynamic through looking at four countries. The generalizability of the results obtained can be enhanced by aggregating sister city matrices from multiple countries.

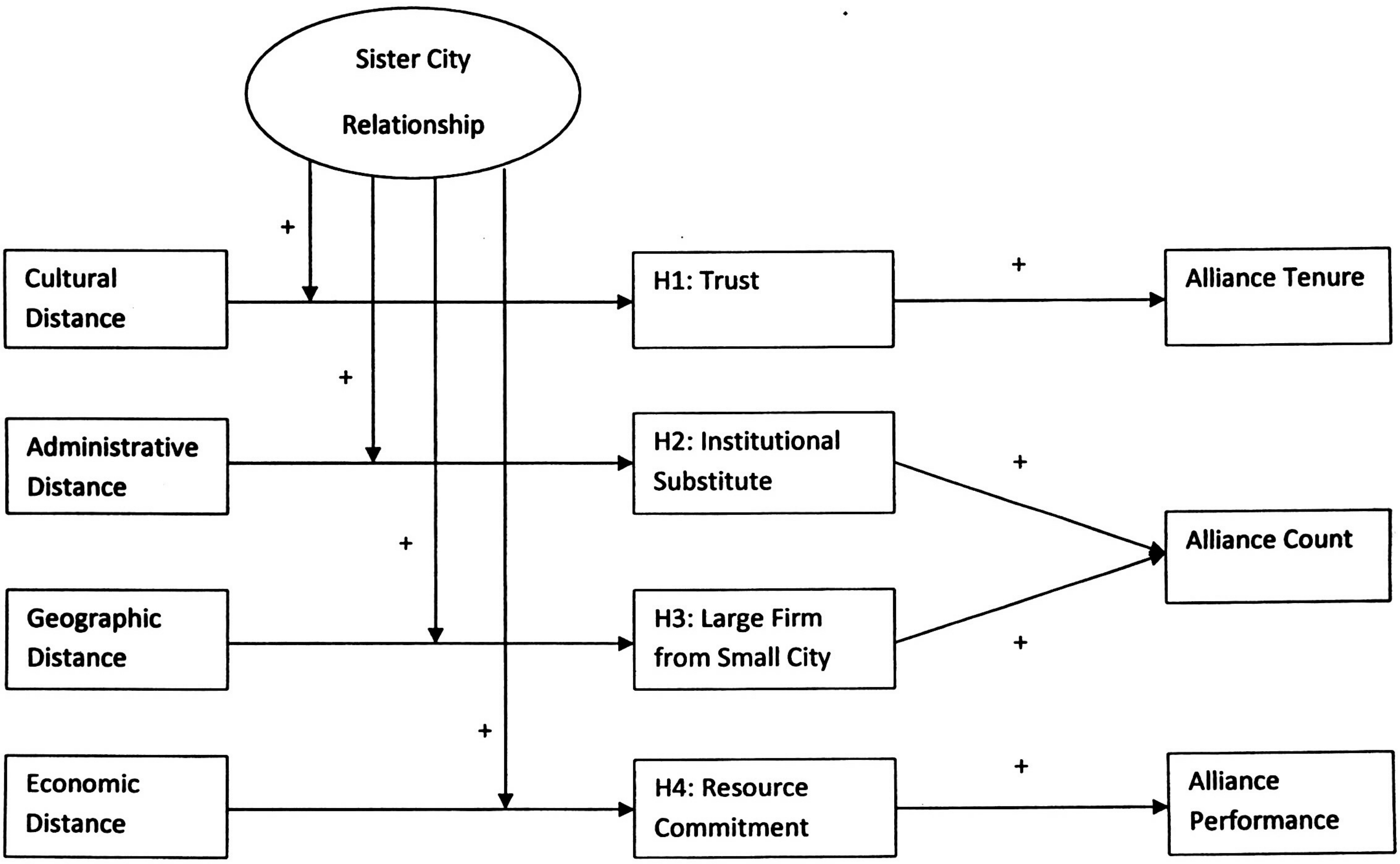
CONCLUSION

This study contributes to the management literature by highlighting the importance of multi-level partnerships for strategic alliance outcomes. The role of the sister city phenomenon explored here facilitates the global-local dynamic firms face in the emerging landscape of the twenty-first century. The integrated approach to alliance formation employs the sister city relationship as a platform from which firms work together toward a common goal under the umbrella aspirations of balancing cultural, political, social and economic development of participant cities. The insistence on tangible results in all of these priority areas subjects firms involved to a holistic approach to doing business, necessarily accounting for a wider set of stakeholders and developing meaningful collaboration for the long term. This approach recognizes a concern with building social capital as an important antecedent to the profit logic, with the sister city relationship providing a positive environment which can reduce adverse selection risks and uncertainties involved in economic enterprises.

There are diverse implications for managers. The sister city strategic plan that outlines a mission statement and objectives of the relationship in effect mirrors that of two firms entering an alliance. Managers seeking to enter emerging markets should recognize the ability of the sister city affiliation to fill institutional voids, with its business links aimed at the facilitation of quality data, contacts, identification of opportunities, and local government exchanges and information sharing (Cremer et al., 2001). This international sourcing of information in effect creates a distal agglomeration economy with a new division of labor fit for the information age, where firms can leverage their ownership advantages to overcome domestic firms' locational advantages (Dunning, 1988). Sister cities present an incredible opportunity for connections gained through sustained face-to-face contact to enable people and firms alike to better function in a world characterized by increasing globalization. When operationalized, the sister city relationship's potential for reaping agglomeration economies and hence enhancing the sustainability and competitive advantage of firms should not be underestimated. The evolution of sister cities into a mechanism for alliance facilitation is a model of partnership that deserves greater recognition in ensuring the sustainability of the economic and social vibrancy of international firms.

FIGURE 1

Model of a Sister City Relational Framework for Alliances



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