

# **Knowledge Transfer and Global Strategic Alliance Membership: Market Versus Institutional Criteria**

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## **Abstract**

This conceptual paper analyzes the issues of new partner selection for an existing global strategic alliance, and how this complex process determines the effectiveness of inter-organizational knowledge transfer. First, we show that effective inter-organizational knowledge transfer requires evaluation criteria for new members, which combine market as well as cultural and institutional factors, e.g., a so-called “dual criteria approach”. Second, we analyze forces that propel existing global strategic alliances to place more emphasis on such cultural and institutional criteria besides market ones in the knowledge transfer process. Third, we examine factors that can be used or considered as valid indicators for an applicant’s cultural and institutional identity, which drive the effectiveness of future inter-organizational knowledge transfer in global strategic alliances.

**Key words:** *Alliances; Culture; Dual Criteria Approach; Institutions; Market Criteria; Norms*



# **Knowledge Transfer and Global Strategic Alliance Membership: Market Versus Institutional Criteria**

## **INTRODUCTION**

A firm's ability to exchange knowledge and undertake inter-organizational knowledge transfer within a network of social relationships has become increasingly critical to success in today's global business environment (Moller and Svahn, 2006; White, 2005; Cornelissen, 2006). Global innovation is increasingly dependent on leveraging the skills of others through the transfer of knowledge. However, such knowledge transfer is complex and not easy to achieve (Easterby-Smith, Lyles and Tsang, 2006; Watson and Hewett, 2006; Inkpen and Pien, 2006). Most of the past research on global strategic alliances has relatively understated the processes concerned, new "partner selection" for existing global strategic alliances for example. We believe that such structures and processes in new partner selection, however, are fundamental to inter-organizational knowledge transfer process in the 21<sup>st</sup> century.

Research in global strategic alliances (to be referred to GSA from now on) has shown that, decisions on strategic alliance performance and new member selection in the so-called "real world" are predicated on imperfect competition and co-operation (Hitt et al. 2000; Michailova and Hutchings, 2006; Inkpen and Pien, 2006; Shenkar and Yan 2002), based on cultural and/or social institutional factors, as well as relationships at a national or international level (Burt, 1992; Coleman, 1990; Cornelissen, 2006; Ostrom, 1992; Putnam, 1988; Schelling, 1960). In contrast to the transaction cost- and economics- oriented scholars, the more behaviourally-oriented institutional researchers believe factors such as culture, history, shared values, social norms play an important role in enforcing trust-based exchange, in a similar way to parallel research in international political economy studying the nature of path dependent historical criteria in successful collective action.

This paper aims to provide a conceptual framework for analyzing the complexities of new membership selection for an "existing" GSA, when both market and institutional factors (Cornelissen, 2006; White, 2005; Moller and Svahn, 2006)

have already taken into account. Although market performance may be a primary factor in new membership, we suggest that cultural, social or institutional indicators play an implicit role, as well as at some times even an explicit one, in knowledge transfer and in the evaluation process for new members (Cowhey, 1993; Inkpen and Pien, 2006; Ostrom, 1992; Young, 1991; Gulati, 1998). The appreciation of such a “duality” used in partner selection to an existing GSA can in turn help to predict the effectiveness of inter-organizational knowledge transfer in the GSA.

The major conjectures and contributions of this conceptual paper are as follows. First, we believe that cultural/social fit or compatibility that allows knowledge transfer is one of the key determinants of a GSA’s success. Therefore, an existing GSA, when evaluating a new applicant, should adopt a “dual criteria approach” that takes both market and institutional qualifications of a new applicant firm into consideration. Second, we believe that certain factors such as uncertainty, complexity and difficulty, which are fundamental to the intangible nature of knowledge assets and potential inter-organizational knowledge transfer, will drive GSAs to place more emphasis on non-economic, cultural or social institutional criteria. Third, we believe GSAs, in assessing the institutional identity of an applicant, tend to focus more on certain indicators than others, for example, the embeddedness of an applicant in an existing social knowledge network.

## **MARKET VERSUS INSTITUTIONAL CRITERIA**

The majority of global strategic alliances fail in a few years (Inkpen and Pien, 2006; Moller and Svahn, 2006; Beamish and Killing, 1997; Bleeke and Ernst, 1993). The high failure rate of GSA’s across the world of global business continues to be one of the most important areas of research in various areas of management research, including strategic management, international business and organization theory. Although selecting a “wrong” partner is supposedly one of the major causes for these failures, previous research has not paid sufficient attention to the issues in the context of inter-organizational knowledge transfer (Cornelissen, 2006; Michailova and Hutchings, 2006). In particular, the existing literature has insufficiently investigated the issue of GSA selection of new applicants.

Under a purely market or business based framework, the assumption is that the contribution and value of the firms applying for membership can be easily measured and evaluated, and will thus serve as the only criteria of the international negotiations. Thus there are no measurement costs or uncertainty and there will be clear transparency about requirements for new members. Figure 1 below shows the abstract system of anonymous exchange used in a purely market-driven model for analysing transactions and co-operation in joining an existing GSA. A general weakness of such a framework is the emphasis on outcomes, rather than processes, which helps to show the nature of the co-operation that lead to particular outputs.

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Insert Figure 1 about here

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Research in international relations, politics and psychology on collective action (Olson, 1965) and co-operation indicates the importance of non-market-driven criteria when an agent is to establish a cooperative relationship with others. Putnam (1988), developing the earlier works of Gourevtich (1978) and Rosenau (1969), has highlighted the importance of two levels of analysis, in terms of domestic and international interactions in international co-operation. Likewise, in psychology, research demonstrates that, in any collective decision making situation, decisions about the admittance of new members is rarely done through single and clear criterion, such as business or financial factors (Keohane, 1988; Ostrom, 1993; Putnam, 1988).

Therefore, we believe that an existing GSA, when it evaluates an applicant, should adopt a dual criteria approach, which emphasizes both market and institutional criteria, in order to be successful. Hence:

*Proposition 1:* The adoption of a dual criteria approach by an existing GSA when it evaluates a new applicant will increase the likelihood of inter-knowledge transfer and thus, the strategic alliance's future success

This proposition is based on the premise that, given other things being equal, the higher cultural/social compatibility (Michailova and Hutchings, 2006; Watson and Hewett, 2006) between an existing GSA and its applicant, the more likely the knowledge transfer and thus the alliance will be successful. Adopting a dual criteria approach will enable an existing GSA to better identify a culturally/socially compatible partner among a group of new applicants, which maximizes inter-organizational knowledge transfer (White, 2005; Cornelissen, 2006). We also believe that existing successful GSAs are more inclined toward adopting this dual criteria approach. The intuition is as follows. Existing GSAs have already established a set of explicit or implicit beliefs, rules, norms or common practices, e.g., an alliance's corporate culture (as distinct from the wider cultural setting that the alliance members may belong to), which enables each member to function properly and undertake effective inter-organizational knowledge transfer. Therefore, they are acutely aware of the importance of accepting a culturally/socially compatible member into this "club" in order to preserve an existing corporate culture (Cornelissen, 2006; Michailova and Hutchings, 2006; White, 2005). For example, existing members will rely on traditional criteria and prefer new members firms presenting a lower, culturally and/or socially defined psychic distance (O'Grady and Lane, 1996) because the latter maximizes inter-organizational knowledge transfer.

*Proposition 2:* Existing successful GSAs are more likely to adopt a dual criteria approach, because of the importance of inter-organizational knowledge transfer in GSAs, when evaluating an applicant compared to firms that are not involved in GSAs.

## **FACTORS DRIVING A DUAL CRITERIA APPROACH**

Research in non-market transaction societies by anthropologists and legal researchers has shown how selection of co-operative partners is carried out in such societies (Landa, 1994; Posner, 1980). Under conditions of uncertainty, which often occur as trade and exchange spreads into broader territories, such societies have a tendency to use "fixed" identity characteristics to determine optimal co-operative exchange partners; all negotiations are restricted by the drivers of fixed identity. This criterion of fixed identity (Cornelissen, 2006; Inkpen and Pien, 2006) is that of

relatedness or closeness of the actors. In many such non-market exchange societies, fixed identity is based on ethnic background and kinship. It may also apply to homogeneous groups such as the overseas Chinese in Asia; the East Indians in East Africa; the Syrians in West Africa; the Lebanese in North Africa; the Jews in medieval Europe; the Medici merchant-bankers in 15th century Florence (Geertz, 1978; Greif, 1989; Landa, 1994; Posner, 1980; Sahlins, 1965). This phenomenon is similar to firms choosing to initially internationalise towards countries that represent a lower, psychic distance (O'Grady and Lane, 1996; Inkpen and Pien, 2006), in terms of cultural and social values, structure and so on. The phenomenon may be analogous to our emphasis on the importance of institutional identity in reducing such psychic distance by the existing members of a GSA towards new applicant firms.

### *Environmental Uncertainty and Turbulence*

The international environment is complex with information uncertainty, and is characterized by actors moving to gain a competitive advantage, combined with intercultural differences (Michailova and Hutchings, 2006; White, 2005; Larson, 1988). The nature of negotiations for new members in any GSA is becoming increasingly complex, with mixed motives in most decision making (Schelling 1960). Therefore, uncertainty and turbulence in environments where GSAs operate, and the crucial role of inter-organizational knowledge transfer exert strong influence on GSAs attitude toward such a dual criteria approach.

In a highly uncertain and turbulent environment, member firms, under enormous anxiety and pressure, are more likely to pursue opportunistic behaviors to preserve their own interests. Unfortunately, in such an environment, no contractual or legal arrangements can sufficiently safeguard the pursuit of a GSA's common interest and to prevent members' selfish behaviors (Watson and Hewett, 2006; Jennings et al, 2000). Therefore,

*Proposition 3:* High uncertainty and turbulence in global environments will make GSAs more likely to adopt the dual criteria approach and accept applicants that are socially/culturally compatible with their existing

members, since this maximizes effective inter-organizational knowledge transfer.

### *Complexity of the Task*

Firms form alliances to achieve certain strategic goals. These tasks vary in their achievability due to the level of complexity, and hence the level of difficulties involved. Complex tasks require higher level of coordination and cooperation. Moreover, strategically critical knowledge is often tacit and can only be transferred and shared successfully through certain informal channels (Cornelissen, 2006; Moller and Svahn, 2006; Choi and Yin, 2003). The development of trust will certainly increase the members' willingness to collaborate and share knowledge. It is more likely for culturally/socially compatible firms to create the amount of trust needed for massive cooperation, and at the same time, establish proper channels and mechanisms through which tacit knowledge can be effectively transferred and shared. GSAs are more keenly aware of the importance of cultural/social compatibility among its members in achieving certain goals, especially, goals that are intrinsically complex and require massive amount of cooperation and collaboration, for example, information sharing, knowledge exchange and transfer. Therefore, they are more likely to adopt dual criteria approach if the task is complicated.

*Proposition 4:* Complexity, the perceived difficulty of the future task, makes inter-organizational knowledge transfer more difficult, and thus will make GSAs more likely to adopt the dual criteria approach and accept applicants that are socially/culturally compatible with their existing members

### *Difficulty in Assessing an Applicant's Values*

We also believe that, difficulty and uncertainty in assessing an applicant's potential value in inter-organizational knowledge transfer influence GSAs' willingness to adopt a dual criteria approach. In many cases, the contributions or the values of an applicant to existing GSAs may be intangible, knowledge based assets. In other words, critical information and knowledge are tacit, which is difficult to be



shared via formal channels, such as by bureaucratic procedures (formalization, standardization and centralization) or by quasi-formal ones such as meetings, seminars or conferences. Thus, the value of such social knowledge (Inkpen and Pien, 2006; Cornelissen, 2006; Moller and Svahn, 2006) that can often be measured only over time and over repeated interactions may be more effectively exchanged in more socially embedded relationships, values and beliefs (Burt, 1992; Coleman, 1990; Granovetter, 1985; Jervis, 1988; Keohane, 1988; Putnam, 1988; Schelling, 1960). Culturally/socially compatible firms are more likely to fully utilize these contributions; therefore, the more difficult it is to assess an applicant's future contributions, the more likely GSAs will adopt a dual criteria approach which enables GSAs to reduce potential errors in their partner selection:

*Proposition 5:* The difficulties in assessing applicants' value or potential contributions in inter-organizational knowledge transfer will make GSAs more likely to adopt the dual criteria approach, and accept applicants that are socially/culturally compatible with their existing members

The drivers of effective inter-organizational knowledge transfer are shown together in the figure below.

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Insert Figure 2 about here

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## **ASSESSMENT OF APPLICANTS' INSTITUTIONAL IDENTITY**

Assessing the economic or market-based qualifications of an applicant is relatively easy because business and financial data, and performance measures are more readily available, although accounting conventions and corporate transparency may vary across cultures and countries (Michailova and Hutchings, 2006; White, 2005). However, it is a difficult task to assess the institutional (for example, /cultural/social) qualifications of a firm. The knowledge or information that potential

new applicant firms submit to an existing GSA can often be tacit and uncodifiable, and its quality is difficult to ascertain.

With difficulties to measure assets such as cultural and social fit, we believe that existing members tend to further depend on external cues and indicators of social/cultural or institutional identity (Cornelissen, 2006; Moller and Svahn, 2006) that are embedded in the social structure of member firms (Mayer, 1992; Moravcsik, 1991; Putnam, et al., 1993). This point means that such external cues or certification, if identified, are more highly trusted, and more accurate indicators of the criteria used for admissions of new applicant firms. In this section, we provide a general framework for analyzing such social, institutional identity factors, and their role in setting the foundations of new membership evaluation by existing GSAs. We believe that this dual nature which helps to determine an actor's social or institutional identity is also linked to the idea of market signals (Schelling, 1969; Spence, 1973) that help communication and identification under uncertainty. The concept and importance of signals have been analyzed in depth in the context of international co-operation and partnerships in such works as Jervis (1985), Inkpen and Pien (2006), Larson (1988). Milgrom and Roberts provide a more general definition of signals:

*“...signals demonstrate to others the actor's intentions or abilities or some other characteristic about which the actor has private, unverifiable information.”* (Milgrom and Roberts, 1992, p. 134)

There are at least two potential problems of using signals in assessing new members of an existing GSA. First, the existing GSA members may be screening and following negotiations patterns according to certain path-dependent, homogeneous beliefs, and cognitive maps of reality, which may not be an accurate measure of reality (Schelling, 1960, 1966; Jervis, 1985). Related to this issue is the analysis of Granovetter (1973) and the importance of certain weak ties, or relatively less homogeneous relationships, in developing objective views and judgments of the external environment (Michailova and Hutchings, 2006; Watson and Hewett, 2006).

Second, market signals can be manipulated by firms for strategic ends in their international negotiation positions. In an increasingly media dependent world with

decreasing communication costs, there is a plethora of signals from numerous countries. Signals can be fuzzy and difficult to evaluate (Jervis, 1988; Keohane, 1988; Putnam, 1988). Recognizing the limitations of using signals to assess the institutional identity of an applicant, GSAs may rely on indices. A distinction now needs to be made between signals and indices. “Indices”, as defined by Jervis (1985), are:

*“....statements or actions that carry some inherent evidence that the image projected is correct because they are believed to be inextricably linked to the actor’s capabilities or intentions.”*

(Jervis, 1985, p. 276)

Indices, unlike signals, cannot be as easily manipulated. In some sense, an indice is an external, institutional type of signal that cannot be manipulated (Jervis, 1985). The ability to use indices depends on a firm’s particular or rare experience, such as past success that other firms competing for entry into the existing GSA. These abilities cannot be easily imitated. Success breeds success and reinforces trust. Such factors again maximize inter-organizational knowledge transfer. Therefore,

*Proposition 6:* GSAs tend to rely more on indices rather than market signals because the former ones are perceived as more trustworthy and credible in reflecting the true institutional identity of an applicant

## **FACTORS DRIVING INSTITUTIONAL IDENTITY**

International negotiations for the consideration of new GSA firms by existing member firms includes the more tangible and measurable business, financial, market criteria, along with the more intangible social, psychological and institutional identity factors (Michailova and Hutchings, 2006). The factors driving social or institutional identity have been analyzed by researchers such as Burt (1992), Cornelissen (2006), Podolny (1993). The key intuition is that there are certain drivers of identity, which help to certify or “legitimize” the overall value, content and potential of the GSA applicant firm’s potential contribution (Garrett, 1993; Inkpen and Pien, 2006;

Keohane and Ostrom, 1995; Martin, 1993; Moravcsik 1991). This overall value and legitimacy can include not only financial and business contributions but also whether the potential new GSA applicants have compatible general beliefs, culture and value systems.

We believe there are four major indices or drivers of institutional identity that can help to determine whether a new applicant firm is accepted by the existing members of the GSA. Although we believe there are the four major criteria, there could be additional factors, as is often the case in the realities of complex evaluations and negotiations. First, an applicant's other business partners or clients are a driver of identity. Thus other business contacts with firms that are already members of the existing GSA is an implicit index that certifies the potential applicant firm. This is because an applicant's business partners or clients illustrate certain compatibility between the applicant and the existing GSA members (Garrett, 1993; Martin, 1993). Second, the ability and reputation for commitment to innovative products, not only R&D but also new management ideas, can serve as another driver of identity (Haunschild, 1994; Olson, 1992; Putnam, et al. 1993). This index shows an applicant firm's willingness to be flexible, which is often required of any members of any rapidly expanding GSA, and especially of new members.

Third, a firm's close relationships and networks, whether they be with collaborators on joint technology projects, or competitors in certain industries, can also be an index of institutional identity. Such collaboration or competition again shows that the applicant firm has a similar status (White, 2005; Frank, 1988; Haunschild, 1994; Keohane and Ostrom, 1995) to existing GSA member firms. The fourth driver is outside external sources of information such as Standard and Poor indices in financial markets, consumer reports that are written by private organizations, business magazine evaluations of economic and business situations. These external regional and international intermediaries, often linked to media and communication, provide another objective source of legitimacy and institutional identity for potential applicant firms (Cornelissen, 2006; Krasner, 1991; Larson, 1988; Putnam, 1988).

*Proposition 7:* An applicant firm's driver of social, institutional identity to an existing GSA, is determined by the following four indices: other business partners; reputation for innovation and change; network of collaborating or competing firms of similar status; evaluation by external intermediaries, especially in the media.

These four indices and drivers of institutional identity facilitate the nature of evaluation of criteria of effective inter-organizational knowledge transfer for new members to an existing GSA. This helps illustrate Coleman's (1990), Burt's (1992) and Granovetter's (1985) research on the importance of relationships within the social structure, and how it influences market and business competition as well as the related collective action literature on international co-operation (Keohane, 1988; Olson, 1965; Putnam, 1988; Schelling, 1966). This dual criteria framework, which maximizes inter-organizational knowledge transfer and GSA membership, is shown in the figure below.

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Insert Figure 3 about here

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## CONCLUSIONS

In this paper, we have analyzed the criteria by which members of an "existing" global strategic alliance evaluate potential new applicant firms in terms of inter-organizational knowledge transfer (Inkpen and Pien, 2006; Moller and Svahn, 2006). Inter-organizational knowledge transfer and the leveraging of skills of others are fundamental to global innovations. However, knowledge transfer is complex and is not easy to achieve (Easterby-Smith, Lyles and Tsang, 2006). Since the majority of global strategic alliances fail within a few years (Gulati, 1998), we believe that the issue of knowledge transfer and membership selection criteria issues are an important area of research in inter-organizational knowledge transfer (Watson and Hewett, 2006; Michailova and Hutchings, 2006). Firms increasingly try and join prestigious existing GSA's. The criteria for membership may include not only business or financial factors, but also cultural, social, and institutional factors such as psychic

distance, legitimacy, and history, which maximize effective inter-organizational knowledge transfer. The purpose of this paper is to combine such aspects of GSA membership criteria. We believe adopting such a dual criteria approach will enhance the effectiveness of inter-organizational knowledge transfer and thus the likelihood of a GSA's success.

We introduced the distinction between firms' signals that are more market, business and finance based and which can be manipulated, and "indices" that may be more culturally and socially based and less subject to such manipulation (Jervis, 1985; Schelling, 1969). Because the value of an applicant to an existing GSA can be relatively intangible, such external cues or indices can be used by existing GSA members to determine the value or quality of an applicant firm's potential contribution. Such indices then form an institutional identity which drive knowledge transfer and thus influence the probability of an applicant firm being allowed to join the GSA.

Further research is warranted on the following issues. First, we believe there is a need to analyze in more depth the ways in which a firm's institutional identity can be measured and recorded in the context of knowledge management. Potential trade offs between market, business and financial valuation, and institutional identity and legitimacy would be an especially important topic of research to be specifically established. Second, it will be interesting to empirically investigate the relative importance or weighting of these factors in driving a GSA to adopt a dual criteria approach. Third, there is a need to develop further research on the dynamics of how potential applicants to existing GSA's can develop their signals and indices as part of knowledge transfer, in order to successfully join the members of the GSA.

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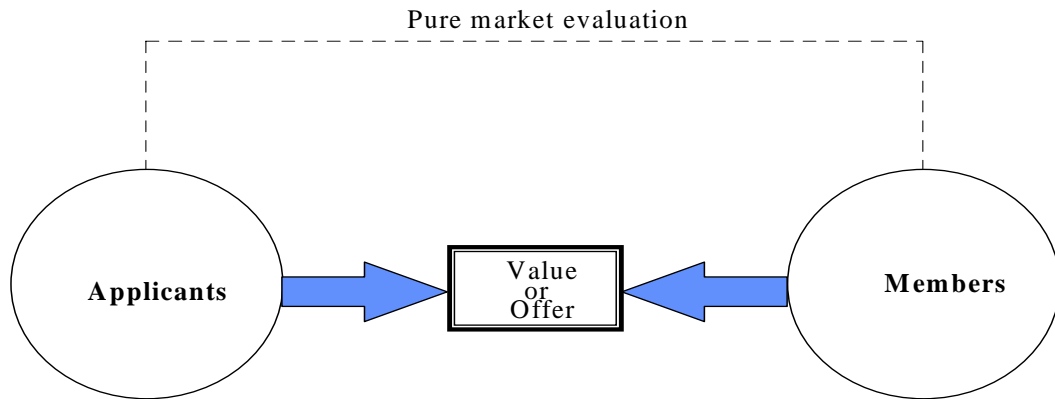
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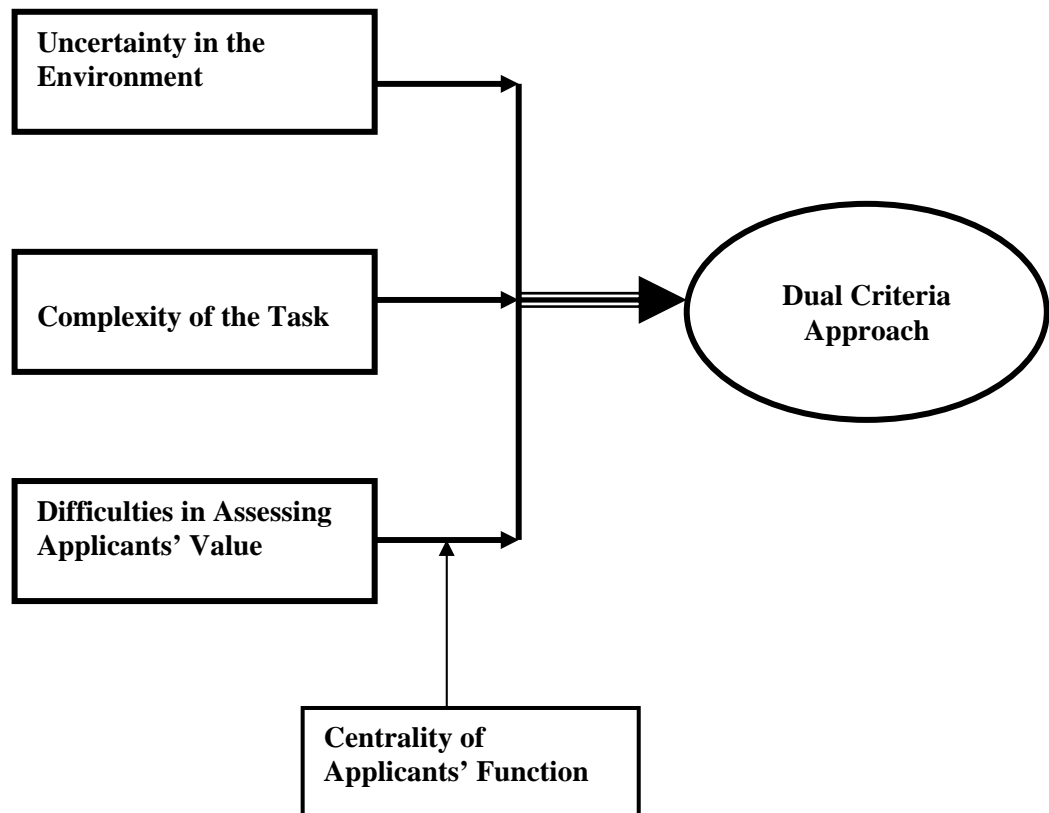


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**Figure 1:**  
**GSA's and Market Criteria: Non-Knowledge Based Selection**



**Figure 2:**  
**Drivers for Knowledge Transfer, Dual Criteria Approach**



**Figure 3:**  
**GSA Members and Applicants -**  
**Knowledge Transfer and Two-level Analysis**

