Transitional Governance Trajectories

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TRANSITIONAL GOVERNANCE TRAJECTORIES: ORGANIZATION, PLACE, AND SPACE

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ABSTRACT

Alliances often turn into acquisitions (i.e., one alliance partner is acquired by the other). In these transitional governance trajectories, geography-related factors can play a crucial role. Factors like location and distance can notably influence the decision to acquire the alliance partner, as well as the performance implications of such a transition. However, existing studies on transitional governance tend to underemphasize the geographic dimension of the phenomenon. In this chapter, we take a first step toward connecting the field of transitional governance and the discipline of economic geography, which does emphasize location and distance as critical determinants of economic activities. We discuss how economic geography can inform the field of transitional governance and propose some promising avenues for future studies linking organization, place, and space in transitional governance trajectories.

Keywords: Organizational boundaries; alliances; acquisitions; governance decisions; real options; geography

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INTRODUCTION

Few issues have attracted more attention in the strategy literature than the topic of firm's governance decisions and their implications for organizational boundaries. In particular, there is rich evidence on the use of alliances and acquisitions as tools for expanding the organizational boundaries of the firm. In contrast to the traditional premise, which suggests that alliances and acquisitions are two alternative modes to organize a transaction (e.g., Hennart & Reddy, 1997), scholars have begun to emphasize the links between them as transitional governance (TG) trajectories. The notion of TG implies that alliances confer upon firms the possibility for a subsequent acquisition, in such a way that what starts as an alliance often turns into an acquisition (Kogut, 1991; Reuer & Tong, 2005).

Scholars in this TG tradition, building on several theories within the realm of strategy such as real options theory (e.g., Kogut, 1991) and transaction cost economics (e.g., Vanhaverbeke, Duysters, & Noorderhaven, 2002), have generated solid theoretical foundations on the rationale and strategic implications of TG trajectories. For example, existing studies reveal the conditions under which firms are more likely to (i) initiate TG trajectories, (ii) turn alliances into acquisitions, and (iii) create value through these strategies. Overall, this collection of literature has provided rich insights into the organization aspects of TG trajectories. However, existing studies on TG, and the traditional strategy literature as a whole, "have exhibited a relatively underdeveloped view of geographic space (and place)" in which the phenomenon is embedded (Beugelsdijk, McCann, & Mudambi, 2010, p. 486). To the extent that firms increasingly use alliances and acquisitions to access novel resources in disperse settings (Rosenkopf & Almeida, 2003), distance and location are often crucial determinants of the decision to ally with and/or acquire specific partners but also of the performance of such interfirm transactions. The lack of attention to distance and locational issues in existing TG literature is therefore problematic because it limits our conceptual understanding of TG trajectories.

In contrast, these issues have been extensively discussed in economic geography. In this discipline, place and space are, in fact, at the center of the conversation to explain economic activities across the world (Agnew, 2011; Beugelsdijk et al., 2010). Some of these ideas about the role of place and space have started crystalizing in specific streams of the strategy literature (cf. Beugelsdijk & Mudambi, 2013); yet, the TG field still remains quite independent from these insights. Recently, several scholars have emphasized the advantages of adopting an interdisciplinary approach that

builds on both economic geography and the strategy literature to better understand the global economy (Beugelsdijk et al., 2010; Boschma et al., 2014). We adhere to this view and argue that incorporating insights from economic geography into the TG conversation can help to explain the locational and spatial environment of TG trajectories, enriching our understanding of the phenomenon. In this chapter, we aim to establish the analytical connections between the two fields and propose a research agenda that connects *organization*, *place*, and *space* (Beugelsdijk et al., 2010) in TG trajectories.

In the following pages, we first review the extant literature on TG. Subsequently, we introduce the basic premises of economic geography and discuss how they can inform the field of TG. The chapter concludes by highlighting promising avenues for future research.

OVERVIEW OF EXTANT TRANSITIONAL GOVERNANCE LITERATURE

Alliances and Acquisitions: From Independent to Interdependent Governance Choices

In analyzing the choice between alliances and acquisitions, scholars have traditionally built on transaction cost economics (Williamson, 1991). This theory assumes that the firm's choice of alliances over acquisitions is a matter of maximizing efficiency and minimizing transactions costs (Hennart & Reddy, 1997). In this way, alliances and acquisitions have been traditionally viewed as alternative, independent governance modes that offer distinctive advantages.[1]

In contrast to this traditional view that alliances and acquisitions are discrete choices made at a certain point in time, TG scholars posit a more dynamic perspective, in which the interdependences between the two governance forms become apparent. In particular, the TG literature emerges to acknowledge that, in practice, many interfirm transactions are initiated as alliances and, over time, turn into acquisitions (Kogut, 1991; Yang, Lin, & Peng, 2011). Fig. 1 illustrates the existence of this phenomenon, reporting as an example the number of alliance-to-acquisition transitions involving US firms in the period 1990–2010. The underlying data were obtained using Thomson SDC Platinum database. We first identified the total set of alliances and acquisitions. Based on the CUSIP codes of the firms involved,

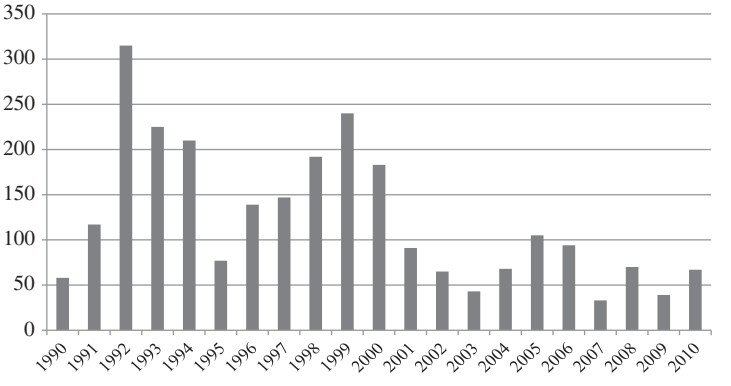

Fig. 1. Alliance-to-Acquisition Transitions Involving US Firms, per Year (1990–2010). *Source*: Own elaboration based on data from Thomson SDC Platinum database.

we subsequently identified the number of alliance-to-acquisition transitions. In particular, we identified 2,578 alliances that turned into acquisitions between 1990 and 2010, involving firms from all 50 US states and partners from 67 unique countries. These numbers suggest that, in the focal period, 3.6% of all alliances involving US firms transitioned to acquisitions and that, on average, 169 alliances transitioned to acquisitions per year.

TG: Theoretical Foundations

The core premise in the TG literature is that firm's governance decisions often describe a transitional trajectory (rather than a discrete choice), such that a transaction can be initially organized as an alliance and subsequently evolve into an acquisition. Below, we review the two main theoretical frameworks providing foundations to this premise: Real options theory and transactions costs economics.

Real options theory is the dominant framework in the TG field (Folta, 1998; Kogut, 1991; Reuer & Tong, 2005). Drawing on the analogy between financial and real options, real options scholars focus on explaining firm's sequential investments under uncertainty (e.g., Bowman & Hurry, 1993; see Li, James, Madhavan, & Mahoney, 2007, for a review of this literature). A real option is "a right – without an obligation – to invest in resources (e.g., labor, money, time) toward a course of action at a future point in

time" (McCarter, Mahoney, & Northcraft, 2011, p. 624). A critical assumption in this theory is that future strategic opportunities are determined by prior investment commitments (Bowman & Hurry, 1993; Tong & Reuer, 2007). Real options allow firms to position themselves to expand in the future, if convenient, while requiring a relatively limited commitment of resources (Kogut, 1991). Under conditions of uncertainty, the right conferred by real options to make future choices and postpone full commitment is thus very valuable. As noted by Li et al. (2007, p. 35), real options offer managers flexibility "to act upon new information such that the upside economic potential is retained while the downside loses are contained" (see also Trigeorgis, 1996, p. 122).

In the TG setting, alliances are investment platforms that provide firms with the option to expand sequentially (Kogut, 1991). In particular, forming an alliance provides the option to acquire the partner sometime in the future (Reuer & Tong, 2005). Under this view, pre-acquisition alliances represent valuable mechanisms to maintain flexibility and deal with uncertainty. As noted by McCarter et al. (2011), in the context of TG, such uncertainty manifests itself on two different levels: environmental and relational uncertainty. Environmental uncertainty, the exogenous component of uncertainty, is rooted in the firm's lack of complete information about the business environment – for example, industry and market conditions, technological standards, etc. (Folta, 1998; Folta & Miller, 2002). Relational (or social) uncertainty arises because the firm has incomplete information about the intentions and/or capabilities of a potential target, and is therefore endogenous to the relationship (McCarter et al., 2011). Pre-acquisition alliances can help in dealing with both types of uncertainty. They can mitigate environmental uncertainty by allowing the firm to delay the acquisition decision until critical information (e.g., value of a certain technology) becomes available (Bowman & Hurry, 1993). Furthermore, alliances provide rich information about the partners that is normally not available for outsiders (Reuer & Lahiri, 2014). Alliances also enable partners to develop mutual trust and commitment (Doz, 1996). In this regard, pre-acquisition alliances also mitigate relational uncertainty:[2] engaging first in an alliance (instead of outright acquisition) is a "testing the waters" strategy to get to know the partner (McCarter et al., 2011). Overall, the real options rationale for TG trajectories implies that alliances provide the option (but not the obligation) to acquire the target in the future, while helping to mitigate the uncertainty surrounding the acquisition decision.

A second important theoretical framework in the TG literature is transaction cost economics (Williamson, 1991). Close to the real option insights

above discussed, transaction cost theory emphasizes that prior alliances might alleviate ex ante and ex post costs of subsequent acquisitions (Folta, 1998; Hagedoorn & Sadowski, 1999). Transaction cost theory stresses the existence of information asymmetries between acquiring firms and targets, which result into serious risk of adverse selection (Vanhaverbeke et al., 2002). Acquirers should incur important costs to gather detailed information about the target in the pre-acquisition phase (due diligence). By forming an alliance, the firm can gain fine-grained information about the target (Reuer & Lahiri, 2014). In this regard, pre-acquisition alliances are effective *due diligence* mechanisms that can mitigate the risk and costs of adverse selection (Vanhaverbeke et al., 2002). Furthermore, alliances help partners to learn how to collaborate with one another (Doz, 1996). In this way, pre-acquisition alliances can reduce post-acquisition integration costs (Zollo & Singh, 2004). Alliances also mitigate such ex post costs by generating partner-specific absorptive capacity, which allows the acquirer to overcome "indigestibility" problems (Zaheer, Hernandez, & Banerjee, 2010). In sum, transaction cost theory proposes that TG trajectories exist because engaging first in an alliance with a potential target can minimize the transaction costs of a subsequent acquisition.

Empirical Evidence on TG Trajectories

Drawing on these theoretical insights, scholars have empirically examined several aspects of the TG phenomenon. Table 1 presents an overview of empirical studies.

Following Folta (1998) and Faems and Madhok (2009), two key decisions can be distinguished in TG trajectories: (i) the initiation decision (i.e., the firm decides whether to start the TG trajectory by forming an alliance) and (ii) the exercise decision (i.e., the firm decides whether to exercise the option to acquire the partner). Building on the real options rationale (e.g., Kogut, 1991), the transactions cost rationale (e.g., Hagedoorn & Sadowski, 1999), or a combination of both (e.g., Folta, 1998), the majority of studies have focused on one of these two decisions. Scholars focusing on the initiation decision (e.g., Estrada, de la Fuente & Martín-Cruz, 2010; Folta, 1998; Vanhaverbeke et al., 2002) provide evidence on the specific conditions under which firms are likely to engage in TG trajectories. For instance, Folta (1998) examines R&D transactions in the biotechnology industry and finds, among other, that firms prefer equity alliances over acquisitions when exogenous technological uncertainty is high at the industry level.

Table 1. Overview of Empirical Studies on Transitional Governance.

Study	Theoretical Framework	Research Purpose	Sample	Dependent Variable	Key Findings
Kogut (1991)	ROT	To investigate whether joint ventures (JVs) are created as real options to expand in response to future technological and market developments	92 manufacturing JVs, located in the United States and involving at least one American partner, 1975–1983	Acquisition of the JV by one of the partners	The likelihood of acquisition of the JV increases with (i) increased valuation of the JV (e.g., unexpected growth in the product market) and (ii) industry concentration
Folta (1998)	ROT TCT	To examine motives for initiating equity-based R&D collaborations versus outright acquisitions	402 R&D transactions (minority investments, JV, acquisitions) involving a US target in the Biotechnology industry, 1978–1992	Minority investment versus JV versus acquisition	Equity collaborations are preferred over acquisitions (i) when partners have dissimilar primary business operations and (ii) in technical subfields with greater value, higher technological uncertainty and fewer rivals. U.S. transactions are more likely to be organized as acquisitions.
Hagedoorn and Sadowski (1999)	TCT	To examine determinants of the transition from technology alliances to acquisitions	6,425 strategic technology alliances involving 2,848 firms, 1970–1993	Alliance transformed into acquisition versus alliance nontransformed into acquisition	The number alliances than turn into acquisitions in high-tech sectors is relatively smaller than in other sectors. Alliances that turn into acquisitions tend to involve alliance partners of different sizes (i.e., large firms acquire their smaller partners).

Table 1. (*Continued*)

Study	Theoretical Framework	Research Purpose	Sample	Dependent Variable	Key Findings
Folta and Miller (2002)	ROT TCT	To examine factors influencing the decision to acquire additional equity in partner firms	285 minority equity collaborations, in which established non-biotechnology firms take equity stakes in US biotechnology firms, 1978–1999	Acquisition of a majority stake (>50%) of the biotechnology partner Acquisition of additional stakes (up to 50%) of the biotechnology partner	The likelihood of partner buyout increases: (i) with increased partner valuation, (ii) when low uncertainty is combined with high valuation, and (iii) when buyout options are more proprietary. The likelihood of partner buyout decreases: (i) in the presence of an explicit buyout option and (ii) under high uncertainty. However, under high uncertainty, the less proprietary the buyout option, the higher the likelihood of partner buyout.
Vanhaverbeke et al. (2002)	TCT	To examine factors influencing the choice between strategic technology alliances and acquisitions	145 alliances (118 partner firms) and 140 acquisitions (52 acquirers, 120 acquired) established in the Application Specific Integrated Circuits Industry, 1985–1994	Alliance versus acquisition Non-equity alliance versus equity alliance versus acquisition	Acquisition likelihood increases: (i) with the number of previous alliances between two firms and (ii) industry maturity. Acquisition likelihood decreases in the presence of smaller network distance between dyad partners and in inter-triad situations. Minority investments are preferred over JVs when: (i) partner firms are dissimilar and (ii) the value of the technology is high.

Porrini (2004)	OLT	To investigate whether a previous alliance between an acquirer and a target affects post-acquisition performance	437 acquisitions in manufacturing by public American acquirers acquiring public American targets, 1988–1997	Return on Assets	Pre-acquisition alliances between acquirers and targets have a positive impact on acquisition performance. Target-specific learning effects are stronger in R&D, technology transfer, manufacturing and marketing alliances than in licensing alliances. Target-specific learning effects are particularly salient in technology transfer and manufacturing alliances.
Reuer and Tong (2005)	ROT TCT	To investigate determinants of firms' use of explicit call options to acquire equity in their international joint ventures (IJVs)	2,594 IJV transactions (based outside US and involving at least one US firm), 1995–2002	Call option (indicating whether the US partner firm in the IJV held an explicit option to acquire equity in the venture)	Explicit call options are contractual safeguards that are used (i) more often in IJVs that are related to the core business areas of the firm and (ii) less often in IJVs created in host countries that have more strict intellectual protection regimes and higher risk of political turmoil.
Zaheer et al. (2010)	TCT OLT	To examine whether prior alliances with potential targets yield superior stock returns upon acquisition	408 acquisitions by US public firms in high-tech industries, 1990–1998	Acquisition performance (acquirer's stock price reaction to the acquisition announcement)	Broadly speaking, acquisitions with prior alliances do not perform better than acquisitions without prior alliances. However, cross-border acquisitions with prior alliances perform better domestic acquisitions. Acquisitions with stronger prior alliances perform better than acquisitions with weaker prior alliances.

Table 1. (*Continued*)

Study	Theoretical Framework	Research Purpose	Sample	Dependent Variable	Key Findings
Estrada et al. (2010)	ROT	To examine under which conditions firms form technological joint ventures (TJVs)	A panel of 4,050 Spanish industrial manufacturing firms, 1998–2005 (29,376 observations 565 technological JVs)	TJV formation	A firm's propensity to form TJVs is positively related to (i) its absorptive capacity and (ii) the degree of exogenous technological uncertainty, and negatively related to (i) the risk of pre-emption by rivals and (ii) the existence of opportunity costs.
Yang et al. (2011)	Behavioral learning Network theory	To examine determinants of the acquisition of alliance partners	Alliances US Computer Industry, 1986–1996	Acquisition of alliance partner	Exploration alliances are more likely to turn into acquisitions than exploitation alliances, particularly in the presence of (i) high degree of joint brokerage of alliance partners and (ii) high level of relative centrality between alliance partners.

Note: ROT: real options theory; TCT: transaction cost theory; OLT: organizational learning theory.

Examining the exercise decision, other studies (e.g., Folta & Miller, 2002; Kogut, 1991) propose factors explaining the firms' propensity to acquire equity stakes in partner firms. Analyzing minority equity collaboration in biotechnology, Folta and Miller (2002), for instance, conclude that the likelihood of partner buyouts usually decreases with the degree of exogenous uncertainty. Environmental uncertainty therefore arises as a major determinant of the initiation and exercise decisions.

An additional line of research concerns performance issues in TG settings (e.g., Porrini, 2004; Zaheer et al., 2010). These studies show that acquiring options embedded in TG trajectories (Reuer & Tong, 2005) and exercising them (e.g., Porrini, 2004; Zaheer et al., 2010) can, under specific circumstances, create value. For instance, Zaheer et al. (2010), focusing on acquisitions by US firms in high-tech industries, report that acquisitions with prior alliances perform better than outright acquisitions when the target is international.

INCORPORATING INSIGHTS FROM ECONOMIC GEOGRAPHY

TG across Place and Space

Overall, the existing literature on TG has provided relevant evidence on the conditions under which firms (i) initiate TG trajectories, (ii) move from alliances to acquisitions, and (iii) create value through these strategies. To the extent that this field of research has mainly developed within the realm of the strategy literature, TG scholars have tended to adopt an organizational perspective (Beugelsdijk et al., 2010). In this way, existing studies on TG have elaborated, for instance, the organization-level implications of allying with potential targets and of acquiring alliance partners. At the same time, however, TG scholars have tended to overlook the spatial and locational dimensions of the phenomenon.

This underdeveloped view of place and space issues is surprising given that, in practice, firms increasingly engage in alliances and acquisitions to access knowledge and technology from other countries or, at least, in distant locations (Reuer & Lahiri, 2014; Rosenkopf & Almeida, 2003). To illustrate these arguments, Fig. 2 presents a global map of the same alliance-to-acquisition transitions described above (i.e., acquisitions of alliance partners by US firms in the period 1990–2010 based on SDC

Platinum database). It is interesting to see that, of the 2,578 alliances that turned into acquisition, 66% were domestic. The average distance between these domestic partners is 2,307 kilometers (1,433 miles), which is approximately equivalent to the distance between Boston and Miami. The remaining 34% of alliances include international partners from 67 different countries. In these 876 cases, the average distance between partners is 8,865 kilometers (5,508 miles), which is approximately equal to the distance between London and San Francisco.

Overall, Fig. 2 shows that firms often have to deal with both space and place issues such as geographic distance and national borders when pursuing TG strategies. Therefore, we argue that TG scholars should also pay attention to place and space, issues that have been extensively developed in economic geography. In the following section, we introduce the basics premises of this discipline and suggest some ways in which it can complement our understanding of TG trajectories.

How Can Economic Geography Inform TG?

Economic geography deals not only with the location and distribution of economic activities across the world but is also concerned with the spatial organization of these activities. Without aiming to provide a deep reflection on the long-lasting discussion on the definition of place (cf. Agnew, 2011), the concept of place is central to our discussion of *a geography of TG*. We use a conceptualization in which place is the location where things, in our case the transition from an alliance to an acquisition, happen. Next, TG commonly implies that two actors that are usually located at different places are involved. Hence, spatial relations matter in the form of geographic and other forms of proximity between actors, which is the second key concept relevant to our discussion.

In our view, a geography of TG can mainly contribute to two important, currently understudied, perspectives. First, it highlights that place matters. Similar to perspectives that view the firm as a bundle of resources (Penrose, 1959), a place also provides a bundle of resources and opportunities for the firm (Gluckler, 2007). Like in the resource-based view of the firm with its strong emphasis to rare and therefore valuable, non-substitutable and difficult to imitate resources (Barney, 1991), the heterogeneity of space is full of localized resource profiles that provide (often unique) access to social capital, human capital, and institutional resources as well as tangible inputs. However, while it is common to highlight the heterogeneity in resources

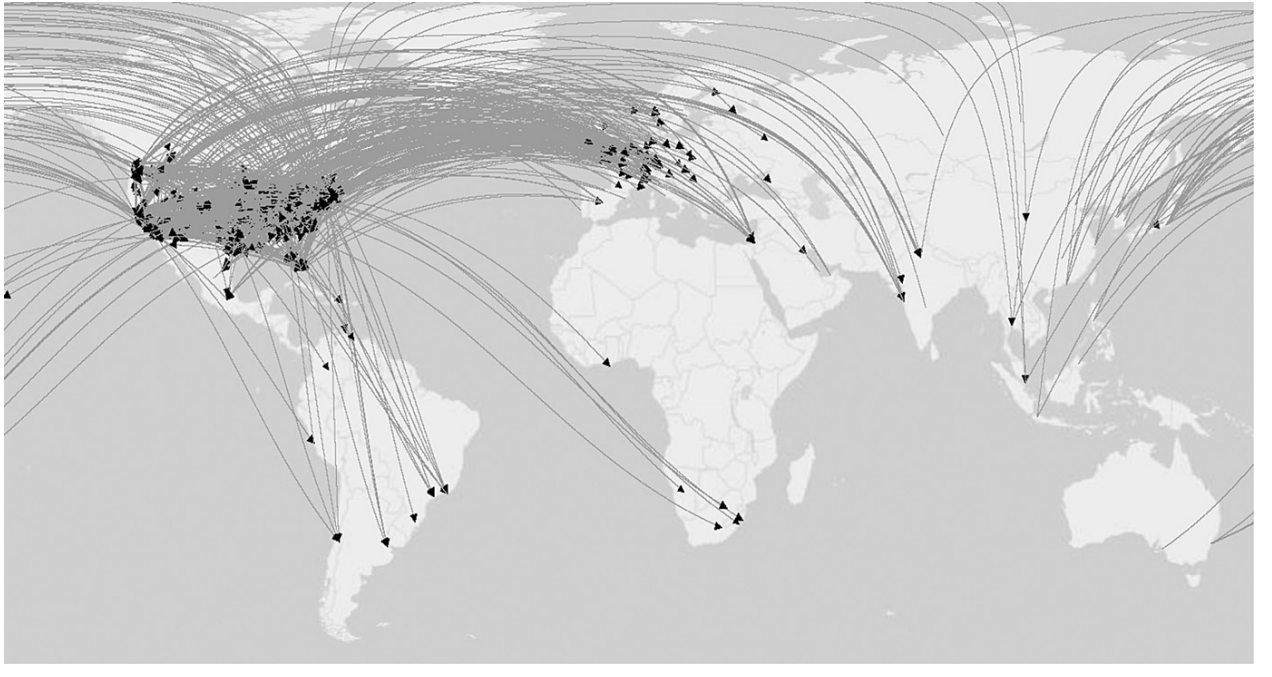

Fig. 2. Alliance-to-Acquisition Transitions Involving US Firms (1990–2010). *Source*: Own elaboration based on data from Thomson SDC Platinum database. *Notes*: The map has been performed using ArcGIS. The line between two points joins the two firms that participated in a strategic alliance. The arrow points in the direction of the target, suggesting the direction of the transition from an alliance to an acquisition.

and opportunities that different places offer, different places are also linked to varying degrees of uncertainty – for example, regarding the development of economic conditions. This is especially relevant for TG but the uncertainty of locations has not received much attention yet.

The second perspective provided by economic geography is that proximity regarding spatial relations influences economic processes and, of special relevance in this context, governance structure and changes thereof (cf. Boschma & Frenken, 2010). Heterogeneity in geographical proximity can imply differences in uncertainty since more distant partners, markets, and local conditions are less known. Such uncertainty can make TG trajectories more interesting options than outright acquisitions. At the same time, proximity can also facilitate the transfer of information and knowledge (Boschma, 2005) that can cause substantial heterogeneity in updating information. Therefore, distance is likely to play a role at various points in time throughout the TG trajectory. Below, we elaborate how place and space might influence the initiation and exercise decisions in the TG process.

Initiation Decision

TG trajectories are likely to be more interesting to firms relative to outright acquisition when (i) the primary location of business operations of the involved partners is geographically far away from each other, (ii) uncertainty in the local market of the potential target is high, and (iii) the location of the potential target offers relatively fewer alternatives of outright acquisition candidates. In all three situations, uncertainty is relatively high and therefore the willingness to initiate TG trajectories instead of engaging in outright acquisition is expected to be high as well (Estrada et al., 2010; Folta, 1998). However, the factors underlying such uncertainty are different. The second and third options highlight that different locations offer different opportunities and associated uncertainties (Gluckler, 2007). In contrast, in the first situation, uncertainty mainly originates from low availability of information commonly associated to large geographic distance (Reuer & Lahiri, 2014). In addition to enhanced uncertainty, both economic geographers and management scholars acknowledge the enhanced novelty value of more distant knowledge sources (cf. Boschma, 2005; Rosenkopf & Almeida, 2003). In this respect, more distant firms may be a particularly interesting choice. This combination of higher novelty value of more distant opportunities with greater uncertainty of these distant places makes TG trajectories a particularly valuable strategy compared to outright acquisition.

Exercise Decision

Unlike the initiation decision, the transition itself – that is, going from an alliance to an acquisition–might be less likely when the primary location of business operations of the involved partners is geographically far away from each other. Obtaining additional critical information – which is needed to decide whether to exercise the option or abandon it (Bowman & Hurry, 1993) – is more difficult when physical distance is large and the information to be transmitted is subject to noise, which reduces the value of the information. Literature in economic geography has extensively emphasized the beneficial role of geographical proximity for knowledge transfer in space. Most empirical contributions focus on the geography of innovation activities and spatial knowledge spillovers (e.g., Acs, Audretsch, & Feldman, 1992; Adams & Jaffe, 2002; Feldman, 1994; Jaffe, 1989). Similarly, management scholars highlight that geographical proximity facilitates interorganizational understanding and implies less uncertainty (Knoben & Oerlemans, 2006). Economic geographers commonly assume that tacit knowledge (Polanyi, 1966) is particularly difficult to transfer across larger geographical distances. Therefore, the likelihood of transition from an alliance to an acquisition would be more strongly influenced by geographical proximity if the knowledge required to make the exercise decision is tacit. When geographic distance is large, it might be more difficult to collect information about a potential target than about local markets and economic conditions, because the former is usually less codifiable and difficult to transfer across space (Reuer & Lahiri, 2014). Therefore, the type of information that needs to be transferred to reduce uncertainty can strongly influence how geographic proximity impacts the exercise decision. For example, uncertainty about local markets may be more easily mitigated even when distance is large, compared to uncertainty about the target itself.[3]

CONCLUSION AND RESEARCH AGENDA

As a final reflection, we present some ideas for future research incorporating insights from economic geography to further develop the field of TG.

Geography-Related Uncertainty

Existing studies on TG have traditionally focused on technological uncertainty – normally measured at the industry level (e.g., Estrada et al.,

2010; Folta, 1998) – as the main exogenous type of uncertainty relevant to TG decisions. Economic geography, however, suggests the importance of *geography-related uncertainty*. Heterogeneity in uncertainty associated to different locations and spatial relations may impact the initiation and exercise decisions. In order to expand our understanding of the phenomenon, future studies should account for both types of exogenous uncertainty in the TG setting. Furthermore, some TG scholars stress the social side of uncertainty in TG, acknowledging that part of the uncertainty is relational or endogenous to the interfirm transaction (McCarter et al., 2011). Therefore, future TG studies should explore the interconnections between the three types of uncertainty (i.e., technological, geography-related, and relational) and their implications for TG decisions and performance. For example, it could be explored how geography-related uncertainty shapes relational uncertainty, or whether a crowding out effect exists when decision-makers face high uncertainty at different levels.

Geographic Distance versus Border Crossing

Economic geography highlights that place and space represent interconnected but different concepts, which can have different implications on firm's economic activity (Agnew, 2011; Beugelsdijk & Mudambi, 2013). Place and space issues have not received much explicit attention in TG settings and, in any case, the distinction between them remains blurry. Economic geographers, however, suggest that studies on MNEs should examine both within-country and between-country distance, because "border and distance effects are not the same" (Beugelsdijk & Mudambi, 2013, p. 416). In a similar vein, Boschma (2005) makes a distinction between geographic proximity and other four types of proximity between economic actors (e.g., institutional, organizational, cognitive, and social proximity). According to this view, geographic or physical distance triggers operational problems (e.g., face-to-face interaction is difficult), whereas border crossing reduces institutional proximity (e.g., cultural norms are different). Extending these insights into our setting, we suggest that future studies should make an explicit distinction between geographic distance and border issues in TG settings, and account for their distinct effects, both theoretically and methodologically. For instance, a promising line for future research is to examine performance differences between acquisitions preceded by alliances affected by geographic distance in domestic and cross-border contexts.

The Multilocation Nature of TG Actors

Building on the premises of economic geography that place and space matter in global economic activities, scholars have started emphasizing the multilocation nature of MNEs (cf. Beugelsdijk & Mudambi, 2013). Economic geography suggests that, due to differences in location, different units within MNEs are likely to face different opportunities and challenges. In order to explain MNE strategic behavior, therefore, the identification of these locational differences matter. Given the importance of MNEs as global economic actors, TG scholars should also acknowledge that TG trajectories often involve decision-making in multilocation entities. For example, given the locational differences between headquarters and subsidiaries, it could be relevant to make a distinction between them and identify the role of each in the TG trajectory. The extant TG literature assumes that the parents firms are the major actors in the initiation and exercise decision; we argue that this is only one piece of the puzzle. For the sake of illustration, Fig. 3 shows different types of alliance-to-acquisition transitions, focusing on US acquirers and North American targets (e.g., including Canada and Mexico): (i) transitions in which a parent firm acquired another parent firm, (ii) transitions in which a parent firm acquired a subsidiary firm (or vice versa), and (iii) transitions in which one subsidiary acquired another subsidiary. Overall, Fig. 3 shows that, in practice, both headquarters and subsidiaries are involved in TG decisions. In order to explain TG decisions and performance, therefore, it could be relevant to account for their locational differences (and for other aspects reflecting the multi-locational nature of TG actors).

CONCLUSION

In this chapter, we have taken a first step toward connecting the field of TG, which has traditionally focused on organization aspects, and the discipline of economic geography, which stresses place and space as key determinants of the global economy. Space and place can play a crucial role in the TG process, influencing both the initiation and exercise decisions and their performance implications. Therefore, we hope that our work motivates TG scholars to incorporate insights from economic geography and explicitly connect *organization*, *place* and *space* in TG settings.

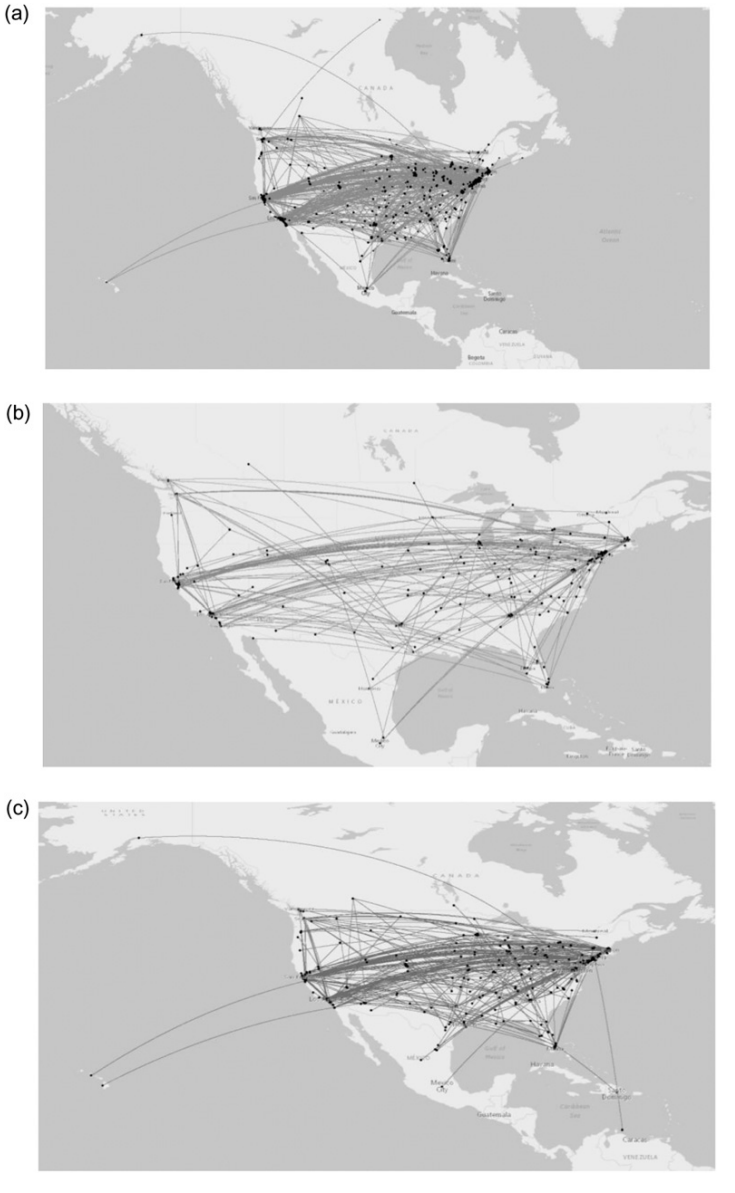

Fig. 3. Acquisitions by US Firms of Alliance Partners in North America (1990–2010). (a) Parent-to-Parent Transitions. (b) Parent-to-Subsidiary/Subsidiary-to-Parent Transitions. (c) Subsidiary-to-Subsidiary Transitions. *Source*: Own elaboration based on data from Thomson SDC Platinum database. *Note*: The maps have been performed using ArcGIS.

NOTES

1. While acquisitions offer the advantages of hierarchical control (Folta, 1998), alliances are more attractive than acquisitions in two main scenarios (cf. Vanhaverbeke et al., 2002). First, in order to evaluate a potential target, the acquirer often has to rely on proprietary information provided by the target itself, which can behave opportunistically, due to information asymmetries, and offer inaccurate information. In the presence of such adverse selection risk, alliances are preferred to acquisitions, since alliances entail lower degree of commitment. Furthermore, due to assets specificity, a common problem in acquisitions is that of 'indigestibility' (Hennart & Reddy, 1997): acquisitions entail buying undesired resources that the target possess and that are inexorably linked to the desired resources that motivated the transaction in the first place. In these circumstances, acquisitions become less attractive than alliances, which may be designed to focus only to the desired resources.

2. For a critical assessment of this and other assumptions of the TG literature, see Faems and Madhok (2009).

3. Geography is likely to matter also once the exercise decision has been made and the partner is acquired – an aspect that is not discussed in more detail here. For example, the success of the post-acquisition integration process is likely to be dependent on space. Some studies suggest that a proximate partner can be more easily integrated (e.g., Knoben & Oerlemans, 2006; Larsson & Finkelstein, 1999). Similarly, firms are likely to make assumptions about the potential integration costs and difficulties to obtain information before the initiation and exercise decision. These expectations (influenced by geography) are likely to influence firm behavior as well.

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