



# The Impact of Global Market Environment on the Degree of Cooperation of International Strategic Alliances among Service Firms

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## ABSTRACT

Globalization of market present more challenges and it requires firms to respond by adopting various strategies. One of the strategies is through involvement in international strategic alliances (ISAs). The objective of this study was to investigate the impact of global market environment factors, which consists of two dimensions namely global market opportunities (GMO) and global market threats (GMT) on the degree of cooperation of ISAs (DCISA). A quantitative study with data collected through survey questionnaire was conducted and the sample of the study consisted of 214 service based companies in Yemen. The findings show a significant positive relationship between the GMO factor and the DCISA. In contrast, there is no significant relationship observed between the GMT and the degree of cooperation. Therefore, firms observing new market opportunities resulting from globalization tend to increase the degree of cooperation of their strategic alliances.

**Keywords:** International Strategic Alliances, Global Market Environment, Global Market Opportunities, Global Market Threat, Service Firms, Yemen

**JEL Classification:** M3

## 1. INTRODUCTION

Globalization of market which brings more challenges to multinational corporations encourages firms to cooperate with other firms through international strategic alliances (ISAs). Alliances are one of the partnership options that can be used by companies to achieve each partners' goals based on partnership (Mockler, 1999). ISAs may consist of various governance structures like in the form of joint venture, licensing agreement, cooperation in research and development (R and D), or mergers and acquisitions. Specifically, firms come together in cooperation to share their resources and capabilities in order to develop competitive advantage and as such, alliance has become the core of the competitive strategy of firms (Hitt et al., 2009). In addition, ISAs nowadays are considered as a fundamental instrument used by the firm to tackle uncertainty and risk in the current business environment (Khamseh and Nasiriyar, 2015). In general, firms involve themselves with ISAs to achieve many goals such as to improve their competitive advantage, and

to expand their network of services overseas (IşoraIte, 2009). ISAs also allow access to new markets and opportunities at the lowest costs, and to gain valuable resources from other firms such as equipment and technology, and to learn new knowledge from their partners, to attract foreign capital and to exchange complementary technology (Dunning and Lundan, 2008). Many firms especially from least developed countries seek to obtain resources and modern technology from international companies through alliances in order to be able to achieve their goals, due to evolving global market. Firms also involve themselves in alliances to learn new skills and knowledge, develop new product, share R and D investment, and share risk (Nielsen, 2003).

In Yemen, the government encourages local firms to engage in ISAs as one of the means to attract foreign direct investment, enhance the partnerships between public and private sectors internally and externally. Firms are encouraged to venture abroad and become multinational firms by involving in ISAs with foreign

firms. At the same time, the Yemeni government has also privatized state-owned enterprises, while continuing to gain profitability and to some degree control the business. The objectives are to attract foreign capital, to bring new resources to Yemeni firms, and to improve overall Yemeni economic performance quickly (Central Intelligence Agency, n.d). The success of ISAs relies very much on the degree of cooperation between participating firms. The degree of cooperation in ISAs (DCISA) is the extent to which a firm cooperates with other international firms in the alliance in coordinating alliances activities such as customer service, advertising, promotion, and sharing distribution channels (Das et al., 2003; Thoumrungroje and Tansuhaj, 2004). Anderson and Weitz (1992) found a positive relationship between the DCISA and alliances outcomes such as efficiency, profitability, and effective marketing activities. Literatures on ISAs indicate a number of studies that have examined the antecedents of ISAs and the degree of cooperation (Das and Teng, 2000; Thoumrungroje and Tansuhaj, 2004; Coulibaly and Sauvée, 2009; 2010). This study however focused only on global market environment antecedent, which consists of two factors namely global market opportunities (GMO) and global market threats (GMT).

Previous studies on ISAs mostly focused on firms in the manufacturing industries. Thoumrungroje and Tansuhaj (2004) for example focused on electronic and chemical industries; Zamir et al. (2014) studied small and medium enterprises; while Sambasivan et al. (2011) look at strategic alliances among supply chain members. In contrast, a greater number of partnerships are for joint marketing and R and D rather than production. This partly reflects the increasing role of service firms in international alliances (Kang and Sakai, 2000). Lack of attention was given to service firms specifically in the context of developing country such as Yemen. Service sector is one of the important catalysts for economic growth in Yemen. In 2013, the service sector contributes up to 57.4% of the gross domestic product (GDP), while the commodity producing sector contributes 41.6%, followed by agriculture, forestry and fisheries sector 16%. The trend is expected to continue in 2013 (Central Bank of Yemen, 2013). The manufacturing sectors contribute a mere 5.8% towards Yemen GDP. There are four sub-sectors classified under the service sector in Yemen namely transportation and communications; finance, real estate and business services; trade, restaurants and hotels; producers of government service sector (includes health service, post office, higher education) and other sectors (Central Bank of Yemen, 2013). Therefore, this study is conducted with the objectives of identifying the impact of GMO factor and GMTs factor on the degree of cooperation among service firms in Yemen. This paper will discuss some literatures on ISAs and the global market environment, the conceptual framework and hypothesis development, followed by the research methodology adopted and the result of data analysis. Discussions on the findings together with the contributions and conclusions are then discussed.

## 2. ISAS AND THE DEGREE OF COOPERATION

Strategic alliance is a voluntary cooperation between two or more firms to achieve competitive advantage. It involves various

activities such as exchange, sharing, or co-development of products, technologies, or services (Das and Teng, 2000; Gulati and Singh, 1998). ISAs meanwhile refer to a form of cooperation between two or more firms belonging to different countries, whereby each partner seek to add to its competence by combining its resources to share compatible goals (Parkhe, 1991). Previous studies have identified that ISAs may help firms improve their overall performance Andreovski (2009), and Kuzminykh and Pavel Zufan (2014). In a related study, Khamseh and Nasiriyar (2015) stated that firms set up strategic alliances for the creation of values such as economic values and knowledge value. Furthermore, ISAs also assists firms in gaining competitiveness and access to resources from other firms (Das and Teng, 2000; Dunning, 1988), gain new knowledge, skills transfer, and knowledge sharing (Khamseh and Jolly, 2008). Lately, firms also tend to get involved in ISAs for geographic expansion, cost reduction, manufacturing, and other supply chain synergies (Kinyeki and Mwangi, 2013).

According to Mockler (1999), strategic alliances consist of two forms of alliances, which are equity-based alliances and contract-based alliances. Equity based alliances may result in the creation of a new entity such as joint venture, consortia or subsidiaries, or an improvement of existing entities. Non-equity alliances are the contract based alliances such as joint product development, joint R and D, joint sourcing, joint manufacturing and joint marketing. The degree of cooperation as defined by Thoumrungroje and Tansuhaj (2004) is the extent to which a firm cooperates with other international firms in the alliance, in coordinating alliances activities such as customer service, advertising, promotion, and sharing distribution channels. The success of ISAs relies on various factors and one of them is the degree of cooperation between participating firms. This is demonstrated by Anderson and Weitz (1992) where they found a positive relationship between the DCISA and alliances outcomes such as efficiency, profitability, and effective marketing activities. Another study by Oum et al. (2004) found out that the horizontal alliances tend to have a significant and positive impact on profitability when they involve high-level cooperation. In addition, high-level cooperation tends to produce higher overall productivity gains than low-level cooperation in strategic alliances. Further investigations on the degree of cooperation in alliances should provide more insights on how globalization drives cooperation in international marketing activities. Although this study focuses on service industry, the principles and reasons behind alliances are similar as service industry also stress on customer service, advertising and others. Therefore, this definition of the degree of cooperation is adopted for this study.

## 3. GLOBAL MARKET ENVIRONMENT

Global market environment plays a strong role in firms markets and marketing activities (Harrison, 2013). Global market environment includes all factors that influence marketing activities in organizations in a direct or indirect way (Kotler and Keller, 2012). It is a complex adaptive system, and this system is consisting of many factors that operate independently and interact with each other. These factors are political, social, technological, economic, and organizational factors (Qin and Xu, 2011). Changes in these global markets environment may create both opportunities and

threats to the multinational firms. In the context of alliances, these opportunities and threats are expected to encourage firms to work with each other and even reinforce their level of cooperation. This research therefore uses GMO and global markets threats as two antecedents of global market environment to examine the impact of both factors on the level of cooperation of ISAs.

GMO refers to the increases in market potential, trade and investment potential, and resource accessibility resulting from globalization of market (Thoumrungroje and Tansuhaj, 2004). Countries these days have engaged in deregulation, privatization, and trade liberalization policies in order to achieve free flow of trade and investments and these policies create new opportunities for businesses to explore (Harrison, 2013). The increases in cross border trade and deregulation of trade and investment policies motivate firms to seek an international market opportunities and to access resources from location where there are competitive advantages (Pansiri, 2008). In air transportation industry for example, the open skies agreement which is a deregulation of rules between European Union (EU) countries and the United States (US) allows EU and US air carriers to operate anywhere within the region. It provides more opportunities for airlines to venture into new markets, but on the other hand, the competitions have also increased. As such, firms get involved in strategic alliances to enter, enhance and strengthen their position in new market (Garcia-Canal et al., 2002; Jones, 2002). Many fast-growth technology firms use ISAs to benefit from distribution, marketing, or brand reputation of bigger, better-known players (Jakada, 2014). Based on the above literatures, it is expected that the degree of cooperation between partners in alliances will be strengthened when there are more market opportunities exist for firms to venture. Therefore, the following hypothesis is thus developed for this study:

H1: There is a positive relationship between GMO and the DCISA.

GMT refers to the increase in the number and level of competition, and the level of complexity and uncertainty in the market due to globalization (Thoumrungroje and Tansuhaj, 2004). Trade liberalization and technological developments allow more firms to enter different geographic markets, hence increase the level of competitions between foreign and local firms. Hence, the emergence of many new competitors is forcing existing firms to develop and nurture strong relationships and networks in order to create barriers of entry for new competitors (Narula and Dunning, 1998). In respond to these, strategic alliances are created with the objectives of responding to competition and also to create competitive advantages, together with reducing the uncertainty in the market (Uddin and Akhter, 2011). Rapid technological development, shorter product life cycles and the increasing costs of R and D are forcing firms to establish R and D alliances in order to share scarce resources, and to go out and look for new and complementary knowledge in order to survive the competitions (Chimerine, 1997). Globalization and development in information and communication technology also enables consumers to gather information easier, faster, and at lower costs. Thus, they become well aware of alternative products, and are ready to switch towards the competitor's product or brand (Thoumrungroje and Tansuhaj, 2004). It is therefore expected that firms will be involved and

cooperate more with their alliance partners when there is high level of GMTs. Thus it is expected to positively influence the DCISA. Hence, the second hypothesis of this study is:

H2: There is a positive relationship between GMTs and the DCISA.

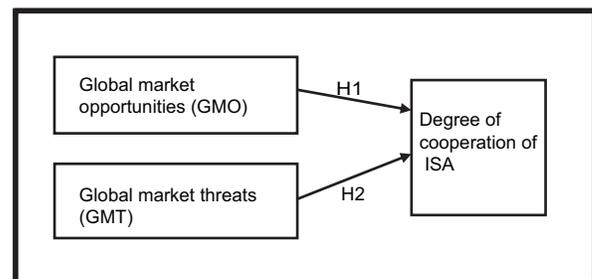
Based on the above literatures and hypothesis of the study, the conceptual framework developed for this study is shown in Figure 1.

## 4. METHODOLOGY

The objective of this study is to investigate the impact of GMO and GMTs, which are the elements of global market environment on the DCISA. The study is conducted among service firms in Yemen. Hence, the population of the study consists of all service industry firms in Yemen. A quantitative research design with data gathered through survey questionnaire method was employed. The unit of analysis for this study was the Yemeni service firms that have been involved in ISAs, which include firms from various service sectors such as transportation and communications; finance, real estate and business services; trade, restaurants and hotels; health service, higher education and other sectors. Proportionate stratified random sampling method was used in determining the sample size, where the numbers of sampling units are drawn from each stratum (sector) is in proportion to the population size of that stratum (Zikmund et al., 2011). The list of Yemeni service industry firms were obtained from the Yemeni tax authority. A total population of 462 service firms in Yemen was identified. Therefore, the sample size based on Krejcie and Morgan (1970) sampling table is about 210.

The survey questionnaire was adapted from previous study by Thoumrungroje and Tansuhaj (2004). Some adjustments were made to make sure that the survey items match the context of this study. The list of items is as shown in Table 1. Five point Likert scale was used to measure the GMO, GMTs and the degree of cooperation. For the degree of cooperation, the scale used is from 1 (low cooperation) to 5 (very high cooperation), and the variable consists of ten items. Global market factors in which firms operates consists of two dimensions: Global marketing opportunities and global marketing threats. Both are operationalized by using six items for global marketing opportunities and six items for global marketing threats on a five-point Likert scale. Respondents are requested to indicate the level of agreement to the statements given, ranging from 1 (strongly disagree) to 5 (strongly agree).

Figure 1: Conceptual framework of the study



**Table 1: Survey questionnaire items**

Variable	Dimensions	Number of items	Items		
The DCISA		10	International research and development R and D New product development for international markets Sharing production facilities for exported products International sales promotion International advertising Providing international customer services International distribution Joint venture with various percentage of ownership in new entities Investments of capital in joint ventures in existing entities Cross participation in capital Product development sourcing		
Global market environment	GMO	6	GMO has increased my firm's opportunities to develop customer markets worldwide GMO has increased my firm's opportunities for trade and investment GMO has increased my firm's market potential GMO has increased my firm's opportunities to expand the firm's products GMO has facilitated my firm's international market expansion GMO has made it easy for my firm to identify potential customers		
			GMT	6	GMT has increased the number of competitors GMT has increased the level of competition GMT has increased the difficulty in forecasting demand for the firm's products Markets have become increasingly uncertain due to GMT GMT has increased the costs of my business operations GMT adds complexity to my business operations

DCISA: Degree of cooperation of International strategic alliances, GMT: Global market threats, GMO: Global market opportunities

Before the survey questionnaires were distributed, a pilot study was conducted among 30 service firms in Yemen to test the reliability of the survey questionnaire. Upon date analysis, reliability was evidence as the Cronbach alpha values for all variables as shown in Table 2 exceed the threshold value of 0.70.

In order to test the hypothesis of the study, relationships between the independent and dependent variables were analyzed using partial least square (PLS) regression analysis. Smart PLS 3.0 statistical software is used to test the hypothesis. PLS is a structural equation modeling approach that has the ability to model latent constructs under conditions of non-normality and small to medium sample sizes as it places minimal restrictions on measurement scales and residual distribution (Chin et al., 2003).

## 5. FINDINGS

In total, 300 survey questionnaires were distributed and 243 were returned, giving the response rate of 81%. After preliminary data assessments on the returned questionnaires, 29 were removed from further analysis due to various reasons such as they were incomplete, many missing data or due to the service firms did not have any involvement in ISAs. As a result, 214 survey questionnaires were analyzed and the results are described below.

### 5.1. Demographic

Table 3 summarizes the demographic information of all the service firms involved in this study. The total sample size of this study is 214 firms and all of them involved in ISAs with foreign firms. These firms came from four subsectors of service industry namely transportation and communications with 37 firms (7.3%), banking, financial services and insurance with 68 companies

**Table 2: Reliability test for pilot study (N=30)**

Variables	Cronbach alpha value ( $\alpha$ )
DCISA	0.834
GMO	0.867
GMT	0.877

DCISA: Degree of cooperation of International strategic alliances, GMT: Global market threats, GMO: Global market opportunities

**Table 3: Demographic information (N=214)**

Categories	Frequency	Percentage
Sector		
Transportation and communications	37	17.3
Finance, real estate and business services	68	31.7
Trade, restaurants and hotels	77	36.0
Health service, higher education and others	32	15.0
Years of operations		
<3	4	1.9
4-7	36	16.8
8-12	31	14.5
13-18	43	20.1
19-24	64	29.9
25 and over	36	16.8
Number of employees		
<19	28	13.1
20-49	40	18.7
50-99	39	18.2
100-149	68	31.8
150 and over	39	18.2
Experience in ISAs (years)		
<5	31	14.5
6-10	58	27.1
11-15	54	25.2
16-20	39	18.2
More than (20)	32	15.0

ISA: International strategic alliances

(31.8%), hotel, restaurant, tourism and travel firms consist of 77 companies (36%), followed by health and higher education services with 32 companies (15 %). Majority of firms have been operating for more than 13 years, with a combined total of 143 firms (66.8%). Only 4 new companies which have been operating for <3 years involved in this study. In terms of employees, half of these firms employ more than 50 employees (107 firms) while the other half employ between 1 and 49 employees. It indicates that the samples involve in this study is quite balance in terms of their size, based on the number of workers. The demographic analysis also reveals that the service firms in Yemen seem to have a very long involvement and experience in ISAs, as a total of 125 firms or 58.4% have been having ISAs with foreign firms for more than 10 years.

**5.2. PLS Analysis - Reliability and Validity Assessments**

This section presents the reliability and validity assessments of the measurement model, based on the output of PLS Regression Analysis using Smart PLS 3.0.

**5.2.1. Content validity**

All scales used in this study were derived from previous studies related to ISAs, global market environment and the degree of cooperation. A first draft of the questionnaire was discussed with a few lecturers who were experts in strategic alliance and also statistics, before a pilot study was conducted involving 30 Yemeni service firms. The Cronbach Alpha value for each variable is above the cut-off level required as discussed in previous section. Thus, content validity is assumed to be fulfilled in this research.

**Convergent validity:** The convergent validity represents the common variance between the indicators (items), and their construct indicates that a set of indicators are measuring the same underlying construct (Henseler et al., 2009). Convergence validity is evidence when the average variance extracted (AVE) value is above 0.50 (Hair et al., 2012). Table 4 shows that all constructs have an AVE value of more than 0.50 and thus convergent validity is evidence.

**5.2.2. Composite reliability**

PLS result in Table 4 shows that the composite reliability values for all variables are more than 0.70, which is above the suggested threshold value (Hair et al., 2012). Therefore, composite reliability is evidence for this study.

**Discriminant validity:** Discriminant validity is the degree to which a construct can be established as truly being different from other constructs in the model (Byrne, 2010). In order to assess discriminant validity, this study made use of the square root of the AVE value which

was calculated using Microsoft Excel. The value is then compared with the correlations among the latent variables using the latent variable correlation matrix output of PLS (Chin et al., 2003). It is important that the square root of AVE of every latent variable should be greater than the correlations among latent variables (Fornell and Larcker, 1981). Table 5 shows that

the diagonal elements in bold (square root of AVE) are greater than the off-diagonal elements at both corresponding rows and columns. For example, the square root of AVE for DCISA is 0.800. It is higher than the correlation of GMO and DCISA (0.100) and also higher than the correlation between GMT and DCISA (0.080),

**5.3. PLS Analysis Results**

Table 6 shows the result of PLS model analysis and it details out the path coefficients for both the independent variables, their T-values, P-values, the level of significance and the R Square value (R<sup>2</sup>) for this relationship. The result shows a significant positive relationship between the GMO factor with the DCISA. The path coefficients value is 0.131 which indicates a moderate relationship between both variables. Past studies such as by Johnson (1997) classified path coefficient of above 0.20 as having a strong relationship, path coefficients of between 0.10 and 0.20 as moderate, and path coefficients below 0.10 as weak. On the other hand, GMTs did not have a significant relationship with the degree of cooperation. The variance explained values (R<sup>2</sup>) for the model is 0.291. It means that the model explains 29.1% of the variance in DCISA among Yemeni service firms. Falk (2005) suggests that the R<sup>2</sup> value should be more than 0.1, as any value lower than that informs very little even though it is statistically significant.

The entire model with each specified path and their coefficient, together with the R<sup>2</sup> value is shown in Figure 2.

**Table 4: AVE and composite reliability value**

Construct	Code	AVE value	Composite reliability
The degree of cooperation of ISAs	DCISA	0.64	0.93
Global market opportunities	GMO	0.79	0.87
Global market threats	GMT	0.57	0.85

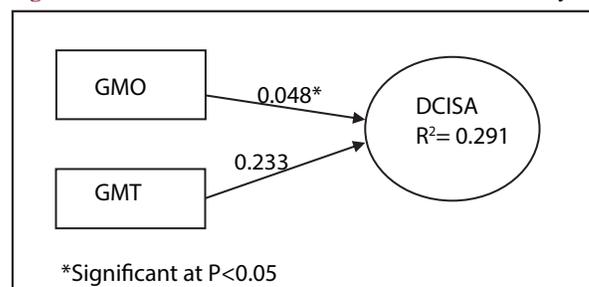
DCISA: Degree of cooperation of international strategic alliances, GMT: Global market threats, GMO: Global market opportunities, AVE: Average variance extracted

**Table 5: Square root of AVE value and latent variable correlation matrix**

Construct	Code	DCISA	GMO	GMT
The degree of cooperation of ISAs	DCISA	<b>0.800</b>		
Global market opportunities	GMO	0.100	<b>0.888</b>	
Global market threats	GMT	0.080	0.369	<b>0.754</b>

DCISA: Degree of cooperation of international strategic alliances, GMT: Global market threats, GMO: Global market opportunities, AVE: Average variance extracted

**Figure 2: Structural model based on the result of the analysis**



**Table 6: Results of PLS model analysis**

Path	H	Path coefficients	T-value	P-value	Significant	R <sup>2</sup>
GMO ->DCISA	(+)	0.131	1.975	0.048*	Yes	0.291
GMT ->DCISA	(+)	0.069	1.193	0.233	No	

\*Significant, P<0.05. GMO: Global market opportunities, DCISA: Degree of cooperation international strategic alliances, PLS: Partial least square, GMT: Global market threats

## 6. DISCUSSIONS

This study establishes that the GMO have a significant positive relationship with the DCISA s. It means that firms will work more closely with their alliance partners when there are more GMO available for firms to grab. Hence, firms are more likely to increase their degree of cooperation with other firms in international alliances in order to tap this market opportunities that might be impossible to be achieved alone. Higher level of cooperation between ISA partners may help firms develop their customer base worldwide and increase international trade. In the context of Yemeni service firms, the opportunities that offered by GMO and the ISAs might facilitate international market expansion and make it easy for firms to approach their potential customers. The finding is consistent with previous study such as by Kang and Sakai (2000) who acknowledged that ISAs are being driven by the GMO that comprise of the economic demands of global markets, the costs of keeping up with fast-changing technologies, and the opportunities provided by government deregulation and liberalization initiatives. GMTs, as indicated by the result of this study, did not have a significant relationship with the DCISA. ISAs are often conducted between two or more rival firms. A report published by European Commission and the United States Department of Transportation (2010) stress out that the reason why airlines join a global alliance is not because they want to reduce the competition in the aviation industry. Although alliance members cooperate on many aspects of the customer experience, they may nonetheless remain competitors as the level of integration between and among the members of the alliance varies greatly. In other words, alliance members will remain as competitors even if they have high degree of cooperation. There is a possibility that the same scenario is applicable in the context of this study and therefore, GMT is not deemed as a factor that impacts the DCISA among service firms in Yemen.

There are a number of significant contributions of this study from both the theoretical and practical perspectives. First, this study contributes to the body of knowledge on the factors that determine the DCISA, specifically by recognizing that impact of GMO factor on the DCISAs . Previous study on strategic alliances such as by Thourungroje and Tansuhaj (2004; 2007), Andreovski (2009), and Kuzminykh and Pavel Zufan (2014) mostly studied ISAs and the impact on firm's performance. This study however has successfully enhanced the literature on ISAs by focusing on the DCISAs and its antecedents. This study also contributes towards the managers of service firms who have involved, or currently evaluating ISAs as one of the options in capturing more business opportunities created by the globalization of market. Managers should cooperate more with their alliance partners and increase the level of cooperation when there are more GMO exists.

## 7. LIMITATIONS AND DIRECTION FOR FUTURE RESEARCH

There are some limitations of this study. First, this study is conducted among the service firms in Yemen only. Therefore, generalizing these findings to firms in other countries, within different industries and within different cultural environment should be done with caution. A replication of this study with data gathered from various countries and involved a higher number of respondents might improve the credibility and generalization of the research findings. It will also allow comparison of results between different countries or industries. This study includes all service firms in Yemen regardless of their industry. The replication of the study where the analysis is conducted based on specific sectors among the service industry only, such as banking, hospitality or transportation sectors only would provide new insights into the DCISAs specifically by sectors. There could be some unique aspects that exist within certain sectors that could not be discovered by studying the whole service industry. This study also only focuses on global market environment as the antecedents of the DCISAs. Future study may consider the other recent aspects in marketing such as technological environment or cross cultural environment as the predictors of the degree of cooperation. Finally, this study did not find evidence on the impact of GMT on the degree of cooperation. This worth further studies as the reason why this outcome is observed could not be well explained by this study.

## 8. CONCLUSIONS

This study has discovers that service firms in Yemen do get involved in ISAs as a mean to expand their business reach internationally. Yemeni service firms consider ISAs as a strategy that helps improved firms strategic position in services industry. The result of the data analysis reveals that GMO influence the degree of cooperation between members of ISAs. It indicates that firms will be more likely to work and cooperate with each other when there is more GMO exist. On the other hand, this study found no significant relationship between GMTs and the DCISAs.

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