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The Role of Institutional Distance in Nordic-Baltic Strategic Alliances

by

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Abstract

As it appears that the Nordic and Baltic countries share both similarities and differences in institutional environments, the potential role of it on the cross-border cooperation is ambiguous. The aim of this study was to investigate the role of the distance in Nordic-Baltic strategic alliances. This study has revealed that formal national and supranational institutions affect the national business environment, influencing the formation and operation of cross-border strategic alliances. Furthermore, cultural similarities and awareness are seen as mitigating factors of challenges in cross-border cooperation. Additionally, the findings exemplify the potential benefits of the informal institutional distance, the role of labor unions, and industry-specific legislation on international strategic alliances in Nordic-Baltic context.

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1.Introduction

1.1 Background

During the recent decades of accelerating economic and industrial globalization businesses have been extensively taking advantage of cross-border growth opportunities. Intense global competition forces firms to find ways to accelerate innovation and develop new capabilities simultaneously in several areas from R&D and manufacturing to front office (Yoshino & Rangan, 1995). This, according to Yoshino & Rangan (1995), is the primary driver for businesses to create strategic alliances. Many authors already talked about the surge in alliances more than two decades ago (Yoshino & Rangan, 1995; Lorange and Roos, 1993), and the trend continues as recent studies report that the number of strategic alliances is expected to reach up to 10,000 per year (Gebrekidan & Mukhtar, 2017). The importance of such collaborative arrangements is also proven by the figures of revenues made by international strategic alliances, which for the top 1000 public companies have grown from 5% to 40% from 1990 to 2016 (Gebrekidan & Mukhtar, 2017). The literature proves that the growing number of international alliances constitutes a domain of increasing interest not only for businesses (Antcliff, 2012) but also for academia (Duysters and Lokshin, 2011; Hinds, Liu, and Lyon 2011; Narula 2003; Narula and Hagedoorn, 1999) and policy-makers (Hottenrott and Lopes-Bento, 2014).

The business phenomenon of strategic alliances, as Yoshino and Rangan (1995) suggest, is a product of new imperatives in global competition related to the globalization of demand, supply, competition, and competitive strategies. The recognition of international opportunities leads managers to reshape corporate strategies, evolving gradually (and not necessarily linearly) from exporting and FDI to more complex global undertakings (Yoshino & Rangan, 1995). Globalization of competition demands firms to be able to respond to new entrants that have various sets of competitive advantages - therefore firms need to reconfigure their abilities to build the optimal competitive position on the segment, geographical, and industry level (Yoshino

& Rangan, 1995; Gebrekidan & Mukhtar, 2017). Thus, having limited resources, facing constant tradeoffs to maintain the competitive edge, and striving to be at the technological forefront, firms need to supplement their own capabilities (Yoshino & Rangan, 1995).

That is, Yoshino and Rangan (1995, p.68) say, the "strategic logic of alliances" - to gain advantages from external networks rather than through internal development. Lorange and Roos (1993) explain that such cooperation is an important tool for finding a practical way to take advantage of immense international opportunities and implement the necessary strategies. Alliances allow to be agile in the markets, introduce new products and technologies faster, and learn from other management styles (Yoshino & Rangan, 1995). More specifically, businesses form alliances to gain a competitive advantage by getting access to a broader pool of resources, capabilities, and assets, including other firm's proprietary know-how; share the risks and serve their market access needs, as well as government and political needs (Park & Ungson, 2001; Culpan and Kumar, 1994; Hamel, 1991; Osland and Yaprak, 1994). Some scholars also mention that strategic alliances are pursued for an opportunity to extend a network and exchange knowledge, technology, and learning practices with the partner (Hyder and Abraha, 2003; Medcof, 1997; Pett and Dibrell, 2001; Sambasivan, Siew-Phaik, Mohamed, & Leong, 2013; Yu, Gilbert & Oviatt, 2011). Thus strategic alliances have been widely recognized as an important tool for companies to take advantage of opportunities and to address their needs.

Despite being "a potentially powerful competitive weapon" (Yoshino & Rangan, 1995, p.104), strategic alliances have been reported to have paradoxically high failure rates (Lorange & Roos, 1993; Demirbag & Mirza, 2000; Hambrick, Li, Xin, & Tsui, 2001; Pak, Ra, & Park, 2009; Steensma & Lyles, 2000). Thus as these failure rates might reach 30-50%, even 70% in some industries (Wallenburg & Schäffler, 2014), the gains that the allied partners are pursuing can not be guaranteed (Harrigan, 1988; Dacin, Hitt & Levitas, 1997; Kogut, 1988; Zineldin, Fujimoto, Li, Kassean, Vasicheva & Yu, 2015; Dadfar, Dahlgaard, Brege & Arzaghi, 2014). Park & Ungson (2001) even claim that alliance success is viewed as an exception rather than a rule. The consequences of the failed deal might also eventually be devastating for the partners (Park & Ungson, 2001).

Yoshino & Rangan (1995), however, argue that notwithstanding the complexity of this organizational form, discarding such growth and development potential and insisting on self-sufficiency is a fundamentally wrong managerial mindset in a progressively interdependent world loaded with opportunities. Rather, the authors suggest that the managers should aim to recognize key challenges and find unique ways to design the needed mechanisms and responses. The first step towards it is to understand the nature, specificities and complexities of alliances (Yoshino & Rangan, 1995).

A large stream of research has been dedicated to the complexity of alliances as an organizational form. When international alliances are formed cross-nationally, however, they face an additional dimension of complexity. Cross-border alliances have to function in different macro environments, including multiple heterogeneous institutional environments, which creates room for various frictions between allies (Jackson & Deeg, 2008; Boxenbaum & Jonsson, 2017). Nevertheless, Klaas Jagersma (2005) suggests that any international alliance inherits cultural, economic, and political difficulties, and they may significantly complicate the successful formation and management of the arrangements. Thus the cross-border nature of such cooperation engenders issues that can affect the success of such organizations (Beamish & Lupton, 2009).

According to Kostova (1999), country-level effects can be conceptualized and measured using the construct of institutional distance. Institutional distance refers to the extent of relative dissimilarity between the sociocultural characteristics in two countries (Kostova, 1999). It reflects the similarities and dissimilarities between the countries' regulatory, cognitive, and normative institutions (Kostova, 1996 cited in Xu & Shenkar, 2002). Scholars found that the larger the institutional distance between international alliance partners, the more challenges the international cooperation will face (Miller and Parkhe, 2002). Parkhe (2003) further argues that institutional backgrounds of the partners impeded integration between partners, i.e. mutual adaptation related managerial values, practices and systems. Giving adequate attention to the issue of institutional distance and appreciation of the differences, according to Klaas Jagersma (2005), largely determines the success of a firm in international cooperation. Therefore, it is crucial to understand how institutional distance between business partners can affect cross-border cooperation.

1.1.1 The Context of the Study: Nordic-Baltic Cooperation

This study focuses on Nordic-Baltic geographical region. Nordic countries in this study include Norway, Sweden, Denmark, Finland, Iceland; Baltic countries include Lithuania, Latvia, and Estonia. Nordic and Baltic countries have notably strengthened political and economic ties during the last three decades (NB8 Wise Men Report, 2010; Rūse, 2014; Hilmarsson, 2019). Since the Baltic states entered the EU in 2004, the countries of both regions have been integrated in the EU structures (except for Norway and Iceland, which are, however, the member states of EEA). Due to the necessary compliance with the EU membership requirements and the subsequent EU regulations that are imposed on all EU member states, certain institutional convergence took place throughout the two regions. Nordic and Baltic states also might further experience increasing cultural assimilation due to the tight regional cooperation. Cultural assimilation between regions can be intensified by the phenomena of the cultural convergence among the EU member states, that has been widely discussed recently (Akaliyski, 2019). These tendencies show that both formal and informal institutions in Nordic and Baltic countries to a certain degree have been experiencing institutional convergence which breeds more institutional similarities.

Nevertheless, Nordic and Baltic countries still differ in political, economic and regulatory systems on the national level. Nordic and Baltic regions noticeably differ in welfare state and social policies. Furthermore, the economic systems contrast with predominantly more coordinated market economic systems in the Nordics and more liberal market economic systems in the Baltics (Sippola, 2009). The regulatory and economic systems are also considered generally more developed in Nordic countries than in the Baltic countries. The evidence also suggests many cultural differences that remain between the countries of the two regions (Hofstede Insights, 2021). Cultural convergence is further claimed by some scholars to be per se not feasible, since culture is rooted deeply and unconsciously in people's minds (Gancel, Rodgers and Raynaud, 2002). Therefore, despite the tendencies towards higher institutional proximity, the two regions retain numerous institutional differences.

1.2 Aim and Objectives

As it appears that some arguments support the presence of a higher institutional distance between Nordic and Baltic countries, while others support a lower distance, the potential role of the institutional distance between the two regions on the cross-border cooperation is ambiguous. The aim of this study is to investigate the role of the distance in Nordic-Baltic strategic alliances. This is to be achieved with several main objectives. Firstly, through developing an analytical framework, consisting of two dimensions: international alliances and institutional theory. Secondly, conducting interviews with executives of the Nordic-Baltic strategic alliances, chosen for the multiple case study. With the interviews, the aim is to obtain information regarding the institutions-related opportunities and challenges they faced as an alliance partner during the establishment and operation of the alliance. Furthermore, performing a qualitative analysis of the collected data is to be performed using the analytical framework. Lastly, secondary data is to be gathered and analysed in order to support the analysis and the findings. Thus the aim of the research is to examine the patterns identified in the data and to discuss whether these patterns concur with the existing research.

1.3 Research Purpose

The overriding purpose of the research is to develop a greater understanding of the role of the institutional environment similarities and differences for the international alliances in the context of the Nordic-Baltic regional cooperation. Formal and informal institutions in a country can play a significant role in how firms conduct business. Similarities in institutional environments can favour more seamless collaboration, while differences could create complications in cooperation between the partners from different countries. In the context of Nordic-Baltic cooperation, both characteristics take place. This raises questions: Do cross-border alliances between Nordic and

Baltic partners still face struggles despite the gradual convergence of formal institutions between the two regions? Do they still face culture-related frictions in operations? Does the convergence of formal institutions favour cross-border operations? Do cultural similarities help in cooperation? Therefore, the research question of this study that we pose is the following:

What are the aspects of institutional distance that influence cross-border cooperation in Nordic-Baltic strategic alliances?

1.4 Delimitations

The scope of this research is restricted by several delimitations. Firstly, the study does not aim for the compiling and an exhaustive list of all areas of potential influence of formal institutions and culture in Nordic-Baltic alliances. We deliberately approached the research with much freedom allowed for in data collection to be able to identify the most significant issues that occurred in the individual cases. This was intended not to impose on the company representatives a prioritization of formal institutional and cultural factors, and also prioritizing them over other significant challenges or benefits in this regional cross-border cooperation. With this openness we aimed to gather more context of the relative role of institutions in the case of alliances. Furthermore, we do not aim to claim for prioritization or comparison of the significance of the discovered institutional factors for the strategic alliances. Our study is delimited to cross-case generalizations and acknowledging the findings that can arguably be relevant for consideration in the context of Nordic-Baltic strategic alliances.

Additionally, our study focuses only on key aspects of the main stages of alliance lifecycle (formation, operations, and termination). The factors that affect the initiation, longevity, success, and failure of alliances have been comprehensively examined for each of these stages by numerous scholars, and this study is restricted to using only selective concepts that are considered most relevant. Moreover, we acknowledge that there are other existing categorizations of institutions, and we have chosen dichotomic classifications of North (1990) for the reasons of more feasible data analysis. Lastly, the informal dimension was chosen to be discussed using national cultures and formal institutions related to written rules such as regulations.

1.5 Outline of the Thesis

This thesis is structured into six main Chapters. In Chapter 1, the overall topic of the study was presented together with the research question, aim, objective, and purpose. In Chapter 2, a literature review is introduced, reviewing and analysing prior research from the perspectives of the theoretical concepts of international strategic alliances and institutional theory, which are afterwards utilised to construct an analytical framework. In Chapter 3, methodological considerations are presented, reflecting on the decisions made during the research. In Chapter 4, findings and results derived from the data are introduced. In Chapter 5, analysis, particularly flexible pattern matching, and discussion are presented. Finally, Chapter 6 contains the conclusion and review of research limitations.

2. Literature Review

The following chapter presents an overview of the selected literature on strategic alliances and institutional theory. The literature used was selected based on the relevance to the research question, as well as the source, such as well-established academic journals, and citation count. The analytical framework that follows aims to establish the connection between the two research streams and provides the basis and the structure for the data analysis.

2.1 International Alliances

International alliances are collaborative arrangements that go through three main stages in their lifecycle: formation, postformation (operations), and termination (Kale & Singh, 2009). The discussion of the formation stage includes an explanation which cooperative arrangements can be considered strategic alliances, the motives for establishing an alliance, the choice of governance structure, and the key ideas in partner selection. Furthermore, two aspects will be discussed further that concern the operational stage: learning and knowledge transfer, and main challenges of strategic alliances as an organizational form of cooperation. Lastly, key considerations will be mentioned regarding why and how strategic alliances can be terminated.

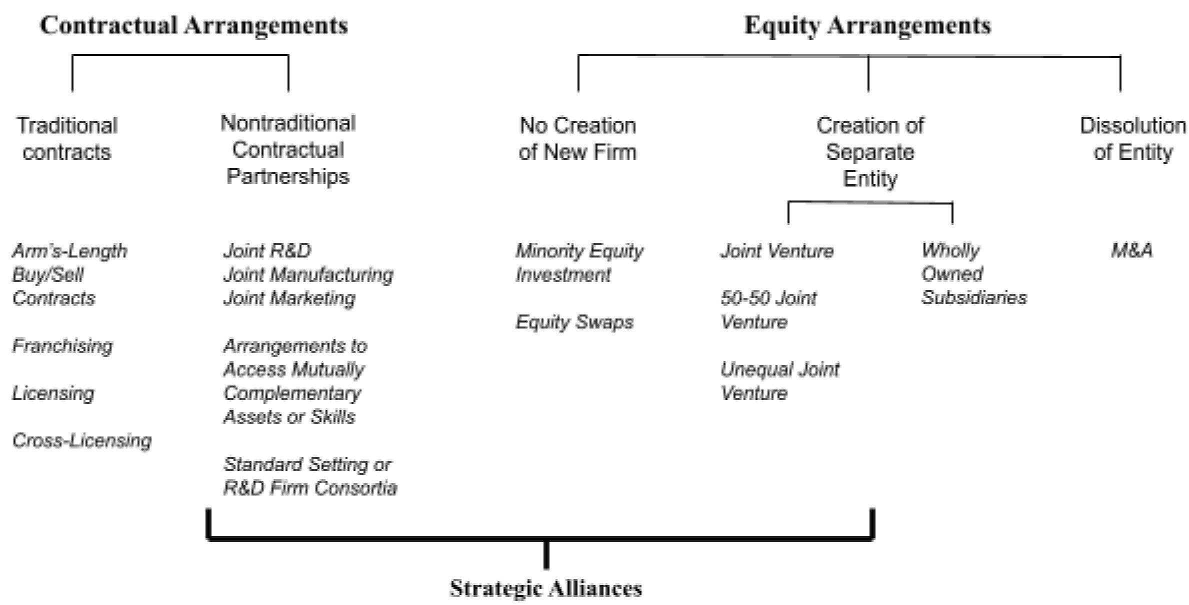
2.1.1 Definitions and Types

Collaborative arrangements between firms take many forms. As Yoshino & Rangan (1995) say, the limit for the variation of interfirm arrangements is only entrepreneurial imagination and ingenuity. The term alliances normally encompasses purposive cooperative relationships between two or several organizations that are usually established to pool resources to pursue specific goals mutually relevant and beneficial for the partners (Gulati, 1995). At its core, Yoshino & Rangan (1995) explain, a strategic alliance is a trading partnership, which links technologies, skills, or products to improve the competitive strategies of each partner.

The boundaries of the term ‘alliance’, however, differ in literature. Lorange & Roos (1993), for example, range alliances quite broadly from informal cooperative ventures to M&A, although a more detailed argumentation for what has to be included under ‘alliances’ is provided by Yoshino & Rangan (1995). Yoshino & Rangan (1995) describe definitive characteristics of the alliances which include the following:

1. A union of two or more firms remaining independent to achieve certain objectives (what Lorange & Roos (1993) refer to by explaining an alliance as ‘a means to an end - not the end itself’ (p.vi)).
2. The partners share the benefits and control over the performance.
3. The partners provide continuous contributions to one or more strategic functions (e.g. technology, products etc).

Figure 2.1 Strategic Alliances in the Range of Interfirm Links, according to Kale and Singh (2009), adapted from Yoshino & Rangan (1995)



The authors use these criteria to argue why alliances do not include, for instance, M&A, subsidiaries, licensing, franchising, buy-sell contracts etc. The term alliance used further will refer to Yoshino and Rangan’s criteria. The range of interfirm relationships that are included under the term alliances and thus considered in this paper is illustrated in Figure 2.1. Therefore alliances include non-traditional contractual partnerships, equity arrangements without creating a separate entity, and equity arrangements with creation of a separate entity.

2.1.2 Formation

Strategic alliances are established to serve a strategic purpose of the partnering firms. At the same time, an alliance has to be operationally efficient, i.e. efficiently fit the firm's operational needs and abilities with its structure (Yoshino & Rangan, 1995; Contractor and Lorange, 1988). The crucial need for careful consideration of the governance structure is also related to the fact that both factors - strategic and operational - tend to pull the managerial choice of the governance mode in different directions (Yoshino & Rangan, 1995). Along with choosing the right alliance design, selecting the right partner has been recognized as one of the key drivers of success of an alliance in regard to the formation stage (Kale & Singh, 2009). A prospective alliance's chances of success can suffer from inadequate attention when searching and selecting partners (Dasí-Rodríguez & Pardo-del-Val, 2015). The following discussion thus will concern central ideas regarding the strategic purpose of an alliance, governance structures, and partner selection.

2.1.2.1 Motives

Lorange & Roos (1993) suggest that the generic motives for establishing a strategic alliance can be categorized based on the firm's market position and the strategic importance and fit of the considered business in a prospective alliance. For instance, if an industry leader enters an alliance that has a strategy that is core in their portfolio, their motive is most likely to defend their position. Thus the motive can be to 'defend' (market leader creating an alliance for a core business activity), to 'remain' (market leader creating an alliance for a peripheral business activity), to 'catch up' (market follower creating an alliance for a core business activity), and to 'restructure' (market follower creating an alliance for a peripheral business activity) (Lorange & Roos, 1993).

One of the most extensive summary and categorization of the motives for cooperative arrangement formation has been provided by Contractor and Lorange (1988). According to Contractor and Lorange (1988), there are at least seven general overlapping objectives why firms form cooperative arrangements. As the authors suggest, alliances can be formed to capitalize on economies of scale or rationalization (achieving lower costs due to larger volume or enhanced comparative advantage), facilitate exchanges of knowledge and technologies, and taking advantage of vertical quasi-integration by linking complementary contributions of partners in a value chain (access to materials, technology, labour, capital, distribution, brand recognition, networks etc). Furthermore, the authors mention that alliances can be used as a tool for risk reduction (e.g. product portfolio diversification, reducing fixed costs etc), and addressing the competition (defensively to reduce competition or offensively to take market share). Lastly, alliances can facilitate the internationalisation process in the early stages for firms with little experience, as well as allow to overcome national trade or investment barriers (e.g. need of being a legally local entity, meeting local content requirements etc) (Contractor and Lorange, 1988).

2.1.2.2 Governance mode

Careful consideration of the right governance structure is one of the key success factors for any alliance as it is critical to the further alliance performance (Yoshino & Rangan, 1995; Kale & Singh, 2009). As mentioned before, the choice of governance structure has to be in line with the strategic objective of the alliance. For instance, as Yoshino & Rangan (1995) explain, if an alliance is critical to the firm's competitiveness in the long term, or if there is a high degree of technology and information sharing etc, equity arrangements and elaborate contracts might be more relevant, as the firm has to secure their position from the potential of the partner of becoming their major competitor.

There is a nearly unlimited variety of possible alliance arrangements (Yoshino & Rangan, 1995). The wide range of alliance structures are often rigidly categorized based on ownership structure and includes dichotomic types of non-equity and equity arrangements. Yoshino & Rangan (1995) explain the scholarly focus on this dimension because it is directly related to the division of managerial responsibilities between partners and thus the degree of strategic control over the alliance. For more detailed categorization, scholars tend to use continuums. For instance, Lorange & Roos (1993) use two related perspectives: degree of vertical integration and mutual interdependence. The first looks at alliances on the continuum from the transaction cost economics perspective with polar governance modes of market (free market transactions) and hierarchy (complete internalization). The second approach, adapted by the authors from Contractor and Lorange (1988), ranges the same alliance options by the degree of interdependence: from low (and easy to reverse) to high (and hard to reverse). The degree of interdependence involves the degree of coordination of ongoing activities and joint decision-making needed (Gulati, 1998). Choi and Contractor (2016) also expand the traditional dichotomy suggesting a continuum for non-equity alliances. They provide more nuanced categorization for alliance contracts based on the degree of inter-partner integration in the governance structure, which accounts for joint activities and task complexity.

Researchers have also provided evidence that trust is an important factor that can alter the choice of the governance structure of the partners with prior ties (Gulati, 1995). Trust weakens opportunistic incentives, encourages partners' transparency, and can accommodate efficient conflict resolution (Park & Ungson, 1997). Since with trust the perceived risks related to opportunism and uncertainty of the partner’s behaviour are reduced, the partners may rely more on relational rather than contractual governance (Gulati, 1995).

2.1.2.3 Partner Selection

Selecting the right partner has been widely recognized as one of the most influential factors to the alliance success (Kale & Singh, 2009; Shah & Swaminathan, 2008; Ireland, Hitt & Vaidyanath, 2002). According to Kale & Singh (2009), the research suggests that the three main partner characteristics that contribute to alliance success include partner complementarity, partner commitment, and partner compatibility.

The complementarity of partner’s resources is well highlighted in the relational view on competitive advantage developed by Dyer & Singh (1998). The relational view by Dyer & Singh

(1998) suggests that a firm’s critical resources that are needed for sustained competitive advantage might be embedded in the interfirm relationship (“idiosyncratic interfirm linkages” (p.661)) rather than within an individual firm as the traditional resource based view suggests. According to the authors, these idiosyncratic linkages, which involve combining resources in a unique way, can be a source of interorganizational competitive advantage. Complementary resources, defined as “distinctive resources of alliance partners that collectively generate greater rents than the sum of those obtained from the individual endowments of each partner” (Dyer & Singh, 1998, p.667), are a state variable in the model, thus are the prerequisite of the potential interorganizational competitive advantage.

Consequently, as Dyer & Singh (1998) suggest, given the partners are able establish the necessary processes to manage the interdependencies related to the complementary resources, the firms may strengthen their competitive position. This suggests that when choosing a partner, the firm has to evaluate the complementary, i.e. synergy-sensitive, resources of a potential partner, as it increases the potential of generating interorganizational competitive advantage. In other words, the resource complementarity should be viewed through the lens of the ability of partners' resources to create new unique resources that enhance or expand the competitive advantage (Wittmann, Hunt & Arnett, 2009).

Nevertheless, as Kale and Singh (2009) argue, partner complementarity is not sufficient to ensure alliance success. In order for organizations' orientations, abilities, and operations to be integrated successfully, compatibility is of crucial importance (Shamdasani & Sheth, 1995). The research in partner compatibility identifies three different perspectives: strategic, organizational, and cultural compatibility. Strategic compatibility concerns the degree of complementarity of the partners’ objectives and orientations that make execution of alliance goals possible (Shamdasani & Sheth, 1995). Thus strategic compatibility implies understanding the potential partner’s strengths and needs (Shamdasani & Sheth, 1995). Organizational compatibility concerns the extent to which the partner's organisational capabilities are similar (Esen & Alpay, 2017). Organizational fit is related to compatible technical skills, corporate procedures, level of employee skills and complementary assets (Sarkar, Echambadi, Cavusgil & Aulakh, 2001). Cultural compatibility is determined by shared business values, philosophies, and subjective norms in the partner firms

(Nguyen, Onofrei & Truong, 2020). They reduce coordination costs, manage expectations, provide tools for relational controls, and accommodate seamless working relationships (Sarkar et al., 2001). Therefore, literature suggests that partners are selected based on how strategically, organizationally, and culturally compatible they are to the firm.

Lastly, a potential partner has to be committed to the relationship (Kale & Singh, 2009). The nature of interorganizational, just like in interpersonal, relationships is stability and sacrifice (Anderson & Weitz, 1992). The partners need to be willing to build long-term relationships, and ready to make short-term sacrifices for the sake of long-term objectives, which in turn requires confidence in the stability of the relationships (Anderson & Weitz, 1992). Additionally, the commitment of the partners can reduce the likelihood of adverse actions that might damage the success of the alliance (Shamdasani & Sheth, 1995).

Researchers have also examined the moderating factors that impact the relative importance of various factors influencing partner attractiveness and partner selection, thus trying to explain when and why certain factors might be more influential in partner selection (Shah & Swaminathan, 2008). For instance, Shah & Swaminathan (2008) demonstrate the moderating effect of alliance project type. Hitt, Ahlstrom, Dacin, Levitas & Svobodina (2004) researched the influence of the stage of economic development and institutional environment on partner selection. Such moderating factors thus suggest that partner selection factors should be considered depending on the context of a specific alliance.

2.1.3 Operations

The research on the postformation stage of an alliance has covered many aspects of alliance operational and managerial functions and elements. The following discussion will concern two of the widely examined aspects that include knowledge transfer and generic challenges of alliances as an organizational form.

2.1.3.1 Learning and Knowledge Transfer

Knowledge transfer and learning can be the primary objective of an alliance and is a process that can be managed and improved (Inkpen, 2008). Additionally, it can also occur in the course of alliance operations without the partners' active intentions of the transfer (Inkpen, 2008). Inkpen & Dinur (1998) identified several knowledge connecting processes that can be used to take advantage of learning opportunities in an alliance, which include technology sharing, partner interaction (interactions beyond specific technology transfer; sharing individual knowledge and perspectives), personnel transfers, and strategic integration (linking the alliance strategy to the partner's firm strategy). The authors also argue that these separate processes can be effective to a greater or lesser extent depending on the type of knowledge and organizational levels.

In relation to the knowledge that can be transferred among partners, Kale, Singh and Perlmutter (2000) make a distinction between information and know-how. Information, also commonly referred to as explicit knowledge (Lyles & Salk, 1996; Dhanaraj, Lyles, Steensma & Tihanyi, 2004), can be transferred in its completeness as long as the receiver knows how to decipher it (Kale, Singh & Perlmutter (2000)), since it can be easily codified in a systematic way and usually concerns standardized procedures (Dhanaraj et al., 2004). By contrast, know-how, or tacit knowledge, is related to accumulated practical skill or expertise that enables achieving higher efficiency or smoothness in certain tasks (von Hippel, 1988 cited in Kale, Singh & Perlmutter, 2000). Tacit knowledge is embedded in a specific context and can be successfully shared only with the 'teacher' being closely and actively involved, therefore is not merely experiential learning or learning-by-doing (Dhanaraj et al., 2004). This organizational embeddedness of tacit knowledge is explained by Kogut (1988) as one of the reasons why firms choose equity joint ventures when tacit knowledge transfer is needed.

Notably, tacit and explicit knowledge are not mutually exclusive concepts and there are often combinations (Dhanaraj et al., 2004). Nevertheless, knowledge can be considered as more tacit or more explicit if considered from the perspective of how easy it is to transfer or reverse-engineer it. For instance, as Dhanaraj et al. (2004) explain, knowledge related to product development, production, and quantifiable technology is more explicit, while managerial or marketing expertise, being embedded, is more tacit.

While the objectives of the alliances frequently presuppose intentional knowledge sharing, the firms need to protect themselves from undesirable knowledge leakages at the same time. Even though these two objectives seem contradictory, Kale, Singh & Perlmutter (2000) suggest that partners can successfully balance both new knowledge acquisition and protection of existing proprietary assets. This, according to the authors, can be achieved if they build relational capital, which refers to the "level of mutual trust, respect, and friendship that arises out of close interaction at the individual level between alliance partners" (p.218), as well as create integrative conflict management systems.

2.1.3.2 Challenges

It has been widely acknowledged in research that alliances are highly complex organizations from the managerial perspective, which is often examined in the context of the non-negligible failure rates of alliances discussed above. Numerous functions have to be integrated, with many synergies on paper and many stumbling blocks in reality (Gancel, Rodgers & Raynaud, 2002). Therefore a large stream of research has been dedicated to studying alliance complexities and challenges.

Park & Ungson (2001) summarized two broad areas of alliance-specific challenges that can eventually lead to failure, namely, interfirm rivalry and managerial complexity. Firstly, the interfirm rivalry, as explained in the study, is a result of the competitive behaviour of the partners overshadowing mutually beneficial cooperative activities; it is related to economic, strategic, and transactional issues at the inter-organizational level. This risk, according to Park and Ungson (2001), lies in the basic concept of an alliance as a structure for exchange relationships that embodies two countervailing tendencies of cooperative and competitive behaviours, especially in alliances between competitors. In literature, this phenomenon has been sometimes referred to as 'coopetition' (Bengtsson & Kock, 2000; Tsai, 2002).

Secondly, the managerial complexity, according to Park & Ungson (2001), is related to the challenge of implementing and coordinating the cooperative relationships between partners that have different managerial and organizational practices. Yoshino & Rangan (1995) explain it as ‘extreme difficulty of controlling and coordinating multidimensional perspectives and dispersed assets across corporate boundaries’ (p.104). Managerial complexity, according to Park and Ungson (2001), is also associated with partners facing uncertainty related to people and organization, which may cause social-psychological, organizational, and managerial issues; this uncertainty is particularly amplified in cross-border alliances. Schreiner, Kale & Corsten (2009) claim that the three main challenges in alliance management are coordination gaps, information asymmetries that are enhanced by lack of communication, and underdeveloped personal relationships. Thus, according to the authors, the possession of the corresponding managerial capabilities of coordination, communication, and bonding leads a firm to utilise superior managerial practices, allowing them to successfully realize and increase alliance value potential.

2.1.4 Termination

Makino, Chan, Isobe and Beamish (2007) distinguish between suspension of the organizational structure and suspension of the existing business domain of the cooperative arrangement. The first implies changing the shared ownership mode to another governance mode (e.g. to licensing or wholly-owned subsidiary), while the latter refers to suspension or strategic changes of core business processes, products, or markets. Thus Makino et al. (2007) define ‘termination’ as the presence of both events (which may happen not necessarily simultaneously).

Alliance termination can be either intended or unintended (Makino, et al., 2007). Intended termination occurs when the motive of the formation has been fulfilled (Makino, et al., 2007; Yoshino & Rangan, 1995). Therefore, it is usually seen as a positive, or desirable, outcome of joint operations (Makino, et al., 2007). An example would be a completion of the project by a project-oriented alliance (Serapio, Jr & Cascio, 1996). Furthermore, intended termination can occur when the initial purpose for the formation becomes redundant (Makino, et al., 2007). Park and Ungson (2001), for example, explain that alliances can be terminated once a firm develops the necessary capabilities (e.g. ready to set up their own sales networks) and there are no more significant complementary benefits from cooperation; therefore, in this case maintaining an alliance might generate unnecessary costs.

In many cases, however, alliances are terminated prematurely, when an alliance fails to match the partner firm's expectations or due to certain problems in the cooperative arrangement (Rajan, Dhir & Sushil, 2020; Serapio, Jr & Cascio, 1996). Unintended termination is usually associated with emerging unexpected contingencies (Makino, et al., 2007). Park and Ungson (2001) highlight that all partners need to perceive the ratio between contribution and reward as fair or satisfactory, otherwise, the alliance might be considered as failed, since mutual benefits are imperative to an alliance's viability.

The termination of the alliance can be deterred if the inter-partner relational norms suggest against it or if the partners see the termination undesirable (Park & Ungson, 2001; Makino, et al., 2007). Park and Ungson (2001) suggest that when the partners perceive a gap between the expected performance and actual results, the termination can be prevented if the partners emphasize maximization of joint value. According to the authors, this requires support from the relational norms that are usually built over the time. These norms allow the partners to persist with searching for the solutions to conflicting situations and underperformance (Zajac and Olsen, 1993 in Park & Ungson, 2001). Additionally, the survival and longevity of a cooperative arrangement depends on whether the decision-makers consider the longevity as desirable, even if it might not be the most optimal way of achieving the initial purpose of the alliance (Makino, et al., 2007).

2.2 Institutional Theory

Organizations rooted in the same environment are considered to grow structurally alike and adopt similar practices as they respond to similar institutional context, making institutions an important factor in companies development (Boxenbaum & Jonsson, 2017; DiMaggio and Powell, 1983). Many prominent academics have investigated aspects of institutions by utilising institutional theory in the context of international business and other perspectives of international politics and economics (Chandler, 1986; Gomez & Sanchez, 2013; Porter, 1990; Tan & Wang, 2011; Zacharakis, McMullen, & Shepherd, 2007). Moreover, institutional theory has been used progressively by international business and management academics to describe the behaviour and strategies of trans-national firms (Kostova, Roth & Dacin, 2008; DiMaggio & Powell, 1983, 1991; Scott 1995). Discussion of cross-country differences in institutions led to the use of the term "institutional distance", referring to the extent of similarity or dissimilarity between the institutional profiles of two countries (Kostova, 1999; Kostova & Zaheer, 1999). Thus, institutional theory is used as a tool to analyse various aspects of institutional distance and its impact on business.

According to Tihanyi, Devinney and Pedersen (2012), popularity of discussing institutions is expected to continue in academic research, as well as in business practice. This prediction holds since there is an increasing number of cross-border business managers who need to cultivate an understanding of national divergence in regulations, customs and norms to function in the global marketplace. Academically institutional theory provides a valuable theoretical framework for analyzing a variety of vital matters, such as the importance of institutions in the internationalization process, including the ability for theorizing at various levels of analysis, which is fundamental for trans-national business research (Djelic & Quack, 2003).

International companies operate in various business environments and thus encounter challenges in positioning themselves strategically, adjusting to the heterogeneous institutions across various markets and gaining legitimacy in host countries (Jackson & Deeg, 2008; Boxenbaum & Jonsson, 2017). International business scholars agree that institutions are a salient factor in shaping cross-national enterprises' in various ways (e.g. Jackson & Deeg, 2008). For instance, diverse legal rules and standards affect transaction costs for international businesses (Brouthers, 2002) as well as expose them to political risks (Delios & Henisz, 2000). In addition, institutions are a foundation for providing different degrees of support for market transactions by defending property rights and protecting investments (Djankov, Glaeser, La Porta, Lopez-de-Silanes, & Shleifer, 2003). Moreover, the evidence of its importance can be seen in the case of uncertainty they create for international businesses by generating "distance" between home and foreign markets in regards to institutional environments (Kostova, 1999) and cultural differences

(Hofstede, 1980). Thus, international business scholars have emphasized how institutions influence organizations' strategies (Ingram & Clay, 2000) and linked their performance to adapting firms' strategy or structure to different institutional environments (e.g., Wan, 2005).

A state's institutional context is a set of political, economic, social, and legal rules that build a foundation for its business environment (Oxley, 1999; Sobel, 2002), which is the key determinant of company’s structure and behaviour (DiMaggio & Powell, 1983, 1991; Scott, 1995). It combines the restricting and incentivizing systems in a society that form human interactions and behaviours, which, in turn, impact organizational characteristics within and between countries (Meyer & Rowan, 1977; Scott, 1995; Whitley, 1994). Regarding the theoretical approach, the institutional environment could be analyzed from national and global perspectives, hence at the macro level, where research states that both formal rules, like the constitution of a state, and informal restrictions, like social norms or culture, have to be investigated and understood to evaluate nation's business potential (North, 1990, 1994, 2005; Scott 1995). Furthermore, these perspectives have been supplemented by the company-level analysis of the institutional environment. Specifically, determining how the firms operate and make decisions on international business-related matters and how different institutional aspects can influence them (Hofstede, 1980; Kogut, 1992; Leung, Bhagat, Buchan, Erez, & Gibson, 2005; Vasudeva, Spencer, & Teegen, 2013; Westney, 1993).

As aforementioned, there is a consensus among the international business scholars that institutions matter. However, there are discrepancies in how academics categorize institutions and at what level institutions are analyzed (Friel, 2017). For instance, Williamson (2000) distinguishes four levels of institutions. The first level is informal institutions, which includes norms, culture, traditions, etc. The second level is the institutional environment which refers to the legal framework. Governance, the third level, consists of contracts and agreements within society. Lastly, the fourth level refers to resource allocations. In contrast, Scott (2007) identifies three types: normative, regulative, and cultural-cognitive institutions. Normative refers to the norms and values within a society, regulative to written and oral codes with enforcement mechanisms, and cultural-cognitive institutions incorporate how people understand and interpret the environment. However, North (1990) is acknowledged to provide the most succinct definition of institutions as he contends that there are formal and informal institutions. The author elaborates that formal ones include devised rules, codified laws and regulations while informal ones contain customs, social norms, culture and codes of behaviour. The following discussion therefore will use North's (1990) categorization of institutions.

2.2.1 Formal Institutions

As already stated, the institutional environment is "the rules of the game" and it consists of both formal and informal institutions (North, 1990, p.3). There is a considerable body of literature studying the impact that formal institutions have on international interactions between firms (e.g. Zucker, 1977; Oliver, 1991; Xu & Shenkar, 2002). This type of institutions containing laws, rules, and regulations are described as the regulatory pillar that governs businesses behaviour (Peng, Sun, Pinkham & Chen, 2009). All firms attempting to enter the foreign markets are subordinate to local regulations that oversee the establishment and development of businesses (Ho, Chan & Sheh, 2016). Meyer, Estrin, Bhaumik and Peng (2009) state that institutions are strong "if they support the voluntary exchange underpinning an effective market mechanism" (p. 63) and weak "if they fail to ensure effective markets or even undermine markets" (p. 63); thus, these formal institutions determine how successfully trans-national firms can develop and implement their international expansion strategies (Ho, Chan & Sheh, 2016).

According to Peng, Sun, Pinkham and Chen (2009), the primary role of formal institutions in the international business context is to lessen the uncertainty for organizations. For instance, the author elaborates that a nation's currency volatility is one of the uncertainties multinational businesses have to consider. In addition, institutional distance in judicial systems can as well increase transaction costs for a firm (Ho, Chan & Sheh, 2016). Another example of formal institutions' influence on trans-national firms' operations is that in a country with strong formal institutions, people are less likely to engage in opportunistic behaviour, reducing the risks associated with business cooperations (Seyoum, 2009). Therefore, to reduce the risk of conducting business, companies prefer to operate in nations with strong formal institutions (Ho, Chan & Sheh, 2016) and low levels of uncertainty (Beyer & Fencing, 2012).

2.2.2 Informal Institutions

Similarly, the importance and influence of informal institutions, which refer to "culturally shared understandings associated with cultural values, and social expectations about appropriate actions which are based on dominant practices or norms prevalent in a given society or culture" (Muralidharan & Pathak, 2017, p. 290) have been established in research as well. For example, it has been concluded that in international partnerships, firms prefer partners from closer informal institutions and that it improves the exploitation of technological alliances (Krammer, 2018). Moreover, informal institutions influence the performance of exports between nations (He & Wei, 2013) as well as formal institutions, which, in turn, affects FDI flows between countries (Holmes, Miller, Hitt, & Salmador, 2013). In addition, norms like the culture of bribes create bureaucratic barriers and uncertainty, impacting businesses' strategies and could provoke participation in illegal activities (Krammer, 2019).

Informal institutions consist of many variables that are interconnected (Holmes et. al, 2013). Nevertheless, international business scholars often choose national culture, which is a part of informal institutions, to represent the influence of informal institutions in their analysis (Redding, 2005; Hotho & Pedersen, 2012; Holmes, et. al, 2013). Gert Hofstede, one of the most referenced scholars in the cross-cultural field (Evans & Mavondo, 2001), claims that culture is "the collective programming of the mind which distinguishes the members of one category of people from another" (Hofstede, 1994, p. 1). Furthermore, national culture consists of "shared motives, values, beliefs, identities, and interpretations or meanings of significant events" (p. 5) that are a consequence of collective experiences of a certain society which are carried over generations (House, Javidan, Hanges & Dorfman, 2002). Consequently, it has been generally accepted that cultures are different among countries (e.g. Huntington, 2000).

When international business cooperation is formed cross-nationally, an additional dimension is added to the complexity of managing the partnerships, thus it is crucial to understand how the cultural distance between allies affects the alliance. Many studies stress the critical importance of the cross-cultural aspect of international alliances (e.g. Hyder, Abraha & Mukhtar, 2014). For example, some academics acknowledge that cultural differences in social aspects like attitudes and perceptions towards a partner firm can present a significant obstacle and be one of the main difficulties international alliances face and need to deal with (Bleeke, Ernst & Ernst, 1993; Elmuti and Kathawala, 2001; Lorange & Roos, 1993). Moreover, evidence proves that national culture affects performance of international strategic alliances (ISAs) (Christoffersen, 2013; López-Duarte, González-Loureiro, Vidal-Suárez & González-Díaz, 2016), for instance, affecting the formation process, the inter-partner boundary relationship and the operational management (López-Duarte et al., 2016). Furthermore, some studies have found that cultural differences hinder effective partnership performance by increasing the risks of mistrust, misunderstandings, miscommunication, and managerial disputes (Glaister & Buckley, 1999; Kim & Parkhe, 2009; Makino et al., 2007). Cultural differences among partners cause friction that can negatively affect the performance of cooperation (Hyder, Abraha & Mukhtar, 2014). Thus, understanding cultural awareness, dynamics of culture, behavioural patterns and the capacity to deal with cultural differences are essential to conducting business internationally.

Moreover, a large stream of literature has also been dedicated to proving the effect of national culture on managerial practices, with many scholars taking the study of Hofstede (1980) as a starting point. Hofstede (1983) argues that management is culturally dependent because "managing and organizing do not consist of making or moving tangible objects, but of manipulating symbols which have meaning to the people who are managed or organized" (p.88). As the author explains, the meaning of these symbols are based on what people learn from societal systems and thus all aspects of management are penetrated with culture. Hofstede (1983) argues that management will never face convergence. Laurent's (1983) findings support this idea by providing evidence that in neighboring Western nations, which underwent convergence effects related to continuously intensified international business and increasing professionalization of management, the management conceptions ("collective mental maps about organizations" (p.95)) seem to retain national boundness. Thus, it is evident that cultural differences influence managerial styles, proving that managerial styles are different across the world and thus can affect international alliances in various ways.

2.3 Analytical Framework

The following discussion involves developing an analytical framework by combining international strategic alliances and institutional theories. The analytical framework will be employed to analyse observations derived from data by utilising flexible pattern matching later in the paper.

2.3.1 Formal Institutional Distance and International Strategic Alliances

An increase in the number of strategic alliances suggests that businesses see alliances as a strategic move crucial to the firm (Dickson & Weaver, 2011). Companies that decide to establish an alliance want to know that the money they invest in the alliance will be protected (Kim & Higgins, 2007). There is evidence that a nation's institutional factors, such as political and economic uncertainties, can be in the way of investment being secure, especially in the countries where governments tend to expropriate foreign-controlled assets (Oxley, 1999). That is one of the reasons why countries with different institutional contexts attract different kinds of investments and promote different types of entry modes for foreign firms (Peng, 2003). According to Grant (2018), strategic alliances as a choice of entry are valued for their relatively low riskiness and high flexibility between allies, implying a lower degree of interdependence than, for instance, mergers and acquisitions, but it still is riskier than, for example, exporting. Therefore international strategic alliances still require low political and economic uncertainty as well as low regulatory barriers.

As aforementioned, formal institutions play an essential role in forming a country's business environment (e.g. Oxley, 1999). For instance, a firm established in a high economic and political risk region will be less attractive to possible alliance partners as well as less able to reach the goals of the alliance (Dickson & Weaver, 2011). Emerging economies are usually an example of unstable business environments but potential opportunities for foreign investors (Meyer, Estrin, Bhaumik & Peng, 2009). Entering emerging economies with underdeveloped markets posit risks yet simultaneously possibilities such as gaining the first-mover advantage (Berglöf & Cable, 2018). According to Groh and Wich (2012), underdeveloped markets provide chances for foreign business per se, but institutions of a particular country can offer additional incentives and opportunities by creating a favourable environment for foreign companies. Thus, DiMaggio and Powell (1991) claim that the country's institutional forces can both constrain and support a firm's strategic decisions. Consequently, it was argued that formal institutions have vital forces upon the strategic decisions made by businesses (Hitt, Dacin, Levitas, Arregle & Borza, 2000), and the distance of institutions add an extra dimension of complication to already complex international strategic alliances (Dacin, Oliver & Roy, 2007).

Kale, Singh and Perlmutter (2000) suggest that alliance research has a significant focus on the formation of the alliance, namely motivation to establish alliances (Park, Chen & Gallagher 2002; Ghemawat, Porter & Rawlinson 1986), along with the selection of alliance partners (Chung, Singh & Lee 2000; Gulati 1995; Hitt et al., 2000) as well as the choice of alliance governance structures (Hagedoorn, van Kranenburg & Osborn 2003; Das & Teng 2001; Hagedoorn & Narula 1996). Empirical findings show that the rates of strategic alliance formation vary across nations and, in turn, institutional settings, concluding that institutions play a significant role in determining the likelihood of the strategic alliance formation (Dickson & Weaver, 2011). One example of this phenomenon could be Oxley's (1999) findings that the links between properties of the legal system and the strategic choices in alliance formation exist, explaining that the nation's regulatory pressures shape the alliance formation process. Thus, researchers support the idea that companies that are seeking alliances with foreign firms should carefully examine the institutional environment their potential partners are located in (Dickson & Weaver, 2011).

It is evident that it is crucial for partners not only to form a strategic alliance but also to maintain it for it to be successful (Madhok & Tallman 1998; Zaheer, McEvily, and Perrone 1998; Pisano 1990). Although there are many important factors, such as the cultural distance that influence alliance operations, the formal institutional distance could be perceived as having even higher importance to cooperation's strategies (Hitt, Tung & Ralston, 2016). For instance, firms from nations with strong institutions have found it challenging to operate successfully in a business environment with weaker institutions. Especially if there were a lack of critical institutions like a functioning law enforcement system which is crucial for contractual partnerships like alliances (Hitt, Tung & Ralston, 2016). Furthermore, scholars state that distance in formal institutions causes difficulties in transferring capabilities, knowledge and routines between allies, making it harder to achieve high performance (Kostova & Zaheer, 1999; Ho & Wang, 2015). Thus, the formal institutional distance can cause challenges that can easily hinder the success of the alliance (Ho & Wang, 2015).

The last stage of the lifecycle of any strategic alliance is the termination of cooperation (Bronder & Pritzl, 1992). According to Wu and Hsu (2013), the termination stage of an international strategic alliance is affected by the formal institutions in various ways. For example, the authors explain that the faster the changes in laws and regulations happen in the country the alliance is based in, the lower the satisfaction of cooperation will be as well as the higher chance that unplanned termination of alliances will occur. Moreover, researchers name that international strategic alliance face "international risk" (Miller, 1992), such as the fact that partners come from diverse economies, each member confront different risks associated with politics, foreign exchange rates, and local laws and regulations (Kogut & Singh, 1988), impacting the termination process of an international alliance.

2.3.2 Informal Institutional Distance and International Strategic Alliances

Many studies stress the critical importance of the cross-cultural aspect of international strategic alliances. For example, some academics acknowledge that cultural differences in social aspects like attitudes and perceptions towards a partner firm can present a significant obstacle and be one of the main difficulties international alliances face and need to deal with (Bleeke, Ernst & Ernst, 1993; Elmuti & Kathawala, 2001; Lorange & Roos, 1993). Moreover, evidence proves that national culture affects performance of ISAs (Christoffersen, 2013; López-Duarte, et al., 2016), for instance, the inter-partner boundary relationship and the operational management (López-Duarte, et al., 2016). Even though most of the studies discuss the challenges that informal institutional distance creates, it has been argued that benefits of cultural distance are also apparent (Estrin, Ionascu & Meyer, 2007). Even though most of the studies discuss the challenges that informal institutional distance creates, it has been argued that the benefits of cultural distance are also apparent (Estrin, Ionascu & Meyer, 2007). For instance, researchers explain that managers, who participate in cross-border alliances, are aware of potential cultural differences and are willing to contribute more effort to avoid conflicts than during domestic partnerships (Very, Lubatkin & Calori, 1996). Under such circumstances, cultural distance can lead to more effective communication and a more maintained collaboration (Shenkar and Zeira, 1992; Park & Ungson, 1997) which, in turn, leads to higher international alliance performance (Morosini, Shane & Singh, 1998). Thus, it is evident that informal institutions' role is more ambiguous than obvious across international alliances.

Informal institutions, particularly culture, are sometimes seen as having an even more significant influence on the international strategic alliances than the formal institutions (Holmes, Miller, Hitt & Salmador, 2013). When an alliance is formed cross-nationally, an extra dimension is added to the complexity of managing the partnerships; thus, it is crucial to understand how the cultural distance between allies affects the cooperation. Bronder and Pritzl (1992) distinguish fundamental fit, strategic fit as well as cultural fit between the allies as the main factors of successful formation and operation of collaboration. Similary, Wu and Hsu (2013) claim that incompatible cultures lead to a poor atmosphere of alliance which can lead to an end of the relationship, making cultural fit the main factor in the process of partner selection in international alliances. In addition, Barkema and Vermeulen (1997) claim that low cultural distance alleviates conflicts and misunderstandings between allied firms. More specifically, alliance formation is affected by cultural distance when, for instance, one partner comes from a more individualistic culture and his negotiations tend to encourage bargaining, whereas a person from the collectivist culture tends to avoid intense and conflicting bargaining situations (Wu & Hsu, 2013). This kind of situation could cause cultural friction, which could hinder the alliance in the formation process.

Furthermore, the evidence is clear that national culture affects performance of ISAs (Christoffersen, 2013; López-Duarte, et al., 2016), for instance, the inter-partner boundary relationship and the operational management (López-Duarte, et al., 2016). In addition, some academics acknowledge that cultural differences in social aspects like attitudes and perceptions towards a partner firm can present a significant obstacle and be one of the main difficulties international alliances face in their operational stage of the alliance (Bleeke, Ernst & Ernst, 1993; Elmuti and Kathawala, 2001; Lorange and Roos, 1993). Some researchers also state that cultural specific factors like the language barrier could be a hurdle that hinders productive knowledge transfer between the partner firms, decreasing the effectiveness of the cooperation operations (Pucik, 1988; Inkpen, 2008). Thus it has been widely researched in the international business field that cultural awareness could be one of the factors that could mitigate the challenges caused by cultural distance (Fraser & Zarkada‐Fraser, 2002). It has been argued that cultural awareness plays an important role in operations of international strategic alliance by enhancing the performance of cross-border cooperation (Pesch & Bouncken, 2018).

Lastly, researchers argue that cross-cultural difference between partner firms has a negative effect on the longevity of the alliance and is frequently the reason for alliance termination (Lane & Beamish, 1990; Hennart & Zeng, 2002; Wu & Hsu, 2013). This causality is usually explained by the fact that cultural distance leads to conflicts and misunderstandings between allies (Barkema & Vermeulen, 1997). Particularly, cultural distance can play a part in the alliance termination stage if partners perceive the ending of a partnership differently. For instance, in the study of the United States and Japan alliance, it was found that Japanese partners were less willing to terminate the alliance as it is culturally accepted in collectivistic societies to try to sustain partnerships and not dismantle built relationships (Park & Ungson 1997; Fernández Olmos, Fleta Asín, Sanchez Sellero & Dejo-Oricain, 2014).

3. Methodology

The following chapter provides the explanation of the chosen research method and the discussion of the relevant methodological considerations. The study uses the abductive approach and has qualitative multiple case design. The data was collected using purposeful sampling and semi-structured interviewing. The data analysis was performed using the flexible pattern matching approach. Lastly, research quality considerations are discussed.

3.1 Research Approach

The research approach is responsible for connecting theory and empirical data and it can be either a deductive approach, an inductive approach, or an abductive approach (Bryman & Bell, 2011). A deductive approach is utilized when the theory guides research, meaning that the hypothesis of a study is derived from the existing theory and the research is designed in a way to test the hypothesis that can then be confirmed or rejected. Particularly, before collecting any empirical data, a researcher using the deductive approach has to examine literature and theories and construct them into a theoretical framework that will assist as a support for data collection (Bryman & Bell, 2011). In contrast, an inductive approach begins with observations and patterns found in the collected data set, allowing empirical results to determine and shape a theory (Braun & Clarke, 2013; Goddard & Melville, 2004). Thus, themes, patterns and models are formed from the researcher's understanding and analysis of the data (Hyde, 2000). Finally, an abductive approach addresses the flaws of deductive and inductive approaches. The deductive approach has been criticized for the need for certainty regarding how to choose a theory to examine. At the same time, the inductive approach has been criticized for the fact that even a comprehensive set of collected data might not be sufficient to build a solid theory (Saunders, Lewis & Thornhill, 2012). Thereafter, in the abductive approach, the study seeks to find the most suitable explanation from many options to explain a specific phenomenon identified at the beginning of the research process that the existing range of theories cannot explain (Bryman & Bell, 2011).

In this study, an abductive research approach was chosen. Abductive characteristics are present as we observed a phenomenon and investigated the alternative explaining the recognised event.

The phenomenon was that there is strong cooperation and institutional convergence between Nordic and Baltic states, but the institutional distance still exists, which influences business partnerships. Therefore we investigate the influence of institutional distance on strategic alliances in the Nordic-Baltic context. Some deductive characteristics are present as we used the theory on strategic alliances, and institutional theory on institutional distance and its influence on cooperation to build the analytical framework, which assisted us in the construction of interviews and data analysis, especially in the pattern matching. However, the patterns and themes observed in the empirical data were also crucial in the process, illustrating the inductive approach. Thus, an abductive research approach was regarded as the most fitting since the research aimed to investigate the impact of institutional distance on international strategic alliances, requiring applying both prior theoretical perspectives as well as a new perspective for investigating the observed phenomenon.

3.2 Research Design

A research design is a framework for data collection and data analysis (Bryman & Bell, 2011). In a research design, the researcher establishes a conceptual framework that helps them examine specific research questions using sound scientific principles (Edmonds & Kennedy, 2017). Qualitative research, used in this study, is defined as a research method of collecting and analysing data that aims to gain understanding of a certain issue within a specific context, usually without an attempt of making any inferences of causal relationship (Edmonds & Kennedy, 2017). Often, this method is used to examine the ‘how’ and the ‘why’ of the way systems and human behaviors operate (Edmonds & Kennedy, 2017). Qualitative research uses written and spoken language as data, which is collected in a certain context, and seeks to understand more local meanings (Braun & Clarke, 2013). As explained by Braun & Clarke (2013), qualitative data is usually narrow but rich, and includes detailed descriptions of the phenomena. Compared to quantitative research, which is usually used to look for general patterns and reducing diversity of responses, qualitative research aims to identify patterns but facilitates the account for data divergence (Braun & Clarke, 2013). Therefore, qualitative research values subjectivity which is usually intended to be mitigated in quantitative research. Additionally, qualitative research allows flexibility in reshaping the focus of the study (Braun & Clarke, 2013).

Qualitative research in our study is based on a multiple case study design that uses representative cases. According to Simons (2009), a case study is an examination of a particular topic in a real life context to achieve greater in-depth understanding of it. Case study research has a purpose of intensive examination of a case or cases using theoretical frameworks (Bryman & Bell, 2011). Case study facilitates exploration of debated viewpoints and examination of a topic from several perspectives (Simons, 2009). Furthermore, case studies are relevant for researching processes and dynamics of a phenomenon (Simons, 2009).

Nevertheless, case studies have some potential limitations. Firstly, Simons (2009) mentions the concern about the influence of the subjectivity of the researcher, which is inevitable, even though to some extent it can be monitored. Therefore, we acknowledge the partial nature of our interpretations in the analysis. Secondly, there is a potential for inferences to be drawn inaccurately from the examined cases (Simons, 2009). Case studies normally should not aim for formal propositions or generalizations. Due to their contextual foundation, inferences from cases usually appeal to a more tacit and situated understanding (Simons, 2009).

Simons (2009) claims that there is a common perception among students that lack of the possibility to make generalizations from a case study diminishes the validity or usefulness of the research findings. However, according to the author, the issue concerns not the extent to which the data can be generalized, but how inferences are drawn. In many cases the researchers that use case studies have no obligation to generalize, but to understand how the findings can be used or transferred onto other contexts. With the aim of the latter, Simons (2009) suggests several generalizations that can be made in case studies. As she explains, they are not generalizations in the traditional sense, since case studies do not presuppose observation of the typical or large population and reaching findings with a certain predictive power. Cases under research are usually not typical, therefore the meaning of the findings will always be dependent on the connectedness to their context. Thus the generalizations in case studies, proposed by Simons (2009), serve as a tool to to understand the usability of the case study results. Such generalisations include cross-case, naturalistic, concept, process, and situated generalizations. Additionally, case study findings usability can be explained by arguing for in-depth particularization (Simons, 2009), which is considered to be an overarching justification of case study research (Leavy, 2014).

Cross-case generalization is widely used in multiple case studies (Simons, 2009; Leavy, 2014). By identifying common and varying issues in individual cases and potential connectedness between themes, the researchers can derive some general propositions. The meaning of such generalizations is grounded in the case's context and is not meant to be transferred onto the wider population (Simons, 2009). Therefore, this paper attempts to conduct case study with the aim to derive possible cross-case abstractions.

3.3 Data Collection Method

Data collection process includes setting the frames for the study via sampling, collecting data through structured or unstructured observation or interviews, documents or visual materials, and establishing the procedure for recording information (Creswell & Creswell, 2017). According to Creswell & Creswell (2017), qualitative research favors purposeful sampling in order to acquire the best possible understanding of the research question.

3.3.1 Purposeful Sampling

Before collecting data, it is important to select a proper sampling strategy for the specified research design that determines which data to gather and examine (Easterby-Smith, Thorpe & Jackson, 2015). The most general way to distinguish various sampling strategies is to classify them into probability sampling and non-probability sampling. In probability-based sampling, a random selection process of participants is employed. While in non-probability sampling, the selection is carefully determined by the researcher based on decided conditions, meaning that some members in the population are more likely to be picked than others (Merriam, 2009). Commonly, in qualitative research, sampling strategies intend to choose well-reasoned cases to study the research problem, whereas, in qualitative research, the sampling strategy highlights sample representativeness (Easterby-Smith, Thorpe & Jackson, 2015).

The decision to apply a purposeful sampling strategy, a method widely utilised in qualitative research in order to identify and select suitable cases related to the phenomenon of interest (Denscombe, 2010), was motivated by two factors. First of all, since this thesis applies a qualitative multi-case study research design, we think that a purposeful sampling approach fitted the most as we had to discover reasonable respondents to investigate the research topic. Additionally, this sampling strategy allowed a thorough selection of cases for study given the short time frame. We selected appropriate case companies and respondents in those companies based on a purposeful sampling strategy. The main criterion for selected firms was that it has to be an international strategic alliance between Nordic and Baltic states, meaning that at least one partner in the alliance has to be from Nordics and one from Baltics.

Moreover, for the respondents at each alliance, the following criterion was chosen: an employee in the executive position who was actively participating in the formation and operation of the alliance or was aware of the decision making processes in these stages. This criterion was chosen to guarantee that every respondent had personal knowledge of how the alliance was managed and had valuable insights about the alliance. These criteria were crucial in identifying respondents who were able to provide the insights required for the thesis.

3.3.2 Case Company Selection

Various sources were consulted to glean information about strategic alliances between Nordic and Baltic firms in order to locate suitable companies and respondents for the research. Firstly, we contacted institutions such as Chambers of Commerce, Embassies, investment agencies and industrial associations requesting a list or some examples of strategic alliances between Nordic and Baltic businesses. Moreover, the Orbis database enabled us to find a list of international equity joint ventures, a strategic alliance type. However, Orbis lacked important information about the deals and the available deals were not recent, making it challenging to find respondents who could provide valuable insights about the alliance. After gathering lists of strategic alliances from these sources, we had to obtain their contact details and later, these companies were reached by email with a request for an interview.

3.3.3 Primary and Secondary Data Sources

Data was collected using a combination of primary and secondary sources together with verbal and written sources for data complementarity (Yin, 1994). Data collected by the researcher is known as primary data, and in qualitative research, it can be gathered through methods like interviews and observations (Creswell, 2005).

The most common method for qualitative primary data collection is interviews (Braun & Clarke, 2013). Braun & Clarke (2013) define interviewing as a conversation that aims to encourage a respondent to talk about their personal experiences and viewpoints that are relevant within the research topic. Interviews are a relevant type when historical information is needed, when the interviewer needs the control over the line of questioning (Creswell & Creswell, 2017).

In this research, interviews were chosen as a method for the primary data collection. More specifically, three interviews were conducted online using Zoom and Microsoft Teams for the convenience of reaching the international respondents, and one respondent agreed to provide information via email only. This data formed the foundation of the thesis because it was able to provide extensive and relevant information to the research subject.

It is important to acknowledge that interviews as a data collection method have certain limitations. Firstly, people differ in articulation of thoughts and in perception of events (Creswell & Creswell, 2017). Inaccuracies may be present since interviewing obtains indirect information from the respondent with a certain degree of bias. Furthermore, the bias of the responses obtained may be amplified because of the presence of the interviewer (Creswell & Creswell, 2017).

Secondary data is explained as data gathered by other researchers (Kumar, 2014). Secondary data was collected from government websites, company websites and public institutions. This data was collected to support the findings from the primary data and cultivate a better understanding of the different elements of the study.

3.3.4 Interview Design

Interviews in the study followed the semi-structured design. Semi-structured interviews are most common in qualitative interviewing (Braun & Clarke, 2013) and imply having a series of questions, however, allowing some flexibility in the sequence of the questions, as well as the follow-up questions (Bryman & Bell, 2011). Braun & Clarke (2013) suggest that the question wording can be contextual and the interview should be responsive to the participant. Therefore the idea behind semi-structured interviewing is to maintain the target while staying flexible (Braun & Clarke, 2013). This flexibility gives room for the discussion of the relevant issues that the interviewer might not have expected or considered for the interview guide. Braun & Clarke (2013) argue that good interviewers address unanticipated issues and follow-up with unplanned questions.

The motivation behind the choice of semi-structured type of interviewing is related to the complexity and multifacetedness of the research question. The flexibility that semi-structured interviews allows for was seen as crucial to allow for the discussion of the emerging issues that potentially could have been incorrectly disregarded or unanticipated. Furthermore, semi-structured interviews impy more general questions than structured interviews (Bryman & Bell, 2011), which was seen as important since strict frames of a question could impose certain prioritisation of the answers by the respondent (e.g. regarding challenges or opportunities). By keeping questions broad enough yet with the focus on the aspect in interest, interviewees were free to talk about the issues that they personally saw as most significant. Therefore, we could further interpret the potentially lesser significance of the issues that were not raised in the answers to the indirect questions.

The semi-structured interviewing within this study involved generating the interview guide, studying the context of each case company to understand the context of the respondent, adjusting the questions according to the context and following up on the emerging issues, which were seen relevant, in the course of the interview. The questions were based on the previously developed analytical framework, which in turn is derived from the review of the research in the field.

3.3.5 Interview Ethics

According to Bryman & Bell (2011), potential areas of ethical principles violation in research include harm to participants, lack of informed consent, privacy violation, and deception. First of all, the selected companies received interview requests with the explanation of the topic of the study and those who saw disclosure of such information potentially harmful to the company rejected the request. Furthermore, the relevant questions that could be considered as sensitive (e.g. related to inter-partner personal relationships, some cross-cultural aspect of cooperation) were carefully avoided. Secondly, the interviewees had a choice of being anonymous respondents. Thirdly, the recording of the interview was conducted upon the permission obtained from the respondent. Lastly, time limits that were initially agreed upon with the interviewees were strictly adhered to.

3.4 Data Analysis

Using qualitative research data to produce conclusions is a complicated and challenging process, and several researchers have attempted to systematize it (Eisenhardt, 1989; Pearse, 2019; Sinkovics, 2018). In aggregate, analyzing qualitative data involves three steps: organizing the data logically to summarize it, breaking the data down into categories, and arguing for their meaning (Rennstam & Wästerfors, 2018). Moreover, researchers first need to prepare the data and become familiar with it before conducting a reliable analysis (Easterby-Smith, Thorpe & Jackson, 2015). Therefore, in order to better understand the content of the interviews, the transcription of all included interviews was manually conducted.

To frame and interpret the data, a flexible pattern matching approach was employed as it allows the use of both structure and flexibility in the analysis by comparing theoretically obtained themes and patterns with empirically discovered themes and patterns (Sinkovic, 2018). A flexible pattern matching approach also lets a researcher determine whether the patterns in the empirical data are consistent with or contradict the theoretical construct (Pearse, 2019). As this thesis seeks to analyze how institutions influence strategic alliances between Nordic and Baltic firms by exploring if the alliances experience the influences examined in the theory or if the observed data can present an alternative viewpoint, flexible pattern matching was considered appropriate to analyze the data. Pattern matching is particularly recommended for case study research since it improves credibility, Yin (2014) says.

In our thesis, flexible pattern matching employs Sinkovic's (2018) approach that combines theory and empirical domains. In Chapter 2 established analytical framework forms the theoretical domain of flexible pattern matching, suggesting the influences of institutions on international strategic alliances formation, operation and termination processes. At the same time, the observational domain was developed by employing within-case and cross-case analysis to examine the gathered data and establish themes and patterns within it. First of all, the within-case analysis includes a process of familiarity with a specific case in order to recognise the themes and patterns in it. Here coding and systemising of the data were utilised as well as identification of important notions and keywords in each interview was done (Pearse, 2019; Sinkovic, 2018). Secondly, the discoveries from the within-case analysis were utilised in cross-case analysis in order to determine patterns across the data set. This involves generating themes that appear in data, defining as well as arguing for the meaning of each theme (Eisenhardt, 1989; Sinkovic, 2018). The observed patterns were compared to the patterns proposed in the theoretical domain to show and explain whether or not the data findings confirm or refute the patterns in the theories.

3.5 Validity and Reliability

It is crucial for researchers to maintain high quality throughout the research process (Silverman, 2011). Data must therefore be collected and subsequently interpreted in a manner that assures validity and reliability, which are the concepts used to evaluate the quality of business research (Bryman & Bell, 2011).

Joppe (2000) defines reliability as "the extent to which results are consistent over time and an accurate representation of the total population under study" (p. 1). This citation emphasizes the notion of reproducibility or repeatability of results, indicating the degree to which a measure of a concept used in a study is stable. Thus, the greater the consistency and stability in the interpretations of the collected data, the greater the study's reliability (Golafshani, 2003).

However, the data collected from interviewees may vary because of human nature, which could lead to diverse responses due to different interpretations, expressions, and time differences. Consequently, qualitative research that uses data from respondent's experiences may have low reliability, but achieving reliability remains one of the principal aims for the researcher (Kumar, 2014).

To compensate for the fact that qualitative research cannot be entirely unbiased, the goal was to be as transparent as possible regarding the data gathering process and the analyses. So, numerous efforts were taken during the process of conducting this study to strengthen and guarantee its reliability. First of all, all respondents were asked the same questions; however, various discussions took place with different respondents due to the utilisation of semi-structured interviews, weakening the reliability of the research. Nevertheless, some consistency was still guaranteed in the data collection process, allowing comparability of the received information. A second reason for reliability is that our methodology was transparent since its components are clearly explained and motivated. Finally, reliability was accomplished using a sampling strategy of conducting interviews with firms familiar with the subject matter.

According to Joppe (2000), the validity in qualitative research "determines whether the research truly measures that which it was intended to measure or how truthful the research results are" (p. 1). In research, validity can be divided into two types: external validity and internal validity (Bryman & Bell, 2011). Internal validity essentially relates to the matter of causality, referring to the degree of certainty that the causal relationship being examined is trustworthy and not affected by other factors. Moreover, external validity is the issue that pertains to whether the results of the research can be generalized beyond the specific research setting. In relation to this issue, the matter of how respondents and organizations are selected to participate in research becomes essential. Specifically, where non-probable methods of sampling are utilized, external validity becomes problematic (Bryman & Bell, 2011).

In order to ensure the study's validity, we stressed the importance of interpreting the interview data objectively. In addition, for the purpose of preventing translation errors, three out of four interviews were held in English as only one interviewee was not comfortable enough to do it in English. That one interview was held in Lithuanian, which was the native language for both interviewee and interviewer. It is necessary to mention that English is the second language for all participants and researchers of the study, hence the likelihood of misinterpretation during the interview. However, if confusion occurred, we attempted to clarify all questions for the participant by rephrasing the question and clarifying its meaning. We fully recognise that the transferability of our research conclusions is limited as the findings can only be applied to the examined case companies in their context (Riege, 2003).

4. Findings and Results

This section firstly illustrates significant findings from the case companies. In order to present the results relevant to the analytical framework, constituting the theories of international alliances and the institutional theory, the within-case analysis was employed. After structuring and examining the findings of each case, common patterns emerged across the data. In order to argue for the meanings of emerged patterns, cross-case analysis was utilised.

4.1 Within-Case Analysis

Table 1 - Case Companies Interviewees

Alliance	**Partners**	**Type of Alliance**	**Interviewee**	**Position**
Baltwood UAB	Grigiskes AB (LT) Dansk Traeemballage AS (DK)	Equity Joint Venture	Gintautas Pangonis	CEO of AB Grigiskes, the Chairman of the Board of the subsidiary Baltwood
BioBag Baltic OÜ	BioBag Group (NO) BioBag Baltic OÜ [2 founding partners] (EE)	Minority Equity Investment (35%)	Kjell Ivar Bache	CEO of BioBag Group, Managing Director of Biobag International AS
Arco Varavalitsemise AS	Arco Vara AS (EE) East Capital AB (SE)	Equity Joint Venture	Viljar Arakas	Former CEO of Arco Vara AS
Aero Airlines AS	Aero Holding AS (EE) Finnair OYJ (FI)	Equity Joint Venture	Aivo Takis	Director of Aero Holding OÜ (formerly Aero Holding AS)

4.1.1 Baltwood UAB

Baltwood UAB, hereafter Baltwood, was a joint venture of a Lithuanian firm Grigiskes AB and Danish company Dansk Traeemballage AS. Grigiskes AB (now Grigeo) is the only paper and wood industry corporation in Lithuania and one of the largest in the Baltic countries. Their business processes include almost the entire processing cycle of wood and paper components, from raw timber to the final product (Grigeo, 2021). Similarly, the Danish counterpart Dansk Traeemballage AS is Denmark's biggest producer of wooden packaging (dte.dk, n.d.). The joint venture, Baltwood, set in 2005, was a wood transport packaging manufacturer focusing on processing raw timber into intermediary goods. The interviewee, Gintautas Pangonis, was the CEO of the Grigiskes AB and the Chairman of the Board of Baltwood during the operations of the joint venture.

According to Mr. Pangonis, this joint venture was not initiated by only one side, it was mutual identification of business opportunity.

> *“Both firms knew each other for quite some time and both managements recognized that there is a business opportunity which we could realize. So, it was a shared initiative from both sides.”*

Likewise, the process of partner selection did not take place as Grigiskes AB and Dansk Traeemballage AS were business partners before establishing the joint venture; Grigiskes was selling wood products (intermediate goods) to Dansk Traeemballage AS prior to the joint venture. Mr. Pangonis stated that the management of both partners had great relationships; thus, working together further seemed like the right strategic decision. The joint venture equity share was 50-50 but Mr. Pangonis was responsible for the daily operations managers while his Danish counterparts only participated in the strategic decision making process.

Mr. Pangonis said that the motive to establish a joint venture was twofold.

> *“The main motive of this joint venture was to increase the quantity of processed and raw timber that we transport to Denmark. And since timber and labour were cheaper in Lithuania, we decided that opening a joint venture in Lithuania is a good business opportunity.”*

Moreover, he elaborated that this business partnership was beneficial, especially for Lithuanian partners. After opening the new sawmill in Lithuania, the machinery was transported from Danish partners to Lithuania. Thus, Lithuanian workers participated in workshops and had internships in Denmark to learn how to use the machinery as efficient as possible. Lithuanian workers also had an opportunity to contact danish counterparts at any time if any questions arise. Mr. Pangonis concluded that the learning process was effective and smooth.

However, challenges were inevitable as cross-national cooperation took place. The interviewee firstly named the general environment in Lithuania as a barrier. He elaborated that Danish partners mentioned factors like unnecessary bureaucracy, lack of transparency on the institutional level, politicized business environment, local currency volatility as well as political instability were the challenges Dansk Traeemballage AS identified.

Furthermore, some cultural challenges were distinguished as well.

> *"At the time of this joint venture, a worker would only do something if he or she is told to do something and that is about it. Now we have people coming in who take initiatives, and they always look how to make things better*, *more efficient.*

Mr. Pangonis explained that back in 2005, the productivity of the workforce was much lower. A lot of this change is considered to be because of more efficient machinery and technologies. However, he states that the workforce is much more educated, knowledgeable, and motivated now, which played a part in increased efficiency.

Termination of this joint venture happened after two years of its establishment. As Mr. Pangonis explained, after Lithuania became a member of the European Union, timber prices started increasing drastically, so neighbouring countries like Ukraine, Belarus and Russia sold this natural resource much cheaper.

"So Traeemballage started to buy timber from other countries, Grigiskes started to sell it to other firms that needed raw timber and gradually we came to the conclusion that this joint venture is not a financially sustainable business."

He concluded that the business model they created for this joint venture a few years ago was only feasible while timber prices were relatively low. Thus after two years of operations, both parties reached an agreement and Grigiskes AB bought out Dansk Traeemballage A/S, which was the termination of the joint venture.

4.1.2 BioBag Baltic OÜ

BioBag Group is one of the leading companies in the development, production, and marketing of certified compostable and biodegradable products with the parent company BioBag International AS located in Norway (BioBag International AS, 2021). BioBag Baltic OÜ is the current official sales partner of BioBag International AS in the Baltic states (Bio Partner Baltic OÜ, n.d.). BioBag Group holds a 35% minority stake in BioBag Baltic OÜ. The interviewee was Kjell Ivar Bache (hereafter Mr. Bache), the current CEO of BioBag Group and a managing director of BioBag International AS.

BioBag Group has subsidiaries in many countries around the world. In addition to the subsidiaries, as Mr. Bache explains, they have some partstake holdings, which he suggests can be called joint ventures. Mr. Bache says that this has been their business model for 20 years.

"We start off with some good, energetic people, typically founders, and then we take minority stakes; if we are successful, we will typically acquire the remaining part of the shares at some point in time."

As to the motive for the investment, Mr. Bache explains that this is their way to increase their market share around the globe. They already had located some sales people before in their fully-owned production facilities in Estonia, the Dagöplast plant, however, they lacked reach for each Baltic country. Therefore, they partnered with a separate company who became their distributor. After the partner showed their approach and good results, BioBag initiated a joint venture (BioBag Baltic OÜ), became a minority shareholder and infused cash into the company to promote better the products and enable large-scale marketing.

Furthermore, their market entry was related to the recent EU legislation that imposes separate collection of bio-waste in the EU member states. BioBag Group therefore could capitalize on the opportunity to serve the Estonian market that was facing an emerging demand for compostable waste bags as the country started separate organic waste collection in accordance with the EU regulations.

In order to grow in the Estonian market, a lot of knowledge sharing took place. It concerned marketing, sales, product features, knowledge, and technology. The product knowledge was shared with the Estonian partner primarily in order to enable them to upsell the products in the markets. The knowledge transfer from Norway to Estonia exceeded corporate boundaries as they, for instance, held a 100-people seminar in Tallinn 2.5 years ago about the rationale behind organic waste recycling, where government agencies were present. Additionally, Mr. Bache mentioned that knowledge transfer was from both Norwegian and Estonian sides.

To bridge the industry knowledge gap of the partners, BioBag practices a ‘bluebook approach’, which they implement in any new country that enters into organic waste recycling. This approach allows to understand how the processes work in other places, and the positive and negative experiences that the industry players had elsewhere. They use Milan as such benchmark, since it is at the forefront of organic waste recycling.

No significant challenges in the cross-border cooperation were mentioned. Regarding people issues, some technical hurdles could have occurred since the industry-specific terminology of processes required some extra effort to be communicated to the foreign partner. Mr. Bache suggests that such barriers are unavoidable, but in his opinion, Estonians normally are good at English, which apparently significantly helps in communication. Regarding Estonian business environment, Mr. Bache noted the role of governmental support of international business.

> *"Estonia is an extremely easy country to work in as a foreigner, they have made doing business there very easy. (...) I have a very positive view on the Baltics in general, and Estonia in particular."*

The favorable business environment was discussed in the context of how easy it is to establish business as a foreign company, cooperate, find the right partners, and regarding other aspects, such as banking or electronic passports. In Mr. Bache's opinion, business conditions in Baltics, in Estonia in particular, are much easier than, for example, in Austria or England.

As mentioned before, the joint venture is ongoing. According to Mr. Bache, so far it is perceived as successful and there is no intention for terminating the cooperation.

> *"We would like the market to pick up more quickly [smiling], but apart from that - very young, very talented and energetic founders."*

As Mr. Bache said, increased control over the joint venture is definitely an option in the foreseeable future. They rely on the shareholder agreement provisions that provide mechanisms for increasing the ownership stake.

4.1.3 Arco Varavalitsemise AS

Arco Varavalitsemise AS is a joint venture between an Estonian company Arco Vara AS and a Swedish company East Capital AB. The deal is dated 2004. The interview was conducted with Viljar Arakas (hereafter Mr. Arakas), who at that time was the CEO of the Estonian partner, Arco Vara AS (hereafter Arco Vara). Arco Vara AS was founded in 1992 as a real estate agency in Tallinn (Arco Vara AS, n.d.). The company has been listed on Nasdaq Tallinn stock exchange since 2007, and their current market capitalization is around EUR 19.5M (Verizon Media, 2021). The primary business activity is the development of complete living environments and related commercial real estate (Arco Vara AS, n.d.). East Capital AB (hereafter East Capital) was founded as part of East Capital Group, which was established in 1997 in Sweden and currently has EUR 4.8B in assets under management (East Capital International AB, n.d.). East Capital is a leading active asset manager for a range of international institutional, corporate and private investors, specializing in emerging and frontier markets (East Capital International AB, n.d.).

Mr. Arakas states that East Capital were highly interested to initiate the deal since their success story began when they started investing in the Baltics. Furthermore, Baltic states entered the EU and NATO in 2004, so the environment became even more favorable and promising due to structural institutional changes in the Baltic states. As he explains, real estate was a very attractive asset class, however, it was difficult to find where to invest in Baltics. Thus the deal implied East Capital investing in one of Arco Vara's funds, the commercial real estate fund (which according to Mr. Arakas was not their primary business at that time). The two companies did not have any experience of working together prior to the establishment of the joint venture.

> *"To set up a joint venture between a local real estate player and themselves [East Capital] was a very natural step."*

As to the motives for the cooperation, Mr. Arakas elaborates that the deal was launched when in Estonia the passive investment capital was basically non-existing. East Capital had access to capital from Sweden, Scandinavia in general and wider scale, and Arco Vara knew how to execute real estate transactions in Baltics.

> *"It was very plain and simple, I would say, they had the capital, and we had market knowledge. (...) That was a natural and perfect fit."*

The control over the joint venture was split 50/50, however, since all the operations were conducted in Baltics, all the daily activities were under the control of Arco Vara. All the employees therefore were Estonian nationals. East Capital was equally partaking in decision-making regarding, for instance, choice of funds, hiring employees etc. Thus there was no continuous interaction between the partners. As Mr. Arakas explains, Arco Vara was the managing partner as a local, and East Capital was a strategic investor providing capital and knowledge how to run funds. East Capital also was responsible for investor relations management since the investor base was East Capital investor base.

When discussing benefits of cooperation with the Swedish partner, it is clear that a lot of learning took place.

> *"It gave us a lot of know-how, how investment funds in Europe should be set up, marketed, handled (...) - that was completely a new world to us."*

Mr. Arakas elaborates that he learned a lot from the partner's management style, as well as the management of investor relations. This industry-specific knowledge proved to be crucial since it allowed him to establish his own company in the same industry later.

According to Mr. Arakas, many challenges were mitigated since at that time the Swedish partner had two persons in the top management who were Swedish locals but Lithuanian nationals.

> *"They knew exactly how this game was played in the Baltic states. (...) They were perfectly aware and they were bridge-building at that time between the Western European culture and then this young democratic culture of the business environment in the Baltics."*

This is why, as Mr. Arakas suggests, there were no culture clashes or conflicts of any kind. As he explains, this would surely be very different if it was a joint venture with someone from, for instance, Frankfurt or Paris, who has absolutely no knowledge of what Baltic states are.

The joint venture ended with East Capital taking the business activity over. Mr. Arakas explains that it was very natural because for Arco Vara, the priorities were different, and they, as he states, did not understand the importance of this business.

4.1.4 Aero Airlines AS

Aero Airlines AS (hereafter Aero Airlines) was a joint venture between Aero Holding AS (hereafter Aero Holding) and Finnair OYJ (hereafter Finnair), headquartered in Tallinn, Estonia. The respondent was Aivo Takis (hereafter Mr. Takis), the Director of Aero Holding OÜ, formerly Aero Holding AS. Aero Holding is an Estonian airline company and Finnair is a Finnish airline company. The established joint venture Aero Airlines was a regional airline based in Estonia. According to Mr. Takis, the joint venture operations started in 2002.

As Mr. Takis explains, the joint venture was established when Finnair was looking to set up a subsidiary for short haul flights to serve unprofitable domestic routes in Finland and other short routes like Helsinki-Tallinn. Tallinn, Estonia was the best location, including budget considerations. According to Mr. Takis, the primary reason for the establishment of the joint venture stemmed from regulations, particularly Estonian legislation that required any domestic airline to have more than 50% of the ownership by domestic capital, in order to be granted passenger air traffic rights. Due to the legislation, Finnair needed a local partner. Mr. Takis, being the founder of Aero Holding and being in good long-lasting previous business relationships with Finnair, became that partner for Finnair. He explained that this cooperation was via his travel agency, a leading International Air Transport Association travel agency in the region, which since 1995, was 72% owned by Finnair.

In Mr. Takis' opinion, the joint venture was successful, as it was generating savings for Finnair as it was planned. The joint venture was successfully operating a fleet of ATR72 for around 6 years. According to Mr. Takis' public posts, at its operational peak, Aero Airlines had 18 aircrafts on the regional fleet, making it the largest ever Estonian airline up until 2018.

According to Mr. Takis, the joint venture ended due to the legislation, which in the beginning was the reason for the joint venture arrangement, becoming void as Estonia joined the EU. Finnair acquired all Aero Holding's shares according to the initial share option agreement. The major reason for discontinuing the partnership, according to Mr. Takis, was labour market politics in Finland.

> *"The real (and unpublicised) reason came about in 2006/2007 from the powerful trade unions in Finland, who were threatening strike actions against Finnair unless all Aero Airlines' employees were brought under the same pay and benefit scheme with the rest of the Finnair (mostly Finland-based) staff."*

> *"Aero's demise was due to the strong trade unions in Finland, who won the battle against business sense (i.e. reduced operating costs)."*

As Mr. Takis elaborates, Finnair was already suffering from the labour disputes at the time and another conflict would be critical to the company. Therefore, the joint venture was dissolved.

4.2 Cross-Case Analysis

4.2.1 Formal institutions influencing national business environment

The case interviews provided several perspectives of Baltic's formal institutions determining a favourable environment for Nordic states to invest in. In essence, after becoming members of the EU, Baltic states were seen as a convenient location for Nordics to invest as it was an emerging economy and were relatively close geographically and culturally. Baltics also had many underdeveloped markets, but formal institutions were experiencing convergence to the more advanced states due to correspondence to the EU requirements as well as close relationships to developed economies, providing higher political and economic stability for the Nordic investors. These mentioned factors are determined by the state's formal institutions and can create a favourable as well as an unfavourable environment for foreign business to invest in.

In the case of BioBag and Arco Vara, the interviewees explained that Baltic states entering the EU facilitated intensified regional economic cooperation, which created more favourable conditions for investment in the region. Both representatives emphasized that it supported formal institutions convergence, thus investing in Baltics was regarded as safer and safer with years.

Consequently, it can be argued the Baltic's regional economic and political integration was recognized as an opportunity from the Nordics perspective.

In addition, it was recognized by the BioBag representative that within Baltic states, the role of individual governments in how much they focus on attracting foreign investors is important. He claimed that the Estonian government, for instance, made it easy to administer business for foreign firms. He stressed that digitalization of processes, as well as being able to receive Estonian electronic passport, which makes it easier to operate, created a favourable environment for foreigners to run a business. Moreover, two interviewees, namely BioBag and Arco Vara, mentioned the fact that it was beneficial for Nordic firms that in Baltic states, some markets were underdeveloped, leaving a vacuum that could be filled by the companies that have knowledge of the specific industries. Particularly, in the case of BioBag, it was compostable products for which Estonia lacked expertise and market development. This generated a great opportunity for the Norwegian firm to utilize their knowledge and introduce as well as promote compostable products in Estonia. Likewise, Arco Vara representative stated that Estonia did not have an established passive investment capital market, which, in turn, allowed Swedish firm East Capital to enter the Estonian market and take advantage of being the first-movers. Therefore, it could be argued that formal institutions define the business environment and can attract as well as repel foreign investments.

4.2.2 Cultural awareness and similarities seen as mitigating factors of challenges and conflicts

From the examined cases, it is evident that cultural similarities between the Nordics and the Baltics were mitigating the challenges and conflicts of the alliances. Even though cultural differences exist between these two regions, cultural convergence is a continuous process that comes from strong cooperations on a business and political level, making cultures more alike, although not the same (Akaliyski, 2019). Therefore, these cultural similarities help businesses mitigate the challenges and conflicts that would occur if cultures were drastically distant.

One interviewee mentioned cultural similarities and awareness as factors that helped them in the trans-regional strategic alliances. In the case of Arco Vara, the Estonian representative, Mr. Arakas, elaborated on the fact that Swedish partners East Capital AB had a few Lithuanians on the management team that was responsible for managing the joint venture in Estonia. He explained that Lithuanian managers were very aware of how to establish and conduct business in the Baltics, in this case, Estonia. Since Swedish partners possessed cultural awareness, the partnership was not complicated by conflict coming from cultural differences. Thus, it could be argued that cultural awareness helps mitigate the challenges of cross-border strategic alliances.

Cultural similarities as mitigating factors of hurdles and disputes are further exemplified by Aero Airlines and BioBag. Aero Airlines representative claimed that there were no cultural challenges between Estonians and Finnish allies throughout the lifecycle of the alliance. He even joked that Estonians are like "clones" of Finnish people, proving his point that he did not observe differences between the cultures of these two countries and thus could not name cultural challenges. Similarly, the BioBag representative stated that a specific cultural aspect, namely the country's ability to speak English, was an important factor that helped mitigate potential difficulties in the Norwegian and Estonian alliances. He elaborated that Estonians’ as well as Norwegians’ knowledge of the English language made the communication and specifically learning process very smooth.

5. Analysis and Discussion

In this chapter, we introduce the Nordic-Baltic context more in-depth as well as utilise the developed analytical framework based on the combination of international strategic alliances and institutional theories in order to analyse observations derived from data. It is achieved by employing flexible pattern matching to examine whether observed patterns are contradictory or supporting the patterns explored in the theoretical realm. Overall, a number of similarities are identified between the theoretical patterns and observed patterns.

5.1 Nordic-Baltic Strategic Alliances

Nordic-Baltic multidimensional cooperation has been strong for decades. Historically the collaboration among Nordic and Baltic states has been great for various reasons, including mutual trade benefits, which was the crucial factor facilitating this cooperation (NB8 Wise Men Report, 2010; Salmi & Akre, 1998). For instance, the Baltoscandian Confederation, being a geopolitical concept, was created at the beginning of the 1900s to pursue stronger multidimensional partnership among Nordic and Baltic states (Baltoscandia, 2016). However, the most profound bonds were formed in the 1990s (Ministry of foreign affairs of the Republic of Latvia, 2021). After the collapse of the Soviet Union, Nordic neighbours were amongst the most vigorous supporters of the Baltic countries' independence and integration in European and transatlantic structures, as well as advocates of forging more solid and structured Nordic-Baltic cooperation (NB8 Wise Men Report, 2010; Salmi & Akre, 1998; Johansen, 2002).

The more structured partnership started developing in 1992 as the agreement between the Nordic Council and the Baltic Assembly was signed, forming the NB-8 (Cutler, 2015). This regional cooperation's purpose is regular meetings of countries' politicians where consultations and discussions regarding regional issues and current international affairs are handled (NB8 Wise Men Report, 2010). In addition to NB-8, other informal organizations like NB-6 (Nordic and Baltic countries that are members of the EU), Cooperation among Nordic Council and Baltic

Assembly, Cooperation among Nordic Council of Ministers and Latvia, Lithuania, and Estonia, and Council of the Baltic Sea States were established for more effective regional cooperation resulting in political and economic gains (Ministry of Foreign Affairs of the Republic of Lithuania, 2021).

For instance, Baltic states joined the international financial institution Nordic Investment Bank which provides loans and guarantees to private and public firms, governmental bodies, and financial institutions, increasing economic integration between two regions and economic prosperity as well as sustainability in Baltic states (Nordic Investment Bank, 2021). In addition, cross-border capital flows among these countries are essential, especially for the transition economies like Baltic states that are still catching up with their wealthier Nordic neighbours and are dependent on FDI flows from Nordics (Hilmarsson, 2019; Simelyte, Dudzeviciute & Liucvaitiene, 2017; Sippola, 2009). This regional cooperation is also necessary on the European level to gain more bargaining power and access to influencing legislative bodies within Europe (Rūse, 2014). In essence, Nordic-Baltic cooperation creates political, financial, and social gains for both regions, making it more convenient for organizations and businesses from both sides to collaborate on various types of alliances (Simelyte, Dudzeviciute, & Liucvaitiene, 2017; Hilmarsson, 2019).

The Nordic-Baltic region is now closely interlinked via trade, investment, the flow of labour, and the financial sector (Hilmarsson, 2019; Simelyte, Dudzeviciute & Liucvaitiene, 2017). Moreover, all states in this group have some form of integration with the European Union since six of them are EU members, four are in the Eurozone, and all of them belong to European Economic Area as well as the Schengen zone, creating a favourable environment for further partnerships (Hilmarsson, 2019). Consequently, an opportunity for not only formal institutional convergence is reoccurring but for cultural convergence as well.

5.2 Case Alliances

In this study, four alliances between Nordic and Baltic companies have been analysed, which varied in motives and governance structure. The purposes for the formation included linking complementary contributions (Baltwood: linking capital (DK) and cheap business facilities (LT); Arco Varavalitsemise: linking capital (SE) and market knowledge (EE)), addressing competition through increasing market share by the parent (BioBag Baltic), overcoming regulatory barriers (Aero Airlines), and, additionally, economies of scale and rationalization (Baltwood), and facilitation of internationalisation process (BioBag Baltic). Three out of four companies were equity joint ventures, which was assumingly chosen as a governance structure to facilitate the needed capital contribution of the partners according to the need for higher integration while retaining the independence of the firms. Additionally, BioBag Baltic's governance structure of minority equity investment reflects the lower risk choice of the parent company BioBag Group before undertaking M&A. Thus the case alliances varied a lot in the purpose for establishment, however, had somewhat similar governance structures.

Partner selection process took place in all alliances except for Baltwood which was a result of intensification of cooperation between previously partnering firms. Nevertheless, the importance of certain partner characteristics were discussed in all cases. In two out of four cases, complementarity of the partner was emphasised. Linking partners' resources yielded higher efficiency in Baltwood case and unique bundle of assets providing competitive advantage on the market in Arco Varavalitsemise case. Corporate culture compatibility and organisational compatibilities were stressed and therefore seem to have played a more important role in BioBag Baltic and Aero Airlines respectively. Thus the analysed cases also showed different prioritization of partner characteristics on the formation stage.

Three out of four examined alliances have been terminated, with BioBag Baltic still operating at the time when this thesis is written. Even though it is unclear if those terminations were intended or unintended, it can be mentioned that two suffered from external contingencies (Baltwood and Aero Airlines), while the termination of Arco Varavalitsemise was related to strategy of both partners. All terminations were conducted through remaining stake acquisition by one of the partners. The findings that the alliances had varying reasons for termination are valuable for further assessment of potential hurdles the alliances could have faced.

5.3 Pattern Matching Analysis

5.3.1 Formal institutions influencing national business environment

The first pattern emerging from the data, formal institutions defining the business environment attractiveness, corresponds well to the propositions developed by institutional theory scholars. Specifically, this pattern highlights the influences of formal institutions on business conditions and whether certain contexts attract potential foreign allies.

Strategic alliances that were examined in this study were being formed when Baltic states were not yet the EU members or were at the very early stage of being the EU members. Regional economic integration structures such as the EU facilitate international trade and cross-border business activities (Krämer, 2007). It also causes institutional convergence, creating an institutional common ground for all member states, which makes it easier for cross-border partnerships to conduct business in collaboration (López-Bazo, Vayá, Mora & Suriñach, 1999). Since institutional convergence influences all regional cooperations, it, therefore, has an impact on trans-regional alliances. Even though strategic alliances as a choice of entry are valued for their low riskiness and high flexibility between partnering firms, implying a lower degree of interdependence, it still is riskier than, for example, exporting (Grant, 2018). Thus, strategic alliances require low political and economic uncertainty as well as low regulatory barriers (Grant, 2018), which can be reached through economic integration like the EU since it affects political and regulatory stability and certainty for businesses (Clegg, Forsans, Reilly, 2003).

This premise is displayed in our findings since representatives from BioBag and Arco Vara identified Baltics acceptance to the EU as a beneficial factor for trans-regional cooperation between Nordics and Baltics. They elaborated that this regional economic integration allowed Nordic firms to better secure their investment since after Baltic states became the EU members, political and economic stability increased in correspondence to the EU requirements. In addition, institutional convergence took place as the Baltics were catching up to the developed EU states, including Nordics, regarding the favoured policies, rights and law enforcement. This finding conforms with Hall (2016) and Beckert (2010) claim that regional economic and political integration mitigate the challenges originating from an institutional distance. In addition, factors of increasing political and economic stability (Dickson & Weaver, 2011) as well as institutional convergence (López-Bazo, Vayá, Mora & Suriñach, 1999) are seen as favourable conditions for establishing an international strategic alliance, proving that formal institutions can support business environment and influence firms decisions (DiMaggio & Powell, 1991).

Moreover, it was mentioned, specifically by BioBag, that the Estonian government created a favourable environment for foreign firms to conduct business in Estonia. Strategic alliances that were examined in this study were operating when Baltic states were still reported as the emerging economies. According to Meyer, Estrin, Bhaumik and Peng (2009), emerging economies are commonly regarded as states with relatively high political and economic uncertainties, but together with that, they have a high potential to grow, thus wealthier countries see it as an opportunity. BioBag Group and Acro Vara both recognised the possibilities of entering underdeveloped Estonian markets, even though the uncertainties regarding the business environment were there.

This finding corresponds with Berglöf & Cable, (2018) claim that underdeveloped industries are perceived as opportunities to enter a market. One of the biggest opportunities for foreign investors is the possibility to gain the first-mover advantage when entering underdeveloped markets in emerging economies (Berglöf & Cable, 2018). In countries with underdeveloped markets or industries, governments can choose to attract foreign businesses to encourage these markets' development (Groh & Wich, 2012). Individual governments can make the business environment attractive, implying favourable regulations that make conducting business easy, and that is exactly what Estonian government did, according to BioBag. Estonian government made it easy for foreigners to conduct business as most of the processes are digitalised. Therefore it can be easy for foreign partners to form alliances, complement their resources with local resources and grow on underdeveloped markets, increasing the attractiveness of the national business environment.

5.3.2 Cultural awareness and similarities seen as mitigating factors of challenges and conflicts

The second observed pattern emerging from the data, cultural awareness and similarities seen as mitigating factors of challenges and conflicts, illustrates similarities with the proposition of the analytical framework.

Similar to Fraser and Zarkada‑Fraser's (2002) notion of cultural awareness importance to international business as well as Pesch and Bouncken (2018) argument of cultural awareness importance specifically to the international strategic alliances, Arco Vara representative emphasised the cultural awareness role in the joint venture. He elaborated that since some of the Swedish ally's management was familiar with the Baltic culture and aware of the potential cultural differences between Swedes and Estonians, it allowed the joint venture to avoid potential challenges and conflicts between partnering firms. This observation aligns with Pesch and Bouncken (2018) claim that cultural awareness is one of the mechanisms that enhance the performance of international strategic alliances.

Moreover, the representative of Aero Airlines mentioned that he did not recognise any cultural differences that would cause conflicts between the Finnish and Estonian counterparts. He elaborated that the cultures of these two countries are very similar, which does not leave a lot of room for cultural friction in the cooperation. Similarly, another relevant matter of cultural similarities was discussed in the case of Baltwood in the context of gradual cultural convergence of the Baltic states. The CEO of the Lithuanian partner identified the USSR influence on Lithuanian mentality when the Baltic states were in the transition stage to the EU, which could be a potential hurdle for Danish managers at that time, however, as the interviewee suggested, this is not such an issue anymore, since Lithuanian culture underwent a lot of changes ever since. The cultural transformation was partly related to the integration into the EU systems, e.g. inward FDI into Baltic states that led to learning and sharing experiences, practices and attitudes from the more developed countries. Therefore, it can be argued that cultural assimilation to a certain extent can contribute to more seamless cooperation. This pattern of cultural similarities mitigating the challenges and conflicts of the international alliance shares similarities with

Barkema and Vermeulen (1997) argument that small cultural distance alleviate conflict and misunderstandings between allies.

Lastly, similar to Pucik (1988) and Inkpen (2008) argument that cultural-specific factors like the language barrier could be a hurdle that hinders productive factors such as knowledge transfer between the partner firms, decreasing the effectiveness of the cooperation operations, it was discussed with one of the case companies. Specifically, the BioBag representative stated that the fact that Estonians and Norwegians both possess a good understanding of the English language was an important factor that helped alleviate potential Norwegian-Estonian alliance difficulties. Thus, cultural similarities can be argued to be a mitigating factor in dealing with potential international alliance challenges.

5.3 Discussion

This study set out to address the problem that strategic alliance literature does not provide sufficient explanation for the influence of institutional distance on alliances between partners from countries where the institutional distance is ambiguous, particularly, Nordic and Baltic countries. The Baltic countries have been experiencing formal institutional convergence and cultural assimilation to the West since the collapse of the USSR, which provides many opportunities for intensified cross-border cooperation between neighboring countries of Nordic and Baltic regions. Yet, the differences in national governmental regulations remain, and the cultural convergence is also being debated over. Therefore, the overarching goal of this research was to provide a deeper understanding of how international alliances in the Nordic-Baltic environment are influenced by potential similarities and differences in the institutional environment of Nordic and Baltic regions.

5.3.1 Summary of the Findings

There are two main findings of this thesis. First, this study has shown that formal national and supranational institutions influence the national business environment, which affects formation and operation of the cross-border strategic alliances. Specifically, this pattern highlights the influences of formal institutions on business conditions and whether certain contexts attract potential foreign allies. This finding is partly based on the fact that after Baltic states became the EU members, political and economic stability increased in correspondence to the EU requirements. Moreover, institutional convergence took place, which facilitated trans-regional cooperation. Furthermore, it was observed that individual governments, specifically the Estonian government, created a favourable environment for businesses as well as foreign firms to invest and conduct business in their country.

Secondly, the data indicated the pattern that cultural similarities and awareness are seen as mitigating factors of challenges and conflicts in cross-border cooperation. It was observed that management awareness of cultural differences and potential cultural clashes allowed the international alliance to avoid implied challenges and conflicts between partnering firms. In addition, another relevant matter of cultural similarities was discussed since it was noted that Baltic states experienced gradual cultural convergence after joining the EU, leading to a more similar cultural context to other EU members, including the Nordics. Lastly, it was remarked that since Estonians and Norwegians both possess a comprehensive understanding of the English language, it served to alleviate potential cross-national alliance challenges.

Additionally, the data presented three discrete findings that appeared in within-case analysis. These specific aspects or factors were not examined in all of the cases, as they were not initially accounted for in data collection but emerged in the course of interviewing. We consider them important to be discussed as they propose relevant to the research question concepts. These findings include (1) opportunities for cross-cultural learning stemming from cultural differences, (2) power of labor unions, and (3) the role of industry-specific legislation.

Firstly, the findings from the Arco Varavalitsemise alliance illustrated the possibility of cross-cultural learning with an example of learning from management style which, as discussed further, is influenced by national culture. This finding exemplifies an opportunity engendered by informal institutional distance, whereas informal institutional distance is commonly primarily viewed as a hurdle. Secondly, we identified the role of labor unions in termination of one of the alliances (Aero Airlines), partially due to the elimination of initial alliance benefits. This finding illustrates the influence of a national institution that cannot be easily categorized as formal or informal, however, as shown, may have a strong impact on cross-border cooperative arrangements. Thirdly, one of the cases (Aero Airlines) provides evidence that industry-specific national legislation may have influence on alliance creation. This finding shows an example when, in the context of FDI, an alliance was established instead of the initially intended higher-control higher-risk mode (wholly-owned subsidiary), whereas alliances are oftentimes are chosen deliberately for their benefits of lower control and risk compared to wholly-owned subsidiaries. These three concepts complement the discussion of the institutional influence on Nordic-Baltic alliances, therefore will be concluded upon further complementary to the two main patterns.

5.3.2 An examination of the results in relation to existing research

In the first pattern emerged from the data, formal institutions influencing the national business environment, corresponds well to the propositions developed by institutional theory scholars. Specifically, the observed notion about institutional convergence, which was recognised in Baltic institutions after entering the EU, resembles the theory that discusses that convergence creates common institutional ground for states, making it easier for cross-border partnerships to conduct business in collaboration (López-Bazo, Vayá, Mora & Suriñach, 1999) as well as the theory that argues that for regional economic and political integration mitigates the challenges originating from an institutional distance (Hall, 2016; Beckert, 2010). In the companies cases as well as in theory, the importance of increasing political and economic stability (Dickson & Weaver, 2011) and institutional convergence (López-Bazo, Vayá, Mora & Suriñach, 1999) are seen as favourable conditions for establishing an international strategic alliance. Lastly, the significance of individual government's influence in attracting business was recognised in both theoretical (Groh & Wich, 2012) and empirical realms.

In the second observed pattern emerging from the data, cultural awareness and similarities seen as mitigating factors of challenges and conflicts, parallels with the propositions of the analytical framework were recognised. Similar to Pesch and Bouncken (2018) notion of cultural awareness importance to the international strategic alliances, it was observed in empirical data as the interviewee mentioned that Nordic partners management was familiar and aware of Baltic culture, which alleviated potential challenges of the cooperation. This observation also aligns with Pesch and Bouncken (2018) claim that cultural awareness is one of the mechanisms that enhance the performance of international strategic alliances. This pattern of cultural similarities mitigating the challenges and conflicts of the international alliance also shares similarities with Barkema and Vermeulen (1997) argument that small cultural distance alleviates conflict and misunderstandings between allies. Lastly, similar to Pucik (1988) and Inkpen (2008) argument that cultural-specific factors like the language barrier could be a hurdle that hinders the effectiveness of the cooperation operations, it was discussed with one of the case companies that knowledge of English language of both parties eliminated language barriers which increased the effectiveness of cooperation.

The exemplification of the cross-cultural interpartner learning opportunities stemming from cultural differences that was presented in the findings complements the existing research of the benefits of informal institutional distance on cooperation. In this case cross-cultural learning was exemplified with learning of management style. Since culture has a strong influence on management styles, in this case we therefore can assume that informal institutional distance can have an additional impact on alliances by providing opportunities for learning. Stahl and Tung (2015) argue that the negative influence of cultural differences has been predominant in international business literature for more than two decades. Our findings complement the authors' emphasis that cultural differences can be an asset and not a liability alone (Stahl & Tung, 2015). The topic of contradicting arguments related to the role of cultural distance was also examined by Reus and Lamont (2009) in the context of international acquisition. The authors argue that cultural distance is a "mixed blessing" (p.1311) since it provides opportunities for learning under integration. Thus this finding concurs with the relatively narrow stream of literature that examines the positive effects of informal institutional distance.

The power of labor unions as an institutional factor has been under attention of international business scholars, however, not as much in the context of international strategic alliances research. It also should be clarified here that labor unions are hard to categorize as either formal or informal as they are not official authorities that have power to impose formal regulations, however, they can be granted certain power by the government. Thus the extent to which labor unions can be considered formal institutions varies across countries as it depends on the national legislation. Nevertheless, regardless of the category of institutions labor unions may belong to, our study presents evidence that they can have significant influence on operations of a cross-border cooperative agreement, e.g. impede the capitalization on benefits of the joint operations. Sippola (2009) suggests that for companies from highly unionized countries such as Nordic countries, investing in countries such as in the Baltic region can be seen as an opportunity, what the author calles “regime shopping”. Our finding poses a suggestion for caution regarding the author’s argument.

Lastly, the influence of industry-specific legislation on entry mode and therefore alliance formation. The case joint venture in question (Aero Airlines) was formed due to specific regulations that apply to the airline industry in Estonia. If not for these regulations, the Finnish partner would probably have established a wholly-owned subsidiary as initially intended. Thus it exemplifies the imposed choice of alliance as an organizational form due to formal institutions. Even though, to our knowledge, there have not been studies dedicated specifically to the influence of industry-specific legislation on alliances, this finding can complement the stream of research concerning the effect of regulatory environments on alliances.

This study, however, does not provide evidence for the existence of significant cultural challenges as one could anticipate from the context of cooperation between companies from institutionally different environments. One of the possible reasons for the lack of identification of culture-related hurdles in at least two of the cases can be related to the pre-existing relationships between partners. More specifically, previous relationships could have had a moderating effect on the degree of the influence of informal institutional distance. Previous ties nurture inter-partner trust, because when partners experience some continuous interaction they learn about each other and develop shared norms of cooperation (Gulati, 1995). This trust is one of the cornerstones of relational mechanisms the partners further implement to govern their cooperation (Kale & Singh, 2009). Abdi & Aulakh (2012) argue that relational mechanisms at the partnership level have the capacity to overcome challenges caused by differences in the informal institutional environment, or, in other words, compensate for the lack of shared informal institutional framework. The findings of Park and Ungson (1997) further support that the previous inter-partner relationships are able to negate certain complexities relating to cultural differences. Therefore, we can presume that previous relationships could be one of the factors that alleviated cultural challenges.

6. Conclusion

This chapter aims to revisit research aims and objectives, present main findings of the data analysis and research conclusions. Further, research limitations and implications will be discussed. Lastly, we present recommendations for further research.

6.1 Addressing Research Aims and Purpose

This study aimed to examine the role of institutional distance in Nordic-Baltic strategic alliances in order to gain a greater understanding of which aspects of trans-regional institutional differences and similarities influence these cross-border cooperative arrangements. Firstly, a literature review related to strategic alliances and institutional theory was conducted. Further, an analytical framework was developed which set the structure for the data analysis. Furthermore, interviews were conducted with the top executives of the four case alliances. The interviews were transcribed, coded and analysed. Two main patterns were identified, as well as three relevant discrete complementary findings that were relevant to include in the discussion. Pattern-matching analysis was performed to identify concurances with or deviations from the existing research.

The pattern-matching analysis resulted in several main findings. Firstly, this study has revealed that formal national and supranational institutions affect the national business environment, influencing the formation and operation of cross-border strategic alliances. Particularly, this pattern highlights the impacts of formal institutions on business conditions and whether specific institutional settings attract potential foreign allies. This finding is partly based on the fact that after Baltic states became the EU members, political and economic stability increased in correspondence to the EU requirements. Moreover, institutional convergence took place, which facilitated trans-regional cooperation. Furthermore, it was observed that individual governments, specifically the Estonian government, created a favourable environment for businesses as well as foreign firms to invest and conduct business in their country.

Secondly, the data indicated the pattern that cultural similarities and awareness are seen as mitigating factors of challenges in cross-border cooperation. It was observed that management awareness of cultural differences and potential cultural conflicts enabled the international alliance to avoid possible challenges and conflicts between partnering firms. In addition, another relevant subject of cultural similarities was discussed since it was noted that Baltic states experienced gradual cultural convergence after joining the EU, leading to a more similar cultural context to other EU members, including the Nordics. Lastly, it was remarked that since Estonians and Norwegians both possess a comprehensive understanding of the English language, it served to alleviate potential cross-national alliance challenges.

Additionally, the complementary findings from individual cases exemplify the potential benefits of the informal institutional distance. Particularly, one of the cases illustrated the benefits of learning from the partner's management style, which is greatly affected by national cultures, as scholars suggest. This finding supports the literature which aims to emphasise the positive side of cultural differences, while cultural distance has been mostly researched from the perspective of a managerial hurdle.

Furthermore, our findings give an illustration of the role of labor unions as important players in institutional systems. This finding provides an example of how the power of the unions can offset the initial benefits of cross-border cooperation. It may suggest more cautious consideration of the arguments in the existing literature regarding the opportunities that companies from highly unionized countries may have when entering less unionized countries.

Lastly, our research provides an example for formal institutions' influence on international business in certain industries. This is supported by the literature that explains that overcoming investment barriers is one of the possible motives for establishing a strategic alliance. The finding presents an unconventional illustration when initially intended higher-control entry mode had to be switched to the lower control due to the regulations.

Therefore, our research addressed the research question "*What are the aspects of institutional distance that influence cross-border cooperation in Nordic-Baltic strategic alliances?*" with the two primary cross-case findings that formal institutions influenced the national business environment, and cultural awareness and similarities were seen as mitigating factors of challenges and conflicts. Additionally, the complementary findings exemplified opportunities for cross-cultural learning stemming from cultural differences, the power of labor unions over a cross-border alliance, and the impact of industry-specific legislation.

6.2 Limitations

There are numerous limitations to this research related to methodological issues. First of all, case studies, as discussed previously, have very limited generalizability. Even though our study aimed primarily at cross-case generalizations, this possibility is limited due to the small sample size. There are several reasons for such sample size. It was an unanticipated challenge in the beginning to obtain the information on what alliances exist between Nordic and Baltic countries. The open-access registers and databases, as well as other public sources, had very limited information. Secondly, the topic of inter-partner cooperation could have been seen as sensitive to some companies, therefore we assume that it is one of the reasons why interview requests could have been ignored. Additionally, our research topic required interviewing top executives, since it concerns corporate strategic decision-making and requires a respondent with the comprehensive knowledge of the company's international partnerships. These top executives proved to be hard to reach.

Furthermore, there are several limitations to the chosen cases as well. Three out of four alliances are not recent deals, and they operated in institutional environments that were different from what the countries face now. Even though we attempted to carefully account for it in the interviews, some important influences and factors could have been not mentioned by the managers simply due to the fact that these deals happened a while ago. Moreover, all the examined alliances were established in Baltics, which limits the perspective of the analysis of trans-regional cross-border cooperation.

Another limitation which could have resulted in limited finding is related to the sensitivity of the topic of inter-partner cultural challenges. In most cases, interviewees did not identify any significant cultural difficulties, while the minor issues, which can be as relevant, are harder to explore. Conducting interviews to obtain information on cultural challenges requires being better equipped in sociology and psychology, which was initially overlooked.

6.3 Implications

Acknowledging the limitations of the research, this thesis still presents practical implications and contributions. From a managerial perspective, this study suggests some relevant practical implications to decision making and considerations in international businesses, specifically international alliances. First of all, the finding illustrates the role of institutions and their influence on strategic alliances between Nordic and Baltic states, which is of potential direct relevance to companies from both regions that are participating or will participate in such trans-regional business partnerships. Furthermore, the study highlights the challenges that distant institutions can cause to Nordic-Baltic cooperations and what kind of effect it could have on the alliances, which could help managers foresee the origins of potential difficulties. At the same time, the finding illustrates that in some cases, institutional, especially cultural, differences were not recognized by the interviewed companies, providing evidence that even though the cultures seem different, factors like cultural awareness might alleviate potential challenges.

6.4 Future Research Recommendations

Recognising the displayed limitations of this thesis, future research may further investigate how institutional distance affects the alliances between Nordic and Baltic businesses. Firstly, as this research only studied four trans-regional alliances and one representative from each case, future research could use a more substantial sample regarding both the firms and the representatives to expand the knowledge and applicability of the conclusions. Secondly, as the institutional environment is not perfectly homogeneous within Baltic and Nordic states, future research could address this issue by investigating only, for example, Lithuania and Sweden in order to get a more comprehensive representation of the influence. Thirdly, as some institutional challenges were recognised in this study, future research could investigate how to mitigate those difficulties, which could be of assistance to the companies. Lastly, future research could study the impact of institutional distance and its influence between other countries, as institutional environments vary significantly between nations.

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Appendix 1

Interview Guide

1. Could you describe the [joint venture X] deal?

2. What was your position in the company at the time and how were you involved in the deal and operations?

3. What were the primary motives and objectives of the joint venture?

4. Who initiated the deal?
    a. Why were you selected as the partner / how did you select the partner?

5. Did your company have any partnership relationships with X firm before?

6. Did any learning or knowledge transfer take place?
    a. What were the challenges?

7. What were the main benefits of cooperation as a cross-national team?

8. What were your main challenges of cooperating as a cross-border team?

9. In your opinion, was the deal successful?
    a. Why was it terminated?