

Scandals and strategic alliances: Spillover effect on partners

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Abstract

A significant number of corporate scandals has risen in the last few decades. Although the literature on the benefits of alliances and issues between partners has received considerable attention, no studies have investigated whether and how a focal firm's corporate scandal influences its alliance partners. We aim to fill this gap by casting light on a firm scandal's spillover effect on its alliance partner's share value. To this effect, an event study is conducted on 305 US alliance partners related to a sample of 752 observations (i.e., corporate scandals) between 2007 and 2019. Our goal is to see a variation of the spillover effect strength depending on models of alliances, such as joint venture and vertical alliances, and types of corporate scandals, such as social, governance, and environmental. In particular, the variations should reveal a more positive and significant spillover effect for marketing alliances than for horizontal alliances. It could be a consequence of the different amount of shared resources and dependency. A partner willing to enter a new market, will strongly depend on the partner's marketing resources, contrary to a horizontal alliance that can be undone easily by switching partners. The arguments of this study provide not only insights into resource dependency and its related issues but also managerial implications. Being in an alliance has undeniably positive aspects; however, the risks related to the relationship urge for adequate strategies for managers to keep the firm profitable. They must meet the investors' expectations without being affected by their partners' behavior outside the alliance.

Keywords: *Alliances; Scandals; Spillover*

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