

## Chapter 43

# Partner Selecting, Partnership and Alliance Performance in Alliance Development Process

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**Abstract** There are many successful researches about alliance performance; however most of them are silent about alliance development processes. In this article we aim to examine the relationship between partner selecting, partnership and alliance performance in the alliance development process. We present a theoretical model for forecasting alliance performance through the determinations of selecting partner and partnership, using the alliance conditions as intermediate variable. We submit that alliance performance is strongly influenced by factors of partner selecting and partnership. The determinations of partner selecting involve strategy fit, capability fit and resource fit; and the factors of partnership are commitment, trust, communication, and resolutions of interpartner conflicts. We discuss the various linkages between the factors and alliance performance, and develop a number of propositions; we also use a case study to test them. Our research facilitates empirical testing of our framework, and indicates implications for future research and managerial practice.

**Keywords** Partner selecting · Partnership · Alliance performance · Alliance development process

### 43.1 Introduction

With the development of technology and economic globalization more and more firms are engaged in strategic alliances to learn partner's technology, gain resources, facilitate market entry, so as to sustain their competitive advantages [1, 2]. However,

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scholars argued that the high failure rate [3, 4] is along with strategic alliances' popularity. Anne and Geraed [5] suggested that the failure of strategic alliances mainly comes from the problem of choosing alliancing partner and relationship between partners, where the two factors account for 30 and 70 per cent respectively. In this respect, examining the issues of partner selecting and partnership is significantly important to the success of alliances.

Many studies have researched alliance performance since 1990s, and they divide antecedences of alliance performance into two categories: relational capital and exchange climate [6–8]. Most of researchers focus their attention on commitment, trust [9, 10], communication [11], conflict resolution [12], cooperation [13]. Others, like Das and Teng [14] examine the relationship between partner analysis and alliance performance, where the partner analysis involves market and resource characteristics and resource alignment. All of these studies, however, are hardly related to alliance development process. We will examine alliance performance with regarding it as a process, from the partner selecting in formation stage to partnership in operation stage and eventual performance evaluated at outcome stage, combined with alliance conditions closely related to alliance dynamics.

This paper falls into five sections. In the first section, we review the studies about alliance development process, three alliance conditions which are closely associated with dynamics of alliance, predictors of alliance performance, and the relationship between the alliance conditions and alliance performance. In section two and three, we propose the theoretical model which regards the partner selecting and partnership as the determinations of alliance performance, and a number of propositions. In the fourth section, we adopt Gas Sales where the data is collected by Pieter and Jeltje [2] through their interview with the managers of the alliance and partner firms as we study case. At last, we discuss the implications of the case research for the theoretical model, and suggest areas for future research.

## **43.2 Alliance Development, Alliance Conditions and Alliance Performance**

### ***43.2.1 Alliance Development Process***

Nowadays, many studies suggest that alliances are dynamic over time of its life cycle [15]. There are many researchers to examine the stage-models of alliance development process. Successful studies of alliance development process involve Ring and Van de Ven [16], and Das and Teng [17]. In this article, we use the three-stage model of alliance development process which is divided into formation, operation, and outcome stage on the base of those studies.

In the formation stage, alliancing firms commit themselves in analyzing and educating, selecting alliance strategy and partners, negotiating with prospective ones, planning and signing contracts. In the operation stage, alliance partners are engaged

in managing and operating the alliance. In this stage, they exchange information and communicate with each other frequently as to smooth the operation; and they may decide whether to commit to extra investment. In the outcome stage, they contribute themselves to evaluating and modifying the performance, thus then deciding whether to continue or exit the alliance.

### ***43.2.2 Alliance Performance***

Alliance performance has attracted considerable researchers to examine, due to evaluating the strategy in terms of its success. However, among the significant number of studies, the measures of alliance performance are hardly consistent. While some researchers prefer perceived satisfaction, others use objective measures such as profitability [14]. In this paper, we suggest satisfaction, strategic objectives and financial index as predictors of alliance performance. The trust among partners, commitment, and communication may reflect the satisfaction indirectly. Strategic objectives always mean indicate the purpose to form the alliance; sometimes, they are similar to financial objectives in some extent, and for example market share of the alliance. The financial index mainly involves sales growth and market share of the alliance, ROE and ROI.

### ***43.2.3 Alliance Conditions***

Alliance conditions are the characteristics of an alliance at any given moment in the life cycle of it. Das and Teng [17] have reviewed a mount of the literatures, and propose that alliance conditions involve the following three key factors-collective strengths, interpartner conflicts, and interdependencies. The collective strengths of an alliance are the combined resource from partner firms that facilitate to pursue specific strategic objectives and exploit opportunities. Interpartner conflicts refer to the degree of divergence in partners' preferences, interests, and practices in an alliance [19]. Interdependencies refer to a condition in which both parties benefit from dealing with each other [20].

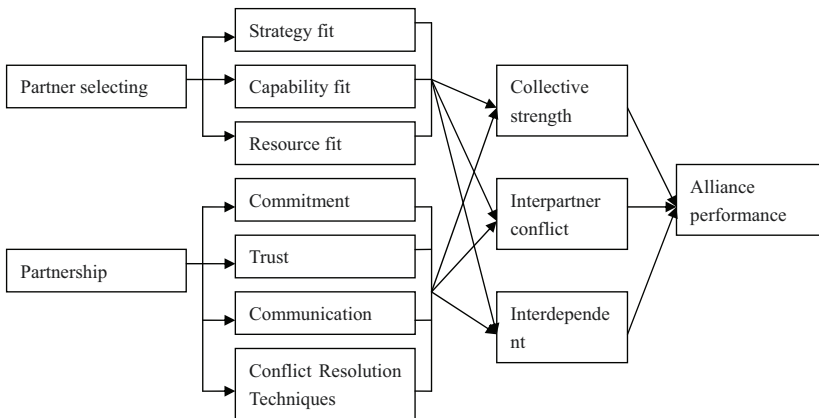
In the formation stage, collective strengths and interdependencies are relatively high, because partners form an alliance to attain some certain strategic objectives. And the level of interpartner conflicts is perceived low by partners in this stage. Alliancing partners would not form an alliance with the partner that they do not trust. In the operation stage, the size of alliance will grow significantly. The collective strength may continue to go up with a relatively slower pace, as a result of seeking the best ways of cooperation eventually. Also it may take a turndown in the end of this stage, owing to an exhaustion of resources and commitments [17]. The interpartner conflicts may quickly change in this stage. Having accomplished their objective of learning know-how, partner may not depend on their cooperators

any more; in this sense, interdependencies between partners may sharply go down. Thus then, the alliance will either to be reformed or terminated. The interdependencies may also keep consistent with before, or go up gradually, for the steady need of each other. As to interpartner conflicts, it may emerge at first of this stage, and then gradually go down during the stage. In the outcome stage, the conditions of alliance will show a stability pattern and alliance performance will be tangible enough to measure. The collective strengths may continue to climb, and interdependencies and interpartner conflicts may reach a relatively low level.

Learners have examined the relationship between alliance conditions and alliance performance in both theoretical and empirical perspective [12, 14]. They conclude that both collective strength [21] and interdependencies [18] are positive to alliance performance; interpartner conflict is negative to alliance performance [22].

### 43.3 Partner Selecting and Alliance Performance in Formation Stage

In this section and next section, we will submit a theoretical model (see Fig. 43.1), examine how partner selecting and partnership affect alliance performance, regarding alliance conditions as intermediate variable, see Table 43.1, and suggest some propositions.



**Fig. 43.1** The theoretical model of the paper

**Table 43.1** The effects of determinations and factors on alliance conditions

		Collective strength	Interpartner conflict	Interdependencies
Strategic fit		--	↘	↗
Capability fit		--	↘	--
Resource fit	Supplementary	↗	↘	↗
	Surplus	--	↘	↘
	Complementary	↗	--	↗
	Waste	--	↗	↘
Commitment		↗	↘	--
Communication	Quality	↗	↘	--
	Share information	↗	↘	--
	Participation	↗	↘	↗
Trust		↗	↘	--
Conflict	Constructive	↗	↘	--
Resolutions	Destructive	↘	↗	↘

Note: "--" means no effect or the effect is depend on situations; "↗" means increasing; and "↘" means decreasing.

### 43.3.1 The Determinations of Partner Selecting

Strategic fit, capability fit and resource fit are three key determinations of choosing a partner to form an alliance [1, 2]. Strategic fit refers the degree to which partners have compatible goals in the alliance [1]. Capability fit means that partner firms' scales match with each other, and their contribution to the alliance will be equally important. Resource fit means the combination of both partners' resource facilitates to create value effectively [1].

Usually, alliance partner firms have different objectives, which are divided into same or very similar objectives, compatible objectives and conflicting ones. Strategy fit refers to that the partner firms' objectives are same or very similar, or compatible. Same or similar objectives are associated with each other at large extent and are therefore most likely to be achieved without hammering the partner's and alliance's interest. Compatibles objectives are those ones that can be achieved simultaneously, though they are not similar.

Capability fit is significantly important for alliance. The partners' capabilities determine their bargaining power in the alliance [2]. The more important of one's contribution to the alliance, the stronger of its bargaining power it is. The partner with strong bargaining power may easily change to be dominant to control the alliance, and therefore the alliance would be instable which is harmful for alliance performance.

Based on the two dimensions of resource similarity and resource utilization, Das and Teng [23] propose four resource. Supplementary and complementarity resource alignment are the similar and dissimilar resources respectively contributed by partner firms are performing in the alliance. When partner firms contribute similar resources that are not utilized fully in an alliance, the alignment is called surplus. And

wasteful alignment is that different resources are not compatible or not used fully in the alliance. We illustrate the four interpartner resource alignments in Table 43.2.

**Table 43.2** A typology of interpartner resource alignments

Resource similarity	Resource utilization	
	Performing	Nonperforming
Similar	Supplementary	Surplus
Dissimilar	Complementary	Wasteful

Source: the table is quoted from Das and Teng [23] pp. 49.

### 43.3.2 Partner Selecting and Alliance Performance

Strategy fit means that partner firms know each other's real objectives in an alliance, and form the alliance with the feeling of that their objectives can be attained with the cooperation. Knowing the real purpose of each other, partner firms will be likely to perceive relatively low level of interpartner conflicts. As the result of their need of each other to achieve objectives, partner firms with strategy fit have a high level of interdependencies. So, we conclude:

**P1a:** Strategy fit is negatively related to interpartner conflicts, and positively related to interdependencies.

**P1b:** Strategy fit has no significant effects on collective strengths.

**P1c:** The strategy fit is positively related to alliance performance.

Capability fit ensures the balance of partners' bargaining power which can reduce the interpartner conflicts. Therefore, the capability fit partner firms may perceive low level of interpartner conflicts. The interdependency is high when the capabilities are about different fields, for the ability to develop new product and new market. On the other hand, the partner will perceive low level of interdependencies. Both strategy fit and capability fit have no significant effect on collective strengths. So we suggest:

**P2a:** Capability fit is negatively related to interpartner conflicts.

**P2b:** Capability fit has no significant influence on both collective strengths and interdependencies.

**P2c:** The capability fit is positively related to alliance performance.

As for resource fit, we adopt the standpoints of the study of Das and Teng [14]: supplementary and complementary resource alignments are positively related to alliance performance; wasteful alignment is negatively related to alliance performance.

## **43.4 Partnership and Alliance Performance in Operation Stage**

### ***43.4.1 The Factors of Partnership***

After forming the alliance, partner firms begin to operate alliance and implement signed agreements. And the partnership which is defined as purposive strategic relationships between independent firms who share compatible goals, strive for mutual benefit, and acknowledge a high level of mutual interdependent [18] as already established. And based on some successful studies, we summarize that the factors of partnership involves commitment [18], communication [24], trust [25], and conflict resolution techniques [26].

Commitment is the willingness of alliance partners to exert effort on behalf of the relationship [27]. It is a future orientation to the alliance and partnership of partners; and they will try their best to operate alliance whatever happened or whether they can weather unanticipated problems. High level of commitment will decrease the possibility of partners' opportunism, thus then smooth the relationship between partners.

Communication is needed in the life cycle of alliance from the negotiation in formation stage, to the exchanging information in operation and outcome stage. What's more, communication processes underlie most aspects of organizational functioning, so it is critical to the alliance and partnership [28]. Communication behavior mainly involves three aspects: communication quality, the extent of information sharing between partners, and participation in planning and goal setting [18]. Quality involves the accuracy, timeliness, adequacy, and credibility of information [29]. Information sharing refers to the extent of critical information exchanged between partners, and participation is to the extent to which partners engage jointly in planning and goal setting [18]. Effective communication help partners know each others' real purposes, decrease discrepancies, joint solve problems. Partners are more likely to satisfy with alliance and partnership with effective communication.

Trust is the belief on the others' capability, personality and so on. Trust is a multilevel phenomenon that exists at the personal, organizational, interorganizational, and even international levels [30]. Williamson [31] states that, other things being equal, exchange relationships featuring trust will be able to manage greater stress and will display greater adaptability. And trust leads to low risk perception without doing anything about the partner. Trust can help partners reduce their aspiration to opportunistic behaviours and gain a high level of relational capital.

Interpartner conflicts exist in both inter- and intra-organization level [32, 33]. In this paper, interpartner conflicts are the degree of divergence in partners' preference, interests. Conflict resolution techniques mainly include joint problem solving, persuasion, domination, harsh words. The two former of them are called productive resolution technique, and the others are destructive ones. Higher frequency of using constructive resolution techniques, such as joint problem solving and persuasion, partners may gain successful partnership.

### ***43.4.2 Partnership and Alliance Performance***

Partners always contribute themselves to the alliance with their commitment to alliance and partnership, though the alliance is in the corner. Thus, the commitment facilitates them to take advantage of opportunities to create value, therefore increase alliance collective strengths. Similarly, the commitment to partnership makes partners perceive relative low level of interpartner conflicts. Though commitment smoothes the partnership, it may have no effect on interdependencies, because the commitment can not change their need of each other, which is mainly determined by the resources.

**P5a:** Commitment is positively related to collective strengths and negatively related to interpartner conflicts; and it has no significant effect on interdependencies.

**P5b:** Commitment is positively related to alliance performance.

Communication quality, the extent of information sharing between partners, and participation of communication behaviours are all good for alliance collective strengths. Partners know each other's real objectives and even critical information, such as technology with high quality communication and large extent of information sharing. This enhances alliance collective strengths with no doubt, because partners can commit themselves to create value without wasting energy on suspecting partner or misappropriating partner's know-how. However, this may also lessen interdependencies for having attained needed knowledge, for example in learning alliance. What's more, all of three reduce interpartner conflicts for effective communication which helps reduce the discrepancies between partners. The participation in planning and goal setting will enhance interdependencies, because their plans and goal are most joint ones. Sometimes quality and sharing information increase interdependencies, as a result of frequent interaction.

**P6a:** Communication quality, extent of sharing information and participation of communication behaviours are all positively related to collective strengths and negatively to interpartner conflicts.

**P6b:** Participation is positively related to interdependencies; both communication quality and extent of sharing information have no effect on interdependencies.

**P6c:** All three aspects of communication are positively related to alliance performance.

Trust can increase alliance collective strengths. According with the study of Zaheer et al [34], we suggest that trust can reduce negotiation costs, which add to collective strengths. What's more, trust leads to low level of perceived relational risk [30], which is closely associated with interpartner conflicts. We propose that trust reduces interpartner conflicts in alliance. Similar with commitment with commitment, trust has on significant on partners' need of each other, thus then has little effect on interdependencies.

**P7a:** Trust is positively related to collective strengths and negatively related to interpartner conflicts; and it has no significant effect on interdependencies.

**P7b:** Trust is positively related to alliance performance.

Constructive conflict resolutions such as joint problem solving and persuasion can always smooth interpartner conflicts. On the other hand, destructive conflict



resolutions like dominant and harsh words usually deteriorate interpartner conflicts. In the process of solving conflicts, constructive ones gain more opportunities of creating value, thus then enhance collective strengths. The constructive ones may enhance interdependencies for new fields that need partners' cooperative after having solved conflicts; or the interdependencies may be consistent, or decrease gradually with accomplishment of initial objectives. As for destructive conflict resolutions, because the conflicts are unsolved, both collective strengths and interdependencies may decrease.

**P8a:** Constructive conflict resolutions are positively related to collective strengths and negatively related to interpartner conflicts. They have no significant effect on interdependencies.

**P8b:** Destructive conflict resolutions are positively related to collective strengths and interdependencies negatively related to interpartner conflicts.

**P8c:** Constructive conflict resolutions are positively related to alliance performance; destructive ones are negatively related to alliance performance.

## 43.5 Case Study

In this section, we have adopted a case study with a view to finding out whether we can understand alliance performance in practice by means of our theoretical model. The case comes from the study of Pieter and Jeltje [2].

### 43.5.1 *The Formation Stage of Gas Sales*

Gas Sales was a joint venture dealing with the marketing and sale of gas on the British market. The parents were Electricity Corp., an English electricity supplier, and American Corp., an American utility company. It was set up in the early 1990s, when the British gas market was deregulated and business companies were permitted to acquire licenses to sell gas. Electricity Corp. considered the sale of gas as a lucrative new business, as its experience on the electricity market with respect to marketing, billing customers, and collecting debts on the electricity was easily applicable to the gas market. Moreover, it had access to a large group of potential customers. However, it did not have gas and experience with gas activities. It was American Corp. or more specifically its British subsidiary  $\alpha$  Gas, which had expertise with respect to gas activities and managed to gain access to the gas of the gas producers. However, American Corp. did not have customers. Thus, both parties saw the opportunity of combining their assets and they decided to bring them together into a new joint venture. The two alliancing firms' capabilities are fit, and their resource fit is complementary fit, which is benefit of alliance performance as we suggested.

### ***43.5.2 The Operation Stage of Gas Sales***

There were various types of meetings. What's more, the trust went beyond contractual and competence trust. There was a good fit between the managers of  $\alpha$  Gas and the managers appointed by Electricity Corp. They got along very well. Goodwill trust was often demonstrated. Examples of that from  $\alpha$  Gas were the waiving of penalties in the case of incorrect gas volume forecasts and its assistance during the "beach price collapse" in 1995. Within 6 weeks, the gas price fell drastically thereby causing problems for all gas suppliers, especially those who had gone "upstream" and were under long-term purchasing obligations. On the advice of  $\alpha$  Gas, Gas Sales had avoided upstream activities. Therefore, Gas Sales' gas purchasing commitments were not excessive. However, it did have some purchasing obligations. Contractually,  $\alpha$  Gas would have been in the position to have Gas Sales adhere to its gas purchases. However, instead of keeping the joint venture to its contractual obligations and exercising its power,  $\alpha$  Gas was willing to help the joint venture and adopt a long-term view. So,  $\alpha$  Gas helped by postponing part of Gas Sales' purchase obligations to the future.

The communication between two partners is effective, owing to frequent and detailed meetings. And both partners trust each other and have high level of commitment to the alliance and partnership. When the alliance or one partner suffers problems, other partner will try their best to solve problems, and both of them prefer to joint problem solving resolution.

### ***43.5.3 The Performance of Alliance Gas Sale***

The Gas Sales alliance has attained its strategic objective: it entered the British gas market successfully. And both partners are satisfied with alliance and partnership. Above all, the Gas Sales alliance performance is relatively high.

## **43.6 Conclusions and Future Work**

We conclude that strategy fit, capability fit and resource fit (supplementary and complementary) in formation stage of alliance are positive related to alliance performance. When selecting a partner firm in practice, managers should choose a partner with high level of the fit. And in operation stage, managers of partners should trust each other and commit themselves to the alliance. When communicate with each other, managers are better to exchange real and critical information, and take part in planning and goals setting. What's more, partners should be better to choose constructive conflict resolutions, such as joint problem solving and persuasion, to solve the problems.

In this paper, we propose a series of propositions and a theoretical framework of partner selecting, partnership and alliance performance. However, our empirical effort is relatively less, in the future researches we will collect more data about alliances to test our theoretical framework through analyzing these data. What's more, we can research more concretely, such as which predictors that strategic fit affect most significantly.

**Acknowledgements** We greatly appreciate the support provided by the Special Teacher Fund of Ministry of Education for Doctor Station of Colleges and Universities (No. 200800561065) and the Shanxi Soft Science Foundation (No. 2012041054-02) and Shanxi Soft Science Foundation (No. 2009041036-02).

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