The Implications for “Strategic Fit” between Partnership Characteristics and Relationship Management as a Source of Alliance Success

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Abstract

Examination of alliance formation and management in the context of ‘fit’ or alignment with individual partner’s organisational strategy, administrative systems, and managerial characteristics still remains unexplored. This conceptual paper argues that the success of alliances depends on the ability of the partners to strategically match/align resources, capabilities, compatibilities and the management of alliance relationship with individual partner’s organisational strategies and processes. A model is proposed and a number of testable hypotheses and propositions have been developed.

Key words: Alliances; Alliance success; Strategic fit

Introduction

An alliance is a voluntary collaborative relationship between two or more independent firms seeking to achieve mutually compatible interests and joint objectives that cannot be easily achieved by an individual firm (Dyer & Singh, 2001; Varadarajan & Cunningham 1995). An alliance can take many forms, including a long-term supply or marketing agreement, joint R & D, or joint manufacturing. The recognition of alliance benefits by the corporate world is continually growing and it has led to a dramatic increase of alliances in recent years (Dyer, 2001; Gulati, 1998; Hutt et al., 2000). Alliances are no longer restricted to only certain industries or confined to sharing risk and penetrating protected overseas markets. Today, they play a key role in virtually every industry – from manufacturing to technologies and services to utilities. The growing recognition of alliance benefits by all types of industries has led to a dramatic growth rate in the number of alliances during the past two decades (Kalmbach and Roussel, 1999). Indeed, effective alliances can be an important vehicle for value creation in both domestic and global markets (Dyer, Kale and Singh, 2001). However, while alliances can create value, most studies find that the success rate remains low, and many alliances are terminated without achieving the desired result (Dacin et al., 1997; Madhok and Tallman, 1998; Spekman et. al., 1998). Thus, alliance ubiquitousness coupled with high failure rate provides the motivation to develop an integrative model based on the concept of ‘fit’. This model aims to examine the types of resources, capabilities, complementarities, relationship management processes and their pattern of alignment or ‘fit’ that would be required to maximise the probability of alliance success. It is argued that the ‘strategic fit’ or co-alignment between the key success factors of alliances and alliance capability of the partnering firm would facilitate positive alliance outcome.

Previous research attributes alliance success and failure to a number of factors that include mismatch in complementary resources (Harrigan, 1985), compatible cultures, decision making processes, and systems (Kale, Singh, and Perlmutter, 2000), absence of trust (Arino and De la Torre, 1998), inappropriate choice of governance structure (Hennart, 1988), lack of experience of the partners in forming and managing alliances (Kale, Dyer, and Singh, 2002),
inability to manage conflict (Doz and Hamel 1998), lack of adaptable interorganisational exchange processes (Zajac and Olsen, 1993), impact of major environmental shocks (Mitchell and Singh, 1996) etc. Examination of alliance formation and management in the context of ‘fit’ or alignment with individual partner’s organisational structure, administrative systems, and managerial characteristics still remains unexplored. This conceptual paper attempts to address these issues by proposing a model of alliance success based on the formation and implementation of alliance strategy in the context of ‘strategic fit’ or alignment with individual partner’s alliance capability. To date, research has not combined the key alliance characteristics with individual partner’s strategic, relational and operational capability. Scholars suggest that key success factors for both domestic and international alliances are partnership characteristics (Hitt et al., 2000; Madhok, 1995; Saxton, 1997), relationship management(Cullen, Johnson, & Sakano, 2000; Hitt et al., 2000; Lorange & Roos, 1993; Saxton, 1997) and the development of good relational capital between partners (Koza & Lewin, 2000; Madhok & Tallman, 1998; Mohr & Spekman, 1994). Each component of these factors will now be discussed in brief.

**Partnership Characteristics**

Selection of an appropriate partner is a very critical decision in an alliance engagement (Hitt et al., 2000). Alliances are most effective when partners are chosen based on the complementarity and compatibility of resources, capabilities and goals (Das & Teng., 1997; Hitt et al., 2000). Das & Teng (1997) suggest that there must be a certain degree of ‘fit’ between the partners, which in turn increases the probability of achieving positive alliance outcomes. The literature recognises that resource complementarity, partnership compatibility, and goal compatibility jointly capture the key aspects of partnership characteristics that are integral for alliance success.

**Resource Complementarity**

One of the most commonly cited motives for forming alliances by firms is to gain access to complementary resources (Chung, Singh, & Lee, 2000; Varadarajan & Cunningham, 1995). Complementary resources allow firms to combine dissimilar resources with their own resource sets creating a resource bundle that provides unique and difficult to imitate value (Harrison et al., 2001). Johnson et al. (1996) note that resource complementarity entails both uniqueness and symmetry. Firms can generate relational rents by leveraging the complementary resource endowments of an alliance partner (Dyer and Sigh 1998). Additionally, actions to gain access to complementary resources allow firms to learn new and valuable capabilities (Hitt et al., 2000). The hypothesis then:

\[ H1(a-b): \text{Resource complementarity is positively associated with (a) alliance success and (b) organisational performance.} \]

**Partnership Compatibility**

Partnership compatibility reflects complementarity in senior management philosophies and practices, alliance experience, organizational culture, and even firm size. Compatibility depends on both firms’ agreeing to pursue similar strategic objectives that will produce lasting synergies and complementary benefits over time (Lei and Pitts, 1997). Compatibility between partners fosters and facilitates the reconciliation of differences between partners (De la Sierra, 1995). Kanter (1997) concludes that the compatibility of partners to adapt to each
other’s cultures, management practices, and procedures are likely to lessen the probability of alliance failure. Incompatibility among partners may lead to a counterproductive working relationship characterized by strife and suspicion. Thus, the following two hypotheses:

- H2(a): Higher level of partnership compatibility is positively related to alliance performance.
- H2(b): Higher level of partnership compatibility is positively related to organisational performance.

Goal Congruence

Goal congruence is a crucial element which affects the extent to which orientations, abilities and activities of partners can be integrated successfully (Spekman, Isabella, & MacAvoy, 1998). In an alliance context, partners may have private and common aims. But, any private aim must not be incompatible of the goals of the alliance itself, or should they indeed be incompatible, they must be sufficiently explicit and clear, and should never become a ‘hidden agenda’ that imperils the cooperative venture. Alliance success depends on the establishment and execution of clearly defined goals, and to achieve these goals, well-defined procedures must be clearly developed by the partnering firms. Following this,

- H3: The greater the degree of goal congruence between the partners, the greater the degree of alliance performance and overall organisational performance.

Alliance Management

Extant literature identifies commitment, cooperation, communication, trust, and conflict management as the key determinants for the development of an effective long term inter-firm relationship (Cobianchi, 1994; Cravens, Shipp, & Cravens, 1993; Spekman et al., 1998).

Trust

Scholars depict trust as an important lubricant in organisational relationships (Dwyer, Schurr, and Oh, 1987; Ganesan, 1994; Morgan and Hunt, 1994). Trust can increase cooperation, improve relationship flexibility, augment quality of relationship, and lower costs of coordinating activities (Smith, Carroll, & ashford, 1995). In the absence of trust, partner expectations are likely to go unfulfilled, exacerbating suspicion and disappointment leading to a vicious cycle. The existence of trust in a relationship reduces the perception of risk associated with opportunistic behaviour (Moore, 1998). Previous studies on alliances have identified trust as one of the most important critical factor affecting alliance performance (e.g. Bleeke & Ernst, 1993; Harrigan, 1986; Saxton, 1997).

Cooperation

Cooperation offers significant advantages for alliance partners lacking in particular competencies or resources (Child and Faulkner, 1998; Dyer and Singh, 1998). Lado, Boyd and Hanlon (1997) suggest that firms exhibiting cooperative behaviour seek mutual benefits by pooling complementary resources, skills and capabilities. Cooperating firms seek to co-produce and share value by fostering and maintaining reciprocal interdependencies.
Commitment

Commitment is a critical element of relationship capital (Madhok, 1995). Committed partners are likely to be more cooperative, communicative and flexible and demonstrate persistent willingness to make future relation- specific investments (Anderson & Weitz, 1992). A high level of commitment provides the context in which both parties can achieve individual and joint goals without raising the spectre of opportunistic behaviour (Cummings, 1984). A number of recent research have found that the alliance partners can maximise their returns by establishing relational norms through commitment that include both flexibility and solidarity (e.g. Gundlach & Murphy, 1993; Mavondo & Rodrigo, 2001; Mohr & Spekman, 1994).

Communication

In order to achieve the benefits of collaboration, effective communications between partners are essential (Cummings, 1984; Ohmae, 1989). It allows the partners to understand the alliance goals, roles and responsibilities of all the actors. It also helps with the sharing and dissemination of individual experiences (Inkpen, 1996). Successful communication is also crucial in resolving disagreements; speeding decision-making and achieving shared understanding of alliance goals.

Conflict Management

Inherent interdependencies and diverse goals of the partnering firms can create conflict in an alliance (Kale, Singh, and Perlmutter, 2000). Specifically, the sharing of resources and skills, the distribution of benefits, the use and misuse of power are likely sources of conflict in an alliance. Since, an alliance formation involves access to each other’s resources and capabilities, conflict develops when one partner protects its proprietary resources against free-sharing and potential pilferage (Harrigan, 1985; Killing, 1983). In a recent empirical study on learning and protection of proprietary assets in strategic alliances, Kale, Singh, and Perlmutter (2000) found that when firms build relational capital in conjunction with an integrative approach to managing conflict, they are able to achieve alliance objectives. But, the study did not investigate the relationship between conflict management and its implication on alliance success.

On the basis of foregoing discussion, it is hypothesized that:

H4(a-e): Alliance success is a function of higher levels of (a) trust, (b) cooperation, (c) commitment, (d) communication, and (e) conflict resolution capability.

H5 (a-e): Alliance performance is a function of higher levels of (a) trust, (b) cooperation, (c) commitment, (d) communication, and (e) conflict resolution capability.

H6: Simultaneous co-operation and competition will enhance alliance success.

H7 (a-e): Resource complementarity is positively associated with (a) trust, (b) cooperation, (c) commitment, (d) Communication, and (e) conflict resolution capability.

H8 (a-e): Partnership compatibility is positively associated with higher levels of (a) trust, (b) cooperation, (c) commitment, (d) Communication, and (e) conflict resolution capability.

H9 (a-e): Goal congruence is positively associated with higher levels of (a) trust, (b) cooperation, (c) commitment, (d) Communication, and (e) conflict resolution capability.
Implications for “Strategic Fit” in the Success of Alliances

Alliance success depends on matching together a complete and complementary package of ingredients: strategy, structure, processes, and a management ideology that holds all these together and gives them meaning. Further, this package of characteristics must be widely understood and disseminated so that it becomes part of the daily behaviour of everyone involved with alliance activities. We call this process “strategic fit”. In the context of alliances, this process seeks to examine what profile of strategy variables to the specific requirements of alliance environment (i.e. the key success factors) is necessary to achieve the requisite match for a successful alliance (Venkatraman, 1990). The proposed model adopts the conceptualisation of fit in which the role of alliance strategy and its operationalisation is intrinsic and reflects internal consistency among research constructs, consistent with the notion of alignment. Following on (Drazin & Ven, 1985), Joyce et al, (1982) and (Venkatraman & Prescott, 1990), this model proposes to examine performance impact of strategic fit using multiple perspectives.

The key argument in this paper is that some form of strategic fit or alignment is necessary between partner characteristics and relationship management for the success of an alliance. The combination of partnership characteristics and the relationship management alone do not provide the alliance with successes in itself, rather the success stems from the partner’s ability to integrate or align them into value generating processes. Strategic fit or match should be formed in three contexts – organisational, relational and operational. It is argued that only when organisational, relational and operational fit are matched and maintained, the firms in an alliance are able to achieve sustainable and effective success from a partnership.

Therefore, the propositions are:
Proposition 1: Strategic fit influences alliance performance.
Proposition 2: Strategic fit influences organisational performance.
Proposition 3: The association between partnership characteristics, relationship management and alliance success is mediated by strategic fit of the alliance partners.

Conceptual Model with Hypothesized Relationship

The conceptual framework for this study is illustrated in the following figure. The framework presents the interaction among partnership characteristics, management of relationship and the mediating role of strategic fit in determining alliance success.
Conclusion

In this paper, we have presented a holistic model to assess alliance performance based on the concept of “strategic fit” or co-alignment. It has been argued that alliance environment and individual partner’s alliance capability interact in a dynamic co-alignment process. The resulting strategic fit between them would facilitate alliance success. The challenge is therefore to develop reliable and valid measures for “strategic fit” construct. The model can then be empirically tested using the profile deviation perspective of fit as suggested by Venkatraman and Prescott (1990).
References


