The Making of an Ideal Alliance Partner: the Perceptions of Singapore Managers

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Abstract - In this study, I identify a comprehensive set of factors used for selecting strategic alliance partners. I also attempt to determine the relative importance according to each of these factors in the partner selection process. I employ a questionnaire survey for gathering perceptual data from managers regarding desired attributes in joint venture partners. Based on the responded of 179 companies in Singapore, I find that Commitment and Reputation are the most important criteria for partner selection. I do find some dissatisfaction with alliances. However, the level of dissatisfaction appears to be much lower than that suggested by previous studies. I also find that firms do not enter alliances with an objective to manipulate their partners.

Keywords - Comprehensive, Factors, Strategic Alliance, Commitment, Reputation

I. INTRODUCTION

In an increasingly complex and interlinked global economy, strategic alliances help firms to achieve a variety of strategic objectives including rapidly expanding geographic market participation, exploiting economies of scale, reducing risks and learning new skills and technologies [1-3]. Previous research has shown that the results from strategic alliances can vary widely. While some strategic alliances have significantly enhanced the competitive position of at least one partner firm [4-5] several others have been dissolved [6-8] since partnering firms often commit substantial resources such as cash, personnel, and management time to strategic alliances, alliance performance could have a significant impact on the parent firms themselves.

Partner selection is one of the several factors that might influence strategic alliance performance. By choosing the right partner, firm may be able to avoid many later problems associated with alliances, including opportunistic behavior by the partner [9]. Since partner selection influences the mix of skills and resources available to the venture, it plays a crucial role in the alliance’s ability to achieve its strategic objectives before any major investment is committed [10-11].

Despite its importance, partner selection has not attracted the attention of research scholars. Though the literature on alliances is voluminous [12], there have been few studies on partner selection [13-15]. This study attempts to address this gap in the literature. In this study, I have three objectives. First, I identify a comprehensive set of criteria that might be used for partner selection. Secondly, I will attempt to determine the relative importance of different criteria in the partner selection process. Thirdly, based on our results, I will propose an integrative framework might help managers in the complex process of partner selection [16].

II. FRAMEWORK FOR PARTNER SELECTION

Previous research on partner selection [23] has focused on the grouping of characteristics [e.g., “task-related”], rather than on specific partner characteristics. Geringer argued that
different companies, under varying circumstance, will rely on different variables to make the partner selection decision and hence it is not prescriptive to base research on specific partner selection criteria.

However, I believe that dealing with partner characteristics by such broad classifications is simplistic, and there should be a common set of criteria which should guide the selection process and hence provide a framework for managerial decision making. In our proposed model, eight factors influence the partner selection decision. They include: trust, commitment, reputation, past experience, partner size, partner dependence on self, power over the partner, and strategic fit. The strategic fit factor itself consists of organizational need and organizational compatibility. Fig. 1, is a schematic representation of the proposed model. Below, I will discuss the relevance of each individual factors included in the model.

A. Trust
Trust is defined as the willingness to rely on an exchange partner in whom one has confidence [24]. Morgan & Hunt [25] described trust in a relationship as confidence in the other party’s reliability and integrity. Gulati [26] defined trust as a type of expectation that alleviates the fear that one’s exchange partner will act opportunistically. All three definitions highlight the importance of confidence in a relationship. Trust is important as it is the cornerstone of any strategic partnership [27-28] but unfortunately, also the biggest stumbling block in any strategic alliance [29]. Trust has been found to reduce conflict as well as the potential for conflict [30]. Gulati [31] also mentioned that trust would overcome the fear of opportunistic behavior, greatly reducing transaction costs associated with an exchange. For instance, there could be more flexibility in governance mechanisms and contracting when one party trusts the other.

B. Commitment
Commitment is defined as the enduring desire to maintain a valued relationship and is strongly correlated to trust [32]. It is said to distinguish a social exchange from an economic one [33] and is deemed to be very important because all relationship are built on the foundation of mutual commitment [34].
In the context of strategic alliances, a partner’s commitment is manifested by the extent to which a partner is willing and able to commit resources to the strategic alliance [35]. Hence, a highly committed partner reduces behavioral uncertainty and perceived risk in the relationship, increasing overall satisfaction and encouraging continued cooperation [36]. Commitment will reduce the probability that the allying firms will be tempted by an alternative providing short-term benefits, thus improving the longevity of the relationship [37-39].

C. Past Experience
Past experience with the prospective firm can play a major role in the decision to take on a specific partner. Managers would then be more familiar with prospective firm’s personnel and operating procedures, as well as the track record of the firm. These managers are likely to reach agreements more efficiently. Close working relationships among managers of allying firms would also exert pressure to confirm to expectations [40].

Previous studies have shown that firms having prior experience with each other are more likely to trust the other party than firms without [41-42]. The trust generation also increases the commitment of the parties involved in the relationship [43], leading to further cooperation which develops trust further [44]. This cycle enriches the relationship, ensuring continuity. Past relationship also increases the predictability of the partner’s behavior, hence lowering the risk of doing business with the firm [45]. In fact, Tomlinson [46] discovered that past experience was the leading reason for selecting a partner in a strategic alliance. Essentially, past experience reduces the risks, both perceived and real, for the allying firm.

D. Reputation
Ellram [47] has found that firm looking for potential supply partners often considered the other part’s past safety records as well as business reference provided be the supplier, both issues relating to the supplier’s reputation for performance in the industry. Ganesan [48] found that retailers who perceive their vendor to have a reputation for fairness are more likely to trust the vendor, whereas vendors who have a reputation for terminating relationships and seeking high profits provide a signal to the retailer that the vendor is solely interested in its own interests rather than being interested in the mutual welfare of the dyad. He also found that reputation is positively correlated to a vendor’s credibility. We believe that a partner with a good reputation reduces the risks inherent within a relationship. Such a partner is less likely to conduct itself in a manner that will tarnish its own reputation.

E. Size
Williams & Likely [49] argued that strategic alliance have the best chance of long-term success when both partners are comparable in sophistication and size. Cook [50] held that “there is a tendency for actors to prefer exchanges with equally powerful actors because there are fewer costs associated with the transaction”. Such costs often arise from difficulties in reaching, and the potential for exploitation. According to Cook the potential for exploitation is greatest when the imbalance in size is great. For example, in technology exchange relationship, “partnerships are almost always competitive in nature” [covert or otherwise] and “the larger firm often tries to take control of the smaller firm’s technology and the smaller firm almost always tries to retain control over its technology, no matter what” [51].

Hence, in partnerships involving different-sized partners, the propensity towards opportunistic behavior rises. Other reasons for the negative influence of size imbalance include culture clash and unequal provision of capital to the venture [52]. However, contrary to such arguments, it was found that since 1973, more successful strategic alliances are being formed by partner of different asset sizes than before [53]. Moreover, restricting partner selection to similar-size firms might limit the set of potential partners by excluding many potential partners. Finally, small firms often need the help of large firms to expand their operations and hence, differing partner size might be a
desired attribute for them. Although the need for different-size partners does exist, we believe that a firm would prefer to choose similar-size partners. This would ensure a balanced base of power from which transactions could be carried out.

**F. Dependence**

Dependence refers to a firm’s need to maintain an exchange relationship to achieve desired goal [54]. It is an important factor in partner selection because it is one of the determinants of power [55]. It is known that highly dependent organizations will be subject to the influence of those organizations which control critical resources such as capital and technical expertise [56-58]. Hence the more dependent a firm is the less influence and control it will have over the partner and is less likely to get its own way. Since it can lead to higher bargaining power, dependence may be a desirable attribute in a prospective partner.

**G. Power**

Closely related to dependence is the concept of power. Power can be derived from one or both of the following sources: the ability to punish the other party as well as to reward the other party [e.g., referral, expert opinion etc.]. Non-coercive power, that is derived from the ability to reward a party, often tends to reduce conflict. It has been noted that in presence of power imbalance in an exchange relationship, the best outcome that could emerge from the exchange would be failure to take full advantage of the strategic alliance opportunity, whereas the worst is conflict, reduced participation, and even outright sabotage. In case there is a power imbalance in the relationship, a firm would like to have the upper hand versus its partners.

**III. METHODOLOGY**

A survey was used to gather data. Since the decisions regarding strategic alliance are often taken at the top management level, the questionnaire was directed specifically to Chief Executive Officers, Managing Directors, General Managers and Business Development Managers.

I targets three groups of companies in Singapore for survey response. First group included firms currently seeking strategic alliance partners. The names were drawn from a recent Economic Development Board publication which listed 229 Singapore companies looking for strategic alliance partners. The second group included 317 foreign companies operating in Singapore. These lists were obtained from various published sources. The third group included the Top 1000 Industrial companies in Singapore and the Top 1000 Service Companies in Singapore.

The survey instrument was designed to be brief. It was only three pages long accompanied by a cover letter explaining the purpose and scope of the study. The survey was positioned as a lucky draw. Twenty winners in the lucky draw were given limited edition [Bus and Rail] farecards [collector’s items]. The respondents were given two options to reply: via fax or mail. The questionnaire comprised three sections. The first section sought information regarding the respondents including their experience with strategic alliances, intention to form strategic alliances in the near term, preference for local or foreign partners, degree of satisfaction with existing strategic alliances and the size of the firm. In addition, a series of questions regarding the company’s management style and corporate culture were also asked. The second section asked senior managers to rate the importance of various criteria in selecting a strategic alliance partner.

Altogether, I had to measure nine constructs. For each construct, past literature was consulted for the wording of the question as well as the measurement scales. Some constructs were multi-item and hence multiple questions were used to measure them. For questions not dealt with by previous research, questions closely approximating the dimension to be measured were asked. Table I, lists the constructs and the measures used.

The first draft of the questionnaire was pre-tested on a group of twelve senior and middle-level managers. I modified the questionnaire
based on their feedback and then administered it to the target sample. I used two different methods for distribution. First, the questionnaire was mailed to some of the companies in the target group. However, for bulk of the sample, we distributed the questionnaire through Broadcast Faxing. Under this method, I prepare a soft copy of the questionnaire in Winword format and faxed it to a list of numbers using Winfax Pro [version7.0]. This method saved time [stuffing the envelopes] and was also more cost efficient than mailing the questionnaire. The response rate for the faxed questionnaires was [9.6 percent], only lower than the response for direct mail [10.3 percent].

For data analysis, I adopted three approaches. First, I performed paired means tests to see if particular criterion was deemed to be more important than another criteria [e.g., Partner has compatible goals versus Partner has the skills / resources I need]. For these tests, I treated the whole samples as one group. Secondly, I performed independent samples t test for comparing the responses of different sub samples [e.g. those who were seeking foreign alliance partners versus others etc.]. Thirdly, I performed confirmatory factor analysis on the scaled variables. For each multi-item factor, I calculated the score by assigning unit weight to each of the variables loading on the particular factor.

IV. RESULT AND DISCUSSION

In all, I received 241 responses giving us a response rate of 9.7 percent. Out of these, 12 were unusable because these were either incomplete, or illegibly written. I discarded 50 more because these were filled out by non-managerial personnel [e.g., secretaries], leaving a final sample of 179 questionnaires. Managing Directors formed the largest group of respondents [29.1 percent] followed by Area Managers [21.2 percent] and Directors [1.6 percent]. Our sample also included 13 responses from CEOs and Presidents. Of all the managers surveyed, 66.1 percent had direct strategic alliance experience and 80.2 percent were intending to form strategic alliances in the near future and were looking for partners. The companies belonged to several different sectors of the economy including Banking, Hotels, Consultancy, Pharmaceuticals, and Shipping. The largest group of respondents, 19 percent of the total responses, came from the Electronics sector. A majority [61 percent] of the companies had sales in excess of S$10 million (approximately US$6 million) and 12.9 percent has sales below S$1 million.

<table>
<thead>
<tr>
<th>TABLE I</th>
<th>CONSTRUCTS, MEASURES AND DESCRIPTIVE STATISTICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construct</td>
<td>Measures</td>
</tr>
<tr>
<td>Trust</td>
<td>• Entering informal agreements</td>
</tr>
<tr>
<td></td>
<td>• Constantly monitoring the partner</td>
</tr>
<tr>
<td></td>
<td>• Open and Honest Communication</td>
</tr>
<tr>
<td>Commitment</td>
<td>Who will not terminate the partnership prematurely</td>
</tr>
<tr>
<td></td>
<td>• Who values the partnership</td>
</tr>
<tr>
<td></td>
<td>• Who is interested in continuing the relationship</td>
</tr>
<tr>
<td></td>
<td>• Who would not replace us with another firm</td>
</tr>
<tr>
<td>Past relations</td>
<td>Done business with before</td>
</tr>
<tr>
<td>Reputation</td>
<td>• Who has a positive reputation in the industry</td>
</tr>
<tr>
<td></td>
<td>• Who is known to be fair in its dealings</td>
</tr>
<tr>
<td>Size</td>
<td>• Annual turnover</td>
</tr>
<tr>
<td></td>
<td>• No. of employees</td>
</tr>
<tr>
<td></td>
<td>• Asset size</td>
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<td>• Asset size</td>
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<td>• Asset size</td>
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<td></td>
<td>• Asset size</td>
</tr>
<tr>
<td>Dependence</td>
<td>• Depend on us a great deal</td>
</tr>
</tbody>
</table>
I performed a simple descriptive analysis of the scaled variables. The three criteria that were perceived to be the most important by the respondent firms, in order of importance, were the following:

- A partner who values the partnership [Highest].
- A partner who is known to be fair in its dealings [Second highest].
- A partner who would be interested in continuing the relationship [third highest].

The three least important attributes were:

- Who depends on us a great deal [Lowest].
- Whose decisions we can control / change to suit us [Second Lowest].
- Whom I have done business with before [Third lowest].

Several interesting conclusions can be drawn from the above. The attributes that appear to be the most important [First and Third rank] are related to the commitment of the partner to the particular strategic alliance. Firms also appear to attach great importance to partner having a reputation for fairness in its dealings, possibly for the fear of being deceived to the partnership being discontinued. On the other hand, firms do not appear to be entering strategic alliance with an objective to manipulate the partner since “Who depends on us a great deal for business” and “Whose decisions we can control / change to suit us” were rated as the two least important attributes. Firms did not attach great importance to having a partner with whom they had done business before, possibly because imposing such restrictions might substantially reduce the size and the diversity of the pool of partners that one can choose from. It was also interesting that firms did not attach high importance to finding a partner that had a similar management style. Similarly the criterion “Whose CEO has similar operating philosophy as our CEO” was also not rated very highly. The results are consistent with Osborn and Hagedoorn’s conclusion that the once central notion of strategic compatibility seems to be fading in popularity. The respondents did, however, indicate seems that having a partner with compatible goals was very important.

V. RESULTS OF FACTOR ANALYSIS

I performed confirmatory factor analysis on data obtained from the questionnaires. I performed a Varimax rotation on the initial factor solution and adopted the standard cut-off [Eigen value >1] for deciding on the number of factors. The final solution had seven factors. These seven factors accounted for 69.4 percent of the variance. The different factors and the loadings of individual items on these factors are shown in Table II.
## TABLE II
RESULTS OF FACTOR ANALYSIS

<table>
<thead>
<tr>
<th>Factor name</th>
<th>Constructs</th>
<th>Loading</th>
<th>Reliability Cronbach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment</td>
<td>Not replace us with another firm</td>
<td>55</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>Not terminate the partnership midway</td>
<td>79</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Values the partnership</td>
<td>81</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Would be interested in continuing the partnership</td>
<td>83</td>
<td></td>
</tr>
<tr>
<td>Cultural compatibility</td>
<td>Goals compatibles with ours</td>
<td>60</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>Similar management style as ours</td>
<td>81</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CEO has similar operating philosophy as our CEO</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Corporate culture compatible with ours</td>
<td>73</td>
<td></td>
</tr>
<tr>
<td>Resource availability</td>
<td>Has the skills/ resources we need</td>
<td>81</td>
<td>N/A</td>
</tr>
<tr>
<td>Trust</td>
<td>Can enter into informal agreements</td>
<td>79</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td>I do not have to monitor all the time</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I can talk openly and honestly</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td>Positive reputation in the industry</td>
<td>90</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>Known to be fair in dealings</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>Dependence and power</td>
<td>Depends on us a great deal</td>
<td>81</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td>We can change/control their decisions to suit us</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>Prior relationship</td>
<td>Done business with before</td>
<td>83</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Several conclusions can be drawn from the factor analysis. First, for the most part, the factor analysis results were consistent with our predictions especially regarding how the specific items in the questionnaire might be related to the underlying constructs. For instance, all four items that were supposed to measure commitment loaded on the same factor and all three items that were supposed to measure trust also loaded on the same factor. Similarly of size, revenues, assets and number of employees were loaded on the same factor. Dependence and power emerged as one factor, only a mild surprise, since the two concepts are closely interrelated. In further discussion, I do not focus on the size construct for one major reason. In contrast to other constructs, this construct (and its constituent variables) is not scaled psychometrically and hence comparison with other constructs is difficult.

Based on the factor analysis results, I computed the facto scores by assigning unit weights to the individual criteria constituting each factor. The different factors and the average scores for each of the factors are shown in Table III. I performed paired means tests to see if the differences in the factors were statistically significant. Reputation of the partner and Commitment to the alliance were significantly more important than all the other factors, though the difference between the two [Reputation versus Commitment] was statistically insignificant. They were followed by the factor, “Resource availability” [a single-item construct], which was significantly more important than the multi-item construct Trust. Furthermore, Trust was found to be significantly more important than Cultural Compatibility. Dependence and Power was perceived to be significantly less important than any other factor.

## VI. LIMITATIONS

There are three areas in which the study has limitations. First, the results are based on one kind on data - response to questionnaires. A multi-method approach would enhance the credibility of the results. A second limitation refers to the absence of performance-related data. It is, however, noteworthy that our present approach, which sought information regarding desired partner attributes and not specific strategic alliances, make it difficult to incorporate performance issues. A third limitation refers to the geographic focus of the study, firms operating in Singapore. Resource constraints prevented me from doing a multi-country study.

## VII. FUTURE RESEARCH

This study suggests several avenues for further research. First, the framework proposed by the study regarding partner selection needs further empirical validation,
possibly in a multi-country setting. Some of the conclusions from the study, especially regarding the importance of Reputation and Commitment and the relatively low importance accorded to the Resource Availability as well as the extremely low importance accorded to having a dependent and less powerful [Dependence and Power] partner, need further empirical validation. It may also be useful to devise and empirically test a contingency framework regarding industry characteristics, resource contribution of the firm and the criteria for partner selection. In rapidly evolving environments, a greater premium may be placed on the resources contributed by the partner. The importance of different partner attributes might also vary according to the resource contributed by the partner firms if a firm is contributing skills that are difficult to unravel, the possibility of losing these skills to the partner may be rather limited. In such a situation, firms might not attach as much importance to Reputation of the partner.

REFERENCES

(Arranged in the order of citation in the same fashion as the case of Footnotes.)


