

## **The Role of Partnership Characteristics, Relationship Quality, and Organisational Capabilities on Alliance Outcomes**

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### **Abstract**

Empirical research suggests failure rates of alliances at a very high level. While studies on alliances recognise the influence of partnership characteristics and relationship quality on alliance outcomes, but the role of organisational capabilities of the partnering firm in the implementation of alliance strategy is not delineated in the literature. We argue that since alliances are formed to pursue corporate strategies, alignment between alliance activities with organisational capabilities would increase alliance performance. The paper tests the effects of organisational capabilities on alliance outcomes using data from Australian firms. The results indicate that organisational capabilities of the partnering firm significantly affect alliance outcomes. Accordingly, organisational capabilities are seen as moderators of the relationship between alliance outcome, partnership characteristics and relationship quality.

Keywords: Strategic alliance, Organisational capabilities, Alliance outcomes

## **Introduction**

Due to heightened competitive and uncertain business environment, organisations have substantially increased their use of alliances in recent years (Kale and Singh 2007). However, scholars and practitioners alike have pointed at the poor track record of alliances reporting high failure rates, ranging from 30 to 70 percent (see for an overview Park and Ungson, 2001). Striking fact is that some firms within and across different industries, sizes and nations, are much more successful at managing alliances or creating value from them than others. Thus, it is an intriguing and important question for researchers to further examine the reasons for differences in alliance success. Nevertheless, research results are fragmented and inconclusive in the determination of specific factors critical to alliance success and suggesting what firms can do to enhance the probability of achieving desirable alliance outcomes.

Key factors identified in previous studies for the success of both domestic and international alliances are partnership characteristics (Hitt et.al. 2000, Madhok, 1995, Saxton, 1997) relationship management (e.g., Cullen, 2000; Saxton, 1997) and the development of good relational capital between partners (Koza & Lewin, 2000; Madhok & Tallman, 1998; Mohr & Spekman, 1994). These studies provide only partial information on success factors because alliance outcome cannot be measured based on ex-ante (formation) and ex-post (management of relationship) factors alone. However, the issue of how organisational capabilities of individual partnering firm contribute to enhance alliance success has to our knowledge been rarely addressed. We argue that the success of alliances stems from each partner's ability to utilise and align organisational capabilities with alliance attributes such as partnership characteristics, and the management of the relationship. The paper starts with a more detailed overview of the literature on partnership characteristics, relationship quality and organisational capabilities in the area of alliances. Thereafter, the hypotheses are developed and tested. We then discuss the research method and results.

## **Literature Review and Research Hypotheses**

### **Partnership Characteristics and Alliance Outcomes**

Prior research has suggested that the characteristics of alliance partners are important determining factors in influencing alliance success because they bring the mix of skills and resources that are available to achieve alliance objectives (e.g., Hitt et.al. 2000, Sarkar et.al. 2001). The literature suggests that resource complementarities, partnership compatibility, and goal congruence jointly capture the key aspects of partnership characteristics that are central for alliance success.

One of the most commonly cited motives for forming alliances by firms is to gain access to *complementary resources and capabilities* (e.g., Chung, 2000; Varadarajan & Cunningham, 1995). Prior studies have shown a strong relationship between resource complementarity and performance (Bleeke & Ernst, 1991; Sarkar et. al. 2001). Studies have also shown that access to complementary resources allows firms to learn new valuable capabilities and to enhance existing capabilities (Dyer et al., 1998; Harrison et. al., 2001; Madhok & Tallman, 1998). Specifically, a study by Sarkar et. al (2001) finds that when alliance partners pool together complementary resources and capabilities, not only does that enhance the efficiency and effectiveness of the performance of the partners both directly and indirectly but it also has the added effect of increasing commitment of the partners to the alliance.

*Partnership compatibility* reflects the partner fit in terms of operational strategy, management philosophies and practices, alliance experience, corporate culture, and firm size (Parkhe, 1993). Compatibility between partners fosters and facilitates the creation of relational rents out of complementary assets leading to alliance success (e.g. Dyer and Singh, 1998; Kale et al., 2000). Kanter (1997) further 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. Therefore, there appears to be theoretical and empirical support on the positive effect of partnership compatibility on alliance performance.

*Goal congruence* is a crucial element which affects the extent to which business orientations, abilities and activities of partners can be integrated successfully (Spekman et al. 1998). In an alliance context, partners may have both private and common aims. But, any private aim must not be incompatible with the goals of the alliance itself. 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.

### **Relationship Quality and Alliance Outcomes**

A synthesis of dimensions of relationship quality, which have repeatedly emerged in the literature as the components of an effective long term inter-firm relationship and which are based on a solid theoretical foundations, include trust, cooperation, commitment, communication, and effective conflict management (e.g., Cobianchi, 1994; Cravens, Shipp, & Cravens, 1993; Spekman et al., 1998). A vast amount of empirical evidence across multiple disciplines demonstrate the major role of *trust* in determining both the health and success of organisational collaboration (e.g. Dyer et al., 1998; Morgan & Hunt, 1994). Trust can increase cooperation, improve relationship flexibility, augment quality of relationship, and lower costs of coordinating activities (Smith, Carroll, & Ashford, 1995). Previous studies on alliances have identified trust as one of the most important critical factors affecting alliance performance (e.g. Becerra, Lunnan and Huemer, 2008; Saxton, 1997).

*Cooperation* offers significant advantages for alliance partners lacking in particular competencies or resources (Dyer & Singh, 1998). Lado, Boyd and Hanlon (1997) suggest that firms exhibiting strong cooperative behaviour by pooling complementary resources, skills and capabilities can achieve better realisation of mutual goals, satisfaction and continuation of the relationship.

*Commitment* is an important element of relationship capital (Madhok, 1995). Researchers generally agree that long term relationship success depends upon the credibility and mutuality of investments made by the firms to the partnership (Morgan & Hunt 1994). Committed partners are likely to be more cooperative, communicative and flexible and demonstrate persistent willingness to make future relation- specific investments (e.g., Anderson, 1992). Studies have also found that the alliance partners can maximise their returns by establishing relational norms through commitment that include both flexibility and solidarity (Mavondo & Rodrigo, 2001; Mohr et al., 1994). In order to achieve the benefits of collaboration, effective communications between partners are essential (e.g., Cummings, 1984; Ohmae, 1989). Successful communication is also crucial in resolving disagreements; speeding decision-making and achieving shared understanding of alliance goals. Inherent interdependencies and diverse goals of the partnering firms can create conflict in an alliance. When firms build relational capital in conjunction with an integrative approach to managing conflict, they are able to achieve alliance objectives (Kale, Singh, & Perlmutter, 2000). Thus, firms that manage and maintain stronger relationship quality (defined by trust, cooperation, communication, commitment) are likely to achieve better alliance outcomes.

### **Organisational Capabilities and Alliance Outcomes**

Capabilities are stable patterns of collective activities that enable firms to transform inputs effectively into superior value propositions (e.g., Zollo and Winter, 2002). The development of organisational capabilities has been identified as one of the primary ways in which firms can achieve competitive advantage (Barney, 2002; Day, 1994). Hoskisson, Hitt & Ireland (2004) refer to capabilities as: “the capacity to perform task or activity in an integrated manner”. Other scholars (e.g., Amit & Schoemaker, 1993; Teece, Pisano, & Shuen, 1997) have defined organisational capabilities as a firm’s capacity to deploy assets, tangible or intangible, to perform a task or activity to improve performance. Examples include the capability to offer customer service or to develop new products, and innovate (Lorenzoni & Lipparini, 1999). In essence, it is

the ability of the organisations to reconfigure and recombine organisational capabilities with that of the resources and capabilities that are available through partnerships to match rapidly changing competitive environment. In this context, alliances could be viewed as a strategic option that firms can use to pull and deploy resources of partner firms to more effectively compete in the marketplace. To effectively manage the complementary resources and alliance relationships, firms need to possess superior portfolios of organisational capabilities. For example, availability of resources through the alliance is important to achieve the goals of an alliance but resources alone do not determine better alliance outcome. It is the pattern and quality of interactions between the marketing capabilities, organisational learning, innovativeness and alliance capability that would impact upon higher performance. When organisations lack the capabilities to transform resources available through alliances into valuable products or services, the acquired resources are likely to become overhead, rather than assets to the organisation (Amit & Schoemaker, 1993). We expect firms with strong organisational capabilities to achieve stronger alliance performance on several grounds. First, we expected such firms to proactively sense and monitor market conditions. Second, learn from the partners, and engage in innovative practices. Finally, better alliance capability would enable an organisation to capture, share, disseminate and apply alliance management knowledge to achieve the goals of the alliance (Kale and Singh, 2007). Therefore, it is argued that organisational capabilities of partner firms are important for superior competitive advantages. In this study, organisational capabilities include a portfolio of capabilities consisting of marketing orientation, learning orientation, innovativeness and alliance capability.

Based on the review of the literature and the arguments presented in the preceding sections, we feel that firm's organisational capabilities play an important role in explaining overall alliance success. Therefore, we hypothesize that:

**H1:** *There is a positive relationship between partnership characteristics, relationship quality, organisational capabilities and alliance outcomes*

**H2:** *The interaction of partnership characteristics and organisational capabilities has a positive and greater effect on alliance outcomes*

**H3:** *The interaction of relationship quality and organisational capabilities has a positive and greater effect on alliance outcomes*

### **Research Design and Methodology**

A mail survey was used to gather information on alliance practices and routines from large Australian manufacturing and services firms engaged with alliances. The survey was aimed at collecting data on managerial assessments of a firm's alliance performance. Key informants were senior level executives. All the measures were adopted from established scales. Multi items on a 7- point Likert type scale were used to measure the constructs. This followed procedures advocated by Anderson and Gerbing (1988), Churchill (1979) and Fornell and Larcker (1981). This resulted in a response rate of 23.5% which is comparable to other studies on alliances (see e.g. Kale et. al., 2002; Zollo et. al. 2002). The extrapolation procedure suggested by Armstrong and Overton (Armstrong & Overton, 1977) was used to assess non-response bias. No significant differences were found between early and late respondents across all constructs. The Cronbach alphas were high ( $\alpha >.8$ ) and discriminant validity was established for all the constructs.

### **Analysis and Results**

We evaluated psychometric properties of our measure using confirmatory factor analysis (CFA) (Gerbing and Anderson 1988). Table 1 reports the descriptive statistics and correlations among all of the variables in the study. The highest common variance among any two independent variables is .084. Thus, there are no multi-collinearity problem. Table 2 represent key results of the CFA. The measurement properties were assessed using confirmatory factor analysis (CFA) and the model fits well as indicated by the results shown in Table 2. The results provided good

indicators of fit (Chi squared = 118.964, GFI = .921, and AGFI = .868). This was further confirmed by a RMSEA of .076.

Three models were developed. Model 1 examined the direct effects of independent variables (i.e. partnership characteristics, relationship quality and organisational capabilities) on alliance outcomes. Model 2 and 3 examined the interaction effects of organisational capabilities with independent variables partnership characteristics and relationship quality on alliance outcome.

**Table 1: Descriptive Statistics,  $\alpha$  Values and Correlation Matrix (N=204)**

Variable	1	2	3	4
1. Partner characteristics	<i>.843</i>			
2. Relationship quality	<i>.526**</i>	<i>.873</i>		
3. Organisational capabilities	<i>.532**</i>	<i>.562**</i>	<i>.913</i>	
4. Alliance outcomes	<i>.512**</i>	<i>.545**</i>	<i>.649**</i>	<i>.958</i>
Mean	3.92	5.27	4.70	3.91
Standard Deviation	.77	.77	.80	1.25

\*\*p<0.01;  $\alpha$  values are in italics

**Table 2: Results of the confirmatory factor analysis**

Model fit indexes			
Construct, Alpha, and Measurement items	$\chi^2 = 118.964, df=55, \chi^2/df = 2.63, GFI=.921, AGFI=.868, NFI=.914, TLI=.930, CFI=.951, RMSEA=.076$	SFL*	t-value
<b>Partnership characteristics</b> $\alpha = .843$	1. Partner compatibility	.368	4.072***
	2. Goal congruence	.819	7.669***
	3. Resources	.619	12.255***
	4. Capabilities	.647	11.325***
<b>Relationship quality</b> $\alpha = .873$	1. Trust	.526	6.572***
	2. Cooperation	.732	11.081***
	3. Commitment	.685	10.395***
	4. Communication	.816	9.543***
	5. Conflict management	.708	8.058***
<b>Organisational capabilities</b> $\alpha = .913$	1. Market orientation	.835	10.965***
	2. Learning orientation	.769	13.788***
	3. Innovative practices	.812	14.023***
	4. Alliance capability	.567	7.771***

SFL = standardised factor loading; \*\*\*p<.0001

Table 3, presents the coefficient estimates for the direct and interaction effects of results of the regression analyses. We present results in a hierarchical fashion to better depict the variance explained by the different sets of predictor variables. Direct effect results of all the independent variables are presented in model 1. As shown, their coefficients are statistically significant and they explain 43% of the variance in alliance outcome.

**Table 3: Results of direct and interaction effects on alliance outcomes**

Variables	Model 1 Direct effect	Model 2 Interaction effect	Model 3 Interaction effect
Partner characteristics	.165(2.596**)	-.385 (-1.114)	-
Relationship quality	.209(3.219***)	-	-.273(-.832)
Organisational capability	.445 (6.819***)	-.1845 (-.440)	-.224(-.599)
<b>Interaction effects</b>			
Partner characteristics x Organisational capabilities		.15 (1.99*)	
Relationship quality x Organisational capabilities			.15 (2.09*)
R <sup>2</sup>	.43	.40	.44
Adjusted R <sup>2</sup>	.42	.39	.43
F-ratio	50.83***	44.56***	53.30***
$\Delta R^2$		-.32	.04
$\Delta F$ Ratio		6.17	9.26

\*p <.05, \*\*p <.01, \*\*\*p <.001. Dependent variable: Alliance outcome.

Hypothesis 1 proposes a positive relationship between partner characteristics, relationship quality, organisational capability and alliance outcome. The results presented in model 1 support this hypothesis. Hypothesis 2 suggests a positive interaction between partner characteristics and organisational capabilities for alliance outcome. As shown in Table 3's model 2, the interaction effect of partnership characteristics and organisational capabilities on alliance outcome although statistically significant ( $p < .05$ ), low  $R^2$  than the direct effect model demonstrate that the interaction between partner characteristics and organisational capabilities on alliance outcomes seems to be not that strong and significant. Thus, hypothesis 2 is not supported. The results of the analyses depicted in model 3 of Table 3 provide information related to hypothesis 3, which proposes a positive effect of interaction between relationship quality and organisational capabilities on alliance outcome. The results support the hypothesis as the variance explained by the interaction effect is higher than the direct effect ( $\Delta R^2 = .04$ ,  $p < .05$ ). In summary, the results indicate the importance of managing and maintaining relationship quality by the alliance partners to achieve better alliance outcomes.,

### Conclusion

In examining the determinants of alliance outcomes, we provide insight into the role of organisational capabilities that potentially explain why do some firms have greater alliance success than others? Our work builds upon, and extends, earlier alliance research that has examined the association of partnership characteristics and relationship quality with overall alliance performance. The results indicate that alliance outcomes are likely to be enhanced when partnering firms have superior organisational capabilities. The findings suggest that aligning organisational capabilities of the partnering firm with the management of alliance relationship leads to higher overall alliance outcomes. It implies that greater the degree of fit between alliance relational dynamics (such as trust, commitment, cooperation, communication and conflict management) and organisational capabilities, the higher the alliance outcome. From a managerial perspective, our findings highlight the need for managers to understand the multiple factors that are relevant to the management of alliance relationship quality and the ways they must be configured to fit the implementation requirements of alliance strategy. Companies that aim at greater overall alliance success certainly need to integrate alliance relationship management with the organisational capabilities, investing in relationship specific assets. This research, like any other, has some limitations that future work can address. First, we collected data from only one partner involved with the alliance. It would have been very difficult and time consuming to collect and collate data from both partners of the dyad. In the future, scholars could however, attempt to do that either through case study approach or by collecting data from a small number of alliances. There seems to be some limitations on how we have used managerial assessments on a multidimensional scale to measure alliance performance. Future work could measure alliance success by using measures based on financial or accounting data.

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