The determinants of partner selection for the performance of strategic alliances

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Management summary

Despite the obvious advantages that strategic alliances can offer, they appear to be very fragile organizational form, which very often fail to bring expected value to their participants. In order for alliances to be successful, various factors should be considered by managers. Some of the factors should be taken into account after the actual formation of an alliance, some factors are beyond managerial control, and others should be carefully considered before the actual formation of strategic alliances. Current paper focuses on the factors that are particularly important for the performance of strategic alliances during the phase of partner selection. The two crucial factors for the selection of compatible partners being studied are complementary resources and interorganizational trust. It is indicated that in general, higher degree of complementarity of partners’ resources and high degree of interorganizational trust have positive effects on the performance of strategic alliances. Moreover, it is found out, that apart from direct influence interorganizational trust and complementary resources have on alliances’ performance, they are also interdependent factors. After all, it is concluded that in order for strategic alliances to be successful, it is important to choose partners with a high degree of complementary resources to the resources already obtained by an organization, and partners with whom high degree of interorganizational trust can be maintained.
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Chapter 1 – Introduction

1.1 Problem indication
Recently, it became more common to use different forms of cooperation across all types of firms competing in various industries (Lei, Slocum, Pitts, 1997). To give an example of growing popularity of various forms of cooperation, the number of joint ventures in the U.S. grew by 423% over the period 1986-1995 (Hitt, Ireland & Hoskisson, 1997) and keeps on rising. Various forms of cooperation between organizations exist, and one of such forms – is strategic alliance.

Lately, however, many strategic alliances failed to be successful and were not bringing value to their participants. Thus, results of research by Das and Teng (2000) show that alliances have failure rates of 70%. Existing literature (Dacin, Hitt & Levitas, 1997; Lambe et al., 2002; Kogut, 1989) emphasizes incompatibility of partners as one of the most important reasons for that. Therefore, there is a growing need for a careful research on the aspects of choosing compatible partner, which will lead to higher alliance performance and bring satisfaction to all the parties involved in it.

There exist many factors, which should be considered while selecting a compatible partner. However, in the following research the influence of two factors, namely complementary resources and interorganizational trust on the performance of strategic alliance will be analyzed. The selection for those factors was done in accordance with existing literature, which points out interorganizational trust (Zaheer et al., 1998; Elmuti, Kathawala, 2001) and partners’ complementary resources (Das & Teng, 2000; Lambe et al., 2002) as the most important aspects of compatible partner selection for the future alliance performance.

1.2 Problem statement
The following research will be aimed at analyzing the influence of partners’ compatibility on the performance of strategic alliance. It will investigate the factors which contribute the most to the performance of strategic alliances during the phase of partner selection. Since partners’ compatibility is pretty broad concept, it had to be operationalized before it could be studied. Complementary resources and interorganizational trust are going to be considered as the main components of partners’ compatibility in the current paper. The question to be answered in the following thesis is: “How do partner’s complementary resources and interorganizational trust influence the performance of strategic alliance?”
In the following research, performance of strategic alliances is going to be a dependent variable. Interorganizational trust and complementary resources of each individual partner are going to be considered as independent variables. However, unlike various existing literature, only indirect effects of complementary resources and interorganizational trust will be supposed in the following paper. The effect of complementary resources is going to be mediated by idiosyncratic resources. The effect of interorganizational trust on the performance of strategic alliances will be mediated by the degree of transaction cost. Moreover, the moderating effect of interorganizational trust is going to be considered in relation to complementary resources input and idiosyncratic resources creation.

1.3 Research questions
After the problem statement and the relationship between variables had been formulated, the research questions can be stated. The following questions are going to be answered throughout the research:

1. To what extent can degree of complementary resources of each partner influence the degree of idiosyncratic resources creation?
2. What is the relationship between the degree of idiosyncratic resources and performance of strategic alliances?
3. What is the influence of interorganizational trust between partners on the transaction costs?
4. What is the relationship between transaction costs and performance of strategic alliances?
5. To what extent can interorganizational trust influence relationship between complementary resources of each partner and the degree of idiosyncratic resources creations?

1.4 Research relevance
The following research is expected to be highly relevant from both: academic and managerial perspectives. Previously, various researches were aimed at studying the relevance of different factors in explaining variance of strategic alliance performance. The following paper will concentrate on the factors which are crucially important at the stage of partner selection. It will give complete emphasis particularly to two very influential factors, namely complementary resources and interorganizational trust. Unlike many researches, the effects of complementary resources and interorganizational trust are not going to be direct, but rather mediated through idiosyncratic resources and transaction costs respectively. Moreover, contrasting to the researchers which were studying effects of interorganizational trust and complementary resources independently of each other, the interdependency between these factors will be considered in the following paper.
From the managerial perspective following thesis will be very important, since it is going to point out factors influencing selection of compatible partners, which is vital for the future performance of strategic alliances. Knowing factors influencing performance of future strategic decisions (e.g. selection of compatible partner) can be highly important for the success in the short and/or long runs.

1.5 Research design and data collection
The following research is going to be mainly descriptive. The main tool to tackle the problem previously indicated will be the literature review. Moreover, real life examples might be used when needed. The independent variables together with mediating and moderating variables are going to be carefully analyzed in order to fulfill the demands of research objective.

The secondary sources are going to be used to gain access to the necessary data. This method is chosen to be the most reliable in the current settings for various reasons. First of all, it is going to be possible to save time by referring to already existing information. Second of all, this method of collecting data is going to be cost efficient. The only drawback of that method is the possibility of existing information to become obsolete up to the current moment. The website of the library of Tilburg University is going to be used as the main source of journals, books and articles, as it offers several reliable databases, each containing various data. In order to avoid referencing low quality papers, the “Journal Citation Reports” tool will be implemented. That tool will help to distinguish between low and high quality papers.

1.6 Structure of the thesis
In the remaining chapters all the variables are going to be discussed separately. The main part of the thesis is going to be divided into chapters in order to discuss each variable in turn. First, the dependent variable will be described. Then, remaining variables and their influence on dependent variable will be analyzed. The graphical representation of the relationships among the variables can be represented in the following diagram:
In the second chapter, the notion of organizational cooperation will be introduced. Reasons for increased organizational cooperation will be discussed. Later, the transition from organizational cooperation to strategic alliances will be done in order to bring in the idea of strategic alliances gradually. First of all, the increased growth of strategic alliances will be illustrated. Then, several advantages of strategic alliances will be discussed briefly. Afterwards, it will be shown that despite obvious advantages of strategic alliances, the failure rate still remains high – calling for careful research on the determinants of alliance performance. The performance variable will be discussed in the end of the chapter.

In the third chapter, the concept of resource-based view of strategic alliance creation will be introduced. Then, the relationship between complementary resources of partners and the performance of strategic alliance is going to be discussed. Such an effect is going to be mediated through the idiosyncratic resources of strategic alliance. It is going to be analyzed why is it so important for partners to have high degree of complementary resources in order to increase performance of the strategic alliances.

In the fourth chapter, the relationship between the second independent variable (interorganizational trust between partners) and dependent variable will be analyzed. For that the transaction cost theory and its main assumptions will be introduced. Then, the concept of interorganizational trust will be discussed. In the end, several ways through which interorganizational trust can influence performance of strategic alliances are going to be analyzed. It will be shown that relationship between trust and performance of strategic alliances is mediated by transaction costs. Finally, the moderating effect of interorganizational trust will be considered. Interorganizational trust is going to moderate the
relationship between complementary resources of each individual partner and degree of idiosyncratic resources creation within strategic alliances.

In the last chapter results from all the preceding chapters of the research will be summed up. Various conclusions for managers with regard to choosing compatible partners will be provided. Moreover, the limitations of the following paper and practical recommendations will be discussed.
Chapter 2 – Strategic alliance and performance measurement

2.1 Competition versus cooperation

Through time, there was a growing interest in the intensity of competition in organizing economic activities (Williamson, 1975) and making strategic decisions (Porter, 1980). Competition was considered to be a driving vehicle in creating new products, services, technologies, which would differentiate one firm from others, give it competitive advantage, and help to provide consumers with better selection of products. The definition given to a competitive firm by Richardson (1972): “Island in a sea of market relations”, represents fully the leading paradigm at that time. Firms were considered as alien entities competing harshly in the market for the customers, sales, and profits. Any form of cooperation was unthought-of at that time, putting all the emphasis on competition.

However, recently researches paid increased attention to the disadvantages of competition. Traditional view on organizing economic activities and making strategic decisions through competition became less useful in the presence of highly turbulent environment (Zineldin, 2004). The more effective approach of maintaining relationships through cooperation has been developed. Thus, Emery (1967) suggests that cooperation is of vital importance as organizations are encountering challenges of unstable environment. Under a new paradigm firms are seen as interdependent agents pursuing common interests and deriving mutual benefits (Contractor & Lorange, 1988). Firms are no longer expected to fiercely compete over all areas of their business. On the contrary, increased cooperation over various dimensions is expected to be present.

One doesn’t need to search a lot for the instances of cooperative behaviors. For example, one can think of a recent alliance between KLM and Air France, or cooperation between Peugeot and Toyota in 2005 on shared components for a new city car. According to Dagnino & Padula (2002): “the market is not (any more) an atomistic structure based on instant exchange, but it becomes a system of interactive and continuous relationships in which the firms progressively strengthen their reciprocal commitments and realize a process of mutual adaptation and joint value creation.” The growing importance of globalization, competition on international markets, turbulent competitive environment, and complex technologies developments strengthened the view on inter-firm cooperation, as a tool through which mutual benefits can be gained and firms’ performances can be stimulated (Dyer & Singh, 1998; Lorenzoni & Lipparini, 1999).
2.2 From cooperation to strategic alliances

One of such forms of cooperation – is strategic alliance, and recently it became one of the most important organizational forms which is growing in popularity dramatically in recent years (Kale & Singh, 2007). Mowery et al. (1998) presents the following graph in his research, emphasizing rapid growth of strategic alliances in the period of 1975-1989:

![Graph showing rapid growth of strategic alliances](image)

McCarter and Northcraft (2007) define strategic alliances as a specific form of voluntary tie between businesses, organized in order to handle the uncertainty caused by environmental forces which cannot be controlled by the organizations. Additionally, Kale et al. (2000) define strategic alliances as purposive strategic relationships between separate organizations that “share compatible goals, strive for mutual benefits, and acknowledge a high level of mutual dependence” (Mohr and Spekman, 1994).

There are several potential advantages of strategic alliances which assist organizations in maintaining superior competitive positions. Bierly and Gallagher (2007) emphasize three advantages of strategic alliances. First of all, alliances allow firms to focus on their own core competences and rely on their partners in other areas outside of scope of their core competencies. Second of all, increase in firm’s strategic flexibility by sharing costs and resources over range of technologies and activities can be considered as another advantage. Finally, they propose, that through strategic alliances firms can gain access to new competitive advantages by getting access to complementary technologies and new markets. However, despite already mentioned, several other advantages of strategic alliances exist. Sinha (2001) argues that strategic alliances can assist organizations in avoiding threat of expropriation by the host country. Moreover, existing literature emphasizes economies of scale, shared risks and R&D costs, reduction in competition (Nielsen, 2003), uncertainty management, and facilitation of tacit
collusion (Barney & Hesterly, 2008) as motives for strategic alliance creation. The summary of the potential benefits of strategic alliances can be found in the Table 1 below.

<table>
<thead>
<tr>
<th>Potential benefit</th>
<th>Author</th>
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<tbody>
<tr>
<td>Focus on one’s own competencies</td>
<td><em>Bierly and Gallagher (2007)</em></td>
</tr>
<tr>
<td>Increase in one’s strategic flexibility</td>
<td><em>Bierly and Gallagher (2007)</em></td>
</tr>
<tr>
<td>New competitive advantage development</td>
<td><em>Bierly and Gallagher (2007)</em></td>
</tr>
<tr>
<td>Avoid threat of host government expropriation</td>
<td><em>Sinha (2001)</em></td>
</tr>
<tr>
<td>Economies of scale</td>
<td><em>Nielsen (2003)</em></td>
</tr>
<tr>
<td>Shared risks</td>
<td><em>Nielsen (2003)</em></td>
</tr>
<tr>
<td>Shared R&amp;D costs</td>
<td><em>Nielsen (2003)</em></td>
</tr>
<tr>
<td>Reduction in competition</td>
<td><em>Nielsen (2003)</em></td>
</tr>
<tr>
<td>Uncertainty management</td>
<td><em>Barney &amp; Hesterly (2008)</em></td>
</tr>
<tr>
<td>Facilitation of tacit collusion</td>
<td><em>Barney &amp; Hesterly (2008)</em></td>
</tr>
</tbody>
</table>

*Table 1. Potential benefits of strategic alliances*

2.3 Strategic alliances do fail

Even though, scientific literature predicts lots of potential advantages for strategic alliance membership, the reality shows the true complexity of such form of cooperation. There are drawbacks to the successful implementation of cooperation through alliances, which might lead to unexpected outcomes, including total failures (e.g. bankruptcy). In order to avoid such unpleasant outcomes, aspects of strategic alliances have to be researched carefully, defining determinants of high performance. Existing literature points out, that most of the failures in alliances occurred due to a partners’ incompatibility (Dacin, Hitt & Levitas, 1997). The results of a survey conducted by Technology Associates and Alliances (Elmuti, Kathawala, 2001) in order to reveal most important factors for the success of alliances emphasize the importance of careful partner selection, in order to avoid potential incompatibilities, which might detriment the alliance performance. The results of the survey presented in Table 2 reveal that almost 70% of all managers, who took part in the survey, indicated ‘partner selection’ as the most important factor influencing the success of alliances.
Therefore, it is of crucial importance to know which factors are essentially important on the phase of partner selection for the performance of strategic alliances. In the proceeding chapters, the independent variables such as complementary resources and interorganizational trust will be discussed with regard to their influence on the performance of strategic alliances. Moreover, the research will be added with the moderating effect of interorganizational trust and mediating variables (idiosyncratic resources and transaction costs), in order to increase reliability and have more robust results. Conclusions, limitations and recommendations for further research will be provided in the end of the research.

2.4 Performance variable

Before the research is conducted further, it is important to operationalize the performance variable. Various researchers were using such measures of alliance performance as financial survival (Killing, 1983), ownership instability (Gomes-Casseres, 1987), and duration (Kogut, 1988). Others were using financial measures, such as profitability and sales growth (Mohr & Spekman, 1994). However, there is obvious lack of agreement among researchers over the most reliable and effective measure.

According to Das and Teng (2003), performance measures can be directed towards two distinct loci: alliance itself or each individual partner. “The former represents how the alliance as an entity performs. The latter addresses the benefits to the partners - individually or collectively - from the alliance” (Olk, 2002). Das and Teng (2003) propose that measures focusing on each individual partner are more advantageous since it is hard to evaluate alliance performance independently of interests of each partner forming it. However, interests of each partner may not be always compatible and therefore it
creates problems in evaluating performance correctly. For instance, satisfaction of one partner with the
goal achievement may be simultaneous with dissatisfaction of another partner (Das & Teng, 2003). For
that reason, performance measure proposed by Beamish (1987) and Harrigan (1988) is going to be used
in the following research. They proposed that alliance performance has to be measured with regard to
mutual satisfaction of partners from achievement of strategic objectives. If one partner gains
satisfaction on the expense of others, performance of such alliance cannot be considered as successful
Das and Teng (2003).
Chapter 3 – Complementary and idiosyncratic resources

3.1 Resource-based view
Resource-based view (RBV) was extensively researched in various existing literature (Penrose, 1959; Teece, 1988; Barney, 1986) as another approach of competitive advantage achievement, in contrast to Porter’s (1980) competitive forces framework. While in a competitive forces framework organizational success depends on external to the organization factors, RBV indicates the importance of internal organizational factors. According to Mowery et al. (1998) organization in a RBV is best characterized as a “collection of sticky and difficult-to-imitate resources and capabilities” which provide organizations with unique competitive advantages. Mowery et al. (1998) proposes several categories of organizational resources which might contribute to the development of organizational competitive advantage: physical, such as technology; intangible, such as brand awareness or loyalty; knowledge, idiosyncratic routines, and complex networks, aimed at product distribution and marketing.

Existing literature (Grant, 1991; Barney, 1991; Hoffer and Schendel, 1978) provides several resource classifications; yet most of them lack sufficient theoretical underpinnings (Das & Teng, 2000). Miller and Shamsie (1996) suggest that such a drawback of firm-specific resources classification can be avoided, in case of identifying them in two broad categories on the basis of barriers to imitability, namely property-based resources and knowledge-based resources. Property-based resources are legal properties of a firm, which cannot be easily copied by the competitors due to legal protection imposed on them through property rights (Miller & Shamsie, 1996). Such resources might include financial capital, physical resources and/or human resources (Das & Teng, 2000). Knowledge-based resources are intangible know-how and skills, which can hardly be copied by the competitors due to their vagueness and ambiguousness (Das & Teng, 2000). Such resources consist of tacit know-how, skills, and technical and managerial systems of a firm, which are not legally protected (Hall, 1992).

3.2 Resource requirements
Various researchers (Barney, 1991; Peteraf, 1993) studying RBV mention that not every resource in organization can generate competitive advantage. Barney (1991) proposes that in order for a resource to be realized in a competitive advantage it has to be valuable. He identifies valuable resources, as those which contribute organizations to the development of strategies, improving their efficiencies or effectiveness. Accordingly, Fahy and Smithee (1999) state that efficiency and effectiveness of an organization can be ameliorated in case of bringing value to the customer through differentiated products or lowest costs. Valuable resources help organization to grasp the opportunities and avoid
threats, which influences competitive advantage creation (Barney, 1991). RBV suggests typical features of resources, which can be called valuable, namely rareness, inimitability, and non-substitutability.

3.2.1 Rareness
Barney (1991) suggests that competitive advantage cannot be sustained or even achieved in case that valuable resource is in hands of large number of competitors. Barney (1991) provides an explanation for that by emphasizing an importance of value-creating strategies in the creation of competitive advantage. He mentions that competitive advantage can be achieved through implementing value-creating strategies by exploiting firm’s resources. If that resource can be exploited by many firms identically and simultaneously, then each firm will have similar strategy, which will not result in competitive advantage for anyone. In general, Barney (2001) suggests that rareness of a resource is achieved in case it is possessed uniquely by one or small number of firms, which allows them to achieve competitive advantage through improved efficiency and effectiveness, which is not obtainable to other firms.

3.2.2 Inimitability
Barney (1991) proposes that rareness of resources will not be a key factor in sustaining competitive advantage for a long time, in case competitors can easily obtain such resources by imitating them. Sustainability of competitive advantage can be obtained by firms only in case their resources are not easily imitable. Lippman and Rumelt (1982) also call such characteristic of a resource as “imperfect inimitability”. Existing literature (Barney, 1991; Dierickx & Cool, 1989) identifies three sources through which (or through combination of which) resources can be protected from imitation, namely unique historical conditions, causal ambiguity, and social complexity.

3.2.2.1 Historical conditions
First source of resource inimitability can originate from historical conditions. Before the creation of resource-based view, various researchers (Porter, 1980, Scherer, 1980) claimed that performance of the firm can be analyzed despite historical differences of organizations. Thus, Porter (1980) claims that firms’ histories are irrelevant in the analysis of their performance and therefore can be neglected. On the contrary, Barney (1991) opposes, by saying that the RBV stresses the importance of history in the abilities of firms to acquire and exploit specific resources. As he puts it in his research: “once this particular unique time in history passes, firms that do not have space- and time-dependent resources cannot obtain them, and thus these resources are imperfectly imitable”. According to Peteraf (1993), resources are history dependent, meaning that they are influenced by the previous learning levels, degrees and sources of investments and development activities. For instance, previous decision to
locate a firm on a more valuable land can be considered as an imperfectly imitable physical capital resource (Hirshleifer, 1980).

3.2.2.2 Causal Ambiguity
Secondly, causal ambiguity can be a descendent of resource imperfect imitability. Causal ambiguity can serve as a source of resource inimitability by other organizations, if other organizations are not able to understand the relationship between firm’s resources and sustained competitive advantage (Barney, 1991). Barney (1991) suggests that such an effect is reached, simply, because other organizations are unsure of which resources they should imitate in order to duplicate successful value-creating strategies. Counter-intuitively, Lippman and Rumelt (1982) develop that subject even further by suggesting that perfect causal ambiguity is reached, if none of the firms understands the relationship between resources and sustained competitive advantage, including firm possessing such an advantage. They suggest that once the firm with a competitive advantage understands the relationship between its resources and sustained competitive advantage, other firms can learn about, for example by hiring that firm’s managerial staff. For as long as none of the parties can understand such a relationship, the resources cannot be easily imitated which will allow competitive advantage to be sustained through time.

3.2.2.3 Social complexity
Finally, resource inimitability can occur as a result of social complexity. In that case, ability of other firms to imitate such resources is restrained by resources’ foundation in complex social phenomena, which cannot be manageable or influenced (Barney, 1991). Various researchers provide instances of socially complex resources. Examples include managerial interpersonal relationships (Hambrick, 1987), firm’s reputation in the eyes of their suppliers (Porter, 1980), and customers (Klein & Leifer, 1981). Moreover, social complexity of organizational resources can be a result of asset stocks interconnectedness (Diericks and Cool, 1989), and co-specialized assets (Teece, 1986). In such cases, other firms are capable in understanding the relationship between firm’s resources and sustained competitive advantage, but aren’t capable of social engineering to imitate such resources (Barney, 1991).

3.2.3 Non-substitutability
Furthermore, Barney (1991) suggest, that it is important for a resource to have no equivalent substitutes to be valuable. He defines equivalent resources as those, which might be realized in similar value-creating strategies. In that case none of the firms is expected to sustain competitive advantage, due to perceived ease with which they can be replicated.
3.3 Market imperfections in obtaining valuable resources

After all, such characteristics of organizational resources allow firms to achieve sustainable advantage due to possibility of providing customers with products of higher value or lower costs, than competitors can offer. However, as Das and Teng (2000) propose, it is not always possible to accumulate such resources internally. In case of perfectly efficient markets for resources, cooperation of firms would be minimized, and firms would prefer to do business on their own, obtaining valuable resources through market exchanges (Eisenhardt & Schoonhoven, 1996). However, in reality, most of the resources are hardly tradable due to their embeddedness in organizations (Chi, 1994). Therefore, Das and Teng (2000) claim that strategic alliances is a way of organizations to overcome problem of imperfect markets for resources and capabilities, and obtain resources of partner firms, in order to get access to new competitive advantages, which would be impossible to obtain under other circumstances.

3.4 Complementary resources and performance of an alliance

In the following research, resource complementarity is conceptualized in accordance with a research by Sarkar et al. (2001), as “extent to which each partner brings in unique strengths and resources of value to the collaboration.” The effect of complementary resources on the performance of an alliance is studied in two steps. First, the effect of complementary resources of each separate partner on the idiosyncratic resources of alliance has to be identified. Later, the relationship between idiosyncratic resources and performance of the alliance can be emphasized. The difference between those types of resources was described in research of Hunt (2000), who proposed that complementary resources are considered as firm-specific, which are brought by individual partners to the alliance and later developed into idiosyncratic resources of alliance. In turn, these are the idiosyncratic resources which might be considered as valuable for the alliances, and therefore, can create competitive advantage.

3.4.1 Complementary resources

As was already stated, one of the motives of organizations to cooperate with each other in a strategic alliance - is lack of resources, needed to develop a competitive advantage. By forming strategic alliances, organizations can get access to resources of their partners and gain resource advantages over their competitors via formation of new resources through combination of individual resources (Hunt, 1997). However, only the resources, which are complementary to the resources already obtained by one of the partners, can lead to successful achievement of resources combinations. As proposed by Lambe et al. (2002), in that case complementary resources of partners, merged together, reduce deficiencies in each other resource portfolio. The combination of complementary resources into unique system, which is unavailable to competitors leads to creation of competitive advantage (Hunt, 1997). Such combination of complementary resources is very often referred to as idiosyncratic resources. Jap (1999) suggests
direct relationship between complementary resources of each partner and idiosyncratic resources of alliance. According to his research, higher complementarity of partners’ individual resources causes more intensive development of idiosyncratic resources. Such an effect is reached due to a higher chance of idiosyncratic resources of an alliance to result in unique competitive advantage, which wouldn’t be achieved otherwise through competition (Jap, 1999).

3.4.2 Idiosyncratic resources

Now after the relationship between complementary and idiosyncratic resources is identified, the mediating effect of idiosyncratic resources on the performance of an alliance can be analyzed. Lambe et al. (2002) provides well-elaborated definition of idiosyncratic resources. According to his research, idiosyncratic resources are unique resources, developed during an alliance existence via combination of firm-specific complementary resources. Hunt (2000) suggests that idiosyncratic resources can be tangible, such as joint facility, and intangible, such as new process creation. After all, idiosyncratic resources suppose to allow alliances to “extract the competitive advantage potential from the combination of the partner firms’ respective resources” (Lambe et al., 2002). From a RBV perspective, unique idiosyncratic resources should allow alliances to sustain resource advantage over their competitors for a longer time due to their non-durability and non-imitability (Dyer and Singh, 1998; Jap, 1999). Day (1995) suggests that such an effect will be achieved because competitors will not be able to replicate the same idiosyncratic resources easily and in a timely and cost efficient manner.

Unique idiosyncratic resources can be considered as collective strengths, which wouldn’t be accessible to the competitors (Das & Teng, 2003). Beamish (1987) found out that the higher the degree of collective strength (e.g. idiosyncratic resources) accumulated by an alliance, the higher the performance impact. Various researchers (Sarkar, et al, 2001; Lambe et al., 2002) confirmed those findings, suggesting that competitive advantages gained through the combination of firms individual resources via idiosyncratic resources will in turn be one of the main determinants of strategic alliances’ performance. According to them, higher degree of idiosyncratic resources in an alliance will improve the performance of alliance.
Chapter 4 – Interorganizational trust

After the influence of complementary resources on the performance of strategic alliance had been discussed, interorganizational trust is going to be considered as another independent variable. Smith and his colleagues (1995) emphasize in their research the importance of trust for cooperative relationships by saying: “the study of trust and its impact on cooperative relationships at all levels may be a particularly fruitful area of future research”. As was noted by Gulati (1995), trust plays essential role in strategic alliances and is one of the major determinants of alliance performance (Madhok, 1995). However, before the relationship between interorganizational trust and performance of strategic alliance is researched, the concept of interorganizational trust and the transaction cost theory have to be explained.

4.1 Transaction cost theory

Transaction cost theory (TCT) plays crucial role in understanding of the relationship between trust and performance of strategic alliances. Overall, TCT is focused on the minimization of transaction costs in the organization of firm’s activities (Williamson, 1991). According to Robbins (1987) transaction costs can be defined as those that are associated with economic exchanges and differ independent of the competitive market price of goods being exchanged. Examples of transaction costs may include negotiation costs with a partner (Agarwal and Ramaswami, 1992) or monitoring costs of the partner (Makino & Neupert, 2000). Williamson (1975) suggests that transaction costs reduction is one of the goals that partner firms may pursue by forming cooperation, which has to gain considerable attention. To understand the transaction cost theory completely and its relation to the interorganizational trust, it is important to state two assumptions on which this theory is based.

4.1.1 Opportunism

First assumption of TCT is opportunism. Aubert and Weber (2001) suggest that opportunism is a phenomenon which arises when human-beings act in their own self interest. In other words, humans might sacrifice common goals in order to receive individual benefits. Therefore, there is a high probability that partners can pursue short term individual goals and objectives rather than work for an increase in overall long term performance of their partnership. Williamson (1985) defines opportunism as a threat to every organization and consequently determines it as a transaction cost. The higher the opportunistic behavior of partners, the higher the transaction costs involved (Williamson and Masten, 1995).
4.1.2 Bounded rationality

Bounded rationality is the second assumption of TCT. The theory of bounded rationality states, that "human behavior is intendedly rational, but only limitedly so" (Simon, 1961). According to the theory of bounded rationality, humans lack the wits necessary to think of all the possible contingencies and state them in the contracts (Chiles & McMackin, 1996). Therefore, according to Chiles and McMackin (1996), contracts turn out to be incomplete, which increases the behavioral uncertainty of partners, increases possibility to behave opportunistically, decreases the ability for contract enforcement, and that in turn leads to higher transaction costs involved.

4.2 Concept of interorganizational trust

After the basics of TCT have been explained, the concept of interorganizational trust can be elaborated. Overall, trust can be defined as the partner’s willingness to believe in the other partner in a context of co-dependent actions (Doney et al., 1998). Even though, trust exists between individuals, the notion of trust is extendable to the level of interorganizational exchanges, since individuals in each organization are responsible for managing interorganizational relationships (Bradach and Eccles, 1989). As defined by Zaheer et al. (1998) the term interorganizational trust means “the extent of trust placed in the partner organization by the members of a focal organization”. As suggested by Aulakh et al. (1996), interorganizational trust consists of a set of expectations for each partner regarding each other’s behavior and each partner’s fulfillment of its obligations with regard to such anticipation. The more elaborated definition of interorganizational trust by Zaheer et al. (1998) implies that partners will have commitment to their obligations, behave in a predictable manner and act and negotiate fairly even in case of a possibility to behave opportunistically.

Existing literature points out two components of partners’ trust: structural and behavioral (Hosmer 1995; Madhok 1995). But, whereas, the structural component of trust may be essential for the formation of the relationship, it is behavioral component of trust which is responsible for its continuation and evolution (Madhok, 1995). According to Aulakh et al. (1996) behavioral dimension of trust refers to the confidence aspect in exchange relationships. Anderson and Narus (1990) define such confidence aspect as "firm's belief that another company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes.” Behavioral component of interorganizational trust is essentially useful in the continuation of ongoing relationships, and, that is why it should be considered carefully before forming a strategic alliance. In further sections of that chapter behavioral component of trust is going to be assumed without explicitly mentioning it.
4.3 Relationship between trust and performance of strategic alliance

Existing literature points out several ways through which interorganizational trust can influence performance of alliances. Mainly, all of them increase performance of strategic alliance through a reduction in transaction costs involved into the activities of strategic alliances.

4.3.1 Trust as a deterrent of opportunistic behavior

First of all, as it was proposed by Bradach and Eccles (1989), trust in interorganizational exchanges serves as a tool to reduce opportunistic behavior. When high degree of trust exists in strategic alliances, there is a strong propensity that short term individual goals will be passed in favor of long term common benefits, which will decrease transaction costs and increase alliance overall performance (Banks, 1987). The reasoning for that is provided by Hill (1990), who claims that motivation for engagement in opportunistic behavior is reduced substantially in trust-based interorganizational exchanges, since “behavioral repertoires are biased toward cooperation, rather than opportunism”.

4.3.2 Trust as a tool to economize on bounded rationality

Second of all, it is possible to analyze the effect of trust on performance of strategic alliances through the concept of bounded rationality. Zand (1972) in his research proposes a framework which leads to the conclusion that higher levels of trust will reduce behavioral uncertainty and lead to ‘economization on bounded rationality’. In particular, higher levels of trust will cause more accurate, comprehensive and timely information exchange, better receptivity to other partners’ influence, and lower levels of needed controls for the behavior of other partners. Consequently, it leads to the greater certainty of partners over each other’s behavior which reduces behavioral uncertainty, and lowers transaction costs. As a result, partners are able to increase performance of alliance. Later, the results of a research of Zand (1972) were confirmed by Lincoln (1990) and Powell (1990). For instance, Powel (1990) suggests that “trust reduces complex realities far more quickly and economically than prediction, authority, or bargaining”.

4.3.3 Trust as reducing costs of negotiating

Third of all, trust may greatly reduce the costs of negotiating between partners. The negotiating costs can be defined as costs (e.g. time and effort) which arise in the process of reaching mutually satisfying agreements, determining efficient courses of action, and settling on divisions of costs and benefits (Milgrom and Roberts, 1992). It is possible to come to the conclusion regarding mutually satisfying agreements much faster and with lower efforts in case of high interorganizational trust. It becomes possible due to an elimination of such drawbacks of negotiations as imperfect communications, misrepresented information, private information and verification difficulties, which make information
sharing more honest and open, allowing for development of common understanding over arising issues (Zaheer et al., 1998). In other words, trust reduces costs of negotiations and makes them faster and easier by providing each partner with an opportunity to be more flexible in reaching agreements and sharing sensitive information, due to mutual expectations that the other partner will reciprocate in future as well (Dore, 1983). Negotiations between partners with low level of trust are more likely to be extensive in time and difficult in terms of efforts involved (Williamson, 1975). According to Williamson (1975, 1985), such an effect will arise due to two reasons. First of all, partners will have to discuss all contingencies because of partners’ possible ex ante and ex post opportunism will be present. Second of all, partners will have to negotiate over contractual and structural safeguards in order to protect investments in the relationship.

The performance of an exchange relationship is highly dependent on parties’ ability to limit the contracting costs, which arise at the moment of negotiations and renegotiations (Zaheer et al., 1998). Obviously, the negotiation costs are lowering overall performance of strategic alliance. It happens because the time and efforts spend on negotiations in pursuit of influencing the terms of the deal can be considered as waste (Milgrom and Roberts, 1992). In other words, as Zaheer et al. (1998) proposes, the performance is influenced by those unnecessary costs, which distract partners from their business. Trust-based relationships will be aimed at reaching mutually beneficial agreements and solutions, even in case of arise of contingencies not explicitly covered by the contract (Zaheer et al., 1998).

4.3.4 Trust as a tool for reducing conflicts

Fourth of all, trust may assist partners in avoiding conflicting situations. It is not uncommon for partners to experience various conflicts, which arise very often due to disagreements of partners over crucial aspects. Those disagreements might be provoked by divergent goals that firms pursue in their exchange relationships and unforeseen contingencies in their relationships (Zaheer et al., 1998). In case of trust-based relationship, conflicts can be solved much easier in order to sustain stable relationship through common range of norms and social processes (Macneil, 1980).

Reduction in conflict situations will also result in the increase in performance of alliance. As it was proposed by Narus (1990), disagreements in interorganizational exchanges may result in conflicts destroying the relationship. The overburdens of relationship with conflicts will most likely result in dysfunctional outcomes, such as additional time and effort spent on conflicts resolution (Zaheer et al., 1998). As was already said, those time and effort, which could very much be avoided in case of trust-based relationship, can be considered as waste. Therefore, direction of time and effort in activities which are not creating additional values for the relationship will result in lowering the performance of
alliances. Madhok (1995) states that trust between partners helps to prevent many conflict situations from happening by “reducing friction”, which allows partners to avoid waste of time and efforts on non-value creating activities, and stimulates the performance of alliances. Such an effect is realized through the presence of greater tolerance towards conflicts and presence of partners’ motivation to develop relationship despite unforeseen circumstances (Gomes-Casseres, 1987; Kogut, 1989).

4.3.5 Other ways through which trust can stimulate performance of strategic alliance

Furthermore, as proposed in a research by McEvily et.al (2003) trust can result in increased performance of the relationship by improving the scale and the scope of communication between partners. Accordingly, Dyer and Chu (2003) state that partner’s trustworthiness influences the degree of information exchange. Particularly, they state that higher levels of perceived partner’s trustworthiness are more likely to cause more extensive information sharing between partners. Likewise, Creed and Miles (1996) point out that trust facilitates more open communication and information sharing.

Finally, in order to realize another influence of trust on performance of an alliance, it has to be studied together with control over the alliance. Various researchers, studying the effect of control emphasized its importance on performance of strategic alliances. Ouchi (1979) observes that in the organizational context “people must either be able to trust each other or closely monitor each other.” Therefore, there is a negative correlation between the level of trust and amount of control over the alliance. Sprenger (2004) explains such relationship by stating that control can be reduced due to expectations about competence and goodwill in acts of a partner. Therefore, higher level of interorganizational trust between partners leads to a reduction of control imposed over strategic alliance. Consequently, efforts and costs which were spent on control now can be spent on value-creating activities.

4.4 Trust and its effect on idiosyncratic resources creation

Interorganizational trust is essential for strategic alliances not only because it has direct influence on their performance, but also due to its influence on the idiosyncratic resources creation within strategic alliance. As was concluded in the third chapter, idiosyncratic resources of strategic alliance arise as a combination of complementary resources of each individual partner. Greater input of complementary resources will result in accumulation of larger degree of idiosyncratic resources. However, the degree of resource input might depend on the degree of interorganizational trust between partners. Thus, as was proposed in a paper by Hennessy (2002), “resource commitments of each partner in the form of inputs... are a function of trust between partners at any given time.”
Absence of trust might create confusion whether to treat partner as an enemy or an ally, creating difficulties for a resource exchange (Powell et al. 1996). The resource exchange might be limited as a result of lack of trust in the strategic alliance. Conversely, in case of strategic alliances based on trust, resource exchange might receive additional boost. For instance, according to Blau (1964) trust-based relationship stimulates free exchange of knowledge, since partners do not feel a need for protecting themselves from opportunistic behavior. Tsai and Ghoshal (1998) confirm these results by stating that the resource exchange appears to be easier between partners who have high level of trust, since they are not afraid to be taken advantage of. They state, that partner with a higher level of interorganizational trust is more likely to interact in higher degree of resource exchange. Therefore, firms are willing to share more resource with partners whom they see as more trustworthy.
Chapter 5 – Conclusions and recommendations

5.1 Conclusions

From the following paper several important conclusions regarding the strategic alliances and their performance can be made. Despite all the potential benefits that strategic alliances can have for the individual firms, they remain very fragile constructions, which often fail to bring any value to the partners. The following paper emphasizes the importance of careful partner selection, which happens before the actual strategic alliance formation. Two factors influencing the future performance of strategic alliances, namely complementary resources of individual partners and interorganizational trust between partners, were identified as having potentially positive effects. However, unlike many papers individually discussing direct effects of each of these variables, the current paper emphasizes the importance of considering those factors as interdependent. For the sake of ease of understanding of those relationships, two theories, namely resource-based view and transaction cost theory were used.

Through the RBV current paper explains the underlying reasoning for the strategic alliances creation, and the relationship between complementary resources of each individual partner and performance of strategic alliance. It was found out that having high degree of complementary resources by individual partners is vital for the performance of their alliance, due to possibility of realization of unique competitive advantages. However, it is also concluded, that simply obtaining complementary resources is not enough for creating unique competitive advantages within strategic alliances. It is a requirement that complementary resources of each individual partner are combined together. Such combination of resources is called ‘idiosyncratic resources’ and it mediates the relationship between complementary resources and alliances performance. Higher complementarity of resources causes higher degree of idiosyncratic resources. Consequently, higher degree of idiosyncratic resources, which play a role of a mediating variable, will lead to increased performance of an alliance through creation of unique competitive advantage.

With the help of transaction cost theory the relationship between interorganizational trust and performance of strategic alliances was explained. It was concluded that interorganizational trust can be used within an alliance to increase its performance, by minimizing various costs connected to transactions and directing them into value creating activities. Several ways, through which such effect takes place, were outlined. First of all, interorganizational trust can be served in order to minimize the causes of transaction costs emergence by deterring opportunistic behavior and economizing on the bounded rationality. Second of all, interorganizational trust can be used to minimize transaction costs by
minimizing costs of negotiating, reducing conflicts, improving scale and scope of communication between partners, and reducing control and monitoring costs. Therefore, high level of trust between potential partners is crucial in order to keep transaction costs on minimum and enhance the performance of their strategic alliance. Lower levels of trust will inevitably lead to increase in transaction costs which, in turn, will decrease performance of strategic alliance.

Moreover, current paper went beyond the scope of most of the papers, describing only the direct effect of interorganizational trust on the performance of the strategic alliances. It is shown that interorganizational trust has an important moderating effect for the relationship between complementary and idiosyncratic resources. As it was investigated, simply obtaining high degree of complementary resources is not enough for combining them into idiosyncratic resources. Partners should be willing to share their resources to a high extent. Higher interorganizational trust enhances the willingness of partners to contribute their resources to the creation of new competitive advantage by combining them into idiosyncratic resources, since they are less afraid to be taken advantage of. As it can be concluded, higher degree of trust will stimulate partners to input more complementary resources in their partnership, which will create an opportunity for creation of higher degree of idiosyncratic resources. In case that relationship is not based on trust, partners might not input resources into partnership that easily, which will create a barrier for idiosyncratic resources creation, which in turn will affect the performance of strategic alliance.

The main conclusion, which can be derived from the following paper, can be particularly important for the managers. There are various factors which contribute to the development of alliances’ success and high performance. Despite various causes which might influence the performance of alliance already after their formation, current paper concentrates on several important factors, which should be carefully considered before the actual formation of the strategic alliances during the phase of partner selection. Those factors are complementary resources and interorganizational trust. In choosing the compatible partner, it is very important for managers to select those, who are in possession of high degree of complementary resources to the resources already obtained by their organization. Moreover, managers should choose only those organizations to have strategic alliances with, which they consider as trustworthy enough. Managers should make a selection in favor of such partners with whom they are maintaining high degree of interorganizational trust. By satisfying these two conditions on the phase of partner selection, firms are able to form strategic alliance which has a high chance to be highly successful and realize the goals of individual partners to a high extent.

5.2 Limitations and practical recommendations
Current paper is concentrated on the factors crucial for the performance of the strategic alliances, which partners should take into the account on the phase of partner selection before the actual alliance formation. Interorganizational trust and complementary resources of each partner were considered to be the most important factors to take into the account by the managers while choosing the appropriate partner. However, several other factors might also be important for managerial consideration while choosing a partner for alliance formation, which were not explicitly covered in the current paper. Such factors could be managerial capabilities for alliance management, alliance experience of the partner, size of the partner, cultural-fit, or strategic fit. Due to the limits imposed on the size of the current paper, only two factors were selected for further elaboration. However, for the robustness of the results, more factors crucially important for the partner selection should be included in the future researches.

What’s more, careful selection of partners itself doesn’t guarantee the successful implementation of strategic alliances. The performance of strategic alliances can be very much affected by the implementation factors and environmental factors beyond partners’ control, which were not considered in the current paper. Such factors could be frequent performance feedback, information system integration, dynamics of competition, technological shifts, government regulations, or natural disasters. These factors could not be included in the paper due to size restrictions as well. The future researchers studying the performance of strategic alliances should go beyond the partner selection factors, and include implementation and environmental factors in their researches.

Furthermore, due to the choice of literature review, as a type of research, none of the empirical or statistical analyses were conducted. The reasons for choosing literature review were discussed in the introduction chapter of the current paper. However, literature review is not always appropriate type of research, since the knowledge might have became obsolete already or be highly criticized. For instance, the resource based view, which is a cornerstone for understanding the relationship between complementary resources and performance of strategic alliances has substantial weaknesses, among which the most important are paradoxical, tautological, and infinite regress (Lado et al., 2006). For these reasons, the next research should be conducted together with empirical and statistical analyses, which will help to shed the light upon truth, despite the knowledge obsoleteness, which could have became an issue since the previous researches.
List of references


