A Study into the Role of a Partner Selection Process in Alliance Capability Building

Danielle Duisters1  Geert Duysters2  Ard Pieter de Man3
1 Eindhoven University of Technology, The Netherlands
Zuyd University, Heerlen, the Netherlands
2 Eindhoven University of Technology, The Netherlands
UNU Merit, Maastricht
3 Atos Consulting, Utrecht
Vrije Universiteit, Amsterdam
(Email: d.duisters@hszuyd.nl, g.m.duysters@tm.tue.nl,ard-pieter.deman@atosorigin.com)

Abstract This study of partner selection supports prior scientific research and explanations of alliance capabilities, a critical success factor for alliances. Although prior research was focused on the importance of these capabilities for the success of alliances, it was less on the role of specific capabilities. Unfortunately, there is a lack of specific information and research concerning the design of each specific alliance capability including its processes, mechanisms and tools.

Partner selection is one of the most critical alliance capabilities in the establishment of alliances. The right choice of partner has been identified in numerous studies, as a precondition for alliance success. This means that designing a partner selection process including steps, criteria, tools and success factors, is vital for alliance success; and applying more analytic and systematic methods in partner selection could increase the success rate of partnerships.

In order to understand differences in alliance performance, we conceptually explore the role of a partner selection process in alliance capability building.

This paper suggests that the use of a partner selection process serves an important function as an alliance capability and thus it has a significant influence on alliance performance. Building on an extensive literature review, a model is introduced which represents the importance of a partner selection process. From this model, three propositions are derived to explain the role of a partner selection process in alliance capabilities and alliance performance.

Key words alliances, alliance capabilities, partner selection, process

1 Introduction

1.1 ‘to win and innovate, you have to cooperate’

Partner selection is one of the most critical alliance capabilities in the establishment of alliances (Bronder & Pritzl, 1992; Geringer, 1991; Varis et al, 2002). The right choice of partner has been identified in numerous studies, as a precondition for alliance success (Bierly III & Gallagher 2007). This means that designing a partner selection process including steps, criteria, tools and success factors, is vital for alliance success; and applying more analytic and systematic methods in partner selection could increase the success rate of alliances. This study will investigate the role of a partner selection process in alliance capability building. We build upon and advance previous conceptual work on strategic alliance capability and alliance performance. This integration as well as extraction of one specific alliance capability mechanism is unique and will address important theoretical and empirical gaps within the existing literature. According to literature (Bronder & Pritzl, 1992; Glaister and Buckley, 1999; Bierly III & Gallagher 2007; Draulans et al, 1999; Margulis & Pekar, 2000) partner selection is important for the success of an alliance, but they hardly say how the partner selection process should look like and should be managed. Additionally, a partner selection has not been investigated empirically so there is an open research field with regard to the role of a partner selection process within alliance capability building.

1.2 Various authors have defined strategic alliances in a different way

We follow the definition of Duysters et al (2005) who, after a literature research, came up with the following:
- voluntary, evolving, open-ended and flexible organisation forms
- between two or more organisations
- in order to realize individual and joint objectives
- at what products, services and technologies are being exchanged
- while keeping their own identity
Strategic alliances are becoming the cornerstone of business development in order to compete and therefore the number of alliances increases (Cravens et al., 2000; Dacin & Hitt et al., 2000; de Man et al., 2001). Companies are not able to deliver all the required value to the customer by themselves. They form alliances in order to enter new markets, to gain knowledge or to share risk and resources (Dacin & Hitt et al., 2000). Accordingly, collaboration is essential for staying in a business; therefore it is more and more integrated in the company strategy. The increasing number of partnerships led to a network of interfirm collaboration and organizations need to create their own area of partnerships. (Chung, Singh & Lee, 2000; Duysters et al., 1999; Gimeno, 2004). Besides the relation between two firms also the position in this network becomes relevant for the ability to compete and thus for the formation of alliances (Duysters et al., 1999; Gimeno, 2004). The network of pre-existing alliances that surround potential partners is also a reason to design an alliance (Chung, Singh & Lee, 2000). Once a company has decided to form an alliance, it has to select an appropriate partner. Partner selection is one of the most critical mechanisms in the establishment of alliances (Bierly III & Gallagher, 2007, Bronder & Pritzl, 1992; Geringer, 1991, Glaister and Buckley, 1999; Varis et al., 2002).

Although there is some research about the existence of partner selection, more research is required to explain the role of a partner selection process in alliance capability building (Pidduck, 2006). This paper aims to enhance our understanding of the role and importance of a partner selection process as an alliance capability. In order to accomplish this goal, the paper first introduces a model for the importance of partner selection. Moreover, having analyzed alliances, alliance capabilities, and partner selection, this study introduces three main propositions. In doing this, we hope to engender an increased understanding of the critical issues with respect to the importance of a partner selection process as an alliance capability.

Eventually, we aim to provide firms with critical insights into why they should leverage their experience and deal with a partner selection process.

2 Theoretical/Conceptual Background

Developments in alliance capability research

So far, prior scientific alliance research can be categorized along two dimensions: (1) those that contribute to investigating inter-firm learning in alliances and the generation of relation-specific rents and (2) those that examine intra-firm learning in alliances and the generation of firm-specific rents (Heimeriks et al., 2004). The first group of studies mainly looked at the acquisition of capabilities through alliances, the second group of studies looks at internal sources of capabilities. Traditional literature is focusing on the bilateral relationship between individual partners. Within this traditional literature, the ‘fit’ between companies is an important success factor (Douma et al., 2000; Varis & Conn, 2002). When the strategies, structures and cultures of companies fit together, an individual alliance will become viable and rent-optimized. Recent research, grounded in theory about capability building shifts the attention away from the relationship between individual companies towards the alliance capability of the companies involved in an alliance (Anand and Khanna, 2000; Lambe et al., 2002; Hoang et al., 2002; Heimeriks et al., 2004).

Instead of looking at the relationship between companies, the focus is on the internal capabilities and operations of alliance partners. Recent alliance research explores the role of internal organizational attributes, such as organizational structure, managerial processes and routines in order to explain differences in alliance performance (Anand and Khanna, 2000; Lambe et al., 2002; Hoang et al., 2002; Heimeriks et al., 2004). While traditional research focused on the performance of individual alliances, recent research is focusing on the performance of the entire firm’s alliance portfolio. Companies need to build their firm-specific alliance capabilities in order to become successful with alliances (de Man & Duysters, 2002; Spekman et al., 2002; Heimeriks et al., 2004).

Not the alliance as is, but the companies that participate in the alliance and alliance capabilities they bring along, are the focus of attention. Acquiring alliance capabilities will result in increasing success rates. Instead of focusing on why specific alliances are more successful than others it is more important to focus on why specific companies are more successful in holding alliances than others. The focus is shifted to knowledge, experience, tools, processes and management techniques companies own. Therefore, instead of focusing on the relationship between partners, one should tend to focus on the partners themselves.

According to the shift from traditional to recent research as explained above, we propose the following model to link the different development in order to clarify the importance of research within
Previous conceptual work focused on traditional fit criteria like organizational, strategic and cultural fit. Because this research did not explain the consistent difference between the alliance performance of organizations, new literature arises concerning alliance capabilities (Anand and Khanna, 2000; de Man & Duysters 2002; Lambe et al, 2002; Heimeriks et al 2004; Hoang et al, 2002; Spekman et al, 2002). Researchers investigated which capabilities needed to be developed and the importance of them in general. Unfortunately, there is a lack of specific information and research dealing with specific development of each individual alliance capability (Hoang et al, 2002; Lambe et al, 2002; Heimeriks et al 2004). Therefore, upcoming conceptual work should consider the criteria, process, mechanisms for each individual alliance capability. This paper focuses on one of the most important alliance capabilities namely a supportive partner selection process and structure. It will pull this individual alliance capability to a higher level by exploring it and by providing insight in the importance of a partner selection process as an alliance capability.

Alliance capability

In previous studies, alliance capability is defined as a firm’s ability to capture, share, disseminate and apply alliance management knowledge (Heimeriks et al, 2004; Eisenhardt and Martin, 2000). We use the definition of Kale et al. (2002): ‘alliance capability are the organizational mechanisms and routines that are purposefully designed to accumulate, store, integrate, diffuse and apply relevant organizational knowledge acquired through individual and organizational experience of alliances’.

Accordingly, two basic elements need to be realized when considering alliance capability: experience with alliances and mechanisms to profit from that experience. Bamford et al. (2003), state that alliance capability consists of two parts; alliance management process awareness and infrastructure. The first part deals with managing alliances through the phases of their existence, whereas the second part deals with functions, tools and external parties for facilitating knowledge about the management process.

From a societal perspective this paper is relevant because strategic alliances are important ways for organizations to innovate and acquire new competencies. (de Man, 2005; Heimeriks et all, 2004).

Strategic alliances are become the cornerstone of business development. This trend occurs despite the fact that success rates of alliances have remained low. Failure rates of 60%-70% are not uncommon (de Man & Duysters, 2002; de Man et all., 2001; Spekman & Isabella, 2000) Over recent years, extensive attention has been paid to the role alliance capability play in explaining competitive
advantages which may also decrease the failure rates (de Man, 2005; Heimeriks et al., 2004). Accordingly, there is an emerging body of literature in the importance of alliance capability, but more research is required to explain how to manage the specific individual processes, structures, tools and mechanisms (following figure 1) which might be relevant for developing one's alliance capability. Unfortunately, there is a lack of specific information and research concerning the design and improvement of above-mentioned individual processes, mechanisms and tools.

Alliance capability: a partner selection process as a crucial individual alliance capability

As stated before, failure rates of 60%-70% are not uncommon for alliances (de Man & Duysters, 2002; Spekman & Isabella, 2000), thus it is quite worrying that the need to partner is urgent but the chance that the collaboration will fail is high. It is no matter of luck an alliance will fail or succeed, by building one's alliance capabilities, one's alliance performance will succeed (Draulans et al., 1999; Margulis & Pekar, 2000). As followed by figure 2 below, there are five main reasons for alliance failure (de Man & Duysters 2002).

![Figure 2 Five main reasons for alliance failure](source: de Man & Duysters (2002))

The strategy/culture of the partner did not fit, the partner was not able to deliver expected competencies, there were operational problems, and/or there was a lack of trust. Four out of those five reasons are related to partner selection and therefore a thorough standard partner selection process focusing on those 4 reasons should be used. Accordingly, when selecting a partner, one should at least deal with each other’s culture, trust, strategy, competencies/capabilities and expectations (Varis et al., 2002; de Man & Duysters, 2002). When firms become engaged in the negotiation of an alliance, they are likely to have different strategic objectives and asymmetric capabilities (Glaister and Buckley, 1999). Too much overlap in fit can stir up competition, because both alliance partners want to offer the same to the market. On the other hand too many differences can often lead to confusion and drift, because it can be possible that the firms do not understand each other. Lambe et al. (2001) and Stanek (2004) believe that differentiated, but partially overlapping, may contribute the most to alliance success. However, overall the goal of both firms is to create a win-win situation.

According to Segil (2005) and Glaister and Buckley (1999) a complementary fit is important during the start-up stage of an alliance, because at that moment the alliance is created and it is decided what it is about. During an alliance life cycle the fitness of the alliance is important for both firms, because if there is not enough fit anymore, the alliance will be ended. The use of a structured partner selection process is a way to build one’s alliance capability and will lead to higher alliance performance (Bierly III & Gallagher, 2007; Bronder & Pritzl, 1992; Draulans et al., 1999; Margulis & Pekar, 2000).

The importance of partner selection

In general, when companies want to cooperate as an alliance, they follow three main phases: formation, operation and evaluation (Wahyuni, 2003). Partner selection is part of the first phase formation. Within this formation or plan phase, a company willing to form an alliance should first assess itself (Wahyuni, 2003; Dent, 2004). A company should first analyze itself to understand the type of partner that is needed. One should analyse its own culture, alliance capabilities and strategy as well as its own needs and goals of the alliance. When the needs and goals are clear and when
there is a strategic analysis, one is able to start a partner selection process. A company has to explore and assess prospective partners in order to select one that fits its own needs and objectives. After the selection of the most viable partner, the strategic alliance can be started.

Partner selection is one of the most critical alliance capabilities in the establishment of alliances (Bronder & Pritzl, 1992; Geringer, 1991; Varis et al., 2002). The right choice of partner has been identified in numerous studies, as a precondition for alliance success (Bierly III & Gallagher, 2007).

The choice of the right partner can lead to important competitive advantages (Dacin et al., 1997), and the choice of a wrong partner will lead to failures from the beginning of the alliance (Gomes-Casseres, 2000).

Partner selection plays a major role in the governance of alliances (Dacin, Oliver & Roy, 2007). By forming an alliance, a company has less autonomy compared to fusions or acquisitions. A company is not able to control everything itself because of the existence of its alliance partner. By choosing a right partner, this control gap can be overcome. According to previous research, alliance governance has either an equity or a non-equity structure (Dacin, Oliver & Roy, 2007).

In equity-based alliances, partners are more interdependent compared to non-equity-based alliances. More commitment, confidence, formality, control, joint ownership, risks, involvement is demanded from one’s partner (Dacin, Oliver & Roy, 2007). Due to the differences in demanding from partners between governance structures, a company should use partner selection criteria related to the future structure of the alliance. By selecting a partner that fits one’s governance structure, a company will overcome its control gap and it will be able to cooperate.

Besides the traditional relation and fit between two firms also the position in a network becomes relevant for the ability to compete and thus for the formation of alliances. According to Gimeno (2004): “different structural measures of position in the alliance network (centrality, cohesion, autonomy, status, related partners) influence alliance formation and competition. If network alliances provide firms with competitive advantages, competitors may be negatively affected by the alliances of their rivals (Silverman & Baum, 2002).” This network dimension makes the cooperation very complex. This is also one of the reasons, a structured partner selection process needs to be developed (Duysters, Kok, Vaandrager, 1999). Especially because of the fact that the number of participants are increasing, the tension between competition and cooperation arises and the need to clarify the difference between key strategic partners (long-term) and partnerships that only serve short-term goals, a structured partnering approach is necessary (de Man & Duysters, 2002).

Accordingly, companies need to build their alliance capabilities by using a structured partner selection process in order to design bilateral and multilateral alliances.

This means that designing a partner selection process including steps, criteria and success factors, is vital for alliance success; A lot of failing factors are related to partner selection (De Man & Duysters, 2002; Medcof, 1997), and choosing a wrong partner could be more risky for a company than developing no alliances at all (Brouthers et al., 1995). Therefore more and more companies are interested in partner selection as an alliance capability! Due to a lack of literature, this study shed more light on partner selection as an important alliance capability.

In spite of its importance, it is surprising that there are only a few articles about partner selection. There are some articles concerning partner fit, but none consider a partner selection process, including criteria, tools and steps. Not to mention that there is no described case study about partner selection at all. We will try to fill this gap by investigating partner selection as a crucial alliance capability.

Proposition 1: companies need to build their alliance capability by using a structured partner selection process

In 2002 and 2007, First and Second State of Alliance Management research projects were carried out on behalf of the Association of Strategic Alliance Professionals. Nearly 200 global companies responded to the request of de Man and Duysters to answer 60 questions related to their alliances and alliance management. The aim was to find out what management tools companies used and whether these tools were successful. The most frequently used tools/processes and functions in 2002 are described below in figure 3.
As one can see, a standard partner selection process is one of the most important tools to be used. Also out of the research of 2007, it appears to be that 67% of all alliance professionals are using a standard partner selection process. As mentioned before, alliance failure rates of 60-70% are not uncommon (de Man, 2002; Spekman & Isabella, 2000; de Man et al., 2001; Duysters, 2001), and 80% of those failures is due to reasons related to partner selection (de Man & Duysters, 2002). Seemingly, a lot of alliance professionals are using a partner selection process, but they don’t do it effectively because most of their alliances fail due to partner selection reasons. This underlines the importance to look in depth at partner selection.

Concluding, building an alliance capability requires investment in a partner selection process. By using a structured partner selection process, we expect that low performers will turn into high performers (Bell, 2003; Draulans et al., 1999; Margulis & Pekar, 2000).

**Proposition 2: Having a well-structured partner selection process in play, can lead to higher performance**

Most of the failing factors of alliances are related to partner selection because of a lack of fit (De Man & Duysters, 2002; Medcof, 1997). A company is able to detect this lack of fit in an early stage, by using a structured partner selection process including motivational and intentional criteria and questions regarding the degree of fit.

This study would like to further investigate the second proposition by using the roots of the reasoned action theory (Ajzen & Fishbein, 1975). The Theory of Reasoned Action says that a person’s behaviour is determined by their attitude towards the outcome of that behaviour and by the opinions of the person’s social environment. Ajzen and Fishbein (1975) proposed that a person’s behaviour is determined by his intention to perform the behaviour and that this intention is, in turn, a function of his attitude toward the behaviour and his subjective norm. These roots can be used very specifically within partner selection because they attempt to explain how and why motivation and intentions impacts outcomes. That is, how and why companies’ beliefs change the way they act. This study applies this theory on a company’s partner selection motivation, intention and outcome.

![Figure 3 The most frequently used tools/processes](image)

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**Figure 4 Conceptual model of partner selection**

Source: Duisters (2007)
As mentioned before, a lot of alliance professionals are using a partner selection process but not successfully because a lot of alliances fail. According to figure 4, alliances would be more successful if their start was more structured within a process looking at the motivations and intentions of an alliance (Nielsen, B., 2003). Companies should first create an attitude (Fazio, 1986), to understand the use of the alliance and the fact that finding a partner is not just selecting a company they are already working with or which they know from somewhere. Companies should have a positive attitude towards the use of partner selection process and they should believe that the use of a structured partner process will lead to better performance (Albarracin, D., & Wyer, R. S., 2000). By having this positive attitude, companies will look in depth at their motivations and intentions to develop alliances. Without this attitude, the outcome will be lower because companies will not use a structured partner selection process. In any type of arrangement, goals and objectives have to be explored and articulated (Nielsen, B., 2003; Stanek 2004, Cravens et al. 2000). Firms need to agree to what the alliance is all about. The alliance support can be useful for making these motives widely known among alliance employees. Therefore the alliance managers generally use an alliance plan (Koza, M & A. Lewin, 2000; Segil 2004) and not surprisingly, specific goals lead to better performance than vague goals. By including a structured partner selection process within this alliance plan, the performance will be even more successful.

When in the beginning of an alliance life cycle the goals and objectives are formulated (Dent, 2004; Koza, M & A. Lewin, 2000), alliance tensions and instabilities may exist when the alliance partners fail to recognize mismatches in their goals. However, understanding the goals and objectives is necessary to start an alliance. Following the model, first companies should be aware about the importance of partner selection and the use of a process (Koza, M & A. Lewin, 2000). When planning to form an alliance, companies have to be clear about their motivations including expectations, strategic goals, and partner processes. By making that clear a company can act internally upon it and start to continue with concrete intentions by developing selection criteria, partner profile and by using tools to select eventually a partner. One’s motivation influences one’s intention and behaviour and outcome.

Figure 4 is leading in this study to explain proposition 2. A causal model in which motivation, intentions and outcome are bounding factors for explaining the importance of partner selection as a crucial reason for alliance performance has not been used yet.

Proposition 3: Motivational and intentional factors within a partner selection process have a positive relationship with the outcome of an alliance.

3 Discussion & Conclusion

Alliances play an important role for firms. Being aware of the relationship between alliance capabilities and alliance performance, this study has tried to uncover the importance of a partner selection process as a crucial alliance capability. Whereas former studies tended to focus on only alliance capabilities in general, this paper tries to pinpoint one specific capability namely partner selection. There is a lot written of alliance capabilities, but not about the individual ones.

The proposed conceptual model depicts the importance of a partner selection process as an alliance capability which is generated from a variety of studies. Three relationships are derived from the model, which provide the basis for three propositions representing the relationship between alliance capability, partner selection process and alliance performance.

So far, various theoretical perspectives and empirical settings have served to investigate the role of alliance capabilities in explaining alliance performance. Nevertheless, a specific partner selection process of alliances is a neglected topic.

Regarding previous research, it appears to be that 67% of all alliance professionals are using a standard partner selection process. Additionally, alliance failure rates of 50–60% are not uncommon and 80% of those failures is due to reasons related to partner selection (de Man & Duysters, 2002). Seemingly, alliance professionals use a partner selection process, but they don’t do it right. This underlines the importance to look in depth at partner selection. By investigating a firm’s motivations, intentions and outcomes with regard to partner selection as a causal model, a firm will better understand how to use a partner selection process right.

Not the alliance as is, but the companies that participates in the alliance and alliance capabilities they bring along, are the focus of attention. Acquiring alliance capabilities will result in increasing success rates. Instead of focusing on why specific alliances are more successful than others it is more important to focus on why specific companies are more successful in holding alliances than others. The focus is shifted to knowledge, experience, tools, processes and management techniques companies own. Therefore, instead of focusing on the relationship between partners, one should tend to focus on the partners themselves.
Successful companies make more use of a standard partner selection approach. Concluding, building an alliance capability requires investment in a partner selection process. By using a partner selection process, we expect that low performers will turn into high performers. This underlines the importance of a thorough partner selection as an alliance capability. Fixed steps, criteria and tools are needed in order to enhance alliance performance. Companies should be aware of the effect of partner selection to the success ratio of their alliances. By focusing on a specific partner selection process as described in the model above, a firm is able to become more successful.

Probably the problem of alliances is the use of a specific partner selection process. We believe that when following the sequence of a structured partner selection process, a company will have a start in building their alliance capabilities. Such a process should be very complete and therefore new in academic literature.

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