

**Dynamic partner fit of International Alliances: The
Experience of Taiwanese Construction Consulting Firms**

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中文摘要

成功的國際合作必須仰賴夥伴之間的相互配合。本研究中，我們辨別了三種夥伴適配型態：基本適配、策略適配與行為適配，並且說明了各種適配如何影響夥伴之間的關係及國際合作的績效與成果。此外，本研究進一步提出聯盟過程中的「動態夥伴配適模型」，並透過台灣營建顧問公司的國際化經驗，呼應在國際合作中所達到各種適配時的績效與意涵。

ABSTRACT

The success of international alliance depends largely on the extent to which partner firms work seamlessly with each other. In this study, we identify three kinds of partner fit: fundamental, strategic and behavioral fit, and illuminates that how various fits affect the relationship of partnership and the resulting performance of international alliance. Furthermore, this study also proposes a model of the dynamics of partner fit in the process of alliance formation, and examines, through the internationalization experience of construction consulting firms in Taiwan, the performance implication when partners reach different kinds of fits in international alliances.

Keywords: International Strategy Alliance, Partnership, Fit, Performance

1. INTRODUCTION

The use of strategic alliances has increased sharply over the last decade and they are particularly effective in helping a firm maintain a superior competitive position in dynamic environments. Sparked by a dramatic increase in the frequency of inter-firm collaboration across organizational, industry and national borders, the phenomenon of international strategic alliances (ISAs) has received growing interest in the literature during the last several years (Nielsen, 2003). ISAs are cooperative arrangements involving autonomous firms from different countries. They allow partners to share risk and resources, accumulate knowledge, and secure access to the foreign markets (Miller et al., 2008). ISAs have increasingly important, but a high level of dissatisfaction with actual outcomes relative to expectations has been reported, and many are not successful (Hitt et al., 2000).

Alliance success depends on an effective and efficient alignment (in other words, fit) between the partners involved. During the alliance, management must primarily focus on

achieving and maintaining a good 'fit' between the partners. Therefore, inter-partner's fits are key successful factors regarding the alliances. In this paper, we investigate the performance of international strategic alliance by the view of fit.

When managers have access to all relevant information and are not under time constraints, then they can use a rational, analytical process to evaluate the fit among alternatives. However, it becomes much more difficult when there is inadequate information (Bierly & Gallagher, 2007). Past research on international alliance has been accumulating evidence on the governance decision and alliance performance. Relatively few come to term with the performance effect of partner selection. Finding the right partner is one of the most important success factors of a strategic alliance. However, partners are not always complete fit. For instance, the corporate has no sufficient time to search fit partner, or there are no complete fit partners you can choose. Sometimes, partners are appointed by customer and are strangers. In order to achieve successful alliance, the fits should be reached during the future period of the cooperation.

The traditional concept of fit is too static considering the dynamic nature of strategic alliances. Every alliance is a repetitive sequence of stages of negotiation, commitment and execution in which the strategic objectives, organizational structures, operational activities and cultures, as well as the individual interests of the partners must be aligned. The fit that the partners have established will be continuously challenged by changes in the environment or within the organization of one of the partners (Douma, 2000). In this paper, we take a dynamic rather than static view of fit. A good fit may deteriorate over time, whereas an insufficient fit at the start of an alliance can sometimes be improved, provided the alliance partners have the capacity to manage the dynamics of fit effectively.

There are three core objectives of this article. First, this article identifies different aspects of fit and their interrelationships. Here, we focus on fundamental, strategic and behavioral fit and the dynamics of those in particular. This study proposes the dynamics of various fit during the process of cooperation, and discusses the relationship between inter-partner's fit with the performance of alliance.

2. INTER-PARTNER'S FIT

Douma (2000) argues that the success of any given alliance depends on the extent to which partners match with each others in an effective and efficient manner; that is, the degree of “fit” among alliance members is critical. Harrigan (1988b) define so called “fit” as the complementarity or compatibility among partners. The former implies different and valuable resources or capabilities contributed by partners to the alliance (Kale et al., 2000) because their specialties are not overlapped (Mowery et al., 1996b). In contrast to the visible features of partners, the latter focuses on the so called “chemistry” between partners which affects the communication and coordination. In addition, the partner fit can be characterized not only by their complementary balance but by mutual benefits, harmony, and interdependency (Douma, 2000).

Bronder & Pritzl (1992) observe many types of partner fit and classify them into (1) fundamental fit, characterized by the complementarity of some visible and extrinsic assets or resources; (2) strategic fit, characterized by the harmony, shared or coherent goals and strategic posture; (3) cultural fit, characterized by the compatibility among the partners in terms of culture, technology, communication and coordination. Luo (1998) is the first attempt to classify the partnership fit and argues that the firm should select the partner with strategic, organizational and financial fit. A partner’s strategic fit influences the operational skills and resources needed for the joint venture’s competitive success, organizational fit affects the efficiency and effectiveness of inter-firm cooperation, and financial fit impacts the optimization of capital structure and cash flow.

Fundamental fit is one of the most common and rational explanations for the way in which the resource needs of alliance partners are met. An alliance may provide a firm with access to resources that are not available within the firm. In terms of the International strategic alliance, firms need the resources may take the form of capital, assets, experience, local knowledge or market position/reputation. These resources are observable and easily identified before the partnership is formed.

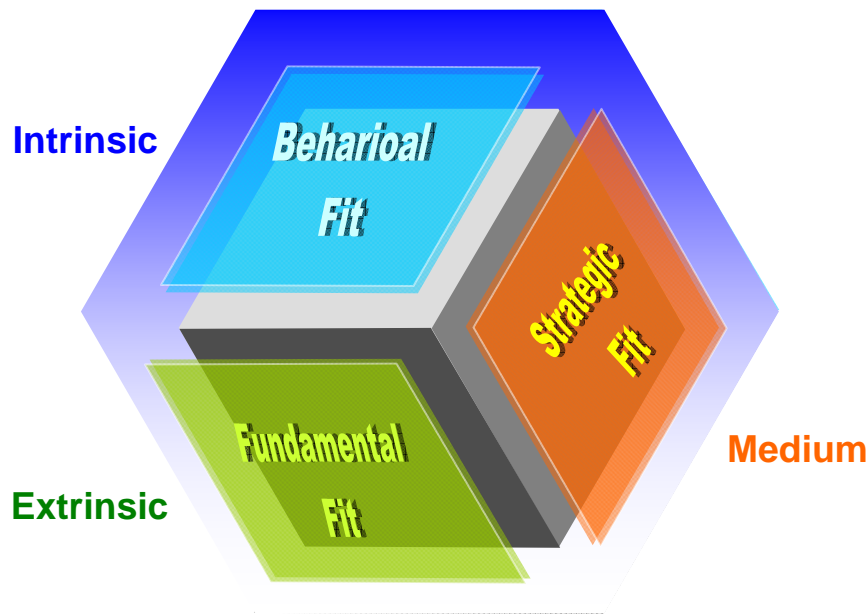
A successful alliance requires mutual dependency; that is, the better the partners complement one another (such as resources, competence complimentarity and so on), the more likely the alliance succeeds. Sustaining mutual dependency requires a proactive

attitude from the partners involved. They must try to avoid, for example, unwanted transfer of knowledge or too great an overlap in markets, which would reduce mutual dependency (Douma, 2000). Two companies achieve a strategic fit when activities and expertise complement in a way that increases value potential. A 'win-win' situation from which both partners benefit is an ideal supposition (Bronder & Pritzl, 1992).

Bucklin & Sengupta (1993) highlight organizational compatibility as the critical factors for partner selection; that is, not only are the pursuing goals shared by partners but also business logics and culture are similar. In an international strategic alliance, the possible conflicts as a result of economic distance and cultural distance among partners can be effectively reduced by mutual trust and reciprocity, which are collectively characterized as "behavioral fit". The failure of the cooperation in International strategic alliances was due to the lack of a behavioral fit.

Based on the above review, this study proposed the three types of partner fit in international alliance, namely, fundamental fit, strategic fit, and behavioral fit, each of which leads somewhat to the performance of an alliance (as Figure 1). The international partnership need not to reach all types of fit nor pursue them in sequence, but the nature of these fits goes from extrinsic to intrinsic gradually, demanding more time and mutual commitment in the latter types of fit.

FIGURE 1
PARTNER FIT OF INTERNATIONAL STRATEGIC ALLIANCES



Proposition 1. The success of international partnership is a result of fundamental fit, strategic fit or behavioral fit. The latter, the more intrinsic.

Proposition 2. In an alliance with unfamiliar partner, the success of partnership is dependent upon at least one type of partner fit.

3. A FSB MODEL OF DYNAMIC FIT

The core of the alliance issue lies in the potential conflict between partners. The contractual hazards, such as the contract incompleteness and the ensuing opportunistic behaviors of alliance members, increase the transaction costs and reduce the willingness of close collaboration. However, with the advent of globalization and competition in faster cycle, partnership is sometimes the only choice because of the limited resources and capabilities of any single firm under the circumstance of high-velocity competition and increasingly short life cycle of products or services. The most common observable cases are that MNCs collaborate with local firms due to the lack of local knowledge. The

fundamental fit is thus reached by the complementarity of some visible features, assets or reputation. However, some strategic alliances are formed under the shared goals to pursue certain competitive advantage. The strategic fit can be reached by the complementarity of some invisible resources and capabilities among partners. Despite many strategically fitted alliances are usually operated under frequent communication, the collective performance of alliance are sometimes hindered by the conflicts from economic or cultural distances between partners. On the other hand, the strategic fit does not guarantee the behavioral fit which comes usually from prior experience, long-term commitment and similar routines of doing things.

Morgan & Hunt (1994) argue that the similar cultural background among alliance members, through a more common values, belief and routines, lead to higher level of mutual trust and, in turn, the performance of alliance. In a study of marketing alliances, Smith & Barclay (1997) conclude that the cultural difference between alliance members is negatively associated with the level of mutual trust, implying the indispensable role of cultural difference in the success of alliance. Although the above results are known to practitioners, cultural difference cannot be blamed as the only excuse for many alliance failures. More and more studies are concerned with the ex post mechanisms or the pursuit of behavioral fit to soften the disadvantage of cultural difference.

Although the issue of cultural distance has been well studied, management researchers seem to have neglected another important variable assessing the distance between partners' countries. Ghemawat (2001) labeled this the "Economic Distance", which is a measure of economic disparity between two countries. The economic distance between two countries often reflects differences in factor costs (such as wages) and in technological capability, both important factors leading to the conflict and affecting the process of international alliance and performance (Tsang & Yip, 2007).

Scholars have defined trust as one party's confidence that the other party in the relationship will not exploit its vulnerabilities, and will behave in a predictable and mutually acceptable manner. Trust allows members to cooperate by expecting that others will respond favorably, and to candidly exchange technical and commercial information, thus

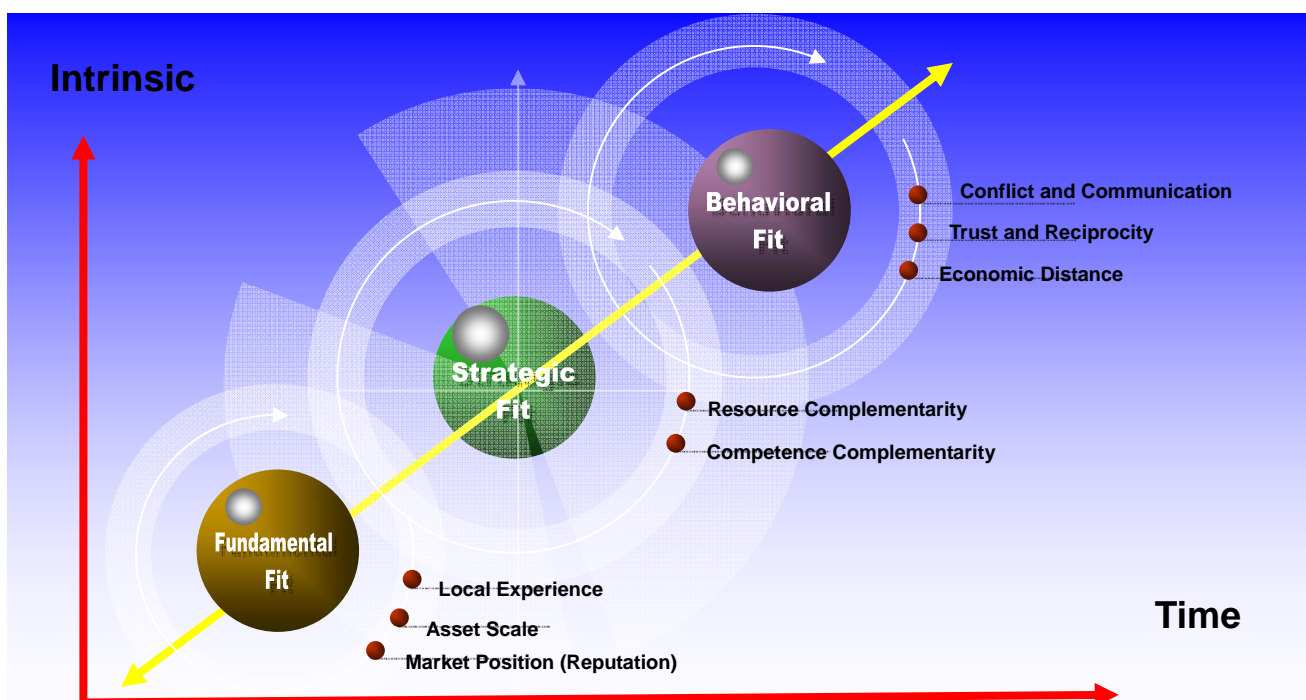
reducing opportunism, limiting transaction costs and facilitating learning (Murray & Kotabe, 2005). Trust between the organizational partners has been empirically demonstrated to be important for alliance formation.⁶ Trust can be a substitute for formal control mechanisms, reduce transactions costs, facilitate dispute resolution, and allow more flexibility in an alliance. Therefore, when trust among partners is high, partners have more confidence in each other and the probability of opportunism decreases (Bierly & Gallagher, 2007).

The cultural and economic differences in international partnership lead easily to the misunderstanding and conflict. The behavioral fit can only be reached over time and patience. Hence, more time is required for behavioral fit between international strategic alliance partners than Strategic alliance as well as fundamental alliance. In other words, the partner fit in more implicit manner needs more time to achieve in the international alliance.

Proposition 3. The partner fit in more intrinsic manner needs more time to achieve in the international alliance.

We provide a dynamic model (Figure 2) which can indicate the degree of implicit as well as the demand time of achieving fit in terms of these three kinds of fits.

FIGURE 2
FSB Model of Dynamic Fit



4. PERFORMANCE IMPLICATION OF PARTNER FIT

Alliance performance is a complex, systems-level concept that becomes relevant only when its component parts are thoroughly understood down to the operational level. Multiple factors determine the performance outcome of international strategic alliances, ranging from the nature of the industry and institutional environment within which the alliance operates to the quality and commitment of the alliance management. Since inter-organizational collaboration, especially across national borders, is path-dependent and continuously changing over time, it is conceptually important to distinguish between factors contributing to performance at the outset of an international strategic alliance and factors determining the ongoing development of performance in the relationship (Nielsen, 2002).

Although there is no commonly accepted measure for the performance of alliance, this study characterizes alliance performance as subjective performance and objective performance. The former includes the extent to which the alliance goal is reached, satisfaction with alliance and other partners, while the latter includes profitability, alliance sales, investment and the returns on sales and investment. The fit in lower order, such as fundamental fit and sometimes strategic fit, is based on the complementarity of visible resources, and more likely to pursue performance in an extrinsic way which can be measured objectively. On the contrast, the fit in higher order, such as behavioral fit, could lead to the intrinsic performance. Therefore,

Proposition 4. The partner fit in more explicit manner is positively associated with subjective performance, while the fit in more implicit manner is positively associated with objective performance.

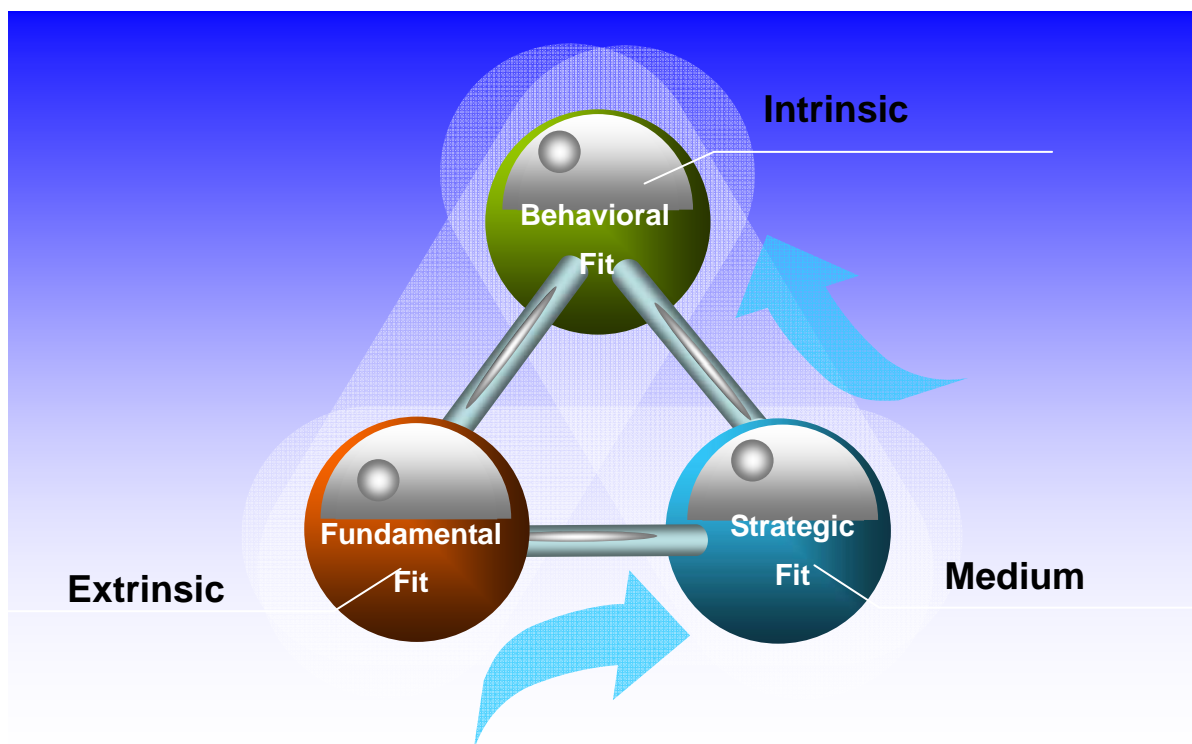
Fundamental, strategic and behavioral fits are all crucial to international alliance's performance. A partner with fundamental fits, but lacking strong Strategic and Behavioral fits, results in an unstable alliance. The possession of desirable Strategic fits without corresponding fundamental and behavioral fits leaves the alliance unprofitable. A partner

with superior behavioral fit without fundamental and strategic competencies can also lead to an unsustainable alliance.

A stranger is someone who is unknown to you; we define here strangers as potential alliance partners that are unknown to each other. Therefore, the form of trust between strangers is weak (Li et al., 2008). Due to the lack of trust and prior experience of collaboration, the behavioral fit is difficult to reach in an alliance with unfamiliar partner. However, despite the extrinsic fit, such as fundamental fit, cannot guarantee that the alliance is able to move smoothly to the intrinsic fit because of some inter-organizational obstacles to be overcome. On the contrary, the extrinsic fit is the essential prerequisite for the intrinsic fit. At the absence of fundamental fit, the resource needs of alliance partners are not met, providing partners no or little access to resources that are not available within the firm, or the partners don't complement one another (including resources or competence complementarity), then they don't need each other, therefore, behavioral fit is more difficult to reach, especially in the alliance with a stranger.

Proposition 5. In an alliance with unfamiliar partner, the extrinsic fit may not lead to the intrinsic fit. However, the lack of extrinsic fit is unlikely to generate subjective performance.

FIGURE 3. THE EVOLUTIONARY PATH OF PARTNER FIT



5. DISCUSSION

The global construction market is a rapidly changing, increasingly competitive environment (Carrillo 2001). It also exhibits a high oligopolistic market structure in which a few large firms from industrialized countries are responsible for a vast majority of contracts (Ofori 1996; Warf 1991). The past ten years saw the decline of the US share of the market and the emergence of firms from European and developing countries (Ofori 1996; Warf 1991), however US construction firms as a whole still received larger quantities of foreign awards than their rivals elsewhere (Warf 1991). Raftery et al. (1998) reported that one trend in the Asian construction markets is the increased foreign participation in domestic construction. He observed from archival research that the major international construction markets are moving from the developing world to the developed countries in Western Europe, Asia Pacific and North America.

Warf (1991) observed the changes of international construction contracts distribution from 1979 through 1988 and explained the changes to the changing fortunes of the petrochemical industry; regulatory and trade restriction relaxation in many industrialized nations; and progressive integration of the Western European markets. Han and Diekmann (2001) summarized four globalization factors in the last decade that may expand opportunities for contractors in international construction markets: (1) all signatory countries to the GATT (now, WTO) systematically opening their domestic markets; (2) the development of regional Free Trade Blocs; (3) the establishment of world standards; and (4) rapid developments in telecommunication, travel and other related industries.

Badger and Mulligan (1995) defined an alliance as “a long-term association with a nonaffiliated organization, used to further the common interests of the members.” Partners of international alliances cover a variety of candidates; they can be governments, clients, suppliers, engineering, financial institutions, subcontractors / specialty contractors, designers, and others. Badger and Mulligan (1995) indicated that many construction firms think it is almost impossible to penetrate new geographical markets without forming alliances, because forming alliances with the right firm can open the door to these markets, and it also makes the transition into new markets much easier. (Chen, 2005)

After an extensive interview with project managers of several local construction consulting firms and foreign firms, we collected and analyzed their company profiles, resource positions, core competence, approach to internationalization and particularly their experience of international partnership. The evidence extracted from our interviews in general support the above propositions. For example, a MRT project in Delhi India conducted by Continental Engineering Corporation (CEC) in Taiwan and Soma Co. in India shows us the performance implication of different partner fits. In this project, the CEC is responsible for the subcontracts of tunnel and tracks; Soma is in charge of the construction of MRT station building. Based on the similar level of assets of two partners and Soma's strength in local knowledge and prior experience of which CEC is short, this partnership illustrates the fundamental fit between the two firms. The strategic fit of this international construction project is also fulfilled because CEC is experienced in track engineering and advanced construction techniques, leaves common construction subcontracts to Soma which is capable to handle. Despite the two partners match with each other in terms of assets, experience and competence, there are occasionally conflict and miscommunication coming out of different business logics, values, norms and cultural backgrounds, some of which cannot be predicted beforehand and difficult to handle. However, the fundamental fit and strategic fit exhibited in this partnership have ensured the two sides with enough ability and motivation to pursue some goals of this project. The project is at the moment not yet finished but the objective performance indicators, such as the scheduled progress and the financial goals, have been met. From this case, different types of partner fit (or misfit) can be seen, and the preconditions to different fits are unique. By and large, the more extrinsic fit is easier to be reached. By contrast, due to the intrinsic nature of strategic and behavioral fits, it shows the diseconomies of time compression for partners to pursue. Therefore, our evidence echoes the proposition 1~3.

The other case is a railway rehabilitation project in Vietnam. With a 60-million-dollar loan from the Asian Development Bank, Taiwanese construction consulting firm CECI and French railway company SNCF are jointly responsible for the upgrade of the 285-kilometre railway line stretching from the northern suburbs of the Vietnamese capital of Hanoi to the

border with China. The two contractors are experienced either in design/maintenance or construction of railway business. SNCF owns enough local knowledge while CECI offers low-cost and efficient design service. Therefore, such a partnership meets the fundamental fit and strategic fit in the early stage of cooperation. However, like the case above, the cultural difference and inconsistent business logic, misunderstanding or even conflict occasionally occurred. The performance implication of this partnership is significant. Some objective indicators, such as the scheduled progress, are achieved. As regards the subjective indicators, the two partners adopt special communication and coordination mechanisms after the mid-stage of the project to resolve the incongruence, and achieve gradually the behavioral fit in the latter stage of the project. The performance effect of partner fit in this case is quite opposite to another case run by CECI with a US construction firm in Vietnam, in which the two firms misfit with each other due to the size difference and competence overlapping. Despite many efforts are spent to soften the conflicts, the fundamental and strategic misfit never lead to behavioral fit. Our empirical evidence seems to be in support of Proposition 4~5.

6. CONCLUSIONS

This article explores the performance of international alliance through the lenses on partner fit. We begin by identifying three kinds of partner fit: fundamental, strategic and behavioral fit, and classify them according to the intrinsic or extrinsic nature. In this article, we have presented a dynamic model for partner fit, and address the relationships among these three fits, for instance, the extrinsic fit may not lead to intrinsic fit; however, intrinsic fit must be an accumulative result of extrinsic fit. Also, it illuminates that how various fits yield different performance effects. More importantly, we argue that in an alliance with unfamiliar partner, the partner fit in a more implicit manner may soften the disadvantage of explicit misfit. Furthermore, we have tried to exam the cases of construction consulting firms in Taiwan, and find it also echo the previous propositions.

There are some critical implications for future research. First, we need more fine-grained inquiries into the conceptual discussion of this study, especially with a larger

sized sample of international partnership in the construction industry. Second, with more case studies in other industries, we may be able to generalize our finding and refine the model of partner fit in the future. In particular, we need to pay closer attention to the relationships of various fits, the time to achieve them and the sequence of achieving each of them. Third, we should examine how to operationalize the paradoxical nature of social phenomena like international partnership via the dialectical logic for complete and consistent model-building.

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