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Impact of Partner Fit and Conflict Management on Alliance Performance In Indonesian Construction Companies

¹Dicky HidaSyahchari, ²Ruswiati Suryasaputera, ³Moh. Azlan B. Yahya

¹Lecturer, Faculty of Economics, University of Tama Jagakarsa
dickyhida@gmail.com

²Professor, Othman Yeop Abdullah (OYA) Graduate School of Business, Universiti Utara Malaysia

³Senior Lecturer, Othman Yeop Abdullah (OYA) Graduate School of Business, Universiti Utara Malaysia

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ABSTRACT

Objective: The purpose of this paper is to investigate the alliance performance of construction companies. A conceptual model is proposed where alliance performance is influenced by a two-dimensional construct composed of the partner fit and conflict management.

Methodology: A questionnaire survey was administered to 311 construction companies. Analysis of Variance (ANOVA) and regression analysis as statistical tools was used to analyze the data and test the hypothesis that alliance performance is impacted by the partner fit and conflict management.

Results: The hypothesis was supported by the data and analysis. The research found that partner fit and conflict management have a significant and positive impact on alliance performance of Indonesian construction companies.

Implication: This research presents a conceptually yet empirically supported framework to describe the significance of alliances and network relationships in the construction industry. The study is particularly useful for practitioners by identifying advantages of suitable alliance action among executive and project managers. This paper gives valuable reference to senior manager to consider the adoption of alliance based on selection of partners and conflict management in the construction industry in Indonesia.

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1. Introduction

Man (2013) state that “an alliance represents a collaboration between at least two companies aiming to attain a competitive advantage that each cannot achieve on its own”. Parkhe (1993, p.3) states that the crucial factor to explore and to recognize the elements that influence the attainment of the alliance

*Corresponding author's email address: dickyhida@gmail.com

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performance is high failure rate among alliances between 30 and 70 percent. Literature on alliance research reports that the standard of alliance success rates only at 53 percent and that the well-known reasons for alliance failure are wrong strategies, incompatible partners, inequitable or unrealistic deals, and weak management (Bamford, Ernst & Gubini, 2004). Additionally, Thuy and Quang (2005) highlighted the same issue regarding the failure rate of the alliance in Vietnam. While an alliance continues to experience high dissolution rate, understanding the theory and management practice of an alliance and its relationships with performance becomes inevitable in order to ensure alliance success. Consequently, study of the factors that influence alliance performance becomes more pertinent and a necessary topic that requires greater attention by researchers as suggested by several authors (Wilson & Brennan, 2009).

In partner fit context, the alliances are facing high failure rate not only because of legal or financial issues but also due to the relationships between management of both allied firms. This evidence has been found by Krasner, (2001) when his study investigates Vantage Partners LLC of Cambridge in the United State. Successful formulation of the alliance and avoiding its failure requires understanding the alliance factors in partner fit such as complementarity and compatibility of partners in the first place (Kale & Singh, 2007). Therefore, the paradox of the alliance existence and partner fit presents an interesting venue for further study especially the alliance success in Indonesian construction sector. Such study would enable the necessary management actions based on the understanding of how and why an alliance exists in spite of its potential failure.

Conflict is also the significant managerial issue in the alliance success that needs to be considered. This could be seen in Liang, (2008) noted: "Since the alliance involve multiple partners with different management, the conflict between partners is likely to occur" (Liang, 2008, p. 303). This issue also has been highlighted by Sim & Ali, (2000: P. 389) whose study pointed out following.

"Alliance is less likely to survive where partner are constantly in conflict over policy, managerial and operational issues relating to the alliance. The more partners are in harmony (indicated by less frequent disagreement over policy issues), the more stable the alliance. Cooperation between parents helps develop mutual trust and contributes to an enduring alliance".

Lee (2011, as cited in Ogunbayo, 2013) concluded that, within the construction industry, a conflict is necessary as a part of harmony, due to a rationale for finding harmony based on the conflict which is ineluctable. Verma (1998, as cited in Ogunbayo, 2013) argue conflict can be explained as a serious disagreement between two or more companies, which usually ends up with a positive result if properly managed and conversely negative if not properly managed to the satisfaction of partners. Nevertheless, a person embroiled usually come from dissimilar background, perceptions and levels in organizations. These factors play their role in the complicated management setting of an alliance and, if properly managed, lead to many desired result to gratify all parties with accomplishment. Since, conflicts frequently occur between partners, therefore, conflict management techniques are required as the solution. The alliances have emerged as a relatively new target of the conflict resolution and management research. The alliances directly address how conflict is managed to improve organizational effectiveness and partner relationships. In alliances, a written contract often builds the basis for an alliance. Moreover, in the modern construction industry, in the establishment of alliance contract is used as a basis for the alliance. Conflict can be generated by different interpretations of the term contract. It can be generated by the risks and obligations of the parties. (Stephenson, 1996).

2. Literature review

2.1 Alliance Performance

Gulati & Singh (1998) state that the term alliance refers to governance capital ranging from contractual relationships to licensing, to logistics supply chain relationships, to equity alliance. An alliance is defined here as cooperation among companies that stand between the extreme of diverse, short-term, even long term contracts and the comprehensive merger of two or more firms. The alliance is the design of international cooperation to achieve the prevalent target of members between distinct firms (Dealtry, 2008). Gomes-Casseres (1996) argue that alliance is the cooperative establishment among two or more firms which are capable or indeed strong, recent or prospective, rivals from different territory. According Doz (1996) the type of alliance could be short term or long-term contractual cooperation and the members of alliances coincide to collaborate on some particular business matters. There are many arguments which encourage firms to establish the alliance, including inadequate resources, low rate of innovation, large manufacturing expense, market entrance and weak technology. Nevertheless, Lei Slocum (2002) states that one of the causes of why firms participate in the strategic alliance is to establish their competitive benefit in the worldwide market.

Das (2003) argues that alliance performance is defined as the level to which both partner companies attain their strategic goals in an alliance. On the other hand, performance is defined as the focal partner's perception of the level to which the alliance has been effective in achieving its predetermined purposes and targets. Types of alliance are not restricted to a special function (e.g. joint bids), but a more general valuation of performance is suitable. In addition, alliance companies may have adversity pursuing only quantitative performance indicators (Bucklin & Sengupta, 1993). Therefore, the focal company may be able to create a subjective valuation as to how well the alliance has attained the targets compatible with focal company. Thus, both qualitative and quantitative alliance performance measures have been in use in the literature. The studies by Heide and Stump (1998); Hyder and Ghauri (1988); Mohr (1990); Cronin and Baker (1993) argue that term of performance has been based on particular, perceptible quantitative objectives such as, inventory turnover. Qualitative valuations of the performance include the competence to complete required coordination (Mohr, 1990), successful completion of the exchanges or planning (Boyle & Dwyer, 1998), or the degree to which the alliance is evaluated as productive and worthwhile (Bucklin & Sengupta, 1993).

In terms of organizational competence and performance, subjective conditions for performance are frequently the best. As we move forward and compare a number of models, it becomes apparent that there is not a single model of organizational competence and performance, nor should there be. According to Cameron and Whetten (1983); Spriggs (1994), subjective conditions for performance have been frequently cited in literature while referring to organizational competence and performance. These studies state that the suitable performance indicator is one which combines the relevant target compatible to the particular context being explored. In this context, perceived performance is a valuation of the achievement of strategic goals and targets for the alliance (McArthur & Schill, 1995). Alliance performance is effected by movements in entrepreneurial activity which is in line with the concept that alliances are often established to support innovations (Pitsis & Gudergan, 2010). This is evidenced by empirical research by Li and Atuahene-Gima (2001); Stuart (2000), and conceptual argument by Chaney et al. (1991) that connect innovation with alliance performance. Correlated with this is the Schumpeterian rents of organizational innovation which influence the performance of collaborative companies. The sources and dynamics of innovation, thus, need to be considered when striving to build a model of alliance performance.

2.2 Partner Fit

According to Yan and Duan (2003); Morris and Cadogan (2001), the concept of Partner fit refers to the extent to which partner companies can get together and embody anticipated synergies from the strategic alliance. A number of previous research studies have postulated the relationship between partner fit and alliance performance. However, fit has been defined using the various dimensions such as strategic symmetry by Harrigan (1988), partners diversity by Parkhe (1991), match of partner characteristics by Geringer (1988), and inter-partner compatibility or complementarity by (Beamish, 1988). The critical features of the phenomenon of partner fit or its suggested suitable measures described in literature provide restricted insights yet partner it tends to point out that partner fit in alliances is a multidimensional and complex concept expanding from a blend of factors (Yan & Duan, 2003).

A significant flow of research in the alliance literature about partner fit affirms the desirability of a compatibility between the partners, particularly in terms of their resource profiles. This approach is suitable for the resource-based view of the company, which indicates that rivals are defined by their resource profiles that the companies with equal resources are potentially the closest competitors (TK Das, 2003).

2.3 Conflict Management

A critical aspect of any partnership is the potential for conflict between the alliance partners and how they deal with it. Conflict often exists in any alliance relationship on account of the inherent dependencies involved in such interactions. Given that a certain amount of conflict is expected, how such conflict is managed is important (Borys & Jemison, 1989), as the impact of conflict resolution on the relationship can be productive or destructive (Deutsch, 1969).

A number of factors are associated with managing conflicts integratively. Integrative conflict management entails joint management of conflict with mutual concern for 'win-win' for all concerned (Bazerman & Neal, 1984). It engenders a communication and contact intensive process of conflict management. Strong two way communication is a key element of successful conflict resolution (Cummings, 1984). MacNeil (1981) and others acknowledge the importance of honest and open lines of communication to the continued growth of close ties and resolution of potential conflict situations.

Joint problem solving fosters closer collaboration between the alliance partners, thereby creating a more conducive environment for future cooperation. On the other hand, the use of destructive conflict resolution techniques such as domination, coercion (Deutsch, 1969), and an attitude portraying a 'win-lose' perspective is seen as counterproductive and are likely to strain the fabric of the alliance.

Harrigan (1988b); Parkhe, (1993) indicate that the method of conflict management is institutionalized with partners equipped with formal mutual mechanisms to 'monitor' potential conflict situations. Monitoring not only provides each partner with a good understanding of joint concerns but also allows immediately realization of potential conflict situations. An similarly crucial element of most conflicts is organizational or cultural distance between the alliance partners. Efforts to address cultural barriers in an explicit and integrative manner should lower the potential for conflict and increase the likelihood of alliance success.

3. Hypotheses

Geringer (1988) states that with use of subjective methods, partner fit has significantly affected the alliance performance. In the study of 90 joint ventures, this study depicts that partner fit is connected with alliance success. This result has also been supported in prior studies that have stated that suitability of partners is a significant aspect of fit that affects alliance performance. In line with these arguments, following is hypothesized.

Hypothesis 1: Partner fit affect significantly towards alliance performance

According to Das & Teng, (1998, 1999, 2001), conflicts between the partners in an alliance constitute the second important component of alliance conditions. Interpartner conflicts refer to the levels to which partner companies have competing concerns, preferences, and practices that cannot be easily reconciled in an alliance. Conflicts can be both between the partner organizations and within the context of an alliance. Interpartner conflicts can create problems in a strategic alliance. In line with these these arguments, it is hypothesized as follows.

Hypothesis 2: Conflict management affects significantly towards alliance performance

4. Methodology

For current study the researcher utilizes quantitative approach of research design, data collection and statistical analysis for hypothesis testing. The objective of this research is to examine the impact of partner fit and conflict management on alliance performance in construction companies in Indonesia. The independent variables of this research study are partner fit and conflict management, and the dependent variable is alliance performance. Primary data collected through a structured questionnaire were used in this research to infer results. Primary data refers to the original information gathered for a specific purpose (Sekaran&Bougie, 2009). In this research, primary data were gathered thorough survey method administered through postal mail and email using questionnaire distributed to management staff of construction companies in Indonesia. The 311 questionnaire were administered to collect primary information for the purpose of the study. Secondary data were gathered during the framework development stage from external sources such as journals, articles, books, and also from the internet.

5.1 Measurement of Variables

5.1.1 Alliance Performance

Alliance Performance was used as the dependent variable in this research. Furthermore, an instrument was adopted from Arino. (2003), which postulated three dimensions of individual alliance performance with 0.95 Cronbach's alpha. These are overall satisfaction, the net spill-over and goal fulfillment. This study has adopted only those dimensions related to individual performance since the unit of analysis is each manager of construction companies. The respondents were asked to indicate their own level of alliance performance for each dimension using a five point Likert scale ranging from 1 to 5 (1= strongly disagree, 5=strongly agree).

5.1.2 Partner Fit

Thorgren, et al. (2012) describe that the term of 'partner fit' is associated with high capability complementarity (i.e., partners have different capabilities which are needed together to complete a task) and high compatibility (i.e., partners' organizational cultures, management, and operating styles are similar). Present study adopts two dimensions to measure partner fit from Kale et al (2000) with 0.98 Cronbach's alpha i.e. complementarity and compatibility between the partners. The respondents were asked to indicate their own level of participation in a partner fit for each dimensions using a five-point Likert scale ranging from 1 to 5 (1= strongly disagree, 5=strongly agree).

5.1.3 Conflict Management

For this study, we use a measure of conflict management in organizations from Rahim (1983). This study developed a scale to measure the conflict management strategies that are based on Thomas (1976) with 0.956 Cronbach's alpha depicting high reliability. This instrument contained variables to

measure conflict management which include integrating, obliging, dominating, avoiding, compromising. The respondents were asked to indicate their own level of involvement in a conflict management situation using each of these four dimensions. The responses were measured for each dimension using a five-point Likert scale ranging from 1 to 5 (1= strongly disagree, 5=strongly agree).

Table 1. Reliability of Alliance Performance

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.95	0.949	13

Table 2. Reliability of Partner Fit

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.98	0.98	4

Table 3. Reliability of Conflict management

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.956	0.96	28

6. Results

This section contains the results of the regression analysis to examine the influence of partner fit and conflict management toward alliance performance. In order to examine the simultaneous influence of partner fit and conflict management toward alliance performance, multiple regression analysis are employed.

Table 4 : Multiple Regression analysis

	β	Std. Error	t-value	Sig.
Constant	0.129	0.033	3.935	0
Partner Fit	0.576	0.009	61.417	0
Conflict Management	0.067	0.01	6.874	0
R Square = 0.962	Adjusted R Square = 0.962		N= 311	
Df = 2	Significance = 0.000		F-Value = 3937.374	

The value of R-square is 0.962 ($R^2 = 0.962$) which indicates that 96.2% of variance in alliance performance is due to partner fit and conflict management while the rest 3.8% are influenced by other factors that are unable to measure in the research. According above Table 4, the F-value is 3937.374 that is significant at 0.05 significance level and t-value is less than α value ($0.000 < 0.05$) that shows model is significant at 0.05 significance level. In other words, there is a simultaneous significant influence of partner fit and conflict management toward alliance performance. The result of the multiple regression analysis proves the hypothesis (H1) and (H2) which stated that there are a simultaneous significant influence of partner fit and conflict management toward alliance performance.

Coefficients (β) are 0.576 and 0.067 for partner fit and conflict management respectively depicting that both are significant at 0.05 significance level. The positive beta weights indicate that partner fit and conflict management play an important role in enhancing alliance performance. Furthermore, in order to determine the most significant independent variables that influences alliance performance, t-value can be used to determine the relative importance of each independent variable (Cavana et al., 2001). The t-value shows that partner fit has a higher value compared to conflict management ($61.417 > 6.874$). These values indicate that partner fit has a stronger influence on alliance performance rather than conflict management.

Based on the beta coefficient results of multiple regression analysis, the multiple regression equation is formed as follows.

$$AP = 3.935 + 61.417PF + 6.874CM$$

Where:

AP = Alliance Performance

PF = Partner Fit

CM = Conflict Management

The multiple regression equation shows that the regression coefficients for both partner fit (PF) and conflict management (CM) are positive. It confirms that the independent variables have direct influence of the dependent variable (alliance performance) whereby if the value of the independent variables increases or decreases it will proportionally stimulate the increasing or decreasing alliance performance.

Conclusion and Recommendation

Globalization and competitors create a dynamic environment full of uncertainty. The construction companies face these challenges as they continuously aim to gain and sustain competitive advantage in the market. Therefore, sets of performance standards need to be gradually improved because the construction companies are required to fulfill the regulatory and competitive requirements and also achieve their goals and objectives. This situation becomes challenge especially for construction companies because they have to increase their alliance performance while also responding to uncertainty that continuously occur in the competitiveness environment. Therefore, construction companies should find a way to improve the alliance performance. The results of this study show that partner fit is the most significant variable in influencing alliance performance. These results have been supported by previous studies that found partner fit has significant impact on alliance performance (Geringer, 1988). Furthermore, conflict management also has a significant influence on alliance performance. The results are in line with previous researchers that found conflict management has significant impact on alliance performance (Das & Teng, (1998,1999, 2001).

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