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Empirical Investigation of Partnership Selection Proficiency in Thai Fine Gold Jewellery Industry

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An alliance is a strategic instrument in the contemporary business world that provides several advantages, such as creating a competitive advantage; reducing costs etc. Although the growth in strategic alliances is quite high, the majority are reported as being unsuccessful. The literature indicates that the characteristics of partners and the way firms select strategic partners can foretell the success of the strategic alliance to a certain extent. This paper studies strategic partner selection based on the Thai fine gold jewelry industry perspective. The period of research was from May 2010 to May 2011 and a total of forty five interviews were conducted. The results show that, in order to be successful in a strategic alliance, firms cannot rely on trust, partner's past performance, and face-based judgments. Instead, firms need to acquire as much information as possible before entering an alliance and constant monitoring to prevent any misconduct in the strategic alliance. In order to be selected by a partner, firms need to build up their reputation and create indispensability. In terms of negotiation, to avoid any problematic issues, the thick face and black heart approach is recommended.

Field of research: Strategic alliance, Indispensability, Thick face and black heart, Fine gold jewelry industry

1. Introduction

A strategic alliance is a mechanism for a firm to lower its costs, improve its skills, support new market entry efforts (Bucklin & Sengupta 1993; Varadarajan & Cunningham 1995), enhance its competitive position (Porter & Fuller986; Ouchi & Bolton 1988; Day 1995) and boost its market power (Kogut 1991). A partner is considered to be trustworthy, likely to return cooperation, create strategic alliances, raise efficiencies (Ahuja 2000) and attain strategic resources (Rothaermel & Boeker 2008). Considerable research has been devoted to identifying these benefits.

Firms with the capability to generate advanced returns from strategic alliances may be considered to have superior strategic alliance capability (Bulte & Wuyts 2007; Swaminathan & Moorman 2009). In addition, strategic judgment proficiency is a critical skill for a firm in order to determine whether or not success occurs (Trivers 1971; Axelrod & Hamilton 1981).

This research project studies the Thai fine gold jewelry industry, since it has high level of value added from material, design and production processes, each of which requires strategic alliances at every step. The nature of alliances in this industry is to be repeatedly created and dissolved and to be of a short-term nature.

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The purpose of this paper is to review the recommended strategy for a partner in the Thai fine gold jewelry industry to select an appropriate partner in a way that makes a positive correlation between literature and reality. This represents a challenge to some aspects of the literature which support the concept of trust in business behavior, such as Blau (1964), who has suggested that trust promotes high quality social exchange relationships (Blau 1964; Macneil 1980), that trust is an important factor for the long term success of an alliance (Moore ,998), that the lack of trust can reduce alliance performance (Arino & De la Tore 1998), and that distrust can create negative effects, such as psychological distress, cognitive strain and premature withdrawal from the relationship (Dirks and Ferrin 2002). It is suggested here that distrusting behavior can reduce risk and increase bargaining power. In doing so, it makes three forms of contribution to knowledge: first, it raises the awareness of strategic partner selection as a significant step in raising the chance of success in a strategic alliance; second, it evaluates the key success factors in strategic alliance formation and, thirdly, it helps to integrate the Confucian perspective into strategic alliance theory.

2. Literature Review

2.1 The Thai Fine Gold Jewelry Industry

The Thai fine gold jewelry industry is a sub-sector of the gems and jewelry industry as a whole, which is one of the top five export industries of Thailand and represented 6.4% of overall trade in 2009. There are three principal benefits that Thailand obtains from the gem and jewelry industry: high levels of employment both within the industry directly and from ancillary industries, with approximately 1.3 million jobs (Chombudha 2001); high levels of value added and large amounts of money flowing from overseas (Kawsaard 2002). Many fine gold jewelry companies have dropped out of the market during the past ten years due to the economic downturn, shifting of technology and resource accessibility, as well as fluctuating gold prices. One of the strategies that assist survivors in existing in the contemporary business world is a strategic alliance. A strategic alliance is a key success factor for this industry in view of the fact that firms attain competitive resources such as raw materials, access to the market, capital, services and information from strategic partners.

2.2 Strategic Alliances

This term was originally borrowed from military and political science (Snyder 1991), and modern management literature defines it as inter-firm links that involve exchange, sharing, cooperative or co-development in order to achieve strategic objectives that are difficult to achieve alone while nevertheless remaining independent (Murray & Mahon 1993; Das & Teng 1998; Das, Teng, & Teng 2000; Kale, Singh, & Perlmutter 2000; Speakman, Isabella, & MacAvoy 2000; Elmuti & Kathawala 2001)

The term can also be referred to as strategic coalition (Porter & Fuller 1986), a strategic network (Jarillo 1989), joint venture, R&D consortium, minority participation, cross-licensing, cross-distribution, supply purchasing, franchising, co-manufacturing, cross marketing and buying groups (Sheth & Parvatiyar 2000).

Reasons for entering strategic alliances include lowering costs, skills enhancement, market entry benefit (Bucklin & Sengupta 1993; Varadarajan & Cunningham 1995), enhancing competitive position (Porter & Fuller 1986; Ouchi & Bolton 1988; Day 1995), enhancing market power (Kogut 1991), increasing efficiencies (Ahuja 2000) and accessing strategic resources (Rothaermel & Boeker 2008) and technological sophistication (Rigsbee 2000) while remaining a distinct entity (Ouchi & Bolton 1988; Yoshino & Rangan 1995).

Larger transaction costs increase the degree of firm concentration (Blumberg 2001a; Blumberg 2001b; Buskens, Social networks and trust 2002). Success in strategic alliances results from alliances enabling firms to produce marketing offerings that have superior value or which lower costs (Day 1995; Hunt & Morgan 1995; 1996; 1997; Hunt 1997).

Numerous researchers have charted the significant growth in the numbers of strategic alliances (Dacin, Hitt, & Levitas 1997; Tsang 1999; Chen & Chen 2003; Hughes & Weiss, Simple rules for making alliances work 2007). In the United States, it has been estimated that strategic alliances increase by some 25% per year (Elmuti & Kathawala 2001; Hughes & Weiss, Simple rules for making alliances work 2007). Kalmbach and Roussel (1999) observed that strategic alliances accounted for 6–15% of overall company value. In addition, it has been reported that more than 20,000 new strategic alliances were founded between 1995–1996 and 1998-2000 (Harbison & Pakar 1997; Anand & Khanna 2000).

Notwithstanding the admirable growth rate, more than half of all strategic alliances are terminated within the first year (Kogut 1989; Lunnan & Haugland 2008) and almost 70% of strategic alliances are reported to be unproductive (Day 1995; Kale, Dyer, & Singh 2002; Kauser & Shaw 2004). Although firms recognize the need for strategic alliance, they may lack understanding as to how to manage and maintain the relationship (Smith & Barclay 1997).

Inappropriate choice of governance (Williamson 1985), incompatibility of partners (Dacin, Hitt, & Levitas 1997; Büyüközkan, Feyzioglu, & Nebol 2008), incompatibility of corporate cultures and systems (Kurt Salmon Associates, Inc. 1993; Kale, Singh, & Perlmutter 2000), lack of trust (Macneil 1980; Arino & De la Tore 1998; Moore 1998), lack of alliance experience (Fiol & Lyles 1985), alliance formation without planning and the lack of internal resources to improve competitive position (Brouthers, Brouthers, & Wilkinson1995), short term orientation (Speakman *et al.*1998) and reliance on past performance (Broutheres *et al 1*995) are the main sources of failure.

The failure of a strategic alliance has a larger effect in the long run (Hamill & Young 1990; Elmuti & Kathawala 2001). Aware of this paradox, researchers have tried to find ways to increase firms' strategic alliance capability (Sims, Harrison, & Gueth 2001). For example, previous studies have showed that a firm more committed to the strategic alliance function is less likely to have a strategic alliance failure problem (Doz & Hamel 1998; Dyer, Kale, & Singh 2001), while a firm that can achieve mutual objectives and the benefits of strategic alliances through working together will remain successful (Vyas, Shelburn, & Rogers 1995; Kauser & Shaw 2004). Hughes and Weiss (2007) recommend that firms should emphasize five basic principles, which include developing the right working relationship instead of being fixated on the business plan, develop measurements both for goals and progress, accepting the differences between partners, encouraging collaborative behavior and managing both internal stakeholders.

2.3 Partner Judgment Proficiency

Partner judgment proficiency is the ability to find the right partner. It is a critically important ability (Geringer 1991; Ireland, Hitt, & Vaidyanath 2002) and it creates a successful strategic alliance management system (Mendelson & Polonsky 1995; Elmuti & Kathawala 2001; Dekker 2004; Holtbrugge 2004; Cowan, Jonard, & Zimmermann 2007; Dekker 2008) and effective strategic alliance relationship (Hitt M., Dacin, Levitas, Arregle, & Borza 2000; Ireland, Hitt, & Vaidyanath 2002). It can reduce management risk, coordination disagreements, instability, dissimilar objective problems (Inkpen & Beamish 1997) (Hennart & Larimo 1998; Li & Ferreira 2008), and the need for control (Buskens, Batenburg, & Weesie 2003).

Partners can shape the criteria utilized (Hitt M. A., Dacin, Tyler, & Park 1997), alter the overall mix of the firm (Geringer 1991) and, generally in the later stages of collaboration, also affect the use of governance arrangements (Dekker 2004). Similarities between cultures are important in this context (Geringer 1991; Wittmann 2007).

Partner judgment proficiency is the ability to identify episodes of the misconduct of a partner and to remember it (Trivers 1971). Three main tools are presented below:

1) Analyze relationship performance before committing to the strategic alliance

This can reduce transaction risk from opportunism and ease knowledge transfer between partners (Kogut & Zander 1992; Szulanski 1996; Mowery, Oxley, & Silverman 1998). The presence of a prior relationship can also lower miscommunication risks, lower associated internal risks (Axelsson & Johanson 1992), enhance understanding of the capabilities and resources that the firm is seeking (Saxton 1997), facilitate flows of technology (Cohen & Levinthal 1990; Kogut & Zander 1992; Kale, Singh, & Perlmutter 2000) and create a system of repeated interactions (Gulati 1995).

Hypothesis 1: Past performance of the strategic partner has a significant relationship with success in strategic alliance

2) Screening partner reputations

This is the ability to foresee issues within a relationship with a potential partner based on analysis of previous performance (Nielsen 2007). It is particularly important when a firm lacks a prior relationship with the partner (Granovetter 1985). Partner reputation can reduce false claims as partners try to maintain fidelity to their quality indicators (Rao, Qu, & Ruekert 1999). Also, creating a reputation can be valuable asset for firms seeking to attract partners (Hall 1992).

Hypothesis 2: Partner reputation has a significant relation with success in strategic alliance

3) Set partner selection criteria

There are limitless criteria for partner selection and these may vary depending on culture, resources and the relative strengths of partners (Geringer 1991). An attractive or competitive level of resources is the main condition that partners seek when selecting a strategic alliance partner (Devlin & Bleackley 1988; Dacin, Hitt, & Levitas 1997). Firms may seek partners that have the most desired resources (Barney 1991), can create superior financial performance (Hunt & Morgan 1995; 1996; 1997) and help firms in acquiring new knowledge (Kogut 1988; Rindfleisch & Heide 1997).

The four C's of selection criteria consist of compatibility, capability, commitment and control (Hagen 2002; Holtbrugge 2004; Jamali 2004). Chand *et al.* (2011) have grouped together the selection criteria into five groups, which are lower costs, accessibility, ability to offer products or services, experience and knowledge. Other criteria that need to be mentioned in the selection of strategic partners are compatible and complementary skills, resources, procedures and policies (Lane & Beamish 1990; Beamish 1994; Li & Ferreira 2008; Hitt M., Dacin, Levitas, Arregle, & Borza 2000).

Hypothesis 3: Partner selection criteria have significant relationships with success in strategic alliance
Moreover, trust is a key factor in partnership selection.

Hypothesis 4: Trust has a significant relationship with success in strategic alliance.

3. Methodology

3.1 Participants

The participants to this research were forty five interviewees that had occupations such as exporter, show organizer and jewelry wholesale buyer. Their nationalities were Thai, Hong Kong, Singaporean, Malaysian and Italian. All interviewees that were approached agreed to participate in the study and completed the task on site and by e-mail. Although a larger number of interviews would have been preferable, forty five respondents represent a significant proportion of knowledgeable people within the industry and the researchers are confident that an accurate and fair representation of the industry has been gained. Respondents were selected on the basis both of personal knowledge and also through the snowball method; the latter can be problematic in that it has a tendency to create a sample that is overly homogeneous. However, since the population of the industry is not very large, it is considered that this problem has been contained. It is also the case that, owing to the limited population size, non-response bias has been avoided. The period of interviewing was from May 2010 to May 2011 and conducted combination of English, Thai and Chinese languages was used.

3.2 Material and Procedures

To determine the recommended strategies of partnership selection proficiency with the success of strategic alliance, the guideline questions were set before conducting in-depth personal interviews supplemented by additional data collection with selected key informants through such media as instant messaging and Skype telephoning. Success in strategic alliance based on partner selection proficiencies was based on past experience of interviewees. Extensive notes were taken during interviews and these were subsequently transcribed for further analysis.

4. Research Findings

4.1 Partner Judgment Proficiency

Hypothesis 1: Past performance of strategic partner has a significant relationship with success in strategic alliance

> Studies show that past performance of a strategic partner has a significant relationship with success in strategic alliances in the jewelry industry. However, during an economic downturn, positive relations prior to strategic alliance do not guarantee success and may create bias in partnership selection.

Hypothesis 2: Partner reputation has a significant relationship with success in strategic alliances

> Research found that partner reputation has a significant relationship with success in strategic alliances. However, firms need to distinguish between the right source of information and created sources of information.

Hypothesis 3: Partner selection criteria have a significant relationship with success in strategic alliances

> The study showed that partner selection criteria have a significant relationship with success in strategic alliances. Nevertheless, partner selection criteria were individually set rather than being written instructions for all team members.

Hypothesis 4: Trust has a significant relationship with success in strategic alliances.

> Trust does not has a significant relationship with success in strategic alliances.

4.2 Discussion

Past performance has a strong relationship with success in strategic alliances. Nevertheless, some situations such as an economic downturn can lead to a sudden malfunction that can have a negative effect on success in a strategic alliance. Interviewees suggested the use of the 'thick face, black heart' strategy to overcome this bias. In short, thick face creates a positive self-image of firms despite the criticism of the strategic partner, while the black heart is the ability to take action without regard to how the consequences will affect the strategic partner (Chu 1992). Adopting the thick face and black heart doctrine is problematic since it has been seen as a selfish characteristic. However, to avoid any risk in a strategic alliance, it is a good approach to apply and should be promote as a way that helps businesses survive episodes of misconduct.

Partner reputation has a strong relationship with success in strategic alliance. However, firms need to differentiate the right source of information from created sources of information. Face-based judgment and remembering past performance is a very common approach for the fine gold jewelry industry. However, both approaches only create bias in terms of partner selection. To prevent bias in partner selection, firms should acquire information from trusted sources, monitor the current performance of the partner, avoid rushing into decision-making processes and assess high risk options prudently. In addition, most interviewees agreed that experience in strategic alliances reduces the propensity to take risks.

Written selection criteria can increase the success in strategic alliance, but it is hardly found in the jewelry industry. Instead, many mangers preferred to rely on the judgment and experience they themselves had accumulated, with all of its biases and misunderstandings. While this latter approach may provide a greater deal of flexibility, the former provides a more rational and probably more accurate approach to the decision.

Lack of trust, in contrast to much of the literature, has been indicated by the research not to harm strategic alliances; in fact, it can facilitate the growth of a strategic alliance. For example, Wal-Mart prefers to establish standard measurement metrics and send QC staff to monitor Thai fine gold jewelry factories periodically to maintain the quality of the merchandise. Wal-Mart can benefit from the satisfaction of its quality standards while Thai factories improve their performance so as to reach the required standards.

Another good example of the trust trap is as follows. During the year 2006, there was a major jewelry wholesaler from the US which applied for Chapter 11 protection from bankruptcy. The general unsecured claims represented more than US$500 million but the actual amount involved was much more than this. The report found that hundreds of jewelry firms were claiming losses of sales on credit to this company. However, only a few of them applied for insurance payments and those companies which applied for insurance survived because they did not fall into the trust trap, while others faced ruinous losses.

The research has also suggested, again contrary to the literature, that trust can be a source of strategic alliance failure because firms may drop their guard once they have committed to trusting their partner and this causes them to fail to see an approaching problem. In general, firms that trust too much will suffer from bias in partner selection, lower levels of monitoring behavior, less communication among partners and the possibility of being cheated by opportunistic agents.

5. Conclusion

The major finding from this study is that trust can be a source of strategic alliance failure, in line with the Chinese proverb that trusting people is the worst option. Deliberate cheats commonly use trust as a tool to deceive, while opportunistic partners take advantage when they become trusted. Trust is a firm's weak spot in conducting business since it creates bias and reduces the amount of cautious behavior exhibited.

To avoid bias in strategic partner selection, a firm should, therefore, avoid excessive trust and face-based judgment, rely on past relationships and keep their guard up when deciding on strategic partner choice. The thick face, black heart principle is recommended for firms making strategic partner selection decision because it considers only the benefit and survival of the focal firm without considering the consequences for partners and without contemplating criticism from other parties resulting from the partner selection decision and the conditions of alliance.

Past performance cannot guarantee the success of a current alliance. Firms are required to pay attention to information received. Before the selection of a strategic partner, the firm should only rely on trusted sources of information and not just face-based judgment, the physical evidence provided by the candidate partner or past performance. During an alliance, information should still play an important part and constant monitoring can reduce unexpected risks and misconduct in a strategic alliance. Formal standard measurements have to be set up to maintain the quality of that alliance.

This study also found that being selected by a partner is another of the strategic alliance proficiency skills. Recommended strategies include constantly build up the reputation and creating indispensability. This study point out that face-based judgment and reliance on past performance is a source of failure. In contrast, this study also found out that both approaches are widely used by fine gold jewelry firms. Constant build up of reputation can attract strategic partners to select the firm.

The major limitation for this paper is the collection data period, which occurred after the global economic crisis struck and the high volatility of gold prices which, in turn, generate more opportunistic partners more likely to behave badly than would otherwise have been the case.

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