

# The effects of characteristics of partners on strategic alliance performance in the SME dominated travel sector

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## Abstract

This study examines the effects of characteristics of alliance partners on perceived strategic alliance performance. Alliance relationships were explored within and between the travel sector, and other tourism sectors of accommodation and transport. Study results indicate company executives' high level of satisfaction with alliances performance. Commitment and capability has been found to positively influence general satisfaction with alliance performance, market share and profitability, and overall alliance performance while trust positively influence general satisfaction with alliance performance. Control was found to have an influence on satisfaction with technology transfer and alliance operational performance while compatibility was positively associated with general satisfaction with alliance performance.

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## 1. Introduction

Strategic alliances are defined as purposive arrangements between two or more independent organisations that form part of, and are consistent with participants' overall strategies, and contribute to the achievement of their strategically significant objectives that are mutually beneficial (Pansiri, 2005). Studies on strategic alliances have reported unsatisfactory performance with few signs of improving (Beamish & Delios, 1997), and very high failure rates (Geringer & Herbert, 1991; Killing, 1982). Alliance failure can be minimised by identifying the most appropriate partner[s] (Mendleson & Polonsky, 1995). Past studies suggest that the failure of many strategic alliances can be traced to the partner selection and planning stages and identify the four Cs of compatibility, capability, commitment and control as critical for successful pre-selection of alliance partners (Hagen, 2002; Holtbrügge, 2004; Jamali, 2004). Based on strategic alliances and inter-organisational relationships literature, five characteristics

of alliance partners (compatibility, capability, commitment, control, and trust) which influence alliance performance are examined in this study.

Many authors have called for more empirical studies of the underlying causes of successful alliances (Medina-Munoz & Garcia-Falcon, 2000; Saxton, 1997; Smith, Carroll, & Ashford, 1995; Varadarajan & Cunningham, 1995). Saxton (1997, p. 444) argues that scholars know very little about the underlying causes of successful alliances and that "what is lacking is systematic analysis within a sample of alliances of the factors associated with those that are more satisfactory and beneficial to partner firms". The response to this has been encouraging. For example, Shamdasani and Seth (1995) investigated the influence of three relational predictors—competence, commitment and compatibility on partner firm's evaluation of its alliance relationship on two dimensions—satisfaction and continuity. They found that these predictors strongly influence alliance satisfaction and continuity.

There are very few studies of strategic alliance success factors in tourism or the travel sector in particular. One such study is by Medina-Munoz and Garcia-Falcon (2000) who investigated determinants of successful relationships

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between hotels and travel agencies, and found that trust, commitment, coordination, communication quality, information exchange, participation, usage of constructive resolution techniques, and similar relative dependence were determining factors for inter-organisational relationships between hotel companies and travel agents operating in the United States. Their study focused on hotels and limited the unit of analysis to those operating in the United States. Studies that consider these issues focusing on travel agencies, tour operators and tour wholesalers are lacking.

In this study, company executives from these three sectors of travel in Australia were studied to address this identified gap in the literature. The central research objective of this study was to establish whether significant relationships exist between strategic alliance performance evaluation and characteristics of strategic alliance partners, with a view to answer the central research question: what are the relationships between characteristics of alliance partners and alliance performance evaluation? In doing so, this research takes into account the fact that the travel sector businesses in Australia are small-to-medium enterprises (SMEs) behaving differently from large companies.

## 2. Strategic alliances in tourism

Tourism is one of the most highly integrated industries in the world (Bullock, 1998). Poon (1993) argues that major players in the tourism industry, particularly airlines, hotels, travel agents and tour operators have increasingly integrated in an industry whose boundaries are becoming increasingly blurred. She argues that "...it is no longer relevant whether a company is an airline, a travel agent, hotel or tour operator. As the boundaries among players are re-defined, what becomes more relevant are the activities along the value chain that they control" (Poon, 1993, p. 215).

One defining characteristic of these relationships is the proliferation of strategic alliances within the industry and between the industry and other sectors of the economy. Peattie and Moutinho (2000) emphasised the need for various segments of the travel industry to stay linked in order to provide the quality of service demanded by the increasingly sophisticated and demanding traveller. The argument is that strategic alliances can be used effectively in order to achieve growth and competitiveness which, in this industry take a variety of forms and occur across vertical, horizontal, and diagonal relationships (Bullock, 1998; Go & Appelman, 2001; Poon, 1993). These strategic alliances include joint venture and franchising (Contractor & Kundu, 1998), marketing alliances (Glisson, Gunningham, Harris, & Di Lorenzo-Aiss, 1996), and shared facilities (Bennett, 1997).

The different alliance types in Australia identified in the literature are linked to the fact that most of the businesses are SMEs. Bolin and Greenwood (2003, p. 5) found that 97% of travel agency and tour operator services in

Australia are micro and small businesses. The remaining 3% are either medium or large. A number of attempts have been made to define SMEs (Australian Bureau of Statistics, 1997; Loecher, 2000). Loecher (2000) argues that SMEs can be defined by quantitative criteria such as 'number of employees' and 'turnover'. In this article, SMEs are defined as those businesses employing less than 200 people (Australia Bureau of Statistics, 1997). Travel sector alliances in Australia, which have been identified from the literature include:

*Franchise agencies*—This involves the franchisor agreeing to provide a range of services and other benefits to the franchisee. Howard and Harris (2001) maintain that these benefits include a readily identifiable trade name, management systems, staff training, advertisement and access to bulk purchasing discounts and higher commissions. The largest franchise groups in Australia include Harvey World Travel, Traveland, and Jet Tours Ltd.

*Cooperative Buying groups*—In Australia, these groups include UTAG Travel, Community Travel, and Western Australia. These are made up of independent agencies seeking improved commission levels and bulk discounts from their membership. Agencies join cooperative buying groups in order to gain some of the advantages attached to larger scale franchise operation and chains. Howard and Harris (2001, p. 26) maintain that "these groups use their collective buying power to bargain with suppliers for higher commission. In addition, the fees paid by agencies to maintain their membership of the cooperative are sometimes pooled and used to undertake large-scale promotional campaigns similar to those of agency chains or franchise".

Based on the tourism and strategic alliance literature reviewed, eight alliance types were identified for this study. These are Joint venture, Equity participating alliance, Brand sharing, Franchises and licensing, Marketing and distribution agreements, Joint selling or distribution, Sharing information and communication technology, and Joint purchasing and equipment/office sharing. Since this study is in the tourism industry, which is essentially a service industry, other alliance types identified in Pansiri (2005) and the general strategic alliance literature such as Production and manufacturing alliances, and Research and development contracts, are excluded from the study because they are not relevant to the travel sector.

## 3. Theoretical background and research hypotheses

### 3.1. Characteristics of alliance partners

The failure of many alliances can easily be traced to partner selection at the planning stage, because it is at this stage where risk minimisation should be addressed. In choosing appropriate partners, strategic alliance research identifies four Cs (compatibility, capability, commitment and control) as criteria for successful pre-selection of alliance partners (Hagen, 2002; Kanter, 1994; Medcof,

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