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# Partner Selection for International Joint Venture Operations

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**Julkaisun nimike**
Partnerinvalinta kansainvälisissä yhteistyöoperaatioissa

**Tiivistelmä**

Kansainvälisiä yhteisyrityksiä käsittelevä runsas kirjallisuus korostaa usein partnerinvalinnan merkitystä keskeisenä menestystekijänä. Silti yhteisyrityspartnerin valintaa on aiemmin tutkittu suhteellisen rajallisesti, sitä on tarkasteltu suppeasti lähinnä valintakriteerien muodossa ja erityisesti partnerinvalinnan kytkentä menestykseen on ollut harvinaista. Tämän tutkimuksen mukaan valintakriteeriorientoitunut aiempi tutkimus ei ole lisännyt ymmärrystämme partnerinvalinnasta prosessina ja on epäonnistunut kokonaiskuvan muodostamisessa aihetta koskien. Ei ole myöskään selvää, missä laajuudessa ja olosuhteissa valintaprosessin voidaan katsoa muodostavan oman itsenäisen päätöksentekoalueensa yhteisyrityksen perustamisprosessin sisällä.

Keskeinen tutkimuskysymys ”Miten yritykset valitsevat yhteisyrityspartnereitaan ja miten tämä vaikuttaa yhteisyrityksen menestykseen?” jaetaan kolmeen alakysymykseen, jotka koskevat yhteisyrityskontekstin ja rajallisen rationaalisuuden käsitteen roolia partnerinvalinnassa, sekä keskeisiä erottavia tekijöitä ja päätöksiä erityyppisen partnerinvalinnan taustalla. Tavoitellessaan aiheen holistisen ymmärryksen parantamista tutkimus lähestyy aihetta teoreettisesti sekä talous- että käyttäytymistieteellisestä näkökulmasta ja työn empiria jakautuu sekä valintakriteerikeskittyneeseen kvantitatiiviseen osaan että päätöksentekoprosessiorientoituneeseen kvalitatiiviseen osaan.

Työn keskeisten löydösten mukaan yritysten tavat valita yhteisyrityspartnereitaan eroavat merkittävästi toisistaan ja nämä eroavaisuudet linkittyvät useisiin kontekstuaalisiin taustatekijöihin – erityisesti investointimuotoon, investoinnin koettuun strategiseen merkitykseen, partneriaan valitsevan yrityksen kokemukseen kohdemaassa, sekä toimialan erityispiirteisiin. Työ kannustaa yhä voimakkaampaan käyttäytymistieteelliseen näkökulmaan tulevissa partnerinvalinnan yksityiskohtaisempaan tarkasteluun tähtäävissä ja erilaisten konstekstien ja strategisten kontingenssien alla operoivissa tutkimuksissa.

**Asiasanat**
Kansainvälinen yhteisyritys, partnerinvalinta, strateginen päätöksenteko, menestys, konteksti

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Partner selection for international joint venture operations

**Abstract**
The rich international joint venture (IJV) literature has frequently stressed the key role of partner selection with regard to the performance of the IJV. However, IJV partner selection research in general has been relatively limited, its performance implications extremely scarce, and narrowly focused on the selection criteria. The study argues that the criteria-oriented research has limitedly enhanced our grasp of IJV partner selection as a process, failing to portray the big picture of how firms select their partners. Also, it is not clear to what extent, and under which circumstances, the process of IJV partner selection can be considered a truly separable and distinct decision-making entity within the process of IJV formation, even though the present literature suggests otherwise.

The main research question “How do firms select their IJV partners and how does partner selection influence subsequent IJV performance?” is further broken down to sub-questions dealing with the influence of IJV context and bounded rationality, and the key factors and decisions separating firms in regards to how they select their IJV partners. Aiming for a holistic view on the phenomenon, the study theoretically applies both economic and behavioral approaches, as well as a mixed-method empirical study in which the quantitative study examines the partner selection criteria, and the qualitative study the partner selection decision process.

The key findings of the study indicate that firms significantly differ in how partners are selected, and the differences relate to several dimensions of the IJV context – especially the form of investment, the perceived strategic importance of the IJV, target-country-specific experience, and the nature of business of the IJV. The study further encourages a behavioral theory approach to explain the finer features of the phenomenon under different contexts and strategic contingencies.

**Keywords**
International joint venture, partner selection, strategic decision making, performance, context

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Several individuals, as well as institutions, have significantly contributed to this dissertation. I will now give my best effort to mention those at the very forefront of my mind when thinking back to the lengthy and consuming yet often rewarding learning process.

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Vaasa, November 2011,

Sami Rumpunen

# Contents

## Figures



## Tables

## Abreviations

| | |
|---|---|
| CEE | Central Eastern Europe |
| EE | Eastern Europe |
| FDI | Foreign direct investment |
| ISA | International strategic alliance |
| IJV | International joint venture |
| JV | Joint venture |
| FDI | Foreign direct investment |
| ISA | International strategic alliance |
| IJV | International joint venture |
| JV | Joint venture |
| MNE | Multinational enterprise |
| OECD | Organisation for Economic Cooperation and Development |
| PMC | Paper machine clothing |
| RBV | Resource-based view of the firm |
| R&D | Research and development |
| SA | Strategic alliance |
| SDM | Strategic decision making |
| TCT | Transaction cost theory |
| WE | Western Europe |

# 1 INTRODUCTION

The first chapter is begun by a presentation of the background, research questions and research gap of the study. Next, the positioning and scope of the study are presented, followed by a definition of an international joint venture. Lastly, the structure of the study is described.

## 1.1 Background

Ever since early 70's, the choice of partner(s) has been considered a key decision in the literature on international joint ventures (IJVs) as well as international strategic alliances (ISAs) (e.g. Child et al. 2005, Harrigan 1985, Geringer 1988, Sorensen & Reve 1998, Tomlinson 1970). Partner selection is viewed as crucial for formation, operation and subsequent success or failure of the venture (Beamish 1987, Blodgett 1991, Nielsen 2003, Parkhe 1993). Selection of the right partner should lead to planned/superior performance whereas selecting a non-suitable partner may lead to great problems in management and decision making and may even eventually cause leakage of tacit knowledge and/or to other problems, such as unwanted development with regard to the image of the foreign partner (e.g. Child & Faulkner 1998). Results in several studies have indicated that 20 to even 70 percent of the IJVs are failures, are unstable and/or do not meet the goals set for them (Geringer & Hebert 1991, Hennart et al. 1999, Parkhe 1993, Yeheskel et al. 2004). In several cases the problems are directly linked to the existence of multiple parents and the partnership dynamics, thus making it clear that partner selection is a major issue in the IJV decision making process. Therefore it is somewhat surprising that partner selection – at least a more detailed analysis of the selection, especially scope-wise and perspective-wise – has received rather limited attention.

However, although a number of IJV partner selection studies declare the importance of the partner selection process, research has strongly focused on the selection criteria and their relative importance. Even though several researchers both before and after the year 2000 considered IJV partner selection to be an under-researched topic (eg. Glaister and Buckley 1997, Nielsen 2003, Robson 2002), there now exists a bulk of literature on IJV and ISA partner selection criteria and its relative importance and especially its connection to the underlying IJV formation motives (Chen & Glaister 2005, Dong & Glaister 2006). Rather than a problem of quantity, this study argues that existing IJV partner selection research suffers from its narrow criteria-oriented scope. A lack of process-oriented studies on partner selection constitutes a clear gap in the IJV literature (Duisters et al.

2011). It is not clear to what extent, and under which circumstances, the process of IJV partner selection can be considered a truly separable and distinct decision making entity within the process of IJV formation.

By approaching partner selection in a more holistic manner – examining partner selection beyond the selection criteria and taking a process-orientated perspective – this study seeks to further explain how firms select their IJV partners, how the IJV context effects into the decision making within the IJV partner selection process, and explores the relationship between IJV partner selection and the subsequent performance of the venture.

The theoretical framework of the study relies upon several different streams of literature. The discussion on what kind of partners firms look for and select for IJVs – in other words, how firms evaluate their prospective partner candidates and thus weigh different selection criteria – draws from transaction cost theory, resource-based view of the firm, resource dependency theory, as well as organizational learning perspective. Meanwhile, to explain decision making within the IJV partner selection process, the theoretical background is mainly built upon strategic decision making literature and models drawn and adapted from purchasing literature.

## 1.2 Research questions and gap

In order to justify the research gap, the following arguments are presented:

First, the rich literature on international joint ventures and strategic alliances has not been shy of stressing the key role of partner selection with regard to the success/performance of the venture (e.g. Harrigan 1985, Geringer 1988, Glaister and Buckley 1997). Meanwhile, in light of its widely noted importance research on partner selection in general has been relatively limited and its performance implications extremely scarce.

Even more apparent within the IJV/ISA partner selection literature than its relative scarcity is its narrow focus in general. Although several authors make a point that research on IJV/ISA partner selection is underdeveloped (e.g. Roy 2006, Nielsen 2003, Glaister and Buckley 1997), there seems to be a respectable amount of studies focusing on which criteria firms apply when selecting IJV/ISA partners and the contextual factors effecting said criteria and their order of priority (e.g. Glaister 1996, Glaister and Buckley 1997, Hitt et al. 2000, Nielsen 2003, Robson 2002, Tatoglu and Glaister 2000, Tomlinson 1970). However, the aforementioned selection criteria research has done little to forward our grasp of

IJV/ISA partner selection as a *process*. In other words – while the existing research has focused on the criteria firms use when evaluating prospective partner candidates, it fails to portray the big picture of how firms select their partners. Also, it is not clear to what extent, and under which circumstances, the process of IJV partner selection can be considered a truly separable and distinct decision making entity within the process of IJV formation, even though the present literature suggests otherwise (Al-Khalifa and Peterson 1999).

Studies following the steps of Geringer (1988) have focused only on the evaluation of prospective IJV partners – one single mechanism of the selection process – and hence do not portray the whole complexity of selection. According to Harrison (1987), the analysis accorded the subject of decision making in scholarly journals usually focuses only on the decision itself, rather than on the process of arriving at an outcome that meets an objective. The number of scholarly case studies on alliances – identifying processes, dynamics and evolution – has remained limited and the scope narrow (Shenkar and Reuer 2006). Furthermore, it is here argued that the mainstream of IJV and ISA partner selection research relies on a number of implicit assumptions, and this reliance forms a limitation for the research (Wong and Ellis 2002). It is also argued that, although selection criteria are important, more holistic perspectives are also needed; the question of "how do firms select their alliance/joint venture partners?" should be approached as a process rather than as a set of criteria, as the mainstream of IJV/alliance partner selection studies tend to eventually rather focus on answering the question "what kind of IJV/alliance partners do firms select?" due to approaching partner selection as a set of criteria. As a number of studies ever since the sixties has examined the decision making process of FDIs (for a review, see e.g. Björkman 1989, Das and Teng 1999, Larimo 1987) this stream of literature has not spawned research focusing specifically on IJV partner selection processes. Thus, it is concluded that lack of process-oriented studies on partner selection constitutes a clear gap in the IJV literature.

Finally, it has been argued that the criteria for IJV partner selection are largely case-specific (see e.g. Geringer 1988, Varis 2004). However, contextual factors which have their effects on the relative importance of the selection criteria can be distinguished. After all, IJV partners aren't selected in a vacuum, which signifies the importance of considering different contexts in which partner selection is embedded (Hitt et al. 2000). The impact of several contextual factors on the relative importance of selection criteria has been observed in the IJV partner selection literature (e.g. Glaister 1996, Glaister and Buckley 1997, Hitt et al. 2000, Nielsen 2003, Robson 2002, Tatoglu and Glaister 2000, Tomlinson 1970), yet all these studies limit their observations to the partner selection criteria instead of the selection process entity. Forming a thorough and concise view of the contextual influences on IJV partner selection would greatly help us to explain the origins of its case-specific nature and the large variance of results in earlier IJV/ISA partner selection studies.

In light of the presented research gap, the study addresses the following research questions:

The main research question of the dissertation is as follows: *How do firms select their IJV partners and how does partner selection influence the subsequent IJV performance?*

As previously stated, it is argued here that more holistic approaches to studying the IJV partner selection phenomenon are needed in the midst of a stream of literature focusing on a single selection process component, and thus this ideology is communicated via the main research question which is general and broad by nature. For additional focus and breakdown of the research agenda, the following sub-questions are derived from the main research question:

- *What kind of influence do contextual factors (i.e. firm-specific, location-specific and investment-specific factors as well as features of the strategic context of the firm) have on IJV partner selection?*

The objective rising from the first sub-question is to contribute to our knowledge on why IJV partner selection is considered largely case-specific by both the firms selecting their partners and researchers focusing on the topic. The aimed outcome here is to produce an output entailing the influence of various contextual elements on different components of IJV partner selection.

- *Do firms that select their IJV partners under lesser limitations in regards to time, information and financial and/or other resources end up with more suitable partners and a higher satisfaction on IJV performance in comparison to the more limited firms?*

The second sub-question is derived from a foreword written by J.P. Killing in arguably the most essential work on IJV partner selection by Geringer (1988), suggesting that “One of the first questions that must be addressed is whether or not firms that spend more time and effort in the search process do in fact end up with what look like, according to Geringer’s criteria, more ‘suitable’ partners” (Killing in Geringer 1988: xv). Also, the concept of *bounded rationality* (Simon 1957) is reflected in the question via limited time, information and resources. Still, there is a significant gap in IJV partner selection research in answering such a question that obviously deals more directly with a process entity of selecting partners than a selection criteria-oriented approach.

- *What are the key factors and decisions within the IJV formation process that differentiate firms in regards to how they select their IJV partners?*

The third sub-question concerns the process-oriented approach in the study, aiming to explain the diversity of paths firms may take on their quest for IJV partners, and more specifically, to identify those points (i.e. decisions) within the processes and the contextual factors that most significantly divide the selection process modes from each other. In addition, the discussion in this regard is also targeted at explaining the extent to which the process of selecting IJV partners is truly separable from the IJV formation decision making process entity.

## 1.3 Scope and positioning of the study

As outlined by Wong and Ellis (2002), IJV research can be broadly categorized into three areas: 1) antecedents (e.g. IJV formation motives and partner selection; e.g. Geringer 1988 and 1991, Tallman and Shenkar 1994); 2) outcomes (studies relating to failure and performance; e.g. Brown, Rugman and Verbeke 1989, Makino and Delios 1996, Pearce 1997); and 3) specific management issues (e.g. control and conflict – Fey and Beamish 2000, Yan and Gray 1994). The issue of partner selection is arguably pre-eminent in this list of topics for the success and stability of the joint venture "marriage" is widely held to be determined by the compatibility of the alliance partners (Child et al. 2005, Luo 1997, Saxton 1997). It is by no means a completely neglected area of research; Reus and Ritchie (2004) found almost 30 studies with a linkage to partner selection in their review of IJV research in ten major journals with regard to studies on international business between the years 1988 an 2003 (For comparison among these 388 IJV studies in total, the most popular points of focus were entry strategies and partner learning, together covering close to 100 articles). In fact, Since Tomlinson's (1970) study on partner selection in UK-Indian IJVs, this particular topic has grown into its own and, although not significant in numbers, a rather coherent stream of IJV literature.

Although it was established that research on IJV partner selection exists to a certain degree, it is largely plagued by homogeneity in footsteps of Geringer (1988) and his focus on partner selection criteria. Studies such as Glaister (1996), Maurer (1996), Arino, Abramov, Skorobogatykh, Rykounina and Vila (1997), Glaister and Buckley (1997), Luo (1998), Al-Khalifa and Peterson (1999), Tatoglu and

Glaister (2000; 2002), Hitt, Dacin, Levitas, Edhec and Borza (2000), Robson (2002), Nielsen (2003), Dong and Glaister (2006), Roy (2006), Salavrakos and Stewart (2006) and Li & Ferreira (2008) have contributed in the IJV partner selection research. These studies, among others, have built on Geringer's (1988) typology, and provided results on the relative importance of selection criteria in different geographical contexts, examined and identified a number of contextual variables affecting the relative importance of the criteria and, although significantly lesser in numbers, found indication of a relationship between the relative importance of selection criteria and the subsequent performance of the venture.

What these studies do not account for, however, is the process entity of IJV partner selection. The very limited amount of process-oriented studies on partner selection, either for IJVs or ISAs, is surprising given that the selection process, deemed to be fundamental in the pursuit of high performing ventures, can be disassembled into at least two stages; initial identification and subsequent evaluation of potential candidates (Williams and Lilley 1993, Wong and Ellis 2002). According to Tallman and Phene (2006) the process of structuring alliances involves initiation, operation, and restructuring or termination. The initiation of alliances, then, unfolds into three stages: The first stage involves a choice regarding the organizational form, at which point cooperation through alliance is selected. The second stage represents the partner search and selection process, while the last stage comprises negotiations with the selected partner to create a framework that establishes complementarities and fosters the development of synergies. There are some rough process descriptions on how JV or strategic alliance partners are selected (Mitsuhashi 2002, Young et al. 1989) yet there is a significant need for a more concise effort to capture the phenomenon and especially empirical examination on the partner selection process. Significant amount of research has been done on FDI decision making processes (for reviews, see e.g. Björkman 1989, Das and Teng 1999, Larimo 1987) but, in spite of its logical suitability, the existing IJV literature lacks in this type of approach on specifically IJV partner selection processes.

This need for additional process orientation is amplified by several implicit predispositions that have their effect on previous IJV partner selection research when observed from a process oriented perspective (Wong and Ellis 2002). Most visibly early partner selection process descriptions (Ellram 1991, 1996; Mitsuhashi 2002, Young et al. 1989) do not effectively account for bounded rationality, and the limitations it either directly or indirectly causes for firms looking for their prospective partners, with the exception of Wong and Ellis (2002) and their study focusing solely on partner identification.

Furthermore, although often cited in IJV and alliance literature (e.g. Duisters et al. 2011, Varis 2004), the Ellram (1991) model depicts a *partnering* process, drawn in the context of purchasing partnerships, and should thus be carefully applied in the IJV context. Some models do enrich the partner selection literature – such as Beekman & Robinson (2004) on supplier partnerships, Nijssen et al. (2001) on technology partnerships, as well as Chung et al. (2000), Dekker (2008) and Nielsen (2010) on generally alliances or inter-firm partnerships – yet none seem to focus on international joint ventures, nor base their findings on empirical study targeting specifically manufacturing units.

The question of scope becomes a key issue especially in such a popular research field as joint ventures and alliances (see Reus & Ritchie 2004). Therefore, although several recent studies (e.g. Liu et al. 2010, Yeniurt et al. 2009) touch upon the subject of partner selection while focusing on other key issues of alliance formation and operation and partner selection studies occur in other partnership areas such as studies on franchising partner selection (e.g. Altinay 2006), their inclusion is in this study strictly limited to aspects that are key to answering the posited research questions and building the theoretical framework.

Decision processes have been extensively studied within the economic literature ever since the early 20$^{th}$ century (see, e.g., Dewey 1910). Decision process research can be roughly divided into three categories: Firstly, descriptive research focuses on how and why individuals make decisions (De Boer 1998), instead of what exactly a decision maker should do (Wickham 2004), answering the question of how decisions are made (Brännback 1996). Secondly, normative research focuses on how decisions should be made (Brännback 1996), and its evaluation of decision models is based on their ability to produce rational alternatives (De Boer 1998). Lastly, the prescriptive research combines normative and descriptive elements, answering the question of how can individuals be assisted in making better decisions while taking their cognitive limitations into account (Kansola 2010).

According to Schwenk (1995), some of the major areas of strategic decision making literature include (1) strategic decision models and characteristics, (2) biases in strategic decision making, (3) individual and organizational minds, and (4) upper echelons (CEOs, top management teams, and boards of directors), logically connected in the study of strategic decision making. This study mainly deals with the first area, crossing briefly over to the other areas, such as cognitive biases (Das and Teng 1999, Schwenk 1995).

Researchers have, since the mid-fifties, tried to model strategic decision making processes. Simon’s (1957) I-D-C (intelligence, design, choice) model is still probably the best-known phase model within the decision making literature up to date and laid a major groundwork for the field. Strategic decision processes have ever since been modeled in several ways, and later classified in different typologies (for review, see e.g. Schwenk 1995, Eisenhardt and Zbaracki 1992, Lyles and Thomas 1988, Hickson 1987, Hickson et al. 1986), leading on to studies effectively synthesizing previous typologies and classifications (e.g. Das and Teng 1999, Hart 1992), answering the call for additional synthesis and pluralism to advance integrated theory development in the field of strategy (Shoemaker 1989). As a critique on the bulk of research on decision making, Larimo (1987) states that most of the literature on decision making in the business environment, up until mid-eighties, is argued to be rather abstract, theoretical and normative by nature.

Decision making processes in relation to foreign direct investment specifically have also been studied, in significantly lesser numbers, since the 1950's and especially since Aharoni's (1966) often-cited study of FDI decision making in US firms up to the late 1980's (for review, see e.g. Björkman 1989). Still, international joint venture decision making, a specific subsection within FDI decision making research, has been neglected within these types of research frameworks, and this study attempts to analyze and explain the decision making process taking place when partners are selected for international joint ventures.

## 1.4 Defining an international joint venture

The definition of a joint venture has not been universally agreed upon. Geringer (1988:4) defines a joint venture as "a discrete entity created by two or more legally distinct organizations (the partners), each of which contributes less than 100 percent of its assets and actively participates, beyond a mere investment role, in the joint venture's decision making". Although it is in some studies defined as involving creation of a new and independent jointly owned entity and thus excluding partial acquisitions (e.g. Jormanainen 2010, Meyer 2007, Inkpen and Beamish 1997), an alternative view as defined by transaction cost economists also includes those entities where one of the partners takes an equity position in the other partner or partners (Gulati 1995). The justification for the inclusion of partial acquisitions is based on the premise that a direct equity investment by one firm into another essentially creates an equity joint venture between one firm's existing shareholders and the new corporate investor (Pisano 1989). Key here, from the TCE point of view, is that beyond a certain threshold the shared ownership structure effectively deters opportunistic behavior (Gulati 1995).

To allow comparison of the behavior of firms undertaking partial acquisitions to those forming Greenfield joint ventures, in this study an equity joint venture is defined in footsteps of Hennart (1988, 2000, 2009), who stated the following (Hennart 1988: 362): “An equity joint venture arises as two or more sponsors bring given assets to an independent legal entity and are paid for some or all of their contribution from the profits earned by the entity, or when a firm acquires partial ownership of another firm.” Chen and Hennart (2004: 1126) similarly stated that IJVs can be formed either by splitting ownership of the new entity with the local partners (Greenfield IJV) or by acquiring a stake equity of an existing firm (acquisition IJV). Thus, in this study, the definition of a joint venture allows for two different forms of establishment – through Greenfield investment, or through partial acquisition.

Additionally following Hennart’s (1988) definitions, non-equity joint ventures are here labeled as contracts instead of joint ventures, and thus the term “joint venture” refers to equity joint ventures in this study. Also, for the joint venture to be considered international, the nationality of one or more partners in the IJV must be other than the country of residence of the IJV.

In many instances, the study mentions IJVs and ISAs in the same connection. This is not a reference to the two terms’ similarity – the reasoning here is based on the fact that general alliance literature is significantly richer in partner selection studies, and findings concerning the two fields are largely compatible. However, it should be noted that the term ‘alliance’ is understood here as an umbrella label for different kinds of collaborative partnerships (Faulkner and de Rond 2000), whereas the term ‘strategic alliance’ as partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial (Elmuti and Kathawala 2001:205).

## 1.5 Structure of the study

Following the introductory chapter (Chapter 1) presenting the objectives, scope and structure of the study, the first theoretical chapter (Chapter 2) is built upon the grounds of the main bulk of IJV partner selection criteria research following the lead of Geringer (1988). Together with the first empirical chapter (Chapter 5), the main goal here is to expand upon the knowledge on contextual influence on the relative importance of partner selection criteria, as well as to examine the relationship between the selection criteria and IJV performance. Following the mainstream of IJV partner selection criteria studies, it is here aimed to define the limits of the selection criteria approach in explaining the IJV partner selection phenomenon. Its main theoretical grounds rely upon the resource-based view of the firm, the resource dependency theory and transaction cost theory.

In Chapter 2, a set of hypotheses regarding the contextual effect on partner selection criteria and its relationship with IJV performance are stated, and further empirically examined in Chapter 5 in a quantitative study focusing on IJVs formed in 1988-2002 and a Finnish firm acting as the foreign partner.

In the second theoretical chapter (Chapter 3), the phenomenon of IJV partner selection is examined from a process-oriented point of view. The main goal of the chapter is to explain how firms differ with regard to the paths they take in selecting their IJV partners, adding to the process descriptions of previous research by proposing alternative process modes. The theoretical backbone of Chapter 3 is built upon a behavioral theory approach, comprising models and typologies drawn from the strategic decision making literature and partnering models drawn from the purchasing literature.

After Chapter 5, the quantitative study focusing on IJVs with Finnish ownershipformed in 1988–2002, Chapter 6 takes a qualitative approach to examining the processes of four case IJVs formed in 1997–2000 with a Finnish firm acting as the foreign partner, thus forming the second empirical chapter of the study. In addition to describing the selection process, Chapter 6 focuses on the context effect on partner selection decision making and performance implications of choosing specific paths in the IJV formation. Lastly, Chapter 6 examines the extent to which the IJV partner selection process can be seen as its own separate decision making entity within the IJV formation process.

The last chapter (Chapter 7) comprises the summary and conclusions of the study. Also, limitations of the study and further research avenues are discussed.

The material in Chapter 2 and Chapter 5, focusing on IJV partner selection criteria, context effect on its relative importance, and its performance implications, is originally based on (here revised and significantly expanded upon) the article: Larimo, J and S. Rumpunen (2006). ‘Partner selection in international joint ventures’, Journal of Euromarketing 16:1/2, 119–137.

The material in Chapters 3.3, 3.4 and 3.5, partly comprising the theoretical part for approaching IJV partner selection from a process-oriented perspective, is originally based on (here revised and significantly expanded upon) the paper: Rumpunen, S. and A. Viljamaa (2008). IJV partner selection: A new approach. Presented at the 34th EIBA Annual Conference, Tallinn, Estonia, Dec 11–13, 2008.

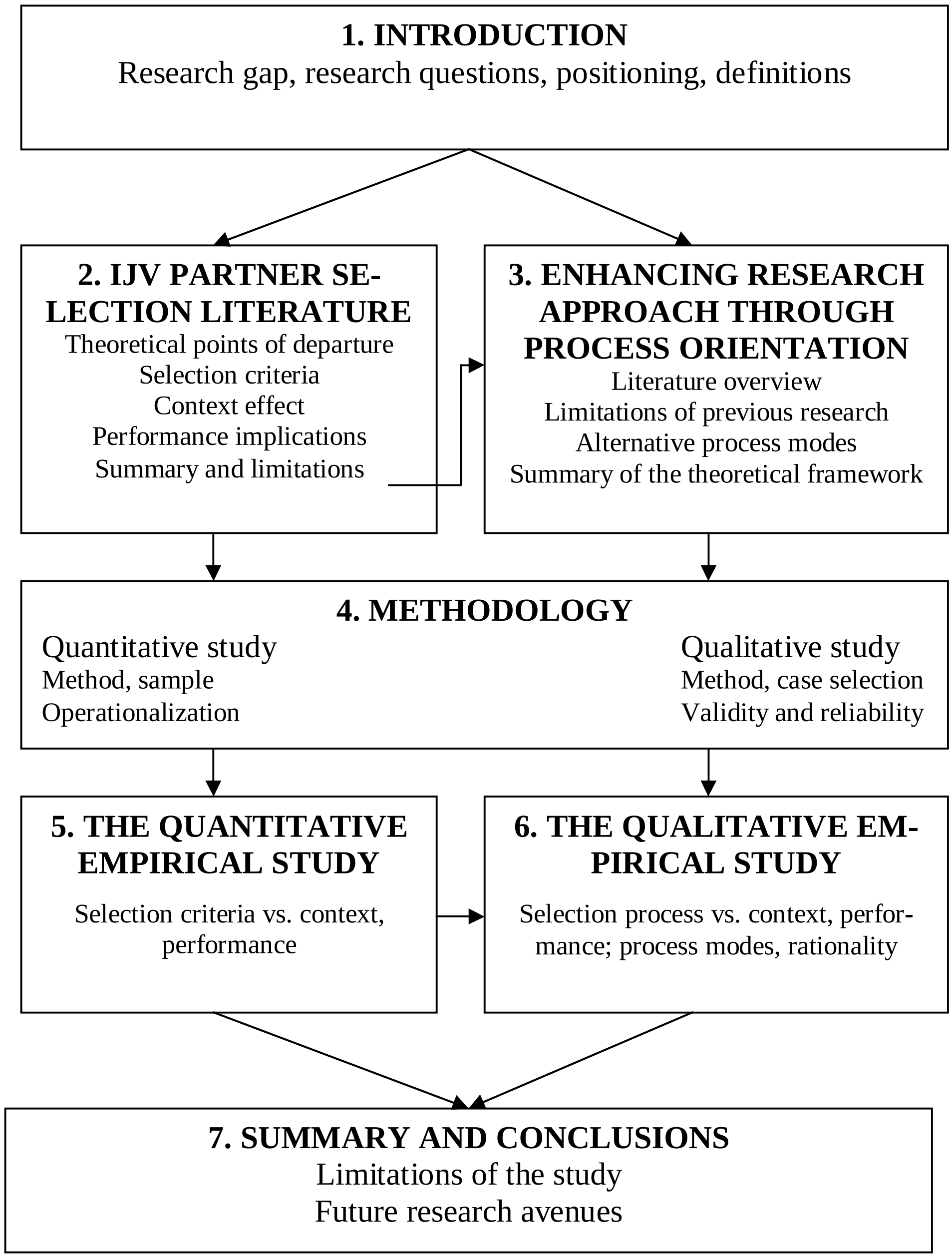


**Figure 1**. The structure of the study.

# 2 IJV PARTNER SELECTION CRITERIA LITERATURE

The second chapter comprises the first theoretical part of the study, and it aims to contribute to a theoretical framework on IJV partner selection by examining the impact of the IJV context on the relative importance of IJV selection criteria, and the relationship between the selection criteria and the eventual IJV performance. The chapter begins by presenting theoretical points of departure with emphasis on economic theories. Then, a literature review on criteria-oriented IJV partner selection research is presented, and it is followed by discussion on the contextual impact on the IJV partner selection criteria. The chapter is finalized by discussion on the relationship between the partner selection criteria and the IJV performance. Altogether five hypotheses are set for forthcoming quantitative empirical examination (Chapter 5).

## 2.1 Theoretical points of departure

Partner selection for international joint ventures can be approached from several different theoretical angles. Taking a single- or dual-theory-driven approach to explain IJV partner selection is arguably not the optimal solution. As described by Varis and Conn (2002), several IB theories, such as transaction cost theory, resource-based view of the firm, market power theory, organizational learning perspective, resource dependency theory as well as sociological approaches offer perspectives on how IJV/alliance partners are selected. However, all these theories are limited in certain ways, thus the use of any one approach alone would be unlikely to guarantee successful partner selection. Instead, taking a theory-driven approach would require a use of several theories simultaneously.

Several economic theories popular to explaining international business on various facets, such as transaction cost theory, the resource-based view of the firm, and the resource dependency theory, all have their ways of explaining the IJV rationale, and thus also suggest why firms choose to ally with certain types of partners in different contexts. Therefore, they constitute a useful theoretical backdrop for examining how, or according to which criteria, firms evaluate and select their prospective partners, and form here the backbone of the theoretical discussion of Chapter Two.

*Transaction cost theory* (TCT), developed by Williamson (1985, 1988), has been one of the most popular theories among research concerning international joint ventures (e.g. Parkhe 1993, Hennart 1988), and often mentioned as the principal theoretical approach to studying IJV formation and development (Robson et al. 2002). According to transaction cost theory firms look for solutions that allow them to reduce transaction costs, which in turn are driven by asset specificity, transaction frequency and the uncertainty over the outcome of the transaction (Williamson 1985). Also, transaction cost theory includes the assumption that firms are rationally bounded, mainly in reference to that all possible future contingencies can't be seen in advance, and contracts remain incomplete (Williamson 1988). According to TCT, a necessary condition for a firm to choose to joint venture is that the production cost achieved through internal development or acquisition is significantly higher than external sourcing (Kogut 1988).

In the context of selecting a partner for an international joint venture, transaction cost theory suggests that an organization selects its IJV or alliance partners by balancing in between the transaction costs incurred in allying with a particular partner, and the ability to control the particular partner's actions, thus suggesting that the optimal candidate is the one that necessitates the lowest transaction costs, which at the same time is the most "controllable" (Varis and Conn 2002). Regarding uncertainty in transactions, Williamson (1985) suggested two types of uncertainties: the uncertainty due to external environmental changes, and the internal behavioral uncertainty, in which it is difficult to assess whether the other party is living up to its contractual obligations. Uncertainty and its effects on alliance partner selection have been studied by Mitsuhashi (2002) who presented different types of selection uncertainty and mechanisms firm use to reduce selection uncertainty, which will be discussed in more detail in the forthcoming chapters.

Although transaction cost theory explains alliance formation and partner selection well on a general level, it comes up short in explaining the finer points of partner selection; a good example here would be its focus on cost reduction instead of value creation, while the latter might actually be more appropriate to the alliance scenario (Varis and Conn 2002). Transaction cost theory has been criticized for its tendency to observe an individual as a too simple, dishonest and unmotivated actor who must be directed through prohibitions and sanctions, and for neglecting, for example, an individual's will and capability for cooperation, creativity, volunteering and entrepreneurship, and lastly, for its inability to adequately recognize the importance of trust (Vuorinen 2005). The critique by Ghoshal and Moran (1996) suggests that, when interpreted incorrectly or too broadly, transaction cost theory may even have damaging consequences within an organization. Even though Williamson (1985) himself posits such limitations upon transaction cost theory as measurement difficulties, primitive models, underdeveloped tradeoffs, the overly unattractive view of human nature, among others, TCT has spawned a significant stream of opposing literature that mainly concentrates on the social dimension economic activities (Vuorinen 2005). Still, Williamson (1988) himself suggests TCT to be applied in conjunction with other theories rather than as a stand-alone explanation of economic activity.

*The resource-based view of the firm* (RBV) essentially builds on the principle that the application of the bundle of valuable resources the firm has at its disposal primarily forms the basis for its competitive advantage (Rumelt 1984, Wernerfelt 1984). A sustained competitive advantage, according to Barney (1991), would require the resources to be heterogeneous and not perfectly mobile; in effect, resources that are both inimitable and non-substitutable without great effort. According to the resource-based view of the firm, firms should specifically look for IJV partners who enable the IJV to develop, structure or combine resources in a way that is the most durable and difficult to copy (Varis and Conn 2002). Firms may have specific resource endowments, but may need additional resources to be competitive in particular markets (Hitt et al. 1999). These kinds of needs, from the RBV perspective, are the primary reason for the existence of strategic alliances (Hitt et al. 2000).

A key element of the RBV-oriented IJV literature is that the realization of the potential benefits to a firm from forming an IJV depends on its finding a partner who can provide complementary capabilities that match its own and enable the IJV to meet the firm's strategic objectives (Buckley and Casson 1988, Child and Yan 2003, Geringer 1991). Although the RBV perspective is an obvious theoretical backdrop in IJV partner selection criteria research, some of its key features such as the inimitability of resources are often outside the spotlight. Geringer (1988) expectedly found in his study on IJV partner selection of US firms that the perception of the difficulty of internal development in regards to certain resources, reflecting the inimitability of said resources, had a positive effect on the relative importance of these resources and/or capabilities as partner selection criteria.

*Resource dependency theory*, complementing the resource based view of the firm, suggests that by controlling critical resources – such as technology, management know-how, service support, knowledge of local markets and customs, distribution, procurement and equity share (Yan and Gray 2001) – a firm can make another firm dependent on it (Pfeffer and Salancik 1978). Originally developed by Emerson (1963), a key notion of resource dependency theory is that a firm cannot develop or internally access all resources required for competitive operation in a specific environment. While resource dependency theory is considered to complement the resource-based view of the firm, organizational learning perspective can similarly be considered as an extension to the more general resource dependency theory (Varis and Conn 2002).

The application of the RBV perspective and the resource dependency theory in IJV partner selection research has resulted in some location or target-country-specific findings. This goes along the notion by Pfeffer and Salancik (1978), stating that resource dependency theory emphasizes the importance of contexts and situational contingencies as determinants of organizational behavior. For example, Hitt et al. (2000) found that in addition to seeking local market knowledge and access, developed market firms with large resource endowments try to leverage their resources by selecting alliance partners with complementary capabilities and unique competencies. They also found that alliance partners may be selected largely for access to resources and organizational learning opportunities that may enhance a focal firm's capabilities.

The RBV and the resource dependency theory, when connected to the organizational learning perspective, also offer as a combination a theoretical explanation to an often recurring setting in IJVs formed between partners from developed and emerging markets, also stressing the dyadic nature of a partnership. As RBV suggests, developed market firms with large resource endowments try to leverage their resources by selecting alliance partners with complementary capabilities and unique competencies in addition to seeking local market knowledge and access (Hitt et al. 2000). Meanwhile, firms from emerging markets often enter alliances to acquire knowledge and capabilities (Mothe and Quelin 1998). The tendency of, for example, the Chinese firms to enter in IJVs with Western European firms driven by the motive of acquiring new technology and knowledge, is very well documented within the IJV literature concerning Chinese firms (e.g. Beamish 1993, Davidson 1987, Dong and Glaister 2006, Luo 1997, Maurer 1996).

Another setting, as depicted by Hitt et al. (2000) regarding the connection between RBV and organizational learning perspectives in IJV relationships between firms from developed and emerging markets, was made in relation to quality of production. As the importance of quality for competitiveness has risen, pushed by the proliferation of the ISO standards worldwide, developed market firms want partners that can produce quality goods. At the same time the emerging market firms want partners from whom they can learn to produce higher quality, thus acquiring knowledge to meet international quality standards and enhancing their resource endowments.

## 2.2 Review of the criteria-oriented IJV partner selection research

As outlined by Wong and Ellis (2002), IJV research can be broadly categorized into three areas: 1) antecedents (e.g. IJV formation motives and partner selection; e.g. Geringer 1988 and 1991, Tallman and Shenkar 1994); 2) outcomes (studies relating to failure and performance; e.g. Brown, Rugman and Verbeke 1989, Makino and Delios 1996, Pearce 1997); and 3) specific management issues (e.g. control and conflict – Yan and Gray 1994, Fey and Beamish 2000). The issue of partner selection is arguably pre-eminent in this list of topics for the success and stability of the joint venture “marriage” is widely held to be determined by the compatibility of the alliance partners (Child et al. 2005, Luo 1997, Saxton 1997).

It is often brought up within the IJV and ISA literature that central to IJV/ISA formation is the quest for a suitable partner (e.g. Blodgett 1991, Brown, Rugman and Verbeke 1989, Harrigan 1988, Parkhe 1993, Sorensen and Reve 1998) and in many occasions it has been mentioned as the key to the ultimate success of the venture (e.g. Child and Faulker 1998). Recognition of this fact has inspired an area of IJV research that specifically focuses on the partner selection criteria preferences of MNEs when establishing an IJV. Although this area of research is often referred to as underdeveloped (e.g. Roy 2006) or at least of relatively little in amount (e.g. Glaister and Buckley 1997, Nielsen 2003), previous research to date has been able to successfully identify selection criteria employed by firms, categorized these criteria, demonstrated preference variations in the criteria and their categories, and suggested potential drivers of these preference variations. Also, some papers have explored linkages between partner selection criteria and the subsequent performance of the JV (Awadzi 1987, Beamish 1987, Maurer 1996).

The study by Tomlinson (1970) is unanimously regarded as the first study placing a more detailed focus on IJV partner selection. In his study Tomlinson analyzed the IJV behavior and performance of UK-based companies in 71 IJVs in India and Pakistan. Seven years later he conducted a joint study with Thompson (1977) focusing on IJVs established by Canadian companies in Mexico. Tomlinson’s (1970) findings on selection criteria applied by firms selecting their IJV partners were the first of their kind, thus laying the groundwork for a new stream of IJV research. After Tomlinson (1970), during the 70’s and early-to-mid 80’s, a handful of studies (e.g. Adler and Hlavacek 1976, Awadzi 1987, Beamish 1987, Daniels 1971, Lasserre 1984, Renforth 1974) surfaced, providing insight to mainly on what firms look for in their potential partners by introducing relevant selection criteria, as well as examining certain factors affecting the characteristics a firm may look for in their potential partner candidates.

However, the study by Geringer (1988, 1991) can be regarded as the groundbreaking work focusing on IJV partner selection. Geringer (1988), who was able to identify a total of 27 different selection criteria in his study of US-based IJVs, suggested that despite the almost unlimited range of alternative criteria that might exist, it is possible to provide a simple two-fold typology consisting of *task-related* and *partner-related* selection criteria. This has been the common basis shared by the vast majority of IJV/ISA partner selection studies ever since early 90's. In this criteria typology, the task-related selection criteria concern the skills and resources a firm would look for in its prospective partner, in response to consideration of the nature of its own potential contributions along with what the new business would require to be successful. Partner-related selection criteria are those referring to the ability of the partner to work with the focal firm efficiently and effectively (e.g., compatibility of top management teams). In contrast to task-related criteria, which focus on relative partner contributions to making a business prosper, partner-related criteria are not contingent on the IJV context. Another main contribution by Geringer was the identification and estimation of the correlations of the key variables which affect the relative importance of some of the selection criteria.

In the later studies the task- and partner-related selection criteria categorization has been applied with modifications by e.g. Glaister (1996), Glaister and Buckley (1997), Tatoglu and Glaister (2002) and Nielsen (2003) who applied mostly similar sets of selection criteria. However, these four studies used slightly different definitions of task-related and partner-related criteria in comparison to the original definitions, rendering the comparison of results more difficult. In the view of three of these four studies (Glaister 1996, Glaister and Buckley 1997, Tatoglu and Glaister 2000) partner-related criteria were those "that became relevant only if the chosen mode involves presence of multiple partners", thus not following Geringer's (1988) idea of criteria associated with the efficiency and effectivity of partners' cooperation. Nielsen (2003) defined partner-related criteria as "criteria associating with the efficiency and effectivity of the partner" yet ended up using almost exactly the same set of criteria as the three studies discussed above. Luo (1998), on the other hand, extended Geringer's (1988) typology by adding a third category of criteria measuring the financial fit of the IJV partners. Furthermore, Robson (2002), following Geringer's (1988) definition, focused solely on partner-related criteria.

Regarding the point of view of previous IJV partner selection research, the study by Tatoglu and Glaister (2000) differs from the others by analyzing the views of both the foreign and the local partner, whereas in vast majority of the other studies the focus has been on the selection criteria used by the foreign partner. Also, Arino, Abramov, Skorobogatykh, Rykounina and Vila (1997), Al-Khalifa and Peterson (1999), as well as Hitt, Dacin, Levitas, Edhec and Borza (2000) are also among those having contributed in the IJV partner selection research. These studies, among others, have built on Geringer's (1988) typology, and provided results on the relative importance of selection criteria in different geographical contexts, examined and identified a number of contextual variables affecting the relative importance of the criteria and, although lesser in numbers, found indication of a relationship between the relative importance of selection criteria and the subsequent performance of the venture. Additionally, Li and Ferreira (2008) focused on firms' preference to select prior partners for ISAs in developing countries, finding that the technological commitment is a major predictor for selecting prior partners, and also that institutional distance between the home and host country increases the likelihood for selecting prior partners. They didn't, however, focus on other aspects of partner selection other than the tendency of selecting prior partners.

Additionally, several studies have contributed in joint venture and alliance partner selection without an international perspective, and thus are not included in Table 1. Hoffmann and Schlosser (2001) examined different types of alliances, including joint ventures, contractual alliances, minority shareholdings and other types of alliances, both national and international. Their findings regarding alliance success factors indicate the importance of trust and commitment, yet also such "hard" facts such as strategic compatibility and appropriate governance mechanisms. Pangarkar and Choo (2001) studied Singaporean alliances, finding that firms mostly tend to seek symmetric partners in several respects such as firm size, experience, goals, culture, management style and operating policies, thus reducing the uncertainty experienced in selecting partners. More recently, Shah and Swaminathan (2008), by using an experimental method, found that the critical criteria for assessing alliance partners' attractiveness and selection vary depending on the differential levels of process manageability and outcome interpretability inherent to a strategic alliance with a sample comprising U.S. executive MBA students.

**Table 1.** The main IJV and ISA studies focusing on partner selection criteria.

| Author(s) | Year | Main focus | Geographic focus | Sample size | Point of view |
|---|---|---|---|---|---|
| Li and Ferreira | 2008 | Preferring prior co-op in emerging countries | ISAs in emerging countries with US foreign partners | 286 ISAs | foreign partner |
| Dong and Glaister | 2006 | PS criteria and motives | IJVs in China | 203 ISAs | local partner |
| Roy | 2006 | PS crit., performance, host country legal environment | IJVs with Canadian foreign partners | 113 IJVs | foreign partner |
| Salavrakos and Stewart | 2006 | PS criteria and performance | Greek IJVs in Eastern Europe | 45 IJVs | foreign partner |
| Chen and Glaister | 2005 | PS criteria and motives | Taiwanese IJVs in China | 40 IJVs | foreign partner |
| Nielsen | 2003 | PS criteria and contextual effects | IJVs with Danish foreign partners | 120 | foreign partner |
| Robson | 2002 | Partner-related crit., performance, collaboration outcomes | IJVs in UK | 94 | local partner |
| Hitt et al. | 2000 | PS crit. and market context (emerging/ developed) | IJVs of several nationalities | 202 firms | foreign partner |
| Tatoglu | 2000 | PS criteria and motives | IJVs in Turkey with WE foreign partners | 39 IJVs | foreign partner |
| Tatoglu and Glaister | 2000 | PS criteria, motives, country of origin effect | IJVs in Turkey with OECD foreign partners | 39 foreign, 30 local partners | dyadic (i.e. both) |
| Zhang | 2000 | PS crit., motives, location | IJVs in China | 106 (82 % IJVs) | foreign partner |
| Al-Khalifa and Peterson | 1999 | PS crit. classification, experience | IJVs in Bahrain | 42 IJVs | foreign partner |
| Glaister and Buckley | 1997 | PS criteria and contextual effects | UK IJVs with WE/JAP/ USA partners | 53 IJVs | UK firm as a for./loc. partner |
| Arino et al. | 1997 | PS criteria, partner contributions, relationship management | IJVs in RUS with FRA/ ITA/SPA foreign partners | 8 IJVs | foreign partner |
| Dacin | 1997 | PS criteria between US and Korean firms | ISAs by US and Korean firms | not defined | Not defined |
| Luo | 1997 | PS criteria and performance | IJVs in China | 116 IJVs | foreign partner |
| Saxton | 1997 | Partner and relationship characteristics, performance | Several nationalities | 98 responses | not defined |
| Glaister | 1996 | PS criteria and motives | UK ISAs with WE foreign partners | 50 ISAs | local partner |
| Maurer | 1996 | PS criteria and performance | US IJVs in China | 33 IJVs | foreign partner |
| Demirbag, Mirza and Weir | 1995 | PS criteria and motives | IJVs in Turkey | 47 foreign, 21 local partners | dyadic |
| Glaister and Wang | 1993 | PS criteria and motives | IJVs in China with UK foreign partners | 21 IJVs | foreign partner |
| Geringer | 1988 | Strategic determinants of PS criteria | IJVs with US firms as foreign partners | 90 IJVs | foreign partner |
| Awadzi | 1987 | PS criteria and bargaining power | IJVs in the US | 40 IJVs | local partner |
| Beamish | 1987 | PS criteria and performance | IJVs in LDCs by US and CAN MNEs | 66 IJVs | foreign partner |
| Tomlinson and Thompson | 1977 | PS criteria | CAN-MEX IJVs | 40 responses | dyadic |
| Renforth | 1974 | PS criteria, operation characteristics | US IJVs in Trinidad and Jamaica | 49 IJVs | foreign partner |
| Daniels | 1971 | Partner selection and characteristics | IJVs in the US with Euro foreign partners | 40 IJVs | foreign partner |
| Tomlinson | 1970 | PS criteria and contextual effects | IJVs in India with UK foreign partners | 71 IJVs | foreign partner |

## 2.3 Context effect

It has been argued that the criteria for IJV partner selection are largely case-specific (see e.g. Varis 2004). However, contextual factors which have their effects on the relative importance of the selection criteria can be distinguished. The impact of several contextual factors on the relative importance of selection criteria has been observed in the IJV partner selection literature. They can be roughly divided into foreign-partner-specific, IJV location-specific and investment-specific factors. Also, some of the past studies have taken the impact of the motive for the IJV formation on the relative importance of selection criteria under observation.

There are several *foreign-partner-specific factors* that might condition the relative importance of the selection criteria. Here we focus on, firstly, the size of the firm, and secondly, the experience of the firm on different aspects of international operations, such as experience in completing FDI, experience in forming IJVs, and experience in operating in the target country.

Also, the *location-specific factors* of the IJV, such as the geographic location/region of the IJV, the distance between the home and host countries of the IJV partners (both culturally and physically), and the level of economic development of the host country of the unit, may also be expected to have an influence on the relative importance of various selection criteria. The lower the distance – economic, cultural, physical – the more similar the home and host countries usually are, and the lower the amount of expected problems between partners depending on the distance. Greater distance has been connected to higher level of IJV problems and conflict (Lane and Beamish 1990), misunderstandings (Lyles and Salk 1996), collaborative problems (Mowery et al. 1996) and knowledge transfer problems (Hamel 1991).

Thirdly, there are numerous factors potentially influencing the relative importance of the selection criteria that do not naturally fit the foreign-partner-specific or the location-specific categories, but are instead specific only to the investment in question. These *investment-specific factors* refer in this study to the form of establishment (Greenfield IJV vs. partial acquisition), the relatedness of the IJV operation for the foreign partner, the relative size of the partners, and the initiator of the IJV.

In addition to these, Geringer's (1991) results suggested that the relative importance of the selection criteria is closely related to three variables associated with the parent firm's strategic context: These variables were the management perceptions of: 1. The extent to which that dimension critical to the venture's performance (i.e. a critical success factor, CSF), 2. The parent firm's current position vis-à-vis that CSF dimension, and 3. The anticipated difficulty to be encountered in internal efforts to achieve a viable competitive position on that CSF dimension. These variables were seen to explain a substantial proportion of the observed variance in the relative importance of the selection criteria. A more common aspect of the strategic context of the firm researched in connection to IJV formation is the investment motivation. However, its impact on the relative importance of partner selection criteria have been examined very limitedly (Glaister 1996, Tatoglu and Glaister 2000, Nielsen 2003).

The following sub-chapters (2.3.1 to 2.3.4) deal with different contextual factors of IJV partner selection, followed by a chapter (2.4) concerning the relationship between the selection criteria and IJV performance. Each of these chapters conclude with a hypothesis, worded in a very general manner in accordance to several previous studies (e.g. Chen & Glaister 2005, Glaister & Buckley 1997, Pangarkar 1997). Each of hypotheses 1 to 4 concern a relationship between the relative importance of partner selection criteria and a certain group of contextual factors, instead of individual contextual factors. This is due to avoiding an amount of ca. 20 hypotheses and thus aiming to a more concentrated presentation.

### *2.3.1 Foreign-partner-specific factors*

There are several foreign-partner-specific factors that might condition the relative importance of the selection criteria. Here, the focus is on size and experience of the foreign partner. Experience is further separated into experience on foreign direct investment (FDI experience), experience on forming international joint ventures (IJV experience), and target-country-specific experience of the foreign partner.

Size of the firm is likely to be related to the underlying motives for the IJV, as by common logic, smaller firms are obviously more likely to, for example, be more limited in regards to financial and managerial resources, and be more motivated to reach economies of scale through the IJV. Meanwhile, larger firms may be more strongly motivated to diversify their operations or to block competition especially in saturated industries. Al-Khalifa and Peterson (1999) found that the importance of criteria relating to local standing and marketing and technological competence decreased by the size of the company (measured by the number of employees).

Regarding experience and its effect on partner selection criteria, a linkage based on transaction cost theory can be argued for. Internal and external uncertainty that firms deal with, and that affect transactions as posited in transaction cost theory (Williamson 1985), in conjunction with Mitsuhashi's (2002) finding that firms use certain mechanisms such as the relational mechanism (weighing previous relations with prospective partner candidates) to reduce selection uncertainty, indicates a relationship between a firm's international experience and the relative importance it places on criteria related to familiarity. However, lacking target-country-specific experience also translates to having no previous local cooperators in the target country, shutting out the criteria of previous positive cooperation. Finally, if the company lacks earlier FDI, IJV and/or target-country-specific experience it can be logically expected to value partner-related aspects such as trust due to perceived environmental uncertainty. Empirical findings suggest that firms with wide experience in foreign acquisitions were more likely to acquire firms in better a financial state than those with limited acquisition experience (Lindvall 1991), indicating that criteria concerning financial resources is valued more by the experienced firms.

The earlier studies surprisingly include only a very limited amount of research results on the influence of foreign-partner-specific factors on the relative importance of partner selection criteria. In the study by Nielsen (2003) concerning IJVs and alliances of Danish companies it was found against expectations that international experience did not have any influence on the relative importance of partner-related selection criteria but the degree of experience had some importance on the relative importance of task-related selection criteria. Al-Khalifa and Peterson (1999) found that firms with geographically widespread JV experience placed more emphasis on partner-related aspects instead of task-related aspects, and that increased international experience decreased the importance of personal characteristics. Regarding firm size, in addition to Al-Khalifa and Peterson (1999) and Tomlinson (1970), only Glaister and Buckley (1997) have studied the size of the partners as a contextual variable to partner selection among the main reference studies. In their study the analysis concerned the relative size of the partners, which is here considered to better fit under the category of investment-specific factors rather than foreign-partner-specific factors. Therefore the results by Glaister and Buckley (1997) are in this regard discussed later on in the more appropriate connection.

Thus, the earlier studies give very limited empirical evidence on the role of foreign-partner-specific factors on the relative importance of various selection criteria. Therefore, for the empirical part of the study is expected that:

*H1 The relative importance of partner selection criteria is influenced by the foreign-partner-specific factors.*

### 2.3.2 *Location-specific factors*

The location of the IJV along geographic location, cultural and geographic distance between home and host countries of the IJV partners, and economic development level of the target country of the unit may also be expected to have an influence on the relative importance of various selection criteria. The lower the distance – economic, cultural, geographic – the more similar the home and host countries usually are and the lower the amount of expected problems between partners depending on the distance. Greater distance has been linked to higher level of IJV problems and conflict (Lane and Beamish 1990), misunderstandings (Lyles and Salk 1996), collaborative problems (Mowery et al. 1996) and knowledge transfer problems (Hamel 1991).

Geringer (1988), Glaister (1996) and Tatoglu and Glaister (2000) did not analyze the influence of distance on the relative importance of selection criteria (in the last study all IJVs were established in the same target country, Turkey). Among the other studies, findings by Glaister and Buckley (1997) indicate that the relative importance of partner-related criteria differed in IJVs in different levels of distance, but no variation was found for the relative importance task-related criteria in regards to distance. Access to knowledge of local culture, access to regulatory permits, and reputation of the partner were much more weighed as the selection criteria of the partner in IJVs located in Japan than in the USA or Europe whereas the role of the international experience of the partner was clearly lower in the former than in the latter IJVs.

In the study by Nielsen (2003) it was found that although trust between top management, access to market knowledge, and relatedness of partner business were highly ranked for all the four reviewed areas (Western Europe, USA, Asia, the rest of the world) there was strong support for the variation with relative importance of both related to task- and partner-related selection criteria among different regional areas. For example, the importance of “accessing product-specific knowledge” was highly ranked in regards to the other areas (WE, USA, Asia) but not in the group consisting of the rest of the world, whereas the importance of “accessing local cultural knowledge” and “accessing regulatory knowledge” was valued clearly higher in Asia than in other areas, especially in their home region of Western Europe, where the Danish companies seemed to be content with their own existing level of knowledge. Furthermore, the criteria “favorable past association” was clearly higher ranked in IJVs formed in Western Europe and in the group “rest of the world” than especially in Asia, whereas “access to links with major suppliers” was clearly more highly appreciated in the USA than in the other three areas.

In the other previous studies, Hitt et al. (2000) found that developed market firms tried to leverage their resources to gain competitive advantages by searching for partners with unique competencies and local market knowledge and access, whereas firms from emerging markets were looking for partners with financial capabilities. Furthermore, Glaister and Wang (1993) found that in joint ventures established by UK-based companies in China the ability to negotiate with host government, relatedness of business, trust between top management, and financial status/resources of partner were the most weighed criteria.

Thus one would expect that, for example, product and/or production process-related knowledge, brands and distribution systems are more weighed in OECD countries, whereas criteria such as relationships with local government, access to labor, management, local markets and customs are more weighed in non-OECD countries or other culturally and economically more distant countries from the point of view of Western European firms. Furthermore, relations with local government seem to be much more important in non-OECD than in OECD-countries. Therefore for the empirical part it is expected that:

> *H2 The relative importance of the partner selection criteria is influenced by the IJV location-specific factors.*

### *2.3.3 Investment-specific factors*

Investment-specific factors are here defined as those factors that apply to the specific IJV constellation, rather than the location/environment, or traits of a specific parent in the IJV. In this study the investment-specific factors under focus are the form of establishment, relatedness of the operation, relative partner size and the initiation for the IJV partnership.

It seems that in several studies the analysis of IJVs includes only units established in the form of a Greenfield investment, i.e. a separate new unit is established. However, IJVs can also be established through partial acquisitions (Hennart 1988, 2009, Gulati 1995, Pisano 1989). There are some key differences between the two forms of establishment. Greenfield investment refers to everything being built from scratch whereas acquisition, here partial acquisition, refers to buying a share in an already existing company. Furthermore, a Greenfield investment always means an expansion in the existing total capacity, whereas a partial acquisition does not. Finally, a Greenfield investment generally differs from a partial acquisition due to the fact that in the case of a Greenfield investment the first inflow of revenue usually comes after a certain period of time. These fundamental differences would suggest that differences in IJV partner selection, more specifically the relative importance given to the selection criteria, can be expected depending on the form of establishment.

Concerning the field of investment, an IJV can be classified to either *related* or *unrelated* to the business of the present operation of the foreign partner, a classification more frequently applied in the acquisition literature (Kusewitt 1985) yet applicable in IJV research as well (Larimo 1993). In a related IJV the foreign partner has earlier knowledge and experience from the field and the firm may, for example, pursue to expand towards a new geographic area, increase power and/or to block competition via the IJV. In an unrelated IJV the foreign partner lacks earlier knowledge or experience from the field, pursuing to diversify in order to expand its product portfolio. Although the foreign partner does not possess product-specific experience, the management may rely on its ability to transfer such knowledge as for example managerial knowledge and marketing knowledge from one field of business to another. Because of the unfamiliarity of business to the firm, different aspects in relation to planning, implementation and management of the investment are more problematic and cause more risk for the firm in unrelated types of IJVs (Larimo 1993). Thus, because of these differences between related and unrelated types of IJVs, especially in accordance to the differing resource needs between the two types, it may be expected that there will also exist differences in the relative importance given to various partner selection criteria depending on the type of the IJV.

The impact of the size of the foreign partner on the relative importance of the selection criteria was already discussed in connection to the foreign-partner-specific factors. Firm size can also be discussed within the investment-specific factors by focusing on the relative size of the IJV partners. The smaller the local IJV partner in relation to the foreign firm, the more likely it may be expected that the relative importance of some specific product/production-related knowledge, and/or access to a valuable brand is higher than in cases where the relative size of the local partner is larger. In the latter cases such criteria as access to capital/financial resources or relations with local government may be expected to be given more importance than in the former cases.

To the extent partners are either proactive or reactive with respect to the initiative for the IJV and thus either making the initial proposal or they are reacting to the other partner's approach, differences in the importance of particular selection criteria are likely to exist between initiating and non-initiating partner firms. It may be logically expected that firms reacting to an outside IJV proposition value criteria such as trust, commitment and reputation more highly due to uncertainty concerning potential opportunistic behavior of the initiator.

The earlier studies include fairly limited empirical results in relation to the influence of the investment-specific factors on partner selection. Apparently all the IJVs in several studies have been established in the form of a Greenfield investment. Therefore analysis on the form of establishment and its impact on IJV partner selection remains a gap in the literature. However, some earlier results regarding the relative size and initiation to the IJV can be found. Against expectations, Glaister and Buckley (1997) found that the relative importance of the selection criteria varied only very limitedly with the relative partner size in their UK based sample. Three partner-related selection criteria – experience in technology applications, international experience and management in depth – were more important in IJVs where the foreign partner was larger than the UK partner. Relatively smaller UK firms, which presumably lacked these attributes, were seeking them through collaboration with larger partners. Similarly, the task-related selection criterion of *access to capital* was more important in those IJVs where the non-UK partner was larger. This indicated that relatively smaller UK partners required capital inputs from larger partners for the IJV to succeed (ibid p. 218). The authors assume that the non-significant differences may be dependent on the sample of their study and of the classification of sample firms only to two categories: the UK partner was larger vs. the other partner was larger.

Demirbag, Mirza and Weir (1995) and Tatoglu and Glaister (2000) found that there were in fact quite many differences in the motives for the IJVs between local (Turkish) and foreign (US, European, and Japanese) firms. They also found a contrast between the motives of initiator and non-initiator local firms. However, the empirical results by Glaister and Buckley (1997) did not indicate support to this view, but the relative importance of the selection criteria were virtually independent of which partner firm initiated the IJV. The results by Glaister and Buckley indicated following explanations (see p. 217): The partner-related selection criterion of the degree of favorable past association between partners was more important in those IJVs which were initated by the UK partner than in those initiated by the other partner or third-party intermediaries. This indicated that the UK firms which were proactive in seeking to establish an IJV solicit partners from those foreign firms that were known to them. Subtracting the pool of potential partners into those foreign firms which were already known clearly reduced the searching costs of finding a suitable partner. Where good working relationship prevailed between partners this indicated that there was a better understanding of the resource inputs and behavior expected from each partner and more rapid movement along the experience curve of operating the IJV than would had been in cases of relatively unknown partners. Firms which were approached with the request to form an IJV were less able to control partner choice and so gave less prominence to previous relationships. The criteria of financial status/financial resources of the partner and the reputation of the partner firm were more important selection criteria for those UK partners which did not initiate the IJV. In the conclusions of their study Glaister and Buckley state that the influence of the initiator on the relative importance of various selection criteria clearly warrants closer examination.

In summary, the influence of various investment-specific factors on partner selection has been analyzed very limitedly so far. Furthermore, e.g. related to the influence of the initiative on the relative weights of various selection criteria the earlier results seem to be rather mixed. Therefore, for the empirical part of the study we expect that:

> *H3 The relative importance of partner selection criteria is influenced by the investment-specific factors.*

### *2.3.4 Motives for the IJV*

There is a rich literature focusing on motivation for IJV formation. Gomes-Casseres (1988) identified three major motives of IJVs: 1) Supply-based IJVs, which are organized along the supply line and involve resource transfer beyond simple exchange relationship. These IJVs are mainly established to reduce transaction costs and enhance the possibility for the development innovations; 2) Learning-based IJVs motivated by creation and transfer of tacit knowledge across organizational boundaries; and 3) Market-based IJVs motivated by a need to reduce competition.

Several authors have provided many additional reasons for the establishment of IJVs from a strategic point of view (e.g. Contractor and Lorange 1988, Harrigan 1985, Porter and Fuller 1986). Fundamentally IJVs are motivated by the desire to achieve some benefits of a global strategy or, from a resource dependency perspective, the need to compensate for the absence of – or weakness in – a (perceived) needed asset or competency (Nielsen 2003).

Perhaps a more fundamental aspect of IJV motives is to focus on the FDI motive and purpose instead of examining the drivers for choosing a collaborative operation mode. Dunning (1993) has classified the motives for FDI into four main groups by stating that there are: 1. natural resource seeking, 2. market seeking, 3. efficiency seeking, and 4. strategic asset seeking FDI. Dunning’s approach has been applied in several later studies (e.g. Tahir 2003) and also adopted to be used here in the quantitative empirical study to analyze the relationship between the

FDI motivation and the relative importance of the selection criteria (see Chapter 5).

The main investment motive is likely to have an impact on partner selection, as firms may be expected to value the capabilities of a potential partner differently depending on the motive for the investment. If the main investment motive relates to seeking natural resources, importance of such criteria as *access to materials* and possibly *access to low-cost labor* should logically be expected to be considered more important. In cases where the main motivation falls into the category of market seeking, then such criteria as *knowledge of local markets and culture*, and *access to distribution channels* are likely valued higher. In the other forms of IJVs criteria such as access to technology, products, and brands are likely to be preferred.

The results in earlier studies about the relationship between motives for the IJV and importance of various selection criteria are mixed. As can be seen in Table 2, investment motives have been the most frequent variable analyzed in relation to the partner selection criteria. Glaister and Buckley (1997) did not find any support for the relationship between the purpose of the IJV and the selection criteria. However, they analyzed the differences between units in the manufacturing and tertiary sectors, not between different types of manufacturing units. Glaister (1996) found support only for the relationship with task-related selection criteria, but not for the partner-related and also Tatoglu and Glaister (2000) found only moderate support for the relationships. However, Nielsen (2003) found strong support for the relationship between motives and the relative importance of selection criteria (all the seven regression equations had moderate to high R squares and significant F values), while Chen and Glaister (2005) found moderate support for their hypotheses concerning the relationship between relative importance of the selection criteria and the strategic motivation for IJV formation. Furthermore, Dong and Glaister (2006) found support for their hypothesis that the task-related selection criteria are significantly more strongly determined by strategic motives for alliance formation than the partner-related criteria. Thus, also here we expect that:

> *H4 The relative importance of selection criteria is influenced by the motives for the IJV formation.*

Contextual factors examined in previous studies concerning IJV partner selection are listed in Table 2. The left side column consists of all contextual factors, whereas the middle column lists all studies that found a strong effect of certain contextual variable on the relative importance of the partner selection criteria, and the right side column lists all studies that found a moderate or a limited effect.

**Table 2.** Previous results concerning the impact of contextual factors on IJV partner selection.

| | Results in previous studies | |
|---|---|---|
| **Contextual factor** | **Strong effect on selection criteria** | **Moderate or limited effect on selection criteria** |
| Admin.gov.form of the alliance | Nielsen (2003) | |
| Firm size | | Al-Khalifa and Peterson (1999), Glaister and Buckley (1997), Tomlinson (1970) |
| Geographic location of the IJV | | Buckley and Glaister (1997) |
| Host country legal environment | Roy (2006) | |
| Industry of IJV | | Buckley and Glaister (1997) |
| Initiation of the IJV | | Buckley and Glaister (1997) |
| International experience | | Al-Khalifa and Peterson (1999) |
| JV experience | | Al-Khalifa and Peterson (1999) |
| Level of development of IJV host country | Hitt et al. (2000) | |
| Motives for IJV formation | Nielsen (2003) | Glaister (1996), Tatoglu and Glaister (2000), Tomlinson (1970), Chen and Glaister (2005), Dong and Glaister (2006), Demirbag, Mirza & Weir (1995) |
| Nationality of the foreign partner | Nielsen (2003) | Buckley and Glaister (1997), Dacin (1997) |
| Nature of business | | Tomlinson (1970) |
| Operation characteristics (family/non-fam.owned) | | Renforth (1974) |
| Purpose of the IJV | | Buckley and Glaister (1997) |
| Prior int. alliance experience | | Nielsen (2003) |
| Relative partner size | | Buckley and Glaister (1997) |

Detailed results – the exact selection criteria that were found to be affected by a certain contextual variable, as well as the strength and direction of such relationships – are unfortunately not presentable in a table or figure smaller without occupying several pages, explaining the compact form of the table. As each of the previous studies perceive IJV partner selection as a set of ca. 20 to 30 individual criteria, the detailed findings are usually robust and not easily summarized. Also, a limited influence of a given contextual factor is likely to be found even in the weakest cases, as any meaningful variable is likely to affect at least two to four different criteria. Therefore, no separate column for negative results exists on the table, and a decision was made to simply present previous results concerning the IJV context by the significance of a given contextual factor.

## 2.4 Partner selection criteria and IJV performance

Research on IJV performance has received much more attention than a more detailed analysis of the relative importance of IJV partner selection criteria. However, there are only a couple of studies taking a look at the relationship between performance and partner selection criteria although the relationship with later performance of the IJV has been referred to in each one of the main reference studies.

Results in earlier studies indicate that a great share of the IJVs do not meet the goals set for them, are instable or are divested during the years (20 to 70 % of IJVs, depending on the study, see e.g. Robson, Leonidou and Katsikeas 2002). But which factors are linked with better IJV performance? The results are very mixed and do not give clear answers (Robson et al. 2002). Most studies have indicated that foreign parent size and international experience, inter-partner business overlap, size symmetry between partners or distribution of equity ownership have not been clearly linked with the performance of the IJV. A greater socio-cultural distance has more often been linked negatively than positively to IJV performance, but a lot of studies indicate a statistically non-significant link (e.g. Luo 1997, Robson et al. 2002).

The studies by Geringer (1988), Glaister (1996) and Glaister and Buckley (1997) did not include the performance aspect. Nielsen (2003) analyzed the IJV performance but not the link with selection criteria. The results indicated that on a scale from 1 (*worse than expected*) to 3 (*better than expected*) the mean financial performance was 2.36 – thus the reviewed Danish companies were usually very satisfied with the financial performance of the IJV. Also Tatoglu and Glaister (2000) focused only on the measurement of IJV performance and on the analysis of the influence of the agreement between partners on the performance along various performance measures. The results indicated that both the foreign, but especially the local partners, were satisfied with their IJVs in Turkey (mean values 3.85 and 4.20 on a five-point scale where 5=very satisfied).

Concerning the main reference studies, Nielsen (2003) analyzed the IJV performance but not its relationship with the selection criteria, with results indicating that on a scale from 1 (*worse than expected*) to 3 (*better than expected*) the mean financial performance was 2.36. hus the reviewed Danish companies were usually very satisfied with the financial performance of the IJV. Also, Tatoglu and Glaister (2000) focused only on the measurement of IJV performance and on the analysis of the influence of the agreement between partners on the performance along various performance measures. Instead, in somewhat more detail, the relationship between the selection criteria and IJV performance has been studied by Tomlinson (1970), Beamish (1987), and Maurer (1996). Out of these three, only Maurer could not find any relationship between selection criteria and IJV performance. Tomlinson found that companies which had given the greatest weight to *favorable earlier relationship* had experienced the best performance, while in cases where *status of the local partner* and especially in cases where the partner selection was a *forced choice*, the level of performance had clearly been poorer. In the study by Beamish the best performance was found in cases where a high preference in partner selection was given to *partner's ability to arrange capable managers* to the IJV, and where the partner provided *access/knowledge to the local economy and customs*. The poorest performance was found among cases where high preference was given to *partner's ability to satisfy requirements set by the host government* concerning the share of local ownership. It is noteworthy that all of these three studies were focused on IJVs established in non-OECD countries. However, combined with the earlier discussion they give basis to assume that:

*H5 The relative importance of the partner selection criteria will vary with IJV performance.*

## 2.5 Summary and gap definition

Although several authors make a point that research on IJV/ISA partner selection is scarce, there seems to be a respectable amount of studies focusing on which criteria firms apply when selecting IJV/ISA partners. Also, despite almost an unlimited amount of contextual factors potentially effecting the relative importance of these criteria can be identified and argued for, the research on the effect of factors relating to the strategic context, the location of the IJV as well as firm-specific and investment-specific factors on the selection criteria has grown significantly throughout the last two decades. However, the selection criteria research following the steps of Geringer (1988) has a very limited potential to grasp IJV/ISA partner selection as a process, but rather focuses only on the evaluation of prospective IJV partners – one single mechanism of the selection process.

As established in here on Chapter 2, transaction cost theory, the resource-based view of the firm, resource dependency theory and organizational learning theory – alone or in any combination – all have their ways of explaining the IJV rationale, and thus also suggest why firms choose to ally with certain types of partners in different contexts. Therefore, they constitute a useful theoretical backdrop for examining how, or according to which criteria, firms evaluate and select their prospective partners. This component of IJV formation, the evaluation of partner candidates and the partner selection criteria, has so far been the focus of prior IJV partner selection research.

Meanwhile, the explanatory power of the theories mentioned above comes into question when the focus on partner selection moves beyond the selection criteria and towards the decision making process which leads to the IJV formation. Does analysis on the selection criteria and its relative importance allow us to holistically understand how firms select their IJV partners within differing contexts, and how the process of IJV partner selection reflects on the subsequent performance of the IJV? As pointed out by Varis (2004), common managerial wisdom suggests that success and failure is more the result of motivated and technically competent managers than coherence between static pre-alliance criteria. It is here concluded that an approach deriving from the behavioral theory of the firm, perceiving IJV partner selection as a decision making process, is called for to holistically explain the IJV partner selection phenomenon.

# 3 ENHANCING RESEARCH APPROACH THROUGH PROCESS ORIENTATION

Like all major strategic decisions, foreign direct investments are not one shot, but a process, requiring a sequential series of complex decisions by management, and involving, at least at their early stages, high levels of perceived risks and uncertainty (Aharoni and Brock 2010). It is commonly recognized that organizational decisions are not made according to the rational model of choice (March and Sevon 1988). In order to get a better understanding of why foreign direct investments (FDIs) take place, knowledge of how the processes preceding the investments evolve is needed, and it can be gained by studying decision making processes in their historical context, i.e. by analyzing and explaining why they evolve towards the final FDI decisions in the way they do (Björkman 1989).

To better illustrate the underlying process in IJV partner selection, the theoretical framework is here enriched by drawing from the strategic decision making (SDM) literature, as well as purchasing literature, and arguing for the importance of understanding bounded rationality and its consequences when discussing the paths firms follow in their quest for IJV partners. Contrary to the rational choice model, the behavioral theory of the firm (Cyert and March 1963) suggests that search for IJV partners is limited, biased, and messy – the decision process is time consuming and often alternative partners and design configurations are not carefully researched by either of the two principals (Woodside and Pitts 1998). Recent literature (Aharoni and Brock 2010) has encouraged IB researchers to apply the behavioral point of view in IJV research, to reincorporate the concept of bounded rationality, and thus give the study of decision making an important role in the ongoing development of the IB field. Therefore, this study aims to explain how IJV partners are selected by drawing from the SDM literature. The SDM literature and its typologies especially benefit the current study in its quest to present and explain variety in IJV partner selection from a process-oriented perspective, in contrast to prior literature (e.g. Mitsuhashi 2002, Young et al. 1989).

The chapter aims to establish that, firstly, limiting the focus into selection criteria when studying IJV partner selection is insufficient in explaining how firms select their IJV partners under differing contexts, and in the same vein, that the existing IJV partner selection research is limited in its capability to grasp the phenomenon holistically. Secondly, it is here aimed to establish that firms significantly differ in regards to the paths they follow in their quest for suitable IJV partners, and that this variation can to a certain degree be explained by contextual factors affecting different components in the firms' decision making processes. Last, it is here argued that the process of partner selection is not a universally independent and separable decision making process from within the whole IJV formation process entity, and certain conditions are set for its separability. The chapter concludes with a presentation of the theoretical framework of the study.

## 3.1 Rational decision making and bounded rationality

The term *rational* and the concept of rationality are subject to varying interpretations, frequently referring to the overall process of making a decision or to some part of the behavioral pattern making up that process, and thus rational behavior or rationality is a core concept of decision making (Harrison 1987). Rational behavior, especially according to researchers of economics and statistics, is seen as making a decision that, after a review of all the alternatives, promises to maximize the satisfaction or utility of the decision maker (Cyert et al. 1963). March and Sevon (1988) portray traditional rational choice models as presuming the decision maker to possess: (1) knowledge of alternatives, (2) knowledge of consequences, (3) knowledge of preferences, and (4) rules by which a decision maker can select the best alternative based on its consequences for his/her preferences.

When making a decision, most individuals believe that their objective is completely rational or logical at that moment, and that there is an objective and several alternatives from which a choice is made to achieve the objective (Jones 1962). However, researchers have found that one of the *cognitive biases* in relation to strategic decision making suggests that executives' recollections of their past strategies are often biased, and strategies are often recalled as more rational and consistent with current strategies than they really were (Golden 1992).

A relatively obvious and logical, yet important, notion regarding rationality in decision making stands as follows: Because one decision has been rational does not necessarily mean that the decision maker will always make rational decisions, and thus a given executive may, for example, be patiently rational in one decision making situation and seemingly non-rational in another (Harrison 1987). Therefore, as Harrison suggests, decisions rather than people should be classified into rational and non-rational, or perhaps better, as Lee (1971) states, use a continuum of 'degree of rationality' in assessing and classifying decision makers in particular decision situations. Stressing the decision situation rather than the decision maker logically translates into stressing the importance of situational or contextual factors, related to for example the strategic context or motivation of the decision maker, or the environment (i.e. location-specific factors) that affect the rationality of a given decision situation.

The economics literature often depicts rational behavior as making a decision that, after a review of all the alternatives, promises to maximize the satisfaction of utility of the decision maker (Cyert et al. 1964). Instead of *maximizing*, Simon (1957, 1960) suggested that attempting to search for every possible alternative is not always feasible, thus arguing for the an individual's tendency to apply the *satisficing* strategy, or in other words, look for a solution that is good enough. The limited capacity of the human mind for comprehending all alternatives for a given decision is implied by the concept of *bounded rationality* (Simon 1957, 1960). The basic proposition of the bounded rationality model is that decision makers tend to be rational but are constrained by cognitive limitations, habits and biases (Cyert and March 1963, March and Simon 1958).

Bounded rationality, in the context of IJV partner selection and by common logic, is mainly in play through the following factors: (a) firms often have a limited amount of time to find a partner and set up the venture for strategic and/or other reasons; (b) firms usually operate under limited financial and/or other resources, and/or (c) firms must base decisions on limited information. Thus, these factors may drive the firm into a selection process where the decision maker acts as a *satisficer*, reflecting the tendency to select the first option that seems adequate in regards to most needs, rather than looking for the optimal solution. The term 'satisficing' was coined into its modern use by Simon (1957) who argued that human beings lack the cognitive resources to maximize – referring to our limited knowledge on relevant probabilities of outcomes, our ability to evaluate outcomes with sufficient precision, and our weak and unreliable memories. Bounded rationality, in this context, is a version of reality that takes into account these limitations.

A lack of studies on IJV processes incorporating the concept of bounded rationality is clear (Aharoni and Brock 2010). In the study by Woodside and Pitts (1998) concerning IJV decision processes, both of the two studied cases fit the predictions expected from the bounded rationality model of decision making (cf. Cyert and March 1963, Wilson and Wilson 1988) as the final choice of IJV partners was the first candidate that exceeded a set of minimum cut-off criteria (i.e. a conjunctive decision making rule).

## 3.2 The strategic decision making literature

Research on strategic decision making processes has been fairly extensive, and a large amount of decision models have been revealed, each denoting a different perspective for the decision making process and highlighting particular aspects embodied in it (Das and Teng 1999, Schwenk 1995). This has led to several classifications of different types of decision models (for review, see e.g. Cyert and Williams 1993, Das and Teng 1999, Hickson et al. 1987, Larimo 1987, Nutt 1976). Harrison (1987) argues that there is virtually no limit to the number of models of decision making that can be developed to serve the purposes and advance the discipline of the model builder.

As previous decision making literature often states, the firms benefit from perceiving their decision making as a process (Kansola 2010). Garvin and Roberto (2001) found that firms generally make better decisions when decision making is perceived as a process rather than a single situation. Obviously, the quality of the process itself matters, as Irving (1989) found support for the rather logical notion that firms implementing high-quality decision making processes make significantly less decisions leading to unwanted results or complete failures.

The IDC (Intelligence-Design-Choice) model by Simon (1960) is likely the most famous phase model (Björkman 1989, Harrison 1987, Larimo 1987), describing the activities that organizational decision making processes comprise. First, *intelligence* is undertaken to appropriately define the decision making problem. Then, search for alternative solutions to this problem takes place, including gathering information on the future consequences of different alternatives, hence the label *design* for this stage. The third stage *choice* refers to the final stage where the evaluation of alternatives according to pre-defined criteria takes place, and finally the alternative with the highest utility is chosen.

Research specifically targeting FDI decision making steadily accumulated from the mid-1950’s (Barlow and Wender 1955) to late 80’s (Björkman 1989, Larimo 1987). Aharoni’s (1966) study on US firms’ FDI planning is considered the groundbreaking work in the field of FDI decision making, analyzing the US firms’ FDIs decisions and the impact of foreign goverments’ policies on the decision making process. Although criticized for its ethnocentricity (Buckley 1979) among other issues, Aharoni’s findings offer a useful model for research due to a detailed description of different stages in the FDI decision process (Larimo 1987).

Mintzberg, Raisinghani and Theoret (1976) attempted to model the strategic decision making process by identifying three major phases with subphases within each, and also included interrupts and recycles by which decision makers may return to earlier phases. Their three major phases, with obvious likeness to Simon’s IDC model, were: (1) The identification phase (decision recognition and diagnosis), (2) the development phase (search and design), and (3) the selection phase (screen, evaluation-choice, authorization). The model has since been frequently used as a basis for studying different types of decision making processes, such as FDI decision processes of Finnish firms (Larimo 1987) and production strategy decision making of Finnish firms (Kansola 2010). Its significance within the field is also reflected by Gore's (1992) division of decision making processes into two main groups: The model by Mintzberg et al. (1976), and other models.

Several studies, however, argue that strategic decision making processes usually do not evolve linearly through the different phases of the IDC model and these arguments have been backed up by empirical evidence (Björkman 1989). Witte (1972) goes as far as questioning the whole idea of breaking decision making processes down into different phases based on their belief that human beings can not avoid immediate development of different alternatives while gathering information, and while doing so becoming forced to a decision.

Researchers since Mintzberg et al. (1976) have since focused on identifying and describing categories or types of strategic decision processes, and most of the typologies presented deal with the subject of rationality or the extent to which decision makers follow a systematic process in reaching carefully thought-out goals (e.g. Eisenhardt and Zbaracki 1992, Hickson 1987, Hickson et al. 1986, Lyles and Thomas 1988). The amount of process typologies has led some researchers to synthesize earlier findings and thus facilitate typologies based on commonalities in previous research. Hart's (1992) synthesis resulted in a framework of five styles of strategy making processes (command mode, symbolic mode, rational mode, transactive mode, generative mode).

In a later study aiming at a synthesis, Das and Teng (1999) conclude in their examination of former classifications of decision processes (e.g. Eisenhardt and Zbaracki 1992, Hickson 1987, Lyles and Thomas 1988) that a considerable consensus exists among them. By slightly modifying the names of decision modes to conform the naming in the majority of these studies, they end up presenting a modified classification of Lyles and Thomas (1988) including the following categories: (a) rational mode; (b) avoidance mode; (c) logical incrementalist mode; (d) political mode; and (e) garbage can mode. The two main justifications for this particular classification was, firstly, that it covers the most important modes of strategic decision making, and secondly, it seems to capture a continuum from the most systematic and structured decision making processes (rational mode) at one end to the most ill-structured and anarchical modes at the other (Das and Teng 1999). The features of the typology are presented in Table 3 in more detail.

Overall, a review of the strategic decision making literature suggests that, firstly, the IJV partner selection process can take a variety of forms in light of the decision process typologies described above (and presented in Table 5). Also, the literature, especially the phase models of Mintzberg et al. (1976) and Simon (1960) in connection to the fore-mentioned more recent typologies (Das & Teng 1999), suggests certain common denominators creating a basis to approach the IJV partner selection decision process by breaking it down to certain main stages.

**Table 3.** A presentation of strategic decision making process typology based on the synthesis by Das and Teng (1999).

| | Basis / founding argument | Basic characteristics | Description / nature of the process |
|---|---|---|---|
| **Rational Mode** | human behavior is either rational or boundedly rational | comprehensiveness; entering decision situatiations with known objectives, diligent analysis of external environment and internal operations | Comprehensive, normative process; Information gathering --> developing alternatives --> objective selection of the optimal alternative<br>*Critique:* Rational process not possible due to decision makers' limited cognitive capabilities |
| **Avoidance Mode** | Strategic decision making processes often lead to a resistance to strategic change | Avoiding uncertainty, maintaining status quo is a desirable objective | Creating rationale for maintaining status quo<br>*Critique:* Disagreement regarding the context of strategic avoidance |
| **Logical incremental ist mode** | Unstable environment & managers' limited cognitive capabilities --> it is best to choose the smallest increments possible to achieve strategic objectives | Relatively vague strategic goals, so that they can be modified when more information becomes available; | A step-by-step incremental process; gathering incremental information and feedback; no dramatic decisions made at any time; process is a consistent movement towards a broad/global goal |
| **Political mode** | Decision makers in the political mode are often unable to attain even a broad consensus on organizational objectives | Decision makers are defined by, restrained and attached to their predetermined interests and positions; people tend to be politically biased, and full information is never available | Groups of organizational members with competing interests fight for favorable decision; Power struggle between competing groups, the most powerful people win |
| **Garbage can mode** | As organizations are viewed as 'organized anarchies', there is no particular rationale for making a strategic choice | The most uncertain and fluid mode; no inherent consistencies; | A disorderly and anarchical process; No apparent structure; existing solutions look for appropriate problems that can be addressed; only timing and chance account for the outcome |

## 3.3 Process-oriented research on partner selection

According to Tallman and Phene (2006) the process of structuring alliances involves initiation, operation, and restructuring or termination. The initiation of alliances falls into three stages: The first stage involves a choice regarding the organizational form, at which point cooperation through alliance is selected. The second stage represents the partner search and selection process, while the last stage comprises negotiations with the selected partner to create a framework that establishes complementarities and fosters the development of synergies.

The shortage of process-oriented studies on IJV or ISA partner selection is surprising given that the selection process, deemed to be fundamental in the pursuit of high performing ventures, can be disassembled into at least two stages; initial identification and subsequent evaluation of potential candidates (Williams and Lilley 1993). However, not all studies define partner selection to encompass both of these stages. Varis (2004: 26) defines the term “partner selection” as “management processes and routines which lead to a decision to form a partnership with a certain business partner selected from a group of potential candidates”. This definition suggests that the element of partner search – the identification of candidates – precedes partner selection, instead of integrating it into the concept.

There are some rather rough process descriptions on how IJV or alliance partners are selected, yet there is a significant need for a more concise effort to capture the phenomenon and especially empirical examination on the partner selection process. As presented by Young et al. (1989), the partner selection process constitutes of the following four stages: 1. Drawing a profile of the desired partner attributes; 2. Identification and screening of potential partner candidates; 3. Preliminary contacts and negotiations; and 4. Final selection. The authors did not present empirical evidence or thorough argumentation to back up the process description. Ellram (1991) described the partnering process by a five-stage model, consisting of the following stages: 1. Preliminary phase; 2. Identify potential partners; 3. Screen and select; 4. Establish relationship; and 5. Evaluate relationship. In this model the stages directly dealing with partner selection can be identified as stages two (Identify potential partners: a) determine selection criteria, b) identify potential partners) and three (Screen and select: a) contact potential partners, b) evaluate partners, c) decision). This model, however, is drawn in the context of purchasing partnerships, and should as such be distanced from the IJV context.

More recently, studies such as Beekman & Robinson (2004) on supplier partnerships, Nijssen et al. (2001) on technology partnerships, as well as Chung et al. (2000), Dekker (2008), Duisters et al. (2011) and Nielsen (2010) on generally alliances or inter-firm partnerships, have contributed in the partner selection process literature, each stressing the need for stronger process orientation in the field. None of these studies focus on international joint ventures, nor base their findings on empirical study targeting specifically manufacturing units.

Yet the findings of different inter-firm relationship and alliance partner selection process studies as described above offer valuable insight in the various stages that may appear in a partner selection process also in the IJV context, they leave a gap in explaining the variety of how firms select partners under different contexts. Duisters et al. (2011) present a synthesis of previous partnering models, ending up with 16 possible stages in the process, and after empirical evidence, conclude that certain stages (developing a partner selection team, negotiating the alliance with the prospected partner, screening of short-listed candidates against specific selection criteria) were most important in regards to a successful alliance. However, their insight is limited in explaining this exploratory finding. Their quantitative results also suggest that successful firms applied a more structured approach to partner selection process compared to lower performers. Controlling for variables

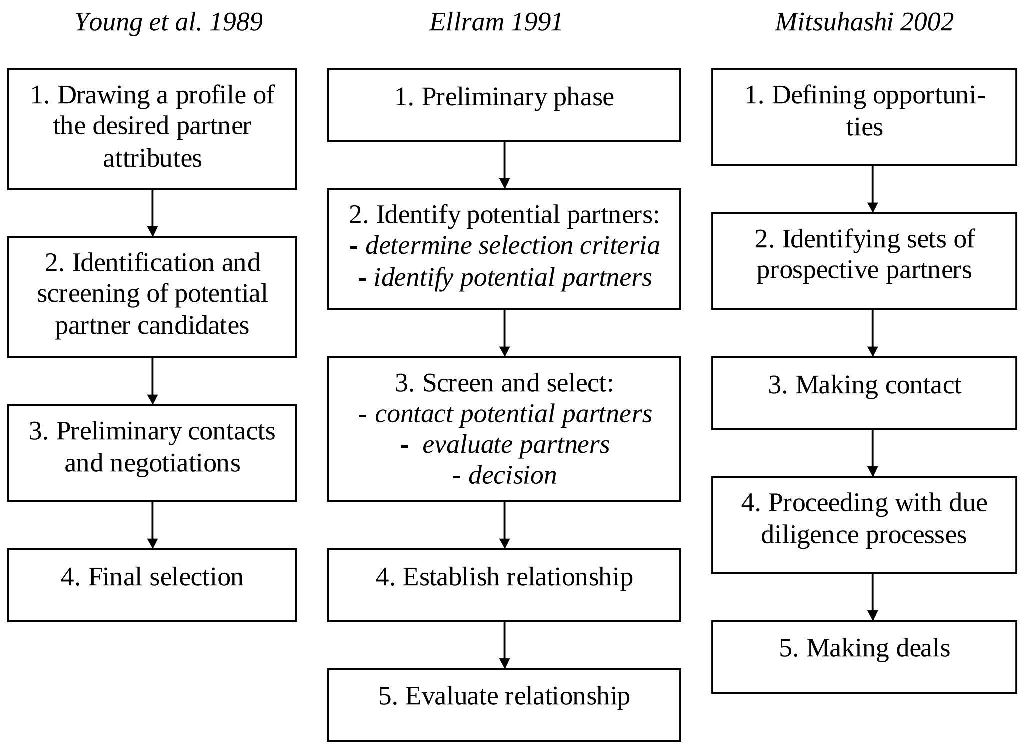


**Figure 2.** Partner selection process as described by Young et al. (1989), Partnering process by Ellram (1991) and Alliance formation process by Mitsuhashi (2002).

of company size and alliance experience due to their impact on available resources, time, and experiential knowledge implicitly refers to bounded rationality, a seldom but important notion within the partnering literature.

Kanter (1994) approaches the partner selection process by likening it to the personal relationships courtship ritual that is being driven by both emotional attachment and cold-blooded analysis. Kanter points out three fundamental factors that need to be accounted for when setting up an alliance: 1) Self-analysis – relationships benefit when the partners know themselves; 2) Chemistry – Deals often turn on the rapport between chief executives, and it is equally important that the managers in the lower levels get along; and 3) Compatibility – companies' cultures, philosophies and fundamental ways of doing business tested by the courtship process.

Focusing plainly on the selection criteria would mean, in a context of either an IJV or ISA partner selection process, looking at the first and final stages of the process (as described by Young 1989, see previous page), as the previous descriptions of IJV formation and partner selection processes usually include a stage where a profile of desired features of prospective partners is drawn prior to moving on to identifying partner candidates – either explicitly (Hamill and Hunt 1998, Young et al. 1989) or more implicitly in the form of including such stage as determining the selection criteria (Ellram 1991, Mitsuhashi 2002). Actually, the study by Geringer (1988) is the only one within the mainstream of IJV partner selection research to distinguish between even these two stages, as his results indicated an often recurring two-step selection process: On the first stage many of the researched firms emphasized initial screening based on task-related selection criteria to ensure the IJV rationale and competitiveness, whereas the final selection between those fulfilling the task-related expectations was mainly based on partner-related criteria to reveal the candidate for highest level of potential for being able to cooperate successfully with the firm.

Dong and Glaister (2006: 581) argue similarly for a two-stage-evaluation process, and also include the aspect of *satisficing* vs. *maximizing* (Simon 1957, 1960) strategies into their equation: "Where multiple firms qualify as appropriate collaborators following the logic of task-related selection criteria, partner-related selection criteria require that the choice of the ''right'' partner should be based on a consideration of how the chosen partner will best fit with the focal firm. Questions such as whether there has been favorable past association between the partners, whether the national and corporate cultures of the partners are compatible, and whether trust exists between the partners' management teams, are important for determining the ''optimal'' collaborator from a partner-related selection perspective." Still, both of the stages are a part of the single mechanism of evaluation in light of the whole selection process entity.

Essentially, barely any attention has been previously paid for the fact that the firm might not have been aware of its best available options (i.e. ignoring the identification and initial screening of potential partner candidates) – if any options even were weighed against each other. After all, it is obvious that whatever criteria are being applied in the selection of the partner, the firm can not rely on making the optimal selection of partner without being aware of what exactly it would be available to select from. Even though this particular stream of research is close to non-existent, its importance is noted. Killing (in a foreword to Geringer 1988) states, that one of the first questions in IJV partner selection that must be addressed is whether or not firms that spend more time and effort in the search process do in fact end up with what look like, according to Geringer's criteria, more "suitable" partners. Also, Brouthers et al. (1995) suggest that most firms spend too little time looking for an appropriate partner.

The results by Tomlinson (1970) indicated that in most studied IJVs the partner selection process was conducted far from thoroughly. Potential candidates were evaluated only superficially or not at all, and no comprehensive evaluation of the prospective partners' motives or skills/resources was undertaken. Geringer's (1988) findings partially supported this as there was a huge variation between reviewed IJVs in how intensively the selection process was conducted. On the other hand, a clear majority of the firms had identified several organizations or company representatives who met up with minimal requirements. Despite these notions from the late 80's, for the following twenty years the IJV/ISA partner selection research has almost completely leaned on the selection criteria and its relative importance.

Addressing this particular gap in the IJV partner selection literature, the study by Wong and Ellis (2002) concerning partner identification process of 18 Sino-Hong Kong IJVs attempts to answer a question which, though pivotal in the IJV formation process, has received scant attention in the literature, namely, how do investors come to identify potential alliance partners. The evidence on partner identification is scant but includes Tomlinson's (1970) finding that alliance partners often have an association or connection that predates the venture formation.

By applying a network perspective and observing partner selection under the constraints of bounded rationality, Wong and Ellis (2002) found that partner identification was primarily conducted, across firm types and industries, by heavily leaning on existing social networks which were defined in terms of business, familial and friendship ties. In the initial search and identification process, weak ties between actors were most valuable in terms of generating the largest number of leads. However, strong ties, where they existed, expedited the search process and provided a more robust basis for final selection and subsequently inter-partner cooperation. Also Gulati (1995) suggests that the network of prior alliances often serves as an information guide in the choice of potential partners. Another suggestion by Wong and Ellis (2002), based on their findings and a comparison to others, is the existing correlation between the value of social ties and the uncertainty of exchange. This further suggests that social ties will be least valuable between IJV partners from countries with similar levels of economic development.

In line with Wong and Ellis (2002), Maurer (1996) found in his study of US-Sino IJVs located in China, that the majority of JV partners were identified on the basis of a prior association (customers, suppliers, even former JV partners). Moreover, the manner in which potential alliance partners were identified had an unequivocal effect on the subsequent evaluation process. Specifically, the US managers in the study screened an average of 3-4 partners unless there was a prior association, in which case only one potential partner was considered. This supports the previously untested idea that partner identification is distinct from partner evaluation. From this it can be assumed that the efficacy of the evaluation process is contingent upon the prior identification process.

When considering the division of partner identification and evaluation (Williamson and Lilley 1993, Wong and Ellis 2002), there's also a clear connection between the two. As argued by Wong and Ellis (2002), if partner identification is conducted in an ad hoc and unsystematic fashion, there may well be little point in conducting a comprehensive screening following the procedures outlined in the studies mentioned above. Also, identification of familiar partners negates some of the need for a thorough evaluation as the candidates' traits are already known to the investor. In either of the above cases, the performance of the resulting JV may well be influenced more by the identification process than the evaluation process. On this basis, it can be stated that partner identification is a critical and distinct decision in the overall selection process (Wong and Ellis 2002).

In their search for potential IJV/ISA partners, firms deal with different types of selection uncertainty, depicting a condition in which firms do not know a priori which alliance partners will best serve their interests (Mitsuhashi 2002). Mitsuhashi (2002) found that selection uncertainty consisted of uncertainty in regards to (1) technological competence of prospective partners, (2) behavior of prospective partners, and (3) commercial success. Here, the difference between the first two categories of selection uncertainty fits well in with not only the traditional task- and partner-related selection criteria distinction, but also Williamson's (1985) TCA-based description of uncertainties in partnering: the uncertainty due to external environmental changes, and the internal behavioral uncertainty, in which it is difficult to assess whether the other party is living up to its contractual obligations. The TCA premise here was basically that as uncertainty increases, so will the likelihood of vertical integration (Ellram 1996).

Mitsuhashi (2002) also found that firms use specific mechanisms while dealing with different types of uncertainty, such as (1) the relational mechanism (i.e. weighing pre-existing relations and networks), (2) the internal mechanism (i.e. weighing and benefiting of internal collaborative know-how and boundary-spanning), and (3) the contextual mechanism (relying upon the reputations of prospective partners). Therefore, Mitshuhashi's (2002) findings suggest an interesting avenue for explaining the process of partner selection in terms of decision making under uncertainties, and thus motivated by reducing this uncertainty.

Another hole in the IJV partner selection literature concerns the lack of focus on the personnel involved in the partner selection process. It also constitutes another area within IJV partner selection literature that demands further research, as the current knowledge mostly stands at Geringer's (1988) exploratory findings on the role of IJV sponsors, i.e. the personnel involved in the process. For example, Geringer (1988) found indications of differences on how different levels of management (middle vs. top-level) tend to weigh certain (task- vs. partner-related) selection criteria. Also, Geringer (1988) noted that top-level management tends to be more involved in strategically more important ventures, which goes along common sense.

Björkman (1989) suggests, based on a review and comparison of differing results in the studies by Anderson (1983), March and Olsen (1976), Mintzberg et al. (1976) and Witte (1972), that the novelty of the strategic decision in question may influence the extent to which distinct decision making phases can be identified; more specifically, in cases where firms are familiar with a certain type of strategic decision the phases may be more visibly distinct, which would lead to an assumption that previous experience in forming international joint ventures makes it more likely for firms to have more visibly identifiable and distinct stages in their IJV partner decision making processes.

Therefore, looking deeper into how firms select their IJV partners, including how they identify potential partners and undertake the initial screening of partner candidates constitutes an area of research with potential for contribution within the partner selection research. This potential is especially valid in the form of linking the process into its outcomes, such as the performance of the IJV. It may be expected that several firm-specific (e.g. experience [international/IJV/target country], parent size) and location-specific (e.g., level of development of the target country, socio-cultural distance) factors influence the way how the firm proceeds and succeeds in identifying potential candidates. Also, strategic context of the firm (the FDI/IJV formation stimuli and motives) is a potential influence on the initial steps of the selection process, for example in terms of the length and intensity of the process.

For example, a firm highly valuing a fast entry into the target market is by common logic more likely to select the first identified strategically adequate partner rather than spending time and resources on a comprehensive process of identification and evaluation of all potential partner candidates. After all, if the traditional assumption in IJV research is that investors choose partners that exceed the maximum number of desired criteria, an alternative view posits that under the constraints of bounded rationality, investors may simply settle for a candidate that satisfies some key criterion (Cyert and March 1992, March 1994). In search contexts characterized by high uncertainty and risk, optimal exchange partners cannot be easily identified, and thus rather than trying to identify ideal partner in the market, investors will limit their search to those potential partners about whom they have the greatest knowledge and then select the best choice from among this restricted set (Podolny 1994). To summarize, a firm that is strategically motivated to complete the market entry as fast as possible is, following Simon's (1957) terminology, keen to take the road of a satisficer under the constraints of bounded rationality than aiming for the optimal partner candidate in the population.

## 3.4 Limitations and implicit assumptions in previous research

Previous research in the area of IJV/ISA partner selection has relied on a number of unquestioned assumptions especially regarding partner identification and has generally focused on the subsequent step of partner evaluation. According to Wong and Ellis (2002), it is plausible to assume that the default proposition implicit in the IJV literature is that partner selection is made on the basis of objective information gathered systematically via market research. In other words, once the decision to cooperate has been made, the identification of potential partners follows a linear process whereby a large number of candidates are systematically screened according to the predetermined criteria identified by Geringer (1988) and others. According to Tsang (1995), initial identification of potential alliance partners may be based on sources such as embassies and consulates, government agencies, management consulting companies, and investment advisors.

However, Wong and Ellis (2002) note that there is some evidence to indicate that foreign investors do not follow this approach in practice. They argue for an existence of an implicit assumption in the IJV partner selection literature referring to the initial identification process consisting of the following stages: 1) identifying those characteristics desired in a potential partner, 2) determining the appropriate channels or information sources to identify likely candidates, and 3) approaching the right prospects accordingly. Within the sample of Wong and Ellis (2002) in none of their 18 examined cases was this pattern of behavior observed (the study by Wong and Ellis 2002 is described in more detail in Chapter 2.3).

The vast majority of IJV/ISA partner selection studies, with few exceptions (e.g. Tatoglu 2000), focus on the point of view of either (most commonly) the foreign partner or the local partner instead of recognizing the selection process as a dyadic process. A commonly implicit pre-disposition within these studies is that these firms are proactive in their search for a partner, following a decision already made to set up a venture in a chosen target country and recognition of a need to be addressed by partner selection. It is often overlooked that each of the partners in fact go through a process of partner selection, whether they select a partner from a vast amount of prospects or plainly choose whether to enter into a proposed IJV or not.

Also, the traditional IJV partner selection literature seldom considers the fact that firms may not be able to enter an IJV agreement with any of its top partner choices. As Geringer (1988) describes, there may be a significant distinction between the outcomes that are ultimately obtained from the partner selection process and the selection criteria that were originally developed and applied by the organization. For instance, sometimes suitable partners are unavailable or unwilling to participate in the proposed JV. Geringer (1988) accounted several instances where organizations reported an inability to conclude a JV agreement with their top two or three partner choices.

It is often stressed in the literature that the process of partner selection forms its own decision making entity within the whole process of IJV formation (e.g. Tomlinson 1970, Geringer 1988, Glaister and Buckley 1997). Also, Al-Khalifa and Peterson (1999) support Tomlinson's (1970) original statement that the motivating factors for establishing a JV should be clearly differentiated from the motivating factors involved in partner selection; they are two separate decision processes. A contradiction within the Geringer-led stream of research is constituted by the study by Glaister and Buckley (1997), who in their questionnaire ask their respondents to, for example, rate the importance of the task-related selection criteria in the form of "How important was the formation of the joint venture in allowing access to inputs that your company did not have", thus not clearly distinguishing between the IJV formation motives and the motivation for choosing a specific partner, which was considered important by e.g. Tomlinson (1970) and Al-Khalifa and Peterson (1999). However, it is fair to assume that the process of partner selection is not a universally independent decision making process in regards to all or perhaps even the majority of real-life IJVs or ISAs, which is argued for in Chapter 3.5.

## 3.5 Alternative partner selection process modes

As established in previous chapter, the research findings of a process-based approach on IJV/ISA partner selection are narrow and mostly exploratory, and certainly lacking a concise empirical evaluation and validation. Because of the shortage of literature on the field, an approach inspired by Viljamaa's (2007) empirical analysis of small Finnish manufacturing firms' provider selection in context of external expert services is taken here in Chapter 3.5. In the following, the four modes of provider selection identified by Viljamaa (2007) are described, and their applicability in an IJV/ISA context – arguably different from Viljamaa's research setting – is discussed. Four modes of partner selection in IJVs are then proposed, and some preliminary propositions suggested for empirical studies.

Whereas process-oriented approach constitutes an obvious research gap within IJV/ISA partner selection, it is also rare in studies on professional services purchasing (Day and Barksdale 1994). Research has used decision making process stages as leverage for learning about, for example, influences on decision making, but, as in IJV studies, there has been relatively little empirical effort to determine whether the stages themselves correspond to activities in firms (cf. McQuiston 1989). Some sources suggest that the stages in expert services purchasing are often in fact not followed (e.g. Gallouj 1997, Stock and Zinszer 1987), and that only one potential provider may be considered (e.g. O'Farrell and Moffat 1991).

There are some fairly obvious differences when comparing a selection of an external expert service provider and a selection of an IJV partner that should be clearly expressed when examining the possibility of adapting findings from one of these fields to another. Firstly, in partner selection process within IJV operations, there is a strong dyadic dimension, referring to a two-way selection process, i.e. the selection process is conducted by each of the partners. Although the same can be stated concerning selection of expert service providers (e.g. Martin, Horne and Chan 2001), since the service provider naturally has the option of choosing its clients, the expert service provider selection can be more naturally viewed as a purchasing process. In comparison, as described by Kanter (1994), the partner selection process for IJVs can be likened to the courtship ritual of personal relationships, driven by both emotional attachment and cold-blooded analysis. It seems also logical to assume that firms choosing IJV or alliance partners are far more likely to be rejected by their preferred partner candidates. The rejection rate can also be logically assumed to significantly rise in cases of firms looking to partially acquire a share of an existing company, in other words form an IJV via a partial acquisition, due to the fact that another firm would have to be willing to share its ownership.

Secondly, the strategic importance of the IJV partner selection decision is generally significantly higher in light of resource demands when compared to selection of expert service providers. Therefore firms can be logically expected to commit more time and resources for the selection process in the IJV partner selection context. Thirdly, the selection processes examined by Viljamaa (2007) did not involve an international aspect which has a major influence on IJV partner selection, especially when forming an IJV, for example, to a physically, culturally or economically distant country (see Chapter 2.3.2) due to, for example, the perceived context uncertainty and the mechanisms firms use to reduce uncertainty (Mitsuhashi 2002). Additionally, Viljamaa's (2007) study focused on SMEs, which must be accounted for, as firm size is arguably a factor on IJV partner selection, and essentially reflects upon the availability of knowledge and resources for this process, and thus increasing the impact of bounded rationality.

However, there are also a number of similarities in expert service provider selection and IJV partner selection. In both situations, as posited in transaction cost theory (Williamson 1988), the selector is faced with uncertainty concerning the future outputs of the selectee. In one case the uncertainty stems from working within an international context and in the other from dealing with knowledge asymmetry inherent to expert services (Viljamaa 2007). In both cases, the selector must essentially make a judgment on whether the resources of the selectee are complementary and sufficient (cf. Geringer's (1988) task-related criteria) and whether the selector and selectee are compatible (cf. Geringer's (1988) partner-related criteria, Kanter's (1994) chemistry). In both cases, the selector must accept a risk in making the choice (e.g. Laroche, Bergeron and Goutaland 2003).

The word "selection" is often used in the literature to denote the final decision on which partner or provider is chosen (e.g. Young et al. 1989). The practice is potentially problematic because it confuses the notions of comparison and decision: selection implies both. Selection can also justifiably encompass the search for potential providers/partners, for such a search in itself means that candidates are sorted into potential and non-potential providers/partners, i.e. accepted or rejected from further consideration. Hence, in the following search for potential providers/partners, assessment of potential providers/partners, and the choice of provider/partner are all viewed as elements of selection.

Based on an empirical analysis, Viljamaa (2007) identified four different modes of selection used in case firms: Evaluation of alternatives, default selection, entwined selection and short selection. Next, each of the modes is described and then discussed in the IJV partner selection context.

*Evaluation of alternatives*

Evaluation of alternatives refers to the selection mode in which the selector compares several alternative providers prior to making the choice. Models of B-to-B services purchasing usually include the assumption that multiple alternatives are sought and compared. The empirical data in Viljamaa's (2007) study suggests otherwise; only few of the cases involved actual evaluation of alternative providers, i.e. seeking out several potential providers and comparing them prior to making a selection. This may be due to bounded rationality - the search for alternatives takes management time, which is a scarce resource in SMEs. Also, the more extensive the search, the more time the evaluation of potential providers will take, and thus it is doubly reasonable to limit the number of alternatives. After all, the firm still retains the option of continuing the search later if none of the evaluated providers prove satisfactory (Viljamaa 2007).

The evaluation of alternatives based on multiple criteria is to an extent seen as the assumed mode of partner selection within most of the IJV literature (see models presented in Chapter 3.2). However, the requirements for such a selection process (being proactive, lack of time constraints relating to strategic motives or other reasons, sufficient resources for an extensive search) causes one to consider its frequency within real-life IJVs.

Still, it must be noted that evaluation of multiple alternatives can take place even though the firm originally did not initiate the process. For example, rejecting an offer for unsuitable partner characteristics may nevertheless trigger the firm's interest in entering an IJV in a specific country, and thus lead on to its own search for potential partners. In this case, the outside initiation could be seen as the basis for need recognition, leading to the actual partner selection process.

*Default selection*

In default selection the selector makes an ‘automatic’ choice because an alternative exists that is so obvious that the possibility of seeking alternatives is not raised – the selectee is selected by default. In the default selection cases examined by Viljamaa (2007) the interviewees give no indication of considering their choice of a particular provider, or even particularly assessing that provider’s capabilities relative to their need. The cases involve either continuing an existing relationship or a close connection between selector and selectee. However, Viljamaa (2007) suggests that the default provider only gets the assignment when there is no clear reason to look for an alternative, i.e. for example a previous business relationship is not in itself sufficient.

In the context of IJVs the mode of default selection of a local partner can occur only under the circumstances where the firm already has previous experience of operating in the target country and thus relationships exists to create the potential for an ‘obvious choice’. As found by Geringer (1988), typically among the first considered partner prospects are the distributors, suppliers and customers for the industry of the proposed venture. Also, the importance of strong ties, i.e. the strong relying on existing connections in identifying potential partners as found by Wong and Ellis (2002) as well as Maurer (1996), supports the idea of default selection existing as a mode of partner selection process in the context of IJVs or ISAs. In the IJV/ISA context, however, it may also be common that there exists a small (2-4 firms) default pool of prospective partners, which is largely determined by the firm’s existing social networks in the target country.

*Entwined selection*

In entwined selection the client firm simultaneously considers both the decision to use expert services and the decision to use the particular provider. The process of purchasing is initiated or activated by external parties, the initiative often coming from the future service provider. Although in most of these cases similar services could be acquired from other providers as well, Viljamaa’s (2007) interviewees give no indication that alternatives are considered. Rather, the focus is on the decision of whether the service is used at all, and the provider selection is taken more or less for granted. The client firm’s decision making is focused on what is to be done, rather than who does it. Provider selection is simply entwined with the decision to use expert services. In some cases entwined selection is a matter of accepting a proposal. The firm is offered an opportunity that is acceptable, and the provider making the offer is engaged for the service. In traditional purchasing models need recognition and the provider decision are treated as if they were separate – in these cases there is no indication they are (ibid.).

In the IJV context, the entwined selection mode challenges to some extent the notion of how the process of partner selection is a separable decision making entity within the process of IJV formation, which is, as stated earlier, a common position taken within previous IJV/ISA partner selection literature. In this case, the choice of partner(s) and the decision to set up an IJV can not be separated, and thus the decision to enter an IJV agreement embodies the choice of partner(s).

As the previous partner selection literature most often implicitly assumes that firms enter the partner selection process systematically, driven by an earlier recognized need, leading to identification of candidates and evaluation based on multiple selection criteria, another clear pre-disposition is that the firm is proactive throughout the process. This has led the IJV/ISA partner selection research during the last decades to neglect the point of view of the 'passive' or 'reactive' partner, i.e. the one who's not responsible for the initial contact and proposition to enter IJV negotiations.

Based on previous literature, Glaister and Buckley (1997) assumed that to the extent that partners are either proactive or reactive with respect to the initiative for the joint venture, and thus either making the initial approach or responding to an approach, then differences in the importance of particular selection criteria are likely to be evidenced between initiating and non-initiating partner firms. However, the influence of who was responsible for the initial contact was found to be virtually of no importance vis-à-vis the relative importance of partner selection criteria. In light of the entwined selection mode as depicted above, it seems reasonable to assume that the influence of initiation is a more relevant focus as a determinant of IJV partner selection when observed from a process-oriented perspective when compared to studies focusing on the single mechanism of evaluation/selection criteria.

*Short selection*

In short selection mode a single potential provider is evaluated by the selector. The essential difference to cases entailing an entwined selection is that a provider is chosen, rather than a service, even if the choice is made from a list of one. The evaluation in short selection carries the possibility of rejecting the potential provider, and engaging in a second or third round of short selection (Viljamaa 2007). However, there is not comparison of potential providers, except in the sense that the potential provider being evaluated is compared against other providers that might be found, assuming the selector is willing and able to invest more effort.

The mode of short selection in IJV context would be, in comparison to entwined selection, significantly more in line with previous IJV partner selection research.

In this case, there is a distinction between partner selection process and the decision to set up an IJV. Although no more than one potential partner goes under the stage of evaluation, the selection process in short selection mode is a separable entity within the whole process of IJV formation, assuming that a decision to enter the target country via an IJV has been previously made. Also, it should be noted that firms may engage in serial short selection, i.e. having rejected one evaluated candidate they look for another that satisfies their minimum requirements for starting the planned IJV. Basing their arguments on the behavioral theory of the firm (Cyert and March 1963), Woodside and Pitts (1998) lean towards a serial *short selection* mode in comparison to *evaluation of alternatives*, proposing that firms search and evaluate potential partners sequentially, thus evaluating and deciding are not delayed until a consideration set of several candidates is found, and that potential partners are usually accepted or rejected without thorough and comparative evaluations.

In comparison to evaluation of alternatives, similar to the rational mode (Das and Teng 1999), it could be argued that firms in short selection are more likely to approach the selection by looking for a partner that is adequate rather than optimal – rejecting the candidate in case of not exceeding the requirements and therefore restarting the process with another candidate, and thus *satisficing* in their selection – whereas in evaluation of alternatives the focus is on search for an optimal partner, following the rational choice thinking and the maximizing behavior (Harrison 1987). In light of bounded rationality and thus limited resources, it could be expected by common logic that SMEs are more likely to apply a short selection mode rather than evaluation of alternatives, especially if it lacks experience in operating in the target country.

The four modes of partner selection – evaluation by alternatives, default selection, entwined selection, and short selection, are thus all considered plausible in the IJV partner selection context. Further, each of the modes suggests certain predispositions within factors related to the characteristics and resources of the firm, the characteristics of the target country, strategic motives for the IJV formation, strategic importance of the IJV to the firm, as well as the role of initiator of the IJV process. Viljamaa's (2007b) discussion on selection modes, while suggestive of the forms of partner selection in IJVs, does not depict the IJV selection process, nor does it consider selection criteria. Figure 3 shows a composite of the four modes in the IJV/ISA partner selection context, modified to include setting of selection criteria as proposed in both Young et al. (1989) and Ellram (1991).

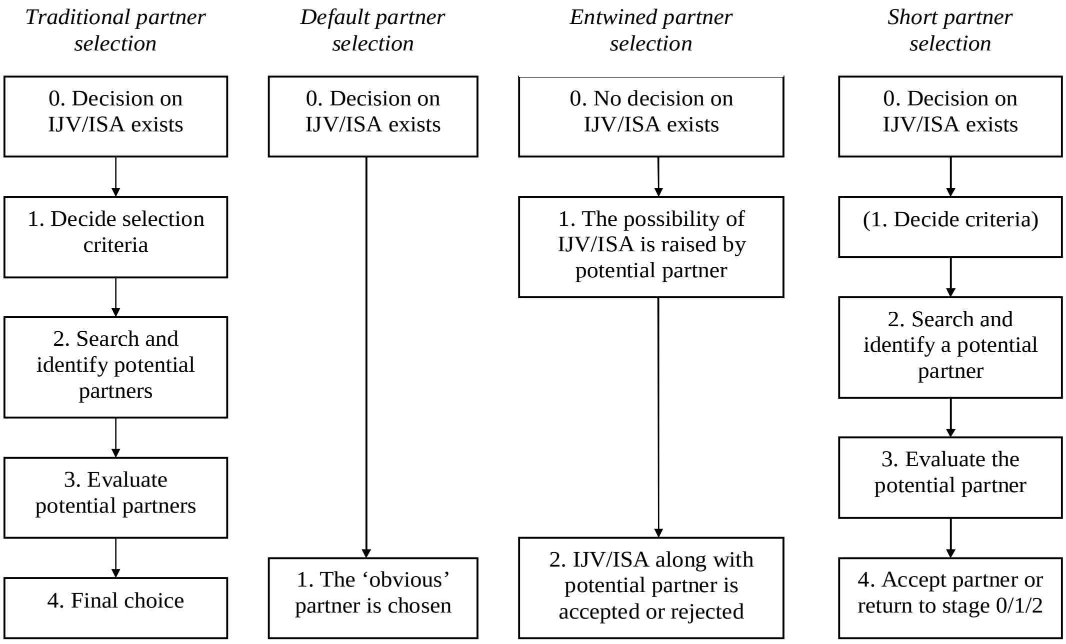


**Figure 3**. Alternative modes of partner selection (applied from Viljamaa 2007 and further modified under the IJV context).

To summarize, it is proposed that IJV/ISA partner selection can occur in various modes. Some suggestions are also made as the occurrence of these. First, based on bounded rationality, small and inexperienced firms with limited resources are more likely to choose partners considered adequate rather than optimal, thus applying the *satisfacing* approach (Harrison 1987, Simon 1957, 1960). This makes it less likely for these firms to undertake the IJV partner selection process based on the mode referred to as either the rational mode (e.g. Das and Teng 1999) or as the evaluation of alternatives mode as in the application of the Viljamaa (2007) typology in the previous chapter.

Also, as was argued in the previous chapter, the mode default selection would require existing connections and target-country-related experience, making it non-applicable for firms considering entry via an IJV into a new target country and with a local partner. On the mode entwined selection, the decision to set up an IJV and a choice of a partner are considered as bundle, making it by common logic a likely option for firms who do not act as the initiator in the IJV formation process. By definition, in the case of the entwined selection mode the partner selection process can not be regarded as its own separable decision making entity within the IJV formation process, thus creating basis for the argument for the separability of the partner selection process within the IJV formation process (e.g. Al-Khalifa and Peterson 1999).

Also, the strategic motivation for the IJV formation, especially the time dimension it may embody – is of potential significance when considering the modes of partner selection the firm may undertake, again due to bounded rationality and the tendency to select the first option that meets a given need or select the option that meets most needs rather than the “optimal” solution (Manktelow 2000, Harrison 1987, Simon 1957). As stated by Killing (in foreword to Geringer 1988), in the real world time is scarce, and perfect partners do not exist for every project.

## 3.6 Summary of the theoretical framework

Chapters two and three comprised the theoretical part of this study, dealing with the phenomenon of international joint venture partner selection with differing approaches. Chapter two followed the mainstream of IJV partner selection research in the vein of Geringer (1988) and others, perceiving IJV partner selection merely through partner selection criteria and their relative importance. To broaden the perspective on the phenomenon, chapter three approached IJV partner selection as a decision making process, arguing for the existence of variety in types of processes firms undergo when selecting IJV partners.

In chapter two, the first theoretical part of the study, the framework regarding the IJV partner selection criteria was established, and five hypotheses were set for subsequent empirical testing in the quantitative empirical part in chapter five. Four of the hypotheses concerned the impact of the IJV context on the relative importance of the selection criteria. IJV context was further dissected into foreign-partner-specific, location-specific and investment-specific factors, as well as the strategic context of the firm. In the fifth hypothesis a relationship between the relative importance of the selection criteria and the performance of the IJV was expected. The argumentation in setting the hypotheses was mainly built upon resource dependency theory, the resource-based view of the firm, transaction cost theory and several empirical findings of previous studies. The contribution of the chapter is essentially tied into establishing a more holistic perspective on the contextual impact on how firms evaluate their IJV partners, or more specifically, on how firms weigh the variety of partner selection criteria under differing contexts, as well as in an examination of the relationship between the partner selection criteria and the performance of the IJV.

In chapter three, the second theoretical part of the study, a process-oriented perspective on the IJV partner selection phenomenon was taken, mainly building on strategic decision making literature. It was argued that existing process descriptions of IJV and/or ISA partner selection resemble the ideology of the rational choice theory, and lack in their ability to explain how the majority of firms, especially those operating under *bounded rationality* due to varied situational or contextual reasons, search and select their partners. Although it is commonly recognized that organizational decisions are not made according to the rational model of choice (March and Sevon 1988), the variety of different modes an IJV partner selection process may take has remained an uncharted territory, thus forming the central gap for this second theoretical part of the study. It was emphasized that the IJV context, dissected similarly to the previous chapter into factors relating to the foreign partner, the IJV location, the specific investment and the strategic contingencies, has an impact on the mode and level of rationality a partner selection process may undergo.

Summarizing the process-oriented partner selection research in the IJV literature, three aspects are essentially pointed out as IJV partner selection is perceived from a process-oriented perspective:

Firstly, a rational choice model does not portray the complex reality of IJV partner selection decision processes. Instead, the processes tend to be completed under the constraints of bounded rationality – the scarcity of information, time and/or resources – essentially affecting the path a firm follows in its quest for an IJV partner. These constraints can be expected to arise from firm-specific (e.g. the size and experience of the firm and its decision makers), location-specific (e.g. physical and cultural distance between the home and host countries, level of development) and investment-specific (e.g. initiatiator, form of investment) factors, as well as from factors related to the strategic context of the firm.

Secondly, decision processes can be broken down to several phases and/or routines in varying ways, yet some broad-viewed consistency can be recognized – the pre-decision process period containing the identification of the problem/opportunity/crisis and the stimuli to enter the decision process is emphasized as the starting point, whereas a design (Simon 1960) or development (e.g. Mintzberg et al. 1976) phase follows, leading to choosing (Simon 1960) or selecting (Mintzberg et al. 1976). Although the phase theorem does not receive unequivocal support from within the field (e.g. Witte 1972), the models give ground to a general level process component breakdown. Following these classic phase models, in combination to existing IJV and alliance structuring literature, inspection of an IJV partner selection decision process would logically focus on three main components: (1) pre-partner selection decision process period, including the IJV trigger/stimuli and general readiness for the IJV, (2) partner search/identification, and (3) partner evaluation and choice.

Thirdly, an almost unlimited amount of decision process typologies can be developed. Still, previous typologies have been synthesized fairly effectively, leading to general level decision process typologies (e.g. Das and Teng 1999) by which different modes of decision processes can be presented in order of rationality of each process mode. Also, applying other types of partnering models, such as those presented in the purchasing literature (e.g. Ellram 1996, Viljamaa 2007) would seem useful in the IJV partner selection research context. These models also seem to suggest that the process of selecting an IJV partner can not be regarded as an independent decision making process separate to the IJV formation decision process entity, as in several cases the decision to form an IJV is entwined with the choice of a specific partner. Furthermore, examining whether the partner selection decision making process is truly a separable entity demands inspection regarding the whole IJV formation process, especially key decisions such as decision on the target country/area, decision on direct investment, decision to invest on a collaborative venture, and a decision on the form of investment (a Greenfield IJV or a partial acquisition).

Thus, the two-fold theoretical part spawns a framework (Figure 4) illustrating how IJV partner selection is influenced by four different types of contextual and situational factors, and suggests an influence of IJV partner selection on the subsequent performance of the venture. IJV partner selection is here perceived from the following points of view: (1) as a set of task- and partner-related selection criteria; and (2) as a decision making process entity, comprising partner identification, partner evaluation and choice. The first empirical part – a quantitative study – focuses on the selection criteria point of view whereas the second empirical part – a qualitative study – focuses on partner selection as a decision making process.

Each arrow in Figure 4 represents a hypothesis set in Chapter 2, yet only on the headline level – certain individual features of each box are included only in one of the two empirical studies: Regarding strategic context, the quantitative study only focuses on the FDI motivation, while the subsequent qualitative study expands also to FDI stimuli and the perceived strategic importance of the venture. Likewise, regarding performance, the quantitative study focuses solely on IJV performance, while the qualitative study also aims to differentiate between IJV performance and the success of the actual partner selection process. Furthermore, regarding the upper three boxes dealing with different types of IJV context, the sublined features in each box form the contextual factors of the quantitative study, whereas the qualitative study approaches each type of IJV context from a more general level – reflecting in practice as questions that deal with mainly the headline level of each context type rather than separate contextual variable.

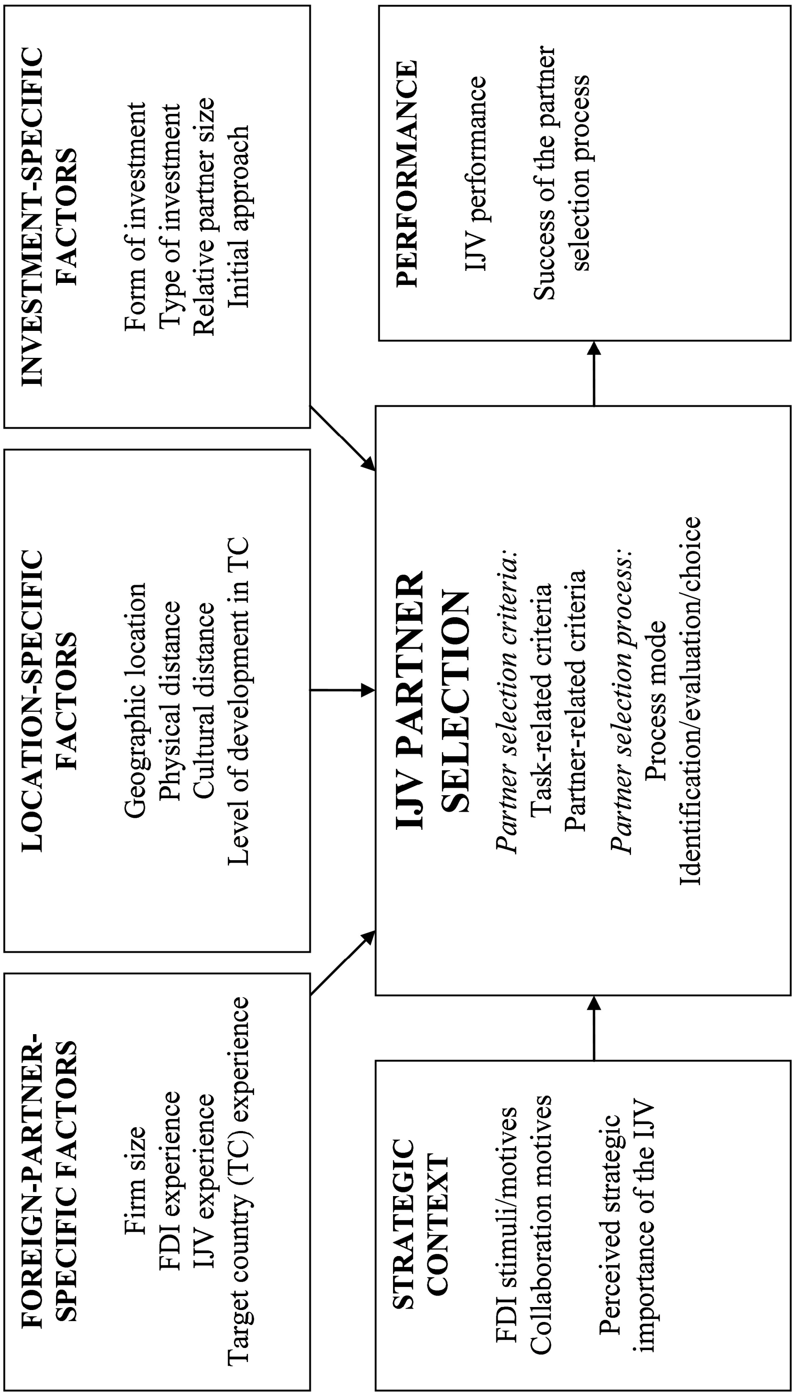


**Figure 4.** The theoretical framework of the study.

# 4 METHODOLOGY

In this chapter the methodological choices, justifications, and the sample/case descriptions are presented. First, the research design is discussed on a general level. This is followed by separate chapters concerning the quantitative and qualitative studies. Also, the validity and reliability are discussed separately in regards to the quantitative and qualitative studies.

## 4.1 Research design

The empirical part of this study is built on a mixed-method approach and it was completed in two distinct stages, also reflecting the learning process within the making of this study. First, a quantitative study was completed in order to statistically examine the impact of contextual variables on the relative importance of the selection criteria, and the relationship between the selection criteria and the IJV performance. The choice of quantitative approach to a criteria-oriented empirical study was based on its natural applicability for such research, as also perceived by a significant majority of comparable previous studies (see Table 1). As it was recognized in the aftermath of the quantitative findings that the selection criteria oriented approach enabled only a limited perspective on the IJV partner selection phenomenon, it was decided that another approach was to be taken to complement the quantitative findings. Therefore, qualitative case studies dealing with the decision making processes of four Finnish firms and their partner selection for IJVs were conducted in order to widen the perspective on the phenomenon. For additional discussion on the choice of a qualitative approach, see further in the chapter 4.3.

Thus, the main reason for applying both quantitative and qualitative data is, following Eisenhardt (1989), to gain a triangulated and synergistic view of evidence on IJV partner selection. As described above, the type and interpretation of triangulation in this study is triangulation as seeking complementary information, following the outline by Erzberger and Kelle (2003: 461) who state that “empirical research results obtained with different methods are like the pieces of a jigsaw puzzle that provide a full image of a certain object if put together in the correct way.”

## 4.2 Quantitative study

The main reasoning for choosing a quantitative approach to study the selection criteria, factors affecting its relative importance and its influence on IJV performance was its suitability for a study trying to identify factors that influence an outcome, the utility of an intervention, or understanding the best predictors of outcomes (Creswell 2003). Most of the previous studies exploring IJV partner selection in more detail (see Table 1 in Chapter 2.2) have taken a quantitative approach, gathering the data with a survey and in some cases accompanying interviews. For its natural applicability and enabling comparison to previous studies, a quantitative approach and a survey research was chosen as the method to examine the partner selection criteria and its relative importance under differing contexts.

Next, the data collection procedure of the study is discussed, followed by the sample description, methods of data analysis, and operationalization of variables used in the quantitative study.

### *4.2.1 Data collection*

The first empirical part of the study is based on survey data relating to the IJV partner selection and IJV performance in manufacturing IJVs established by Finnish based firms in OECD and non-OECD countries mainly in between 1988-2001. Based on different sources (data collected during a period of over ten years from published news regarding new IJVs by Finnish firms, annual reports and www-sites of the 200 largest Finnish companies, earlier survey information) more than 130 Finnish companies having made at least one manufacturing IJV were identified. In total, the companies had established more than 500 IJVs of which approximately 120 were divested before 1999. In those cases where the companies had established several IJVs, the preference was given to Greenfield form of IJVs and/or on IJVs where the ownership share of the Finnish partner was 25-75 % and which had been at least two years in operation. These preferences were based on the need for an adequate number of Greenfield IJVs in the sample for statistical purposes, and the minimum of two years of operation for meaningful inclusion of the IJV performance measurement.

The companies were first contacted by telephone or email in order to confirm the interest of the company to participate in the study and to identify the most suitable person to answer to the questionnaire planned for the study. As discussed by Geringer (1991), in some studies a key weakness is that the respondents had not been directly involved in the partner selection process. While the most knowledgeable people in firms to provide accurate data for the study are those directly involved in the IJV establishment and operation (Slater and Atuahene-Gima 2004), it was confirmed that the person was in possession of direct knowledge on the partner selection process (the respondent's current relationship with the IJV was also asked separately in the end of the questionnaire) during the telephone contact to increase the reliability of the results. The four-page questionnaire included also other issues than those relating to partner selection, e.g. questions on the later development of the IJV, and evaluation of its performance along various measures. The questionnaire is carefully designed based on earlier literature and surveys in a manner that is intelligent to respondents (John and Phil 1997).

Managers from in total 47 firms participated in the study. The total amount of IJVs covered by the survey was 69 as several firms were represented in the sample via more than one IJV. However, in nine cases the managers did not fully answer to the sections on partner selection or IJV performance on the survey. Thus, the final sample size in this study is 60 IJVs. This is favorably comparable to a significant portion of prior studies on IJV partner selection – the sample size in the previous quantitative studies has been between 42 (Al-Khalifa and Peterson 1999) to 202 (Hitt et al. 2000). In the case of Al-Khalifa and Peterson the small sample size can be explained by small population – in fact, their sample included over 80 percent of the population of IJVs in Bahrain. Other IJV partner selection studies with quite small sample sizes are those by Glaister (1996), Glaister and Buckley (1997) and Tatoglu and Glaister (2000), of which the first two have samples of 50 and 53 respectively, while the latter has a sample of 39 foreign partners and 30 local partners.

### *4.2.2 Quantitative sample description*

More than 90 percent of the units were established in 1988-2001 while about half were established in 1995 or earlier and the other half in 1996 or later. Approximately 40 percent of the IJVs were established in OECD countries and approximately 60 percent in non-OECD countries. Close to 60 percent of the units were formed as Greenfield IJVs and 40 percent as partial acquisitions. Over 70 percent of the IJVs had two parent firms and approximately 30 percent had three or more parents. In the latter cases the empirical analysis is focused on the partner selection criteria in relation to the main local partner. In every fourth case the IJV marked the first one established by the company, whereas in 45 percent of cases the company had previous experience from one to three earlier IJVs, and in the rest of cases the company had experience from at least four IJVs. Concerning the current state of operation and ownership, 75 percent of the units were still operating as IJVs in spring 2002, while close to 18 percent of the units had changed into wholly-owned subsidiaries of the Finnish partners and approximately seven percent of the IJVs had been divested (For more details see Table 4).

**Table 4**. Characteristics of the sample.

| | | n | % |
|---|---|---|---|
| Number of responses | | 60 | 100 |
| Number of partners in the IJV | 1 (in addition to the respondent firm) | 42 | 70 |
| | > 1 | 18 | 30 |
| Year of investment | 1995 or earlier | 30 | 50 |
| | 1996 or later | 30 | 50 |
| Form of investment | Greenfield | 37 | 61,7 |
| | Acquisition | 23 | 38,3 |
| Size of the foreign partner (turnover 2001) | < 500 MEUR | 31 | 51,7 |
| | 500-1000 MEUR | 7 | 11,7 |
| | > 1000 MEUR | 22 | 36,7 |
| Location of the IJV | Western Europe | 20 | 33,3 |
| | Eastern/Central Eastern Europe | 22 | 36,7 |
| | Asia | 15 | 25 |
| | Other | 3 | 5 |
| Share of ownership of the foreign partner | > 50 % | 22 | 36,7 |
| | 50-50 % | 9 | 15 |
| | < 50 % | 29 | 48,3 |
| Industry of the IJV | Metal industry | 23 | 38,3 |
| | Forest industry | 12 | 20 |
| | Other (chemical, plastic, foodstuff) | 25 | 41,7 |
| Initial approach to the IJV | Foreign partner initiated IJV talks | 43 | 71,7 |
| | Local partner or other as initiator | 15 | 25 |
| Relative partner size | Foreign partner > 50 % larger | 42 | 70 |
| | Other | 18 | 30 |
| Joint venture survival | Still operating as an IJV | 45 | 75 |
| (Point of view of the foreign partner) | Changed into a wholly owned subsidiary | 11 | 18,3 |
| | Divested/no foreign ownership in 2000/01 | 4 | 6,7 |

### *4.2.3 Methods of statistical analysis*

As in several earlier studies the relative importance of the task- and partner-related selection criteria was examined first on a general level by ranking the criteria based on their mean values. Then factor analysis was employed to derive a parsimonious set of selection criteria, following several previous studies in the field (e.g. Geringer 1988, Glaister and Buckley 1997, Tatoglu and Glaister 2000).

The hypotheses were tested by considering differences in means of the importance of the selection criteria. Based on an assumption that the sample was close to normal distribution, it was considered legitimate to use parametric tests of the hypotheses. Each of the hypotheses was therefore tested by conducting two sample t-tests or ANOVA as appropriate. Because of the nature of the data these parametric tests were compared to equivalent non-parametric tests (Mann-Whitney U and the Kruskal-Wallis Test) as a check on their interpretation following Glaister and Buckley (1997) and Nielsen (2003).

Due to the limited size of the sample the applicable methods for data analysis were accordingly limited. Despite their shortcomings in statistical sophistication, T-test and ANOVA are considered suitable for studies dealing with limited sample sizes (Aczel 2005). Also, these tests have appeared useful and considered appropriate in some of the main reference studies (eg. Dong & Glaister 2006, Glaister and Buckley 1997, Tatoglu 2000).

### *4.2.4 Operationalization of variables*

Mainly to increase comparability to earlier findings, it was decided here that partner selection criteria were examined and operationalized following Geringer's (1988) task- and partner-related selection criteria. However, minor additions were made in accordance to other results – the criterion of *trust* was added due to their high relative importance in several other studies (Glaister 1996, Glaister and Buckley 1997, Nielsen 2003, Tatoglu and Glaister 2000). Furthermore, trust was examined as two separate criteria – *trust in the partner* and *trust between the partners* – to allow for consideration on whether firms value nurturing the reciprocal nature of the IJV form or merely value the partner's trustworthiness.

The 29 selection criteria studied are listed in Table 5. The respondents were asked to indicate the importance of each criterion along a five-point Likert-scale (1=not at all important … 5=Very important) and the question was formed as follows: "In forming this venture, how much importance did your company place on selecting a partner with the following skills or characteristics?" All other variables of the quantitative study are described in Table 6.

**Table 5.** The selection criteria applied in the quantitative study.

| |
|---|
| **<u>Task-related criteria</u>** |
| Enables venture to qualify for subsidies or credits |
| Can provide low cost labour to the venture |
| Helps comply with government requirements/pressure |
| Has access to raw materials or components |
| Will provide financing/capital to venture |
| Can supply technically skilled personnel |
| Can supply general managers to the venture |
| Possesses needed licenses, patents, know-how, etc. |
| Controls favourable location for production |
| Possesses needed manufacturing or R&D facilities |
| Has access to marketing or distribution systems |
| Has access to post-sales service networks |
| Has a valuable trademark |
| Has a valuable reputation |
| Enhances perceived local or national identity |
| Will enable the venture to produce at lowest cost |
| Permits faster entry into the target market |
| Has knowledge of target market's economy & customs |
| Can provide better access for your company's products |
| Can enhance the venture's export opportunities |
| Enhances venture's ability to make sales to government/public companies |
| **<u>Partner-related criteria</u>** |
| Seems to have a strong commitment to the venture |
| Top management of both firms are compatible |
| Has similar national or corporate culture |
| Is similar in size or corporate structure |
| Prior positive cooperation |
| Has related products |
| Trust between partners |
| Our trust in the partner |

**Table 6**. Operationalization of variables for the quantitative study.

| | |
|---|---|
| Firm size | Total sales of the firm in 2001/2002. Chosen as the most commonly used measure of firm size in FDI studies (e.g. Larimo 1993, Tahir 2003). |
| FDI experience | Number of previous FDIs formed by the firm (e.g. Larimo 1993, Tahir 2003); recoded into "yes" (one or more previous FDIs) and "no" (no previous FDIs) for testing purposes |
| IJV experience | Number of previous IJVs formed by the firm; recoded into "yes" (one or more previous IJVs) and "no" (no previous IJVs) for testing purposes |
| Target country experience | Previous business activity/operations in the target country vs. no such activity/operations |
| Region | Western Europe (WE) / Eastern Europe (EE) / Central Eastern Europe (CEE) / Africa / Asia / North America / South America. Recoded into WE / CEE+EE / Asia, and excluding the other regions due to very small representation of each within the sample |
| Cultural distance | Measured by a cultural distance index based on Hofstede's (1980) four dimensions of national culture, measuring distance between Finland and the target country through the following equation developed by Kogut & Singh (1988): $CD_j = \frac{1}{4} \sum_{i=1}^{4} \{ (I_{ij} - I_{iu})^2 / V_i \} / 4$ |
| Physical distance | Distance between Finland and the country of IJV location (in kilometers). More specifically: Distance between Helsinki, Finland, and the capital city of the host country. Recoded into a two-group variable cut point of over or under 2000km for testing purposes. |
| Level of development | OECD members vs. non-OECD members. Even though not all non-OECD countries can be labeled as developing/low-developed countries (e.g. Japan), none of the sample IJVs are located in such countries. Therefore, it is an adequate measure to divide host countries into developed countries vs. other. |
| Form of investment | Greenfield IJV vs. Partial acquisition (e.g. Hennart 2007) |
| Type of investment | Relatedness of the IJV's business to the business of the foreign partner; Totally related / Partly related / Totally unrelated, as perceived by the respondent |
| Relative partner size | Size of the local partner in relation to the size of the foreign partner as measured by total sales in 2001/2002 (Glaister & Buckley 1997) |
| Initiator to the IJV | Foreign partner / local partner / third party as the initiator of the IJV talks (Glaister & Buckley 1997) |
| Investment motives | Access to natural resources, access to markets, seeking efficiency, access to strategic assets (Following Dunning 1993); importance of each motive measured along five-point Likert-scale. |
| Performance | Performance of the IJV is measured subjectively along five-point Likert-scale based on the foreign partner's view on the overall performance of the IJV (Choi 2001, Schaan 1983). Additionally, other measures used were the financial performance of the IJV, and performance of the IJV compared to the main competitors in 2000-2001 in similar 5-point Likert-scale format. |

## 4.3 Qualitative study

As the quantitative approach focusing solely on partner selection criteria was deemed incapable of describing the whole complexity of the IJV partner selection phenomenon, a qualitative approach was taken in order to explore IJV partner selection from a process-oriented perspective. Case studies are particularly well-suited to new research areas for which existing theory seems inadequate (Eisenhardt 1989). Even though international joint ventures and partner selection on a general level can by no means be described as new research areas, it was argued (in Chapter 3) that the existing research does not have an adequate grasp on the phenomenon of IJV partner selection, and therefore lacks a holistic perspective on how partners are selected under different contexts. Thus, selected companies were highlighted in the quantitative data and were contacted for interviews during late 2009, in order to undertake *comparative case studies*. This refers to comparison (replication) of the phenomenon (IJV partner selection decision process) studied in different cases in a systematic way, exploring different dimensions of the research issues (Ghauri and Grønhaug 2010).

There are two mains goals for the qualitative study. Firstly, there is a descriptive aim, *to describe the process of IJV partner selection and the variety of forms it may take*. Secondly, there is an aim that includes both descriptive and explanatory ingredients, that is, *to identify the key components both within the decision making process as well as the IJV context that shape the IJV partner selection process and the paths firms follow in their quest for a suitable IJV partner*. Additionally, the qualitative study aims to examine to which extent the IJV partner selection process can be separated into its own decision making entity within the IJV formation process.

The case study is a research strategy which focuses on understanding the dynamics present within single settings (Eisenhardt 1989), and can involve either single or multiple cases, and numerous levels of analysis (Yin 2003). The case study method is favored when the research questions are formulated as “why” or “how” questions (Ghauri and Grønhaug 2010), thus appropriate for this study and approach. It is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident (Yin 2003). Its main feature is the intensity of the study of the object, individual, group, organization, culture, incident, or situation (Ghauri and Grønhaug 2010).

### *4.3.1 Case selection*

As one of the key aspects of the process-oriented approach to IJV partner selection, and thus the ensuing qualitative study, was to present and explain variety in how firms identify and choose their IJV partners, four firms were carefully selected from the quantitative data sample by setting a number of preference factors to form a sample for comparative case studies. Thus, theoretical sampling was here considered a reasonable approach as purposeful, non-probability samples are often applied in qualitative research (Ghauri and Grønhaug 2010).

The preference in selecting case companies from the quantitative data first based on the following aspects:

1. The IJV was formed before the year 2004. This preference was set for that the IJV had seen enough action for credible performance and other outcome discussion.

2. The IJV was formed after the year 1996. This preference was set to avoid memory-related reliability problems, as the questions largely dealt with issues taking place in the formation stage of the venture.

3. The Finnish ownership at the time of the investment was in between 25 to 75 %. This excluded portfolio investments from the sample, instead preferring units with truly joint decision making.

4. The IJV had been in operation for at least five full years as an IJV. Again, the importance of credible performance and other outcome discussion was underlined, hence the preference for units with a lifespan of at least five full years of IJV operation. Also, this excluded those units from the sample where the original IJV form had briefly existed for any practical reasons and was planned as a temporary step in the investment process from the start.

These preference factors were met by altogether eight IJVs within the quantitative sample. Four of them were formed as Greenfield investments and the other four as partial acquisitions. Three were located in Asia (China, Japan), one in Eastern Europe (Russia), two in Norway, one in Germany and one in the Netherlands.

Case selection from within these eight units proceeded to form a *convenience sample* (Ghauri and Grønhaug 2010) according to the following principles that were set to enable comparison in regards to some key contextual factors:

1. Geographic variation (distance, context uncertainty).

2. Variation in economic development in the host country.

3. Variation in form of investment (Greenfield vs. partial acquisition).

To fulfill the demands of the fore-mentioned principles and to reach a balanced sample in regards to them, altogether four case companies were selected. Two of the case IJVs are located in China and two in Western Europe, meeting the first two principles. Also, two of the case units were formed as Greenfield operations, whereas two are partial acquisitions, as the differing IJV form was expected to result in differing types of partner selection processes, thus meeting the third principle. All four prioritized case companies agreed to participate in the study on the condition of anonymity, and thus the cases and case companies are presented as Case/Company A, B, C, and D, and the field of business of each is presented with varying specificity as required.

### *4.3.2 Data collection*

The data was collected by conducting personal interviews with managers with the operational responsibility and/or direct knowledge of the IJV formation and partner selection processes. Each interview lasted approximately two hours, was audio-recorded and transcribed in a detailed manner. The suitability of each respondent was carefully examined by discussions with the CEO and/or executives of the business division the case IJV adheres to, and further discussed with the respondents by confirming their direct knowledge on the IJV formation decision making as well as future operation and development.

The interviews were conducted according to the following main theme outline (for exact outline, see Appendix 1):

1. Background information on the case firm and the respondent

2. The Case IJV formation

3. The IJV partner selection process

4. Objectives and motives for the IJV

5. The evaluation of the IJV formation process, as perceived at present time

### *4.3.3 Validity and reliability of the qualitative study*

Because a research design is supposed to represent a logical set of statements, one can also judge the quality of any given design according to certain logical tests, of which four have been commonly used to establish the quality of any empirical social research (Yin 2003): They are *construct validity*, *internal validity*, *external validity*, and *reliability*, and due to being common to all social science methods, they have been summarized in numerous textbooks (Kidder and Judd 1986).

Construct validity, referring to establishing correct operational measures for the concept being studied (Kidder and Judd 1986), was increased by using multiple sources of evidence, and also by having key informants review the drafts of the case study reports, following the suggestion by Yin (2003). The sources of evidence, besides the interviews, included the responses of each case firm in a previous IJV questionnaire (the data primarily used for the quantitative study in this dissertation). Also, additional documentation was used, ranging from public documents, such as annual reports and press releases regarding all four cases, to classified documents that were available in two of the four cases, such as board meeting agendas and correspondence between the parents prior to IJV formation.

Internal validity refers to establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships (Yin 2003). As it does not concern descriptive or exploratory case studies (ibid.), the internal validity is here discussed only in regards to the explanatory features of the study. More specifically, the second of the two main goals for the qualitative study was *to identify the key components both within the decision making process as well as the IJV context that shape the IJV partner selection process and the paths firms follow in their quest for a suitable IJV partner*. In other words, the qualitative study aims to explain how components of the decision making process and the IJV context affect the IJV partner selection process, rendering the goal into a more explicitly explanatory form. In attempting to improve the internal validity herein, the interviews tried to acknowledge the different elements of IJV context as broadly as possible, aiming to address rival explanations.

External validity concerns the generalization of the study’s findings (Yin 2003). To improve external validity the study included four cases selected in a manner that the majority of key characteristics (e.g. form of investment, characteristics of the target country) were similar in two cases, increasing the replication logic within the study.

To increase the reliability of the study – making sure that a later investigator should arrive at the same findings and conclusions if the same procedures as described in this study were followed (Yin 2003) – the interview process followed a common list of themes with several more specific questions under each theme. All discussion was recorded and written out in the form of the spoken word.

Empirical evidence suggests that the executives' recollections of their past strategies are often biased; strategies are often recalled as more rational and consistent with current strategies than they really were (Golden 1992). Therefore, the decision processes were approached in different ways during the interviews, as the interviewees were first asked to portray larger decision process entities chronologically, following a dissected approach where different components of the decision processes were discussed individually. Also, in two of the four cases – the two closest to resembling the rational choice model – additional documentation (in the form of management board meeting agendas and other such documents) was able to verify the sequence of the key elements in the decision processes. Additionally to counter against the potential tendency of the respondents to appear more rational in their decision making than they actually were, the respondents were promised anonymity both on the firm and individual levels.

Following Björkman's (1989) lead, among others, the reader is here given the opportunity to scrutinize how the cases are analyzed by including frequent quotes, citations of responses or comments, by organization members. The quotes used here include all three types of quotes as presented by Richardson (1990): Firstly, *short eye-catching quotations* that take little space and signify different perspectives (Creswell 2007) are used. The *embedded quotes*, briefly quoted phrases within the narrative, prepare the reader display a point and allow the reader to move on, whereas the *longer quotations*, limitedly used in this study, are used to convey more complex understandings (Richardson 1990).

To gain an adequate explanation of these individual decision making processes, the researcher must obtain in-depth understanding of the context in which the investment is made (Pettigrew 1987, Björkman 1989), and obtaining this understanding through the use of questionnaires is probably impossible (Björkman 1989). As it may also be questionable to rely on structured interviews with a single respondent (ibid.), the interviews were conducted in a more extensive manner and additional documentation was analyzed. As already mentioned, all four cases were included in the quantitative data, and thus an extensive amount of structured information was available for inclusion in the case analysis.

# 5 RESULTS OF THE QUANTITATIVE STUDY

In this chapter, the results for the quantitative empirical study are presented and discussed. First, the relative importance and a factor analysis of the partner selection criteria are presented. Next, analyses concerning the relationship between contextual variables (i.e. foreign partner, location, and investment-specific variables, the investment motives) and the relative importance of the selection criteria are taken under examination. Finally, the focus is placed on the relationship between the relative importance of the selection criteria and the performance of the joint venture, leading to discussion on the limitations and implications of the quantitative approach taken here.

## 5.1 Relative importance of the partner selection criteria

The results of the relative importance of various task- and partner-related selection criteria are presented in Table 7. The respondents were asked to indicate the importance of the altogether 29 task- and partner-related selection criteria when selecting their IJV partners. Since the five-point Likert type scale was used (1=not at all important, 5=very important), the midpoint of the scale (3) is here used as the point of comparison.

The results indicate that among the 21 task-related selection criteria the midpoint was exceeded only by two criteria: the criterion of *knowledge of the target market's economy and customs* (3.18) and the criterion of *ability to permit faster entry into the target market* (3.05). Seven additional criteria were valued between 2.80 and 2.98. Among the eight partner-related selection criteria three criteria – *our trust in the partner* (3.48), *strong commitment to the venture* (3.41), and *trust between partners* (3.39) – exceeded the midpoint. Furthermore, two criteria were valued between 2.75–2.83, and two criteria below 2.00. It is noteworthy that among the 29 criteria used in this study, one was ranked clearly below the others at 1.50 – the criterion of *partner is similar in size and/or corporate structure* – and it was a partner-related criterion.

As discussed earlier, the comparison of results in previous studies is difficult because of somewhat different selection criteria used. The results by Geringer (1988) indicated that the three most important criteria were: *strong commitment to the IJV*, *compatible management teams*, and *permits faster entry into the market*. Geringer did not include trust in his selection criteria, whereas others have not included a criterion concerning commitment among selection criteria in their studies. The other studies have indicated the great importance of such criteria as *trust between management teams, relatedness of partner's business, reputation, knowledge of local market, financial status* or *financial resources, access to distribution channels,* and *access to links with major suppliers* or *buyers*. Contrary to all others studies including this study, Tomlinson (1970) and later on also Tatoglu and Glaister (2000) found that the *existence of an earlier relationship* was an important if not even the most important criteria, but according to Tatoglu and Glaister only from the local partner's point of view, not from the foreign partner's point of view.

**Table 7.** The relative importance of the partner selection criteria.

| PARTNER SELECTION CRITERIA | variable | mean | std. dev. | Rank |
|---|---|---|---|---|
| **Task-related criteria** | | | | |
| (T) Has knowledge of target market's economy & customs | T-LOCKNOW | 3,18 | 1,38 | 4 |
| (T) Permits faster entry into the target market | T-FASTENTRY | 3,05 | 1,53 | 5 |
| (T) Will enable the venture to produce at lowest cost | T-LOWCOST | 2,98 | 1,42 | 6 |
| (T) Controls favorable location for production | T-FAVLOCA | 2,97 | 1,41 | 7 |
| (T) Possesses needed manufacturing or R&D facilities | T-FACILITY | 2,93 | 1,44 | 8 |
| (T) Has a valuable reputation | T-REPUTAT | 2,92 | 1,25 | 9 |
| (T) Can supply technically skilled personnel | T-TECHSKILL | 2,92 | 1,20 | 9 |
| (T) Helps comply with government requirements/pressure | T-GOVNEGO | 2,85 | 1,51 | 11 |
| (T) Has access to marketing or distribution systems | T-MARKDIST | 2,83 | 1,63 | 12 |
| (T) Can provide better access for your company's products | T-ACCESS | 2,75 | 1,37 | 14 |
| (T) Enhances perceived local or national identity | T-LOCIDENT | 2,70 | 1,31 | 16 |
| (T) Can provide low cost labor to the venture | T-LABCHEAP | 2,67 | 1,53 | 17 |
| (T) Has access to raw materials or components | T-RAWMAT | 2,62 | 1,46 | 18 |
| (T) Can supply general managers to the venture | T-GENMANAG | 2,62 | 1,24 | 18 |
| (T) Has access to post-sales service network | T-POSTSALE | 2,43 | 1,42 | 20 |
| (T) Can enhance the venture's export opportunities | T-EXPOPPORT | 2,36 | 1,28 | 21 |
| (T) Has a valuable trademark | T-TRADEMRK | 2,23 | 1,45 | 22 |
| (T) Will provide financing/capital to venture | T-CAPITAL | 2,22 | 1,15 | 23 |
| (T) Possesses needed licenses, patents, know-how, etc. | T-LICPATENT | 2,08 | 1,37 | 24 |
| (T) Enhances JV's ability to make sales to gov./public companies | T-PUBLSECTR | 1,85 | 1,19 | 27 |
| (T) Enables venture to qualify for subsidies or credits | T-CREDIT | 1,85 | 1,19 | 27 |
| **Partner-related criteria** | | | | |
| (P) Our trust in the partner | P-TRUST | 3,48 | 1,14 | 1 |
| (P) Seems to have a strong commitment to the venture | P-COMMIT | 3,41 | 1,25 | 2 |
| (P) Trust between partners | P-MUTRUST | 3,39 | 1,29 | 3 |
| (P) Top management of both firms are compatible | P-MANCOMPAT | 2,83 | 1,26 | 12 |
| (P) Has related products | P-RELPROD | 2,75 | 1,34 | 14 |
| (P) Prior positive cooperation | P-PRIORREL | 2,07 | 1,26 | 25 |
| (P) Has similar national or corporate culture | P-SIMCULT | 1,95 | 1,06 | 26 |
| (P) Is similar in size or corporate structure | P-SIMSIZE | 1,50 | 0,89 | 29 |

## 5.2 Factor analysis of selection criteria

The 29 selection criteria represent a number of overlapping perspectives. Because of the potential conceptual and statistical overlap an attempt was made to identify a smaller number of distinct, non-overlapping selection criteria for the sample data by means of exploratory factor analysis. The factor analysis produced eight underlying factors (with Eigen-values over one) which explained a total of 75.15 % of the observed variance. Four of the factors (see Table 8 for factor compositions) are composed of both task- and partner-related selection criteria indicating conceptual overlap between these concepts. All of the remaining four factors are composed of only task-related selection criteria and thus no factor is composed of only partner-related selection criteria.

As discussed earlier, seven to nine factors were identified in the previous studies, explaining 70.9 % (Glaister and Buckley 1997) to 78.6 % (Tatoglu and Glaister 2000) of the observed variance. Usually three or four factors have been mixed. Thus, in these respects the results of this study are quite similar to the findings in earlier studies.

Five individual selection criteria are included in two different factors: *Valuable reputation* appears in factors one and two, *Prior positive cooperation* in factors one and seven, *Ability to supply general managers* and *Ability to supply technically skilled personnel* in factors one and eight, and *Ability to enhance the IJV's export opportunities* in factors two and seven. All those individual criteria received loadings exceeding 0.45 on both factors, and especially in the case of *Prior positive cooperation* the difference in the loadings was extremely low between the two applicable factors. Similar to this study, also in the study by Geringer (1988) several selection criteria were included in two or even more factors.

**Table 8.** Factor analysis of the selection criteria.

| FACTOR | Load | Alpha | Eigen-value (total) | % of vari-ance | Cumula-tive % |
|---|---|---|---|---|---|
| **Factor 1: Trust, top management and commitment** | | 0,8895 | 7,406 | 25,538 | 25,5 |
| (P) Trust between partners | 0,8720 | | | | |
| (P) Our trust in the partner | 0,8525 | | | | |
| (P) Top management of both firms are compatible | 0,8500 | | | | |
| (P) Seems to have a strong commitment to the venture | 0,8483 | | | | |
| (T) Has a valuable reputation | 0,5873 | | | | |
| (T) Ability to supply general managers to the venture | 0,5446 | | | | |
| (T) Ability to supply technically skilled personnel | 0,4733 | | | | |
| (P) Prior positive cooperation | 0,4641 | | | | |
| **Factor 2: Post sale, marketing systems and trademark** | | 0,8377 | 3,778 | 13,028 | 38,6 |
| (T) Has access to post-sales service network | 0,8514 | | | | |
| (T) Has access to marketing or distribution systems | 0,8353 | | | | |
| (T) Has a valuable trademark | 0,7005 | | | | |
| (T) Has a valuable reputation | 0,5422 | | | | |
| (T) Ability to enhance the venture's export opportunities | 0,4672 | | | | |
| **Factor 3: Low labor and production costs** | | 0,7529 | 2,754 | 9,497 | 48,1 |
| (T) Ability to provide low cost labor to the venture | 0,8112 | | | | |
| (T) Will enable the venture to produce at lowest cost | 0,7502 | | | | |
| (T) Controls favorable location for production | 0,6461 | | | | |
| (T) Helps comply with government requirements/pressure | 0,6408 | | | | |
| (T) Has access to raw materials or components | 0,5972 | | | | |
| **Factor 4: Fast entry and local knowledge** | | 0,8301 | 2,486 | 8,572 | 56,6 |
| (T) Permits faster entry into the target market | 0,8994 | | | | |
| (T) Has knowledge of target market's economy & customs | 0,7288 | | | | |
| (T) Ability to provide better access for your company's products | 0,6580 | | | | |
| **Factor 5: Capital and credit** | | 0,5654 | 1,649 | 5,687 | 62,3 |
| (T) Will provide financing/capital to venture | 0,7282 | | | | |
| (T) Enables venture to qualify for subsidies or credits | 0,6423 | | | | |
| (P) Has related products | -0,5010 | | | | |
| (T) Possesses needed manufacturing or R&D facilities | -0,6924 | | | | |
| **Factor 6: Relations to public sector and partner similarity** | | 0,5984 | 1,435 | 4,949 | 67,3 |
| (T) Enhances venture's ability to make sales to gov./public companies | 0,7970 | | | | |
| (P) Is similar in size or corporate structure | 0,7080 | | | | |
| (P) Has similar national or corporate culture | 0,7028 | | | | |
| **Factor 7: Industrial/Intellectual property rights and export opportunities** | | 0,4726 | 1,194 | 4,119 | 71,4 |
| (T) Possesses needed licenses, patents, know-how, etc. | 0,7441 | | | | |
| (T) Ability to enhance the venture's export opportunities | 0,5506 | | | | |
| (P) Prior positive cooperation | 0,4546 | | | | |
| **Factor 8: Technical personnel and management** | | 0,6150 | 1,092 | 3,767 | 75,2 |
| (T) Ability to supply technically skilled personnel | 0,6599 | | | | |
| (T) Ability to supply general managers to the venture | 0,4534 | | | | |
| (T) Enhances perceived local or national identity | -0,4631 | | | | |

(T) = Task-related. (P) = Partner-related.

Principal component analysis. Rotation method: Varimax with Kaiser normalization.

K-M-O measure of sampling adequacy = 0,518. Bartlett test of sphericity = 1109,418; p < 0,000.

## 5.3 Selection criteria and foreign-partner-specific variables

In H1 it was expected that the relative importance of selection criteria will vary with the foreign partner-specific factors. The size and earlier FDI, IJV and target-country-specific experience of the foreign partner were selected as the foreign-partner-specific variables. Results in Table 9 indicate that there were in total only two cases where the factors had means which were significantly different: factor one based on IJV experience and factor three based on target country specific experience. Thus, based on the size of the foreign partner and FDI experience, no factor indicated statistically significant difference in mean values. Based on individual selection criteria results in total 15 cases indicated statistically significant differences. Seven of those cases were related to the extent of IJV-specific and

**Table 9**. Selection criteria and foreign-partner-specific variables.

| | **Size of the Finnish partner (total sales 2001)** | | **FDI experience** | | **IJV Experience** | | **Target country Experience** | |
|---|---|---|---|---|---|---|---|---|
| **Factor / Criteria** | >500 MEURO (n=29) | ≤500 MEURO (n=31) | Yes (n=52) | None (n=8) | Yes (n=48) | None (n=12) | Yes (n=45) | None (n=15) |
| **Factor 1** | -0,17 | 0,16 | -0,05 | 0,31 | -0,12 | **0,44 *** | -0,03 | 0,15 |
| P-MUTRUST | 3,07 | **3,68 *** | 3,27 | **4,13 *** | 3,19 | **4,17 **** | 3,36 | 3,47 |
| P-TRUST | 3,24 | 3,72 | 3,40 | 4,00 | 3,35 | **4,00 *** | 3,43 | 3,64 |
| P-MANCOMPAT | 2,55 | **3,10 *** | 2,79 | 3,13 | 2,71 | 3,33 | 2,84 | 2,80 |
| T-REPUTAT | 2,79 | 3,03 | 2,87 | 3,25 | 2,75 | **3,58 **** | 2,93 | 2,87 |
| P-PRIORREL | 1,86 | 2,26 | 2,12 | 1,75 | 2,08 | 2,00 | **2,24 *** | 1,53 |
| **Factor 2** | 0,08 | -0,07 | -0,01 | 0,05 | 0,01 | -0,34 | 0,03 | -0,03 |
| T-EXPOPPORT | 2,17 | 2,53 | 2,25 | 3,00 | 2,19 | **3,00 *** | 2,45 | 2,07 |
| **Factor 3** | -0,12 | 0,12 | -0,03 | 0,16 | 0,04 | -0,16 | -0,15 | **0,44 *** |
| T-LABCHEAP | 2,34 | 2,97 | 2,60 | 3,13 | 2,75 | 2,65 | 2,38 | **3,53***** |
| T-LOWCOST | 2,62 | **3,32 *** | 2,94 | 3,25 | 3,04 | 2,75 | 2,76 | **3,67 **** |
| T-GOVNEGO | 2,96 | 2,74 | 2,88 | 2,63 | 2,85 | 2,83 | 2,64 | **3,47 *** |
| **Factor 4** | 0,15 | -0,15 | 0,05 | -0,28 | 0,05 | -0,17 | -0,01 | 0,02 |
| **Factor 5** | 0,11 | -0,11 | 0,04 | -0,23 | -0,09 | 0,32 | 0,03 | -0,04 |
| T-CREDIT | 2,07 | 1,67 | **1,98 **** | 1,00 | 1,85 | 1,83 | 1,86 | 1,80 |
| **Factor 6** | 0,10 | -0,10 | -0,01 | 0,06 | -0,03 | 0,09 | -0,05 | 0,19 |
| **Factor 7** | -0,16 | 0,15 | 0,03 | -0,15 | 0,03 | -0,10 | 0,12 | -0,39 |
| T-EXPOPPORT | 2,17 | 2,53 | 2,25 | 3,00 | 2,19 | **3,00 *** | 2,45 | 2,07 |
| P-PRIORREL | 1,86 | 2,26 | 2,12 | 1,75 | 2,08 | 2,00 | **2,24 *** | 1,53 |
| **Factor 8** | 0,08 | -0,08 | -0,04 | 0,26 | -0,05 | 0,18 | 0,06 | -0,11 |

* p ≤ 0,1 ** p ≤ 0,05 *** p ≤ 0,01 **** p ≤ 0,001

five to the extent of target country specific experience. It may thus be concluded that H1 receives weak support in the cases of IJV- and target country specific experience, but no support based on the size and FDI experience of the foreign partner.

Noteworthy here are the very high mean values of the importance of trust (*mutual trust* and *our trust on the partner*) among the cases in which the Finnish firms had no earlier FDI and IJV experience (the only cases where a mean value of four was reached or exceeded). Similarly, the results by Nielsen (2003) indicated high importance of trust especially in cases where the reviewed companies did not have earlier alliance experience. Other generally important selection criteria independent of level of alliance experience were partner reputation and relatedness of partner's business. Furthermore, the results by Nielsen indicated that firms having earlier experience laid more weight on the financial status and size of the partner than firms having no earlier experience, whereas the latter firms laid more weight on favorable past association than the formers. In this study the criteria of financial status, firm size and prior relationship were not significant selection criteria among any of the subgroups. Instead, partner's reputation was highly appreciated by firms without any earlier IJV experience.

## 5.4 Selection criteria and location-specific variables

In H2 it was expected that the relative importance of selection criteria would vary along the location of the IJV. The results (see Table 10) indicate an existence of altogether eight cases in which the criteria factors were significantly affected by a location-specific variable. Especially in relation to factor three, all four measures of location indicated statistically significant differences. In addition, statistically significant influences of location-specific variables were found on factor two and factor eight, in both cases based on the region of the IJV and level of economic development of the target country.

Among the individual selection criteria statistically significant differences were found in 41 cases. Thus, the results give support to the view that the relative importance of the selection criteria really tend to vary with the location of the IJV, while the strength of this variance obviously depends on the location-specific variable chosen for focus. Significant differences can be noted when comparing the impact of the four location-specific variables on the selection criteria – the variables concerning the region of the unit and level of economic development of the target country clearly had a more significant influence on the selection criteria than the variables concerning cultural and especially physical distance. However, in general it can be concluded that the H2 is supported.

**Table 10.** Selection criteria and IJV location-specific variables

| | Region | | | Cultural distance | | Physical distance | | Level of development | |
|---|---|---|---|---|---|---|---|---|---|
| **Factor / Criteria** | WE (n=20) | EE/CEE (n=22) | Asia (n=15) | > 1,50 (n=30) | ≤ 1,50 (n=30) | >2000km (n=22) | ≤2000km (n=38) | NON-OECD (n=32) | OECD (n=28) |
| **Factor 1** | -0,16 | 0,18 | -0,09 | -0,23 | 0,21 | -0,09 | 0,05 | 0,19 | -0,23 |
| P-MANCOMPAT | 2,80 | 2,95 | 2,60 | 2,53 | **3,13 *** | 2,68 | 2,92 | 2,94 | 2,71 |
| T-REPUTAT | **3,40 *** | 2,77 | 2,47 | 2,60 | **3,23 **** | 2,59 | 3,11 | 2,69 | 3,18 |
| T-GENMANAG | 2,25 | **3,09 *** | 2,33 | 2,47 | 2,77 | 2,45 | 2,71 | 2,81 | 2,39 |
| T-TECHSKILL | 2,40 | **3,41 **** | 3,20 | 2,83 | 3,00 | 2,77 | 3,00 | **3,25 **** | 2,54 |
| P-PRIORREL | 1,75 | 2,14 | 2,53 | 2,03 | 2,10 | 2,18 | 2,00 | **2,44 **** | 1,64 |
| **Factor 2** | **0,55***** | -0,31 | -0,45 | -0,21 | 0,19 | -0,15 | 0,08 | -0,30 | **0,36 **** |
| T-POSTSALE | **3,15 **** | 2,14 | 1,93 | 2,17 | 2,70 | 2,27 | 2,53 | 2,03 | **2,89 **** |
| T-MARKDIST | **3,70***** | 2,32 | 2,33 | 2,43 | **3,23 *** | 2,86 | 2,82 | 2,41 | 3,32 |
| T-TRADEMRK | **3,15***** | 1,91 | 1,60 | 2,00 | 2,47 | 1,77 | **2,50 *** | 1,69 | **2,86****** |
| T-REPUTAT | **3,40 *** | 2,77 | 2,47 | 2,60 | **3,23 **** | 2,59 | 3,11 | 2,69 | 3,18 |
| T-EXPOPPORT | **2,85 *** | 2,33 | 1,87 | 2,10 | 2,62 | 2,09 | 2,51 | 2,19 | 2,56 |
| **Factor 3** | -0,55 | 0,17 | **0,56***** | **0,33 **** | -0,29 | **0,48***** | -0,28 | **0,43****** | -0,51 |
| T-LABCHEAP | 1,50 | 3,18 | **3,33****** | **3,17***** | 2,17 | **3,32 **** | 2,29 | **3,34****** | 1,89 |
| T-LOWCOST | 2,30 | 3,18 | **3,67 **** | **3,40 **** | 2,57 | **3,50 **** | 2,68 | **3,53****** | 2,36 |
| T-FAVLOCA | 2,80 | 2,77 | 3,47 | 3,13 | 2,80 | **3,45 **** | 2,68 | 3,19 | 2,71 |
| T-GOVNEGO | 1,95 | 3,09 | **3,64***** | **3,24 **** | 2,47 | **3,52***** | 2,47 | **3,35***** | 2,29 |
| T-RAWMAT | 2,30 | 2,73 | 3,00 | 2,47 | 2,77 | 2,73 | 2,55 | **3,06***** | 2,11 |
| **Factor 4** | 0,08 | -0,17 | 0,00 | 0,05 | -0,04 | 0,26 | -0,15 | -0,17 | 0,21 |
| T-FASTENTRY | 3,40 | 2,82 | 2,93 | 2,97 | 3,13 | 3,14 | 3,00 | 2,72 | **3,43 *** |
| T-ACCESS | 3,00 | 2,59 | 2,60 | 2,77 | 2,73 | 2,86 | 2,68 | 2,41 | **3,14 **** |
| **Factor 5** | -0,22 | 0,17 | 0,00 | -0,01 | 0,01 | 0,06 | -0,03 | 0,11 | -0,13 |
| P-RELPROD | **3,40 **** | 2,50 | 2,27 | 2,33 | **3,17 **** | 2,59 | 2,84 | 2,59 | 2,93 |
| **Factor 6** | -0,08 | 0,07 | -0,03 | 0,05 | -0,05 | -0,08 | 0,04 | 0,04 | -0,05 |
| P-SIMCULT | 1,95 | 2,09 | 1,73 | 1,67 | **2,23 **** | 1,77 | 2,05 | 2,06 | 1,82 |
| **Factor 7** | 0,31 | -0,12 | 0,06 | 0,01 | -0,01 | -0,14 | 0,08 | -0,14 | 0,17 |
| T-EXPOPPORT | **2,85 *** | 2,33 | 1,87 | 2,10 | 2,62 | 2,09 | 2,51 | 2,19 | 2,56 |
| P-PRIORREL | 1,75 | 2,14 | 2,53 | 2,03 | 2,10 | 2,18 | 2,00 | **2,44 **** | 1,64 |
| **Factor 8** | -0,34 | **0,41 *** | 0,11 | 0,04 | -0,04 | -0,09 | 0,05 | **0,21 *** | -0,25 |
| T-TECHSKILL | 2,40 | **3,41 **** | 3,20 | 2,83 | 3,00 | 2,77 | 3,00 | **3,25 **** | 2,54 |
| T-GENMANAG | 2,25 | **3,09 *** | 2,33 | 2,47 | 2,77 | 2,45 | 2,71 | 2,81 | 2,39 |

* p ≤ 0,1 ** p ≤ 0,05 *** p ≤ 0,01 **** p ≤ 0,001

Glaister and Buckley (1997) found only very limited support for the assumption that the relative importance of the selection criteria tend to vary along the nationality of the partner, whereas Nielsen (2003) found strong support to the respective assumption. The difference between the results of these two studies may at least partly be explained by the differing point of view in data collection: The respondents of the first study represented the local partner (UK firms in IJVs located in the UK) whereas the respondents of the latter study represented the foreign partner (Danish firms in IJVs located in both OECD and non-OECD countries). Unfortunately neither Glaister and Buckley nor Nielsen measured the influence of partner nationality or other location-related factors by other measures than regional distribution.

The results of this study indicate that all selection criteria in factor two (*Post-sale, marketing systems and trademark*) were individually valued significantly higher in IJVs established in Western Europe (WE) than in other areas. The high mean value for the importance of *marketing and distribution systems* (3.70) in the WE IJVs is especially noteworthy, and goes along the thinking that tight competition in the WE markets demands strong marketing and distribution arrangements.

There is also some support to the assumption that firms without significant international experience tend to lay more weight on *export opportunities*, and therefore the marketing and distribution systems of the partner not only in the target country but also in the neighboring countries may have been considered of importance.

Also, *reputation of the partner* and *relatedness of the operation* were much more highly rated in WE IJVs than in IJVs located elsewhere. *Technical skills* and *general management* were clearly more important in IJVs located in CEE and EE than elsewhere, whereas *low costs* and *ability to negotiate with the government* were appreciated especially in IJVs located in the Asian countries.

The relative importance of only one partner-related selection criterion, *relatedness of products*, had a statistically significant difference depending on the region (WE, EE/CEE, Asia), whereas the region had an impact on the relative importance of altogether 14 task-related criteria (66.7% of all task-related criteria). Also, regarding physical distance, the differences between physically near and distant IJVs (point of separation at 2000 km) concerned only task-related criteria.

Regarding the location-specific variables, a strong inter-correlation between the distance variables *(cultural distance*, *physical distance*) and *level of economic development* was noticed – expectedly most non-OECD countries were culturally and physically distant from the country of origin of the foreign partner. Almost all criteria in factor three (*Low labor and production costs*) were individually clearly more important for IJVs formed in non-OECD and culturally and physically distant countries. Especially the relative importance of such criteria as l*ow cost la-*

*bor,* l*ow cost production*, and *relations to the government/public institutions* were clearly higher in the distant and/or non-OECD countries, whereas in OECD countries *fast entry to the market* and *providing better access to the company's products* were clearly more important than in non-OECD countries. Both results coincide with the earlier results (Nielsen 2003).

Both Glaister and Buckley (1997) and Nielsen (2003) found that the selection criteria of *access to knowledge of local culture* and *access to regulatory permits/market and regulatory knowledge* were much more important in Asia than in other areas. Furthermore, as in this study, the results by Nielsen indicated that the criterion of *partner's ability to negotiate with the government* was clearly more important in Asia than elsewhere, whereas the results by Glaister and Buckley did not indicate support for these findings. Furthermore, no statistically significant difference was found in the importance of trust as a selection criterion between different geographic areas in neither of the two studies. Thus, in this respect the results of Glaister and Buckley (1997) as well as Nielsen (2003) were similar to the findings in this study. In the study by Glaister and Buckley the criteria of partner's reputation was found to be more important in Japan than elsewhere, whereas the results by Nielsen as well as the results in this study indicated the highest importance of reputation in WE.

## 5.5 Selection criteria and investment-specific variables

In Hypothesis 3 it was expected that the relative importance of selection criteria would vary with the investment-specific factors. The results (see Table 11) indicate that the selection criteria factors were significantly influenced by an investment-specific variable in altogether eight cases: three factors were influenced by the *form of investment*, two by the *type of investment* and *relative partner size*, and one by the *initial approach to the IJV*. Related to factors six (*relations to public sector and partner similarity*) and seven (*industrial/intellectual property rights and export opportunities),* no statistically significant relationships were found along any of the four investment-specific variables. Thus, the diversification of differences along the relative importance of the selection criteria was greater than in the cases of foreign-partner-specific and IJV location-specific variables. Based on individual selection criteria statistically significant differences were found in 43 cases: six were based on *initial approach to the IJV*, eight on *relative partner size*, 10 on *type of investment* and 19 were based on *form of investment*. Thus, in summary it can be concluded that the results give strong support for H3 along the form of investment, moderate support along the type of investment and the relative partner size, and limited support based on the initial to the IJV.

**Table 11.** Selection criteria and investment-specific variables.

| Factor / Criteria | Form of investment | | Type of investment | | Relative partner size | | Initial approach | |
|---|---|---|---|---|---|---|---|---|
| | Green-field (n=37) | Acquisi-tion (n=23) | Totally related (n=39) | Partly / totally unrelated (n=19) | Finnish partner >50% larger (n=43) | Other (n=18) | Finnish partner (n=43) | Other (n=15) |
| **Factor 1** | **0,30 ***** | -0,45 | -0,06 | 0,21 | 0,01 | -0,03 | -0,10 | 0,28 |
| P-MUTRUST | **3,69 **** | 2,91 | 3,21 | **3,84 *** | 3,41 | 3,33 | 3,26 | **3,93 *** |
| P-TRUST | **3,75 **** | 3,05 | 3,35 | **3,95 *** | 3,53 | 3,39 | 3,34 | **4,00 *** |
| P-MANCOMPAT | **3,14 **** | 2,35 | 2,74 | 3,11 | 2,71 | 3,11 | 2,74 | 3,20 |
| P-COMMIT | **3,81 ***** | 2,78 | 3,42 | 3,53 | 3,36 | 3,53 | 3,17 | **4,13 ***** |
| T-REPUTAT | 2,84 | 3,04 | 2,74 | **3,32 *** | 2,88 | 3,00 | 2,88 | 3,17 |
| T-GENMANAG | **3,03****** | 1,96 | 2,38 | **3,21 **** | 2,60 | 2,67 | 2,60 | 2,87 |
| T-TECHSKILL | **3,30****** | 2,30 | 2,64 | **3,58 ***** | 2,93 | 2,89 | 2,91 | 3,07 |
| P-PRIORREL | **2,32 **** | 1,65 | 2,08 | 2,16 | 1,95 | 2,33 | 1,93 | 2,53 |
| **Factor 2** | -0,23 | **0,35 **** | -0,07 | 0,16 | -0,02 | 0,05 | 0,03 | -0,09 |
| T-POSTSALE | 2,08 | **3,00 **** | 2,38 | 2,63 | 2,45 | 2,39 | 2,40 | 2,53 |
| T-MARKDIST | 2,51 | **3,35 *** | 2,92 | 2,79 | 2,83 | 2,83 | 2,72 | 3,13 |
| T-TRADEMRK | 1,89 | **2,78 **** | 2,08 | 2,53 | 2,33 | 2,00 | 2,28 | 2,13 |
| T-REPUTAT | 2,84 | 3,04 | 2,74 | **3,32 *** | 2,88 | 3,00 | 2,88 | 3,13 |
| **Factor 3** | **0,37****** | -0,56 | -0,09 | 0,30 | 0,03 | -0,08 | -0,18 | **0,49 **** |
| T-LABCHEAP | **3,19****** | 1,83 | 2,56 | 3,05 | 2,83 | 2,28 | 2,42 | **3,27 *** |
| T-LOWCOST | **3,30 **** | 2,48 | 2,90 | 3,32 | 3,02 | 2,89 | 2,60 | **3,87 ***** |
| T-FAVLOCA | 3,16 | 2,65 | 2,82 | 3,42 | 3,02 | 2,83 | 2,72 | **3,67 **** |
| T-GOVNEGO | **3,31 ***** | 2,13 | 2,89 | 2,95 | 2,93 | 2,65 | 2,64 | 3,20 |
| T-RAWMAT | **3,03 ***** | 1,96 | 2,41 | **3,21 **** | 2,40 | **3,11 *** | 2,51 | 2,87 |
| **Factor 4** | -0,05 | 0,08 | **0,22 **** | -0,36 | **0,19 **** | -0,47 | -0,08 | 0,21 |
| T-FASTENTRY | 2,86 | 3,35 | 3,28 | 2,63 | **3,29 *** | 2,50 | 2,93 | 3,13 |
| T-LOCKNOW | 3,22 | 3,13 | 3,23 | 3,21 | **3,45 **** | 2,56 | 3,05 | 3,47 |
| T-ACCESS | 2,51 | **3,13 *** | 2,87 | 2,58 | 2,86 | 2,50 | 2,70 | 2,73 |
| **Factor 5** | 0,17 | -0,26 | 0,05 | -0,04 | -0,28 | **0,69****** | 0,04 | -0,10 |
| T-CAPITAL | **2,59****** | 1,61 | 2,21 | 2,37 | 1,90 | **2,94****** | 2,14 | 2,47 |
| T-CREDIT | 1,89 | 1,78 | 1,92 | 1,79 | 1,67 | **2,29 *** | 1,76 | 1,80 |
| P-RELPROD | 2,57 | 3,04 | 2,69 | 2,89 | **3,05 ***** | 2,06 | 2,67 | 2,87 |
| T-FACILITY | 2,95 | 2,91 | 2,79 | 3,26 | **3,31 ****** | 2,06 | 2,79 | 3,27 |
| **Factor 6** | 0,00 | -0,01 | -0,14 | 0,29 | 0,01 | -0,01 | 0,01 | -0,02 |
| P-SIMCULT | 2,03 | 1,83 | 1,79 | **2,37 *** | 1,95 | 1,94 | 1,91 | 2,20 |
| **Factor 7** | -0,17 | 0,25 | -0,11 | 0,17 | -0,03 | 0,07 | -0,05 | 0,14 |
| P-PRIORREL | **2,32 **** | 1,65 | 2,08 | 2,16 | 1,95 | 2,33 | 1,93 | 2,53 |
| **Factor 8** | 0,14 | -0,22 | -0,28 | **0,52 ***** | -0,08 | 0,19 | 0,12 | -0,32 |
| T-TECHSKILL | **3,30 ****** | 2,30 | 2,64 | **3,58 ***** | 2,93 | 2,89 | 2,91 | 3,07 |
| T-GENMANAG | **3,03 ****** | 1,96 | 2,38 | **3,21 **** | 2,60 | 2,67 | 2,60 | 2,87 |
| T-LOCIDENT | 2,81 | 2,52 | 2,90 | 2,32 | **2,93 **** | 2,17 | 2,56 | 3,07 |

* p ≤ 0,1    ** p ≤ 0,05    *** p ≤ 0,01    **** p ≤ 0,001

The individual mean values of the importance of selection criteria in factor one (*Trust, top management and commitment*), factor three (*Low labor and production costs*) and factor eight (*Technical personnel and management*) were clearly higher in IJVs established in the form of a Greenfield investment than as partial acquisitions (the criterion of *reputation of the partner* as the only exception). The opposite situation – the importance of certain criteria being valued higher in partial acquisitions than in Greenfields – was found statistically significant (on the 0.05 level) only in relation to selection criteria in factor two (*Post sale, marketing systems and trademark*). Noteworthy are the exceptionally high mean values of *commitment* and *trust* among Greenfield IJVs, and also the clearly greater importance of *technical skills*, *general management*, *low cost labor*, and *financing/capital* (mean values over 3.00 in the first three cases) compared to the IJVs formed by partial acquisition.

Concerning the relationship between the investment-specific variable of *type of investment* (i.e. relatedness of the IJV operation to the business of the foreign partner) and the relative importance of the selection criteria, two findings mainly stood out: Firstly, in all of the cases where unrelated and related types of IJVs differed (with statistical significance) from each other on how relative importance was placed on certain individual selection criteria, the higher importance occurred without exceptions for the unrelated type of IJVs. Secondly, these differences mainly concerned selection criteria in factor one (*Trust, top management and commitment*) and factor eight (*Technical personnel and management*). Also, especially of interest are the high mean values laid on *trust* among unrelated types of IJVs, but the significant differences in the importance of such selection criteria as *technical skills*, *general management*, and *access to raw materials or components* between unrelated and related types of IJVs should also be noticed. Among these three criteria the higher importance placed on the first two (*technical skills, general management*) by the unrelated types of IJVs is fairly logical and quite expected, but the higher importance of the third criteria (*access to raw materials or components)* among the unrelated types of IJVs lacks a clear explanation and may call for closer future examination.

Based on the investment-specific variable *relative size of the partner* (grouping: Foreign (Finnish) partner >50 % larger vs. other) it is noteworthy that neither of the groups had a mean value of importance of 3.55 or higher on any of the individual selection criteria. The differing levels of relative importance concerns mainly the task-related criteria in factor four (*Fast entry and local knowledge*) and factor five (*Capital and credit*).

In the cases in which the Finnish partner was more than 50 % larger than its IJV partner the companies had laid more importance on criteria such as *local knowledge*, *possession of facilities* and on *relatedness of products,* whereas especially *financing/capital* was clearly more important in cases in which the size of the partners was closer to equal. Coinciding with these results, Glaister and Buckley (1997) found that access to capital was important when the non-UK partner was larger than the UK partner.

As mentioned above, the investment-specific variable *initial approach to the IJV* (i.e. who/which party initiated the IJV discussions) had a smaller influence than the other three investment-specific variables on the relative importance of the selection criteria. Statistically significant differences were found in altogether six cases, all of these relating to factor one (*Trust, top management and commitment*) and factor three (*Low labor and production costs*). In all of those six cases the higher mean values were among the IJVs initiated by the other (i.e. non-Finnish) partner.

Noteworthy are firstly the very high mean and difference related to the criteria of *commitment* and *trust*, which were clearly held in higher importance among IJVs initiated by the other partner than in those initiated by the Finnish partner. The exceptionally high importance of commitment (4.13) and trust (4.00) in cases in which the initiative came from the other partner, and thus the respondent reacted to an outside proposal, is rather understandable and may be explained by consideration of potential opportunism in the spirit of transaction cost theory (Williamson 1985, 1988).

Instead, the clearly higher importance of the three other selection criteria – *low cost production*, *control of a favorable location*, and *low cost labor* – is not necessarily as clear. Glaister and Buckley (1997) found only limited support for the influence of initiative to partner selection. They found that financial status and reputation were more weighed in cases in which the IJV initiative was made by the foreign partner and the criteria of *favorable past association* was more important in cases in which the UK partner initiated the IJV. Thus, what concerns the general influence of the initiator on partner selection, the results in this study and in the study by Glaister and Buckley are rather similar, but the selection criteria in which the differences were found are very different.

## 5.6 Selection criteria and the investment motives

In H4 it was expected that the relative importance of the partner selection criteria will vary with the motives for the establishment of the IJV. Originally the motives were divided into five categories following Dunning's (1993) classification of FDI: 1) access to natural resources, 2) access to markets, 3) efficiency seeking, and 4) seeking of strategic assets or capabilities. Among the sample cases only one company informed that their main investment motive was accessing natural resources. Furthermore, only three companies informed that their main motive with the establishment was seeking efficiency. Thus, those four units had to be excluded from this analysis. The rest of the units were divided into three groups: market seeking IJVs (n= 18), strategic asset seeking IJVs (n=10) and several equal goal oriented IJVs (n=28). The last group consists of all those firms which had several equally important motives for the formation.

The results of the tests are presented in Table 12. The results indicate that the primary motive for investment had a statically significant influence on the relative importance of two selection criteria factors (factors one and three). Based on individual selection criteria statistically significant differences were found in eight cases (GENMANAG and TECHSKILL both in factors one and eight). All those cases concerned task-related selection criteria. In summary it can be concluded that the results give moderate support for the H4.

The findings on the relationship between motives for the IJV and importance of various selection criteria have been mixed in earlier studies, as discussed earlier. Glaister and Buckley (1997) did not find any support for the relationship between the purpose of the IJV and the selection criteria, but their focus was simply on differences between IJVs on the manufacturing and tertiary sectors, instead of between IJVs with differing investment motives. Glaister (1996) found support only for the relationship between motives and the task-related selection criteria, but not for the partner-related selection criteria, and Tatoglu and Glaister (2000) found only moderate support for the relationships. However, Nielsen (2003) found strong support for the relationship between motives and the relative importance of selection criteria. As discussed above, the results of this study gave moderate support and coincide with the results by Glaister (1996) indicating support for the relationship with task-related selection criteria, but not for partner-related selection criteria. This result was expected as the partner-related selection criteria – such as trust and commitment – are by nature more universally important throughout different industries as the task-related criteria in some cases (e.g. accessing natural resources, accessing markets) correspond directly to certain investment motives (see Chapter 2.2).

**Table 12**. Selection criteria and motives for investment.

| Selection criteria | Primary motive for investment | | |
|---|---|---|---|
| | Access to markets (n=18) | Seeking of strategic assets or capabilities (n=10) | several equally important motives (n=28) |
| **Factor 1** | -0,45 | **0,44 *** | 0,10 |
| T-GENMANAG | 2,00 | 2,40 | **2,96 **** |
| T-TECHSKILL | 2,22 | 3,00 | **3,25 **** |
| **Factor 2** | 0,35 | 0,03 | -0,18 |
| **Factor 3** | -0,09 | -0,88 | **0,29 ***** |
| T-LABCHEAP | 2,50 | 1,50 | **3,11 **** |
| T-LOWCOST | 2,83 | 2,20 | **3,32 *** |
| T-GOVNEGO | 2,44 | 2,00 | **3,21 *** |
| **Factor 4** | 0,23 | -0,35 | 0,10 |
| T-ACCESS | **3,39 ***** | 1,70 | 2,79 |
| **Factor 5** | -0,02 | -0,01 | -0,02 |
| **Factor 6** | -0,31 | 0,00 | 0,07 |
| **Factor 7** | 0,10 | -0,18 | 0,13 |
| **Factor 8** | -0,43 | 0,26 | 0,07 |
| T-GENMANAG | 2,00 | 2,40 | **2,96 **** |
| T-TECHSKILL | 2,22 | 3,00 | **3,25 **** |

* p ≤ 0,1 ** p ≤ 0,05 *** p ≤ 0,01 **** p ≤ 0,001

A more detailed analysis of the results in this study indicates that in seven of the eight cases where statistically significant differences were found on the relative importance given to the selection criteria the highest mean values were found in cases were several motives had been equally important. Those selection criteria were the criteria of *supply of general managers* and *technically skilled personnel*, and *low cost labor, low cost production*, and *relations to the local government*. The importance of these selection criteria just in this subgroup may be explained by the fact that most of these IJVs were established in EE and CEE or Asia – thus the location-specific factors (Chapter 5.4) seem to be the key for this result instead of the investment motive *per se*.

The only case in which the highest mean importance of a certain criterion was scored by other subgroup than the 'several-goal-oriented' firms concerned importance of *better access to the company's products* – it was rated much more important by the market seeking IJVs in comparison to the other types of IJVs, which was logically expected.

## 5.7 Selection criteria and performance

In H5 it was expected that the relative importance of selection criteria (by the foreign partner when selecting their IJV partners) varies according to the performance of the IJV. The performance of the IJVs was measured along five-point Likert-scale based on the foreign partner's view on three measures of performance: the *overall performance* of the IJV, the *financial performance* of the IJV, and *performance of the IJV compared to its main competitors* in 2000–2001. The selection of these three criteria was based on the survey made – they were ranked as the three most important measures of performance, within a set of altogether 10 performance evaluation criteria.

In addition to evaluating the importance of performance measures, the respondents were asked to indicate their satisfaction on the performance of the IJV along each performance measure on a five-point Likert-scale (1=Very unsatisfied … 5=Very satisfied). The values for the top three most important performance measures were: *overall performance* 3.49, *financial performance* 3.51, and *performance compared to the main competitors* 3.98. Thus, based on *performance compared to the main competitors* the managers were somewhat more satisfied than based on the two other measures.

The overall performance correlated rather highly with financial performance (0.741) and performance compared to competitors (0.693), but the correlation between the two other performance measures was clearly lower (0.458). In general, the results indicate that the Finnish firms were rather satisfied with their IJVs. However, they were not as satisfied as the companies which were analyzed in the studies by Nielsen (2003) and Tatoglu and Glaister (2000).

The results (see Table 13) indicate statistically significant differences in relation to the mean values of two selection criteria factors (factors one and six) in four cases. Two of those cases relate to *overall performance*, one case to *financial performance* and one to *performance compared to competitors*. Based on individual selection criterion the results indicated statistically significant differences in 16 cases. What stood out the most was that in all of those cases greater relative importance to certain selection criteria was placed by the well-performing IJVs. Results based on overall performance and financial performance indicate differences in the relative importance of selection criteria in several factors, but based on performance compared to competitors only in the relative importance of selection criteria in factor six (*Relations to public sector and partner similarity*). Based on overall and financial performance the criteria of *mutual trust*, *management compatibility* and *cultural similarity* were clearly higher valued among the well-performing IJVs. Furthermore, based on overall performance, in the well-performing cases the management had laid more importance on the criteria of *commitment* to the IJV, *enabling the IJV for subsidies/credits*, and *similarity in size* compared to the medium-to-low-performing cases. Also standing out among the results was the fact that only three of the 16 statistically significant cases where the relative importance of selection criteria differed based on IJV performance concerned task-related criteria. It can be concluded that the results give at least weak support for the finding that relative importance given to partner selection criteria in well-performing IJVs have been different from those in medium-to-low-performing IJVs.

**Table 13.** Selection criteria and performance of the IJV.

| | **Overall performance** | | **Financial performance** | | **Performance compared to main competitors** | |
|---|---|---|---|---|---|---|
| **Factor / Criteria** | Very/mostly unsatisfied / neutral (n=27) | Very/mostly satisfied (n=30) | Very/mostly unsatisfied / neutral (n=25) | Very/mostly satisfied (n=28) | Very/mostly unsatisfied / neutral (n=15) | Very/mostly satisfied (n=38) |
| **Factor 1** | -0,21 | **0,28 *** | -0,26 | **0,35 **** | 0,02 | 0,13 |
| P-MUTRUST | 3,04 | **3,83 **** | 3,17 | **3,82 *** | 3,36 | 3,58 |
| P-MANCOMPAT | 2,44 | **3,30 ***** | 2,56 | **3,32 **** | 2,67 | 3,08 |
| P-COMMIT | 3,15 | **3,83 **** | 3,29 | 3,75 | 3,43 | 3,58 |
| P-PRIORREL | 1,96 | 2,20 | 1,80 | **2,50 **** | 2,00 | 2,24 |
| **Factor 2** | -0,03 | 0,01 | 0,08 | 0,01 | 0,33 | -0,07 |
| **Factor 3** | 0,04 | -0,05 | -0,06 | 0,00 | 0,22 | -0,11 |
| T-LOCATION | 2,96 | 2,93 | 2,60 | **3,25 *** | 3,00 | 2,92 |
| **Factor 4** | -0,17 | 0,20 | -0,11 | 0,09 | -0,13 | 0,06 |
| **Factor 5** | -0,16 | 0,10 | 0,04 | 0,03 | -0,04 | 0,06 |
| T-CREDIT | 1,44 | **2,10 **** | 1,63 | 2,04 | 1,43 | 2,00 |
| P-RELPROD | 2,59 | 2,93 | 2,36 | **3,11 **** | 2,73 | 2,76 |
| **Factor 6** | -0,30 | **0,15 *** | -0,10 | -0,01 | -0,56 | **0,14 **** |
| T-PUBLSECTR | 1,70 | 1,93 | 1,92 | 1,82 | 1,33 | **2,08 **** |
| P-SIMCULT | 1,59 | **2,23 **** | 1,48 | **2,36 ***** | 1,53 | **2,11 *** |
| P-SIMSIZE | 1,22 | **1,70 **** | 1,52 | 1,50 | 1,13 | **1,66 *** |
| **Factor 7** | 0,09 | -0,06 | 0,16 | -0,07 | 0,01 | 0,02 |
| P-PRIORREL | 1,96 | 2,20 | 1,80 | **2,50 **** | 2,00 | 2,24 |
| **Factor 8** | 0,19 | -0,15 | 0,13 | -0,10 | 0,12 | -0,06 |

* p ≤ 0,1 ** p ≤ 0,05 *** p ≤ 0,01 **** p ≤ 0,001

## 5.8 Summary and conclusions of the quantitative study

The goals of the quantitative study were to analyze the relative importance of partner selection criteria in IJVs and the relationship between the selection criteria and IJV performance, in order to examine whether there are clear differences in the relative importance given to certain criteria when a partner is selected for a successful or a less-than-successful IJV. In addition, the goal was to analyze how the relative importance of partner selection criteria is influenced by foreign-partner-specific, IJV location-specific and investment-specific factors, and the motives for the investment.

Based on the earlier literature five hypotheses were developed for testing. The sample of the study was based on 60 manufacturing IJVs established by 47 Finnish companies mainly during the 1990s in OECD and non-OECD-countries. In the analysis of results similar methods were used as in comparable earlier studies (mean values, ANOVA, Independent sample t-tests).

The five most important selection criteria used by the Finnish companies from the set of altogether 29 criteria were: *our trust in the partner, strong commitment to the venture, trust between partners*, *knowledge of the target market's economy and customs* and *ability to permit faster entry into the target market.* The three most important criteria of those five – the three mentioned first – are partner-related and the two others task-related. The results of this study match very well with the findings in earlier studies (Geringer 1988, Glaister 1996, Glaister and Buckley, 1997, Nielsen 2003, Tatoglu and Glaister 2000). In the case of the top three criteria, the results are easily explained by their universally important nature in comparison to the task-related criteria mostly derived from specific skills and resources obviously not applying to the needs of the whole population. The importance of *knowledge of the target market's economy and customs* was also expected, and furthermore reflective of the share of the culturally more distant countries within the sample.

The reviewed 29 selection criteria represent a number of overlapping perspectives which were partly confirmed by a correlation matrix of selection criteria, displaying a number of low to moderate inter-correlations. In order to identify a smaller number of distinct, non-overlapping selection criteria, exploratory factor analysis was used. The factor analysis produced eight underlying factors which explained a total of 75.15 % of the observed variance. In general the results were rather similar to earlier studies, but the factor compositions were in several respects rather different from the findings in earlier studies.

Concerning hypotheses one to three, the results indicated that the location-specific variables (especially the variable *region* referring to the geographic area: WE, EE/CEE, or Asia) and the investment-specific variables (especially the variable *form of establishment*: Greenfield or partial acquisition) had a significant influence on the relative importance of the selection criteria. Instead, the foreign-partner-specific variables seemed to have a very limited influence on the importance of the selection criteria, meaning that the size and experience of the firm had a lesser influence on what firms looked for in their prospective IJV partners than what was expected. The more detailed results indicate that across the characteristics of the sample the relative importance of selection criteria differed most in factor 3 (*Low labor and production costs*) where a statistically significant difference (on a level of 0.1) between the reviewed groups was found in connection to altogether seven context-related variables (out of a total of 12).

Regarding the relationship between IJV performance and the relative importance of the selection criteria certain findings stood out. The greatest differences between well-performing and medium-to-low-performing IJVs were found on factors one and six. Concerning factor one *(Trust, top management and commitment*), the managers of the well-performing units had laid much more importance on the criteria concerning *mutual trust*, *management compatibility* and *management commitment*. Concerning factor six (*Relations to public sector and partner similarity*), the greatest difference was noted on the importance of the selection criteria of *cultural similarity* and *similarity in size* which had been much more important among the well-performing than among the medium-to-low-performing units. However, these criteria were not exceedingly important even for the successful firms, as the mean values of these criteria were much lower than the mean values of the criteria in factor one even in well-performing units. Thus, it can be concluded that also the fifth hypothesis received moderate support. The results of the study are summarized in Table 14.

Contrary to the results in this study, Glaister and Buckley (1997) found moderate support only for the impact of location of the IJV (in the UK vs. abroad) on selection criteria, but none for the influence of their other reviewed variables (nationality of the partner, industry, purpose, initial approach, relative partner size). Furthermore, results by Nielsen (2003) indicated strong support for the influence of partner nationality on the relative importance given to various selection criteria. His results also suggested that prior alliance experience had influenced the relative importance given to task-related selection criteria, but not as much the partner-related criteria. Thus, the results of this study coincide rather well with the earlier findings by Nielsen, and seem to suggest that firms without prior alliance experience tend to value more criteria that concern partners' perceived ability to cooperate efficiently and effectively – especially trustworthiness and reputation.

**Table 14.** Summary of the quantitative results.

| | | | | |
|---|---|---|---|---|
| **H1: Foreign-partner-specific factors and the selection criteria** | Firm size<br>Not supported | FDI experience<br>Not supported | IJV experience<br>Weak support | Target country experience<br>Weak support |
| **H2: Location-specific factors and the selection criteria** | Region<br>Strong support | Cultural distance<br>Weak support | Physical distance<br>Weak support | Level of development<br>Strong support |
| **H3: Investment-specific factors and the selection criteria** | Form of investment<br>Strong support | Type of investment<br>Moderate support | Relative partner size<br>Moderate support | Initiative to the IJV<br>Weak support |
| **H4: Investment motives and the selection criteria** | Moderate support | | | |
| **H5: Performance of the IJV and the selection criteria** | Overall performance<br>Weak support | Financial performance<br>Weak support | Performance compared to main competitors<br>Weak support | |

From the managerial point of view the results indicate that partner-related selection criteria, especially the criteria of *trust* – both trust in the partner and between the partners – and *management commitment* are the most valued criteria among Finnish firms forming IJVs abroad. However, these criteria concern virtually any type of cooperation and are thus much more universal by nature in comparison to the main bulk of the task-related criteria, such as trademarks, raw materials, or access to subsidies or credits, and therefore rank far above the rest of the criteria when measured by mean values of their importance for the respondents. Furthermore, differences in the relative importance of selection criteria between well and medium-to-low performing IJVs are noteworthy. An additionally interesting finding was that all of the eight companies which were extremely satisfied with the IJV performance stated that the most important selection criteria was a task-related selection criteria. Thus, as may be expected, trust and commitment alone do not guarantee a successful future for the IJV – there has to exist, for example, an adequate strategic fit between the partners in order to enhance the resource base and competitiveness of the venture and thus create the rationale for the IJV partnership (e.g. Child et al. 2005).

The quantitative study contributes to the IJV partner selection literature by adding to the rather limited amount of research on the topic in general and the relationships between the relative importance of the partner selection criteria and the IJV performance as well as the contextual factors affecting the selection criteria. Some earlier studies and also the results in this study indicate potential conceptual overlap between task-related and partner-related selection criteria. Therefore we can fully agree with Glaister and Buckley (1997) that a more fundamental approach to the identification of the core differences between the two types of criteria is definitely needed. Furthermore, the results indicate that differences seem to exist in the relative importance of the selection criteria depending on the foreign-partner-specific, location-specific and other investment-specific factors as well as motives for the IJV formation. The results also indicate variation in the relative importance of selection criteria between well and medium-to-low performing IJVs.

However, there are many limitations in the study. The sample was based only on IJVs where the foreign partner was a Finnish firm. Furthermore, although the sample was of similar size as in most of the comparable studies, the size is still limited, and thus excludes the use of several enhanced methods of statistical analysis. Thus, in future possible avenues for further research would be an expansion of the sample by including more Finnish IJVs, but also for example IJVs established by other Nordic firms. This would give basis for evaluating the existence of differences in partner selection behavior of Finnish and other Nordic companies. Also, the influence of strategic motives for the IJV on the relative weights given to various selection criteria is an aspect that should be examined in more detail – it may well be expected that differences in what firms look for in their prospective IJV partners are more likely to occur between firms with different motives for choosing a collaborative operation mode, rather than between firms with different general motives for the investment.

What is clear is that there is a definite need for further research of IJV partner selection and its relationship with the subsequent IJV performance. Furthermore, this study included only the view of the foreign partner regarding the relative importance of various selection criteria, not the view of the local partner. Thus, one possible avenue to continue would be to follow Tatoglu and Glaister (2000) by also including the view of the local partner concerning the motives and the selection criteria. Also, more emphasis should be placed on issues related to strategic fit and resource fit in IJV partner selection research, beyond merely looking at the similarity of the partners’ objectives as a single selection criterion.

There is, however, concerns in focusing on direct connections between the partner selection criteria and the subsequent performance of the venture. As pointed out by Varis (2004), common managerial wisdom suggests that success and failure is more the result of motivated and technically competent managers than coherence between static pre-alliance criteria.

It is here agreed upon that explaining the success or failure of IJVs through the relative importance of partner selection criteria is an approach lacking solid footing. However, by expanding the perspective into a holistic decision process taking place when IJV partners are selected, grounds for performance analysis in connection to partner selection is far more well-founded. Therefore, the next chapter deals with the results of the qualitative empirical study focusing on the IJV partner selection from a process-oriented perspective.

# 6 RESULTS OF THE QUALITATIVE STUDY

Chapter six comprises the results of the qualitative empirical study. There are altogether four cases, each entailing an international joint venture with a Finnish company as the foreign partner. First, the four cases are described, roughly following the outline below:

1. Introduction: Description of the foreign partner, its previous international activity, the case IJV and the nature of industry/business of the IJV, background of the interviewee

2. Pre-partner selection decision making period: Stimuli to the investment, the FDI and collaboration motives, the form of investment (i.e. Greenfield vs. partial acq.) motives

3. Partner selection process: Drawing a desired partner profile, identification of prospective partners, evaluation of candidates and choice of partner

4. Development after the IJV formation

5. Evaluation of the IJV formation process

**Table 15.** Basic information on the four cases.

| **Finnish partner** | **COMPANY A** | **COMPANY B** | **COMPANY C** | **COMPANY D** |
|---|---|---|---|---|
| **JV name** | IJV A | IJV B | IJV C | IJV D |
| **JV country** | China | China | Germany | Norway |
| **JV business** | B-2-B (Industrial textiles / paper machine clothing) | B-2-B (Circuit boards (for cell phones) | B-2-B (Power source solutions) | Consumer goods (Foodstuff) |
| **Nature of JV business re: JV formation (at the time of the investment)** | Very specific, very few competitors | Potentially very large volumes, increasing competition | Niche; all even remotely significant players know each other internationally | Markets of each country dominated by few large firms; value of brands |
| **Year of inv.** | 1999 | 2000 | 1997 | 1997 |
| **Original % of FIN partner** | 60 % | 51 % | 25 % | 30 % |
| **Current %** | terminated | terminated | 25% (unchanged) | 30% (unchanged) |
| **Form of inv.** | Greenfield IJV | Greenfield IJV | Partial acquisition | Partial acquisition |
| **Originally desired % of ownership** | Majority | Majority (51%) | Majority | Not really considered - potentially major. |
| **Target country experience** | Exports (small-scale) | Trading (small-scale) | Very limited exporting | None |
| **IJV / international experience prior to case IJV formation** | WOS in USA, Brazil, Portugal | WOS in France | None in manufacturing | WOS in UK, Estonia; sales units in the Baltic countries (EST/ LAT/LIT), RUS; (IJV in Sweden by another business sector) |
| **Size and strategic importance** | Relatively small | Relatively large; very significant | Relatively small; originally quite important, later much less so | Relatively small; moderately important |

The final decision, i.e. authorization of the partnership decision, was in all four cases made by the company board after the partner preference was decided upon and the partnership negotiations were completed, it is not discussed in this chapter. Here, the IJV formation process is focused upon leading up to the negotiation stage.

Following the individual case descriptions, the cases are compared to each other in regards to identifying factors affecting the decision processes and indicating explanations for the observed differences. Then, performance outcomes of IJV partner selection processes are discussed, and lastly, the study aims to determine the boundaries of separability of the IJV partner selection decision making process.

Due to an agreement on anonymity with the respondents, all cases, IJVs and the foreign parents will be identified throughout Chapter 6 by the letters A, B, C and D. For example, the Case A concerns the IJV A, and in which Company A is the foreign (Finnish) partner.

## 6.1 Case A description

### *6.1.1 Case A introduction*

*The Finnish partner (here referred to as Company A):*

One of Finland's oldest companies, Company A is also a major European producer of technical and industrial textiles. The company's core product line focuses on producing a full range of paper machine clothing (PMC). The company is listed on the Helsinki stock exchange.

*Previous international activity of Company A:*

Company A has been active in the European export market for several decades. However, the firm’s international operations have significantly expanded in the last 13 years – during the late 90’s the amounts of international and domestic sales at the company were almost equal, whereas in 2009 domestic sales represent an amount of 25 % of total sales. Originally the firm considered Scandinavia as its most important export target area, gradually moving on to Western Europe, North America, and later to Asia. Also, the later stages of exporting included exports to a variation of countries in different regions, such as South America, but only in a limited capacity.

*Previous FDI operations of Company A:*

Company A started its foreign production operations in the USA during the mid-1980's by acquisition. Later, the company chose to build its own factory in the USA, but both were shut down after the turn of the millennium. In other markets, the company partially acquired a unit in Portugal in 1990, which they later converted into their wholly-owned subsidiary.

*The case IJV description (here referred to as IJV A):*

Representing the company's PMC division, the IJV A was formed in 1999 as a Greenfield joint venture between Company A and a local partner in Tianjin, China. The unit represents both the first international co-operative manufacturing unit of Company A as well as its first direct investment in Asia. Production at the new facility began the following year (2000) giving Company A entry into the fast-growing Chinese paper industry. Since the formation of the JV, Company A has owned a share of 60 % of the joint venture. In the turn of 2007/2008 all operations in IJV A were shut down and the JV was made inoperative. Today, Company A has its own wholly-owned manufacturing unit in the same region, and it has taken over the business of IJV A.

For Company A, the strategic importance of the venture during the time of the investment was solely based on gaining access to the Chinese market and thus laying the groundwork on future operations in the area:

> *"It was not really all that important for us in regards to its size, total sales and such. On the other hand, its importance is much higher when it's viewed as a link in the chain – giving us a point of entry to China and gaining a foothold and knowledge to build on in the future."*

The nature of the IJV A's business, industrial textiles and paper machine clothing, can be described as very specific and niche-oriented business-to-business operation. According to the interviewee, there were very few competitors globally, and essentially none in China at the time of the investment.

*The interviewee for Case A:*

The interviewee was recruited by Company A for the position of Division Manager in early 1998, and immediately started working on the IJV formation planning. He also became a member in the executive board in 1998. The interviewee was a central piece in Company A's personnel in regards to IJV A all the way from the initial planning of the IJV formation until the divestment of the unit in the turn of 2007/2008. Prior to the recruitment to Company A, the interviewee had 15 years of management experience in working for a large Finnish publicly listed company, including two years as the Area Manager in Asia with an office in Singapore.

### *6.1.2 Pre-partner selection decision making period*

In case A, an IJV located in China, the main investment stimuli can be categorized as a strategic opportunity. Company A's board and management had realized the importance of entering the Asian market due to the expected growth of the Asian customer base by following market reports and analyses in their field during the late 90's. At first, the company singled out the Indonesian market with the strongest growth potential, although the statement in the company strategy more generally referred to Asia. Direct investment was the preferred means of entry from the very beginning due to the previously mentioned expected market growth, and thus being able to manufacture near the customer.

After the decision to enter the Asian market via FDI was made, the company explored several different options, including a wholly-owned Greenfield unit, as well as co-operative FDI modes. At a very early stage it was decided that the preferred mode of operation was to form a joint venture, as it was seen to be less risky and financially less requiring in comparison to a wholly-owned unit. It was also clear from the beginning that the IJV was to be formed as a Greenfield investment rather than partial acquisition, as acquiring a share of an existing company was seen too risky:

> *"It's a completely different deal to buy a share of an existing Chinese or other foreign company than to set up a Greenfield JV – you never know what kinds of skeletons you'll find in the closet, it is definitely not reasonable to take such risks."*

As for the collaboration motive, the interviewee of Company A also highlighted the impact of the environment on the decision to enter China via a collaborative mode – Asia, particularly China, was seen by Company A as an environment that increased the importance of looking for a local partner rather than going in alone:

> "*China is certainly one of the toughest markets to enter. Generally speaking, the Chinese way of thinking is quite different to that in the Western world. Also, gaining access to existing networks was a factor in the partnering decision, as was also very much the language.*"

### *6.1.3 Partner selection process of Case A*

The IJV formation process, as perceived by the interviewee who was brought in to the company to manage the IJV formation process in early 1998, took altogether approximately 18 months. No strict timetable was set at any point of the process, and there seemed to be no time constraints affecting the IJV formation process. Therefore, time and its availability was not a factor in investment type decisions, searching for potential candidates, the partnership negotiations or any other stage in the process and the IJV formation decision making.

*Drawing a desired partner profile*

In Case A, There was no clear-cut profile created as to what kind of a partner the firm is looking for. The population of potential candidates was extremely small due to the specific nature of the niche-like business the firm operated in, thus allowing Company A to scan the whole existing population in its search. *Knowledge of local customs, culture and language* was a clear pre-requisite and one of the key motivational factors to choosing a collaborative operation mode in the first place, reflecting Company A's lack of experience in doing business in Asia.

Certain features from the task-related point of view, as *adequate knowledge of manufacturing products in Company A's field, ability to provide appropriate personnel for the venture*, and *adequate size of the firm* were highlighted, as was also the importance of *good reputation*, representing the partner-related point of view. Technical skills and know-how of the partner prospects weren't held in much of importance in regards to creating competitive edge for the IJV. Instead, Company A was merely looking for adequacy in this regard – a partner capable of enabling the IJV to absorb the know-how brought in from Finland and to operate on this basis. As stated by the interviewee of Company A:

> *"We didn't really specify the profile of a desired partner candidate. Basically, besides a good reputation, we were looking for someone with adequate knowledge of manufacturing products in our field. Actually, we didn't really need their know-how after all, as all the necessary know-how was brought in to the IJV from Finland. What we mainly needed from the partner was for them to find and recruit appropriate personnel for the venture so that we wouldn't need to start developing them all the way from scratch. Still there existed only a handful of potential candidates, and obviously we weren't interested in the tiniest players in the market, meaning those whose yearly production capacity nears something that a major player produces within a day."*

*Identification of candidates*

Due to the specific nature of the business there existed a very limited number of companies operating in the Chinese market. This clearly affected the identification process:

> *"I don't exactly remember where, or through which information channel, these candidates were identified. Basically, if we didn't know about a certain company, we weren't interested in it – in that case it would've been a too small and insignificant player. In our business the potential candidates must be known throughout, and in case a company surfaces that isn't known by the key players in the business, cooperation with it should clearly be avoided."*

Very soon after Company A had decided to pursue IJV formation in Asia, four Asian firms in their industry, one in Korea and three in China, were identified, and the representatives of the company visited each of the candidates. Immediately as the firm started to look into potential candidates, a preference for the JV partner existed, largely due to previous cooperation. Therefore, no other partner candidate was considered equally or close to equally enticing at any point of the IJV formation process. In this case it is clear that evaluation of candidates intertwined along the process of identification of the candidates as the top preference existed from the beginning of the identification process. The Korean partner candidate was seen throughout the process as the secondary candidate and one that was considered acceptable as an IJV partner, although clearly ranked behind the preferred candidate:

> *"In case the joint venture negotiations would have, for some reason, fallen through, we would have very likely gone forward with our next option, the Korean company. Even if we didn't rank the candidates systematically by using some sort of numeric evaluation system, we certainly had the main candidates ranked in order."*

*Evaluation and choice of partner*

As previously described, the specificity of Company A's field of business was a significant factor in the IJV formation process, showing through the small population of prospective partners, and Company A's general awareness of each identified firm. Knowledge of local customs, culture and language was a pre-requisite for the candidates, and also knowledge of manufacturing products in Company A's field, ability to provide appropriate personnel for the venture, and adequate size of the firm were demanded, as was good reputation.

The company ended up forming the JV with a Chinese partner which was the only one of the known partner candidates that it had previously dealt with; the Chinese partner had acquired technology know-how from the Finnish company some years prior to the IJV formation. Besides for the fact the partner was perceived as one that has a good reputation as one of the frontline companies within the market, the respondent underlined the importance of previous business relations:

> *"Knowing one another and having previously dealt with each other was certainly one of the most important factors in choosing to partner with this specific company."*

Not only was there a connection on the company-level, the interviewee stresses the fact that certain key personnel were personally known by the Finnish company's management, as the Finnish managers had visited the Chinese partner and certain employees of the Chinese partner had been trained in Finland as a part of the know-how transfer deal prior to the IJV formation.

An essential factor in deciding to partner with chosen partner candidate was the fact that the candidate had to offer adequate and well-located production facilities as well as the needed machinery. This obviously lowered the financial investment needed in setting up the venture. However, the readily available manufacturing facilities and machinery were even more so a factor in deciding whether to go alone or to set up a joint venture, than merely a factor in comparing different partner candidates. This is highlighted by the fact that the secondary candidate, the Korean firm, was also in possession of facilities suitable for the potential joint venture operation.

Regarding the compatibility of partners' motives and objectives for the IJV, Company A perceived the situation to reflect a stereotypical joint venture between a Western European and a Chinese firm, where the Finnish partner was clearly driven by the motive of gaining access to a growing market and being able to manufacture near the customer, and looking for a partner to provide knowledge of local customs, culture and language. According to the interviewee working for Company A, there was no open discussion between the partners on each others' motives in entering the IJV partnership at any point. Still, a clear and straightforward thinking by Company A's management regarding Chinese firms in general existed in the form of the Chinese firms' quest of acquiring high technology from the Western world. Also, the interviewee clearly brought the issue forward as a potential source of conflict, yet it was regarded as a non-avoidable circumstance when collaborating with the Chinese. Furthermore, this aspect had already been present in the partners' previous collaboration, as the Chinese partner was perceived as having sold forward the technology obtained in the know-how transfer between the firms. As Company A still valued the previous relationship when choosing an IJV partner, it clearly had reached acceptance in regards to this non-avoidable circumstance:

> *"Obviously the main agenda of the Chinese is to gain access to high technology, get it inside the country borders, which they obviously succeed in. However, who then owns the technology, that's another question … In fact, while we dealt with this partner prior to the joint venture, transferring know-how, we were aware that the partner had already sold this know-how forward within China. That's not exactly a part of the Western way of doing business but something that you have to accept when dealing with the Chinese."*

The fact that the preferred and eventually selected Chinese partner operated in the same business as the IJV was a concern, and the management views clearly reflect the uncertainty of Company A in regards to the partner's potentially opportunistic future behavior:

> *"There was a concern among us regarding knowledge management – more specifically the fact that the partner operates in the same business as the IJV, and there were discussions among our management whether we should be concerned that the people they bring in to the IJV might move right back to the partner company. As far as we know, this did not happen – but obviously there was someone transferring knowledge to the Chinese partner, who knows if one could actually benefit financially from doing so."*

Because of this concern, it was strictly driven through in the negotiations that the scope of the production in the IJV didn't include the whole manufacturing process. Instead, the process was divided in two, where the first part took place in Finland, and the product was then finalized in the IJV facilities in China.

The decision to start the manufacturing process in Finland, thus limiting the partner's access to the complete process was, however, not only driven by the need to protect the technology know-how, but also by cost efficiency. The original demand and customer base were not sufficient to rationalize the costs of acquiring the machinery needed for the IJV to accommodate the full manufacturing process. However, there was a plan agreed upon during the IJV partnership negotiations which implied that the partners were to increase their investment in the IJV, and the whole manufacturing process was to be transferred to the IJV after approximately five years of operation and gaining a foothold within the Chinese markets.

By late 1999, the IJV agreement was completed, thus making the length of the formation process approximately 18 months. Although time was not a constraint to the IJV formation decision making, the information available to the Finnish company limited the depth of evaluation of partner candidates, especially in regards to the financial resources of each candidate:

> *"We didn't really compare the financial resources of the candidates due to this information, the financial reports, not being available to us. Practically that information didn't seem to exist. All that the candidates told us were the amounts of sales and total production, but all those numbers seemed to be somewhat heavily rounded estimates and nothing was shown on paper. "*

### *6.1.4 Development after the IJV formation*

The original feasibility study included an expansion plan according to which significant investment in the IJV was to take place after four to five years of operation, yet after five years of operation the Chinese partner was unwilling to invest as originally planned. As Company A was still intent on expanding the unit and its operation, things even got to a point where Company A suggested that it would purchase all the necessary machinery from the partner. However, Company A still had no interest in acquiring the partner company due to still being concerned about what it might find in the books. As the discussion in regards to expanding the IJV and then buying the machinery took place from 2003 to 2005, and as it became clear the Chinese partner was unwilling to invest in the IJV as well as dealing the machinery, the Finnish company started planning its own wholly owned manufacturing unit in China. This wholly owned unit was eventually built and became operational in early 2008.

As to why the Chinese partner turned reluctant to additional investment in the IJV, even though it was originally agreed upon in the feasibility study during the IJV formation negotiations, the interviewee clearly points out the changes in personnel as a key issue, and a major factor in causing the downfall in communication and cooperation between the partners:

> *"We of course still believe that the partner was sincerely on board when the original feasibility study was drafted and the expansion plan of the unit was agreed upon. Naturally we have no proof of that, but our belief is that the intent was there all along. This should of course be asked from the Chinese yet there's not much point in that as the key personnel relating to the IJV has changed three times – which very much explains why things changed."*

Trust and commitment in the partnership notably weakened towards the end of the operation. Several changes in key personnel on both sides were a major factor also in this regard. Naturally, trust between the partners deteriorated significantly as the Chinese partner was made known about the plans of Company A to build its own unit in China. The process of setting up that wholly-owned unit started in 2005. Now, after the IJV was made inoperative, the partner itself manufactures and sells several similar products as the IJV manufactured.

> *"We obviously have noticed that the partner manufactures a significant portion of the IJV's products. Clearly they were able to take in the know-how which was why we originally decided to limit their access to the whole manufacturing process. Somehow they have learned the whole process, although it's hard to say how well they have succeeded, but in any case their sales representatives are nowadays often right against ours."*

### *6.1.5 Evaluation of the IJV formation process*

When looking back to the decisions made and actions taken when forming the venture, the interviewee believes that nothing could have been done differently in the formation process that would have changed the outcome of the IJV operation and the complications that eventually caused the termination of the IJV. Even though the IJV did not follow the plan portrayed in the feasibility study, along the planned expansion after four to five years of operation, the Finnish company considers it reached its most essential objective – gaining access and a foothold in the Chinese market. Also, its decision to enter China via a collaborative operation mode is still today perceived as the right decision per the interviewee:

> *"As we now have invested in our own wholly-owned unit in China that has taken over the business of the IJV, it is clear that even with the current capacity the unit is now running – which is not even close to what we have planned for it to reach in the near future – it would have made no sense businesswise ten years ago when we formed the IJV. Without the market share and customer base that was gained through the IJV the wholly-owned unit would have caused significant losses for several years."*

As the choice of entry mode was perceived optimal in later evaluation, Company A considers the partner selection process a success even though the relationship and cooperation deteriorated in less than five years of operation. As previously described, Company A connects the cooperation failures directly to changes in personnel on both sides, and considers these changes unforeseeable prior to the IJV formation. As also already mentioned, another adequate partner candidate was had been identified, but clearly ranked secondary to the Chinese partner. After the IJV cooperation started deteriorating before five full years of the IJV operation, the resource need of Company A had diminished and the market growth had met expectations, creating rationale for a wholly-owned manufacturing unit:

> *"After about 4 years of operation we would not have even looked for* [a partner]. *At that time the market share and customer base was becoming sufficient for a wholly-owned operation."*

Still, even though Company A considered the circumstances right for a wholly-owned operation in China at that time, the interviewee believes that the IJV would have stayed operational if the partnership had followed the original expansion plan and the relationship had maintained the necessary conditions for effective cooperation. The result – moving on to a wholly-owned operation – is now perceived as a potentially better outcome than continuing the IJV partnership:

> *"Well, had the partner been willing to invest in the IJV expansion as originally agreed upon we probably would have continued the IJV operation as planned – the original plan was for 30 years, nonetheless – but in the end it was probably better for us that things ended up as they did."*

Considering the pre-formation uncertainty in regards to the potentially opportunistic behavior of the Chinese partner it is relevant to evaluate the IJV relationship also from this respect. Company A perceives that the IJV operation spawned a competitor in the Chinese market through know-how flow to the Chinese partner, yet the former IJV partner is not considered a major threat at present time:

> *"Competition in this business isn't really all about being able to manufacture the product. It's also very much about thorough knowledge of the application and service as a larger entity with regard to a specific customer. As already mentioned, the former IJV partner has been right there against us in some instances yet we don't really consider them a significant competitor at this point. Still, you can say that a new competitor, at least on some level, was born due to the IJV."*

Therefore, Company A finds justification to its decision to limit the partner's access to production know-how, even though the partner at least on some level succeeded in acquiring the needed know-how:

> *"Obviously what happened with regard to the know-how flow into the partner company justifies our pre-IJV formation decision to limit the partner's access to the whole production process. If nothing else, we were able to make it harder and more time-consuming for the partner to acquire all necessary know-how for being able to operate alone in the same business."*

The IJV formation process of Case A, based on the interview data and additional documentation, is presented in Figure 5.

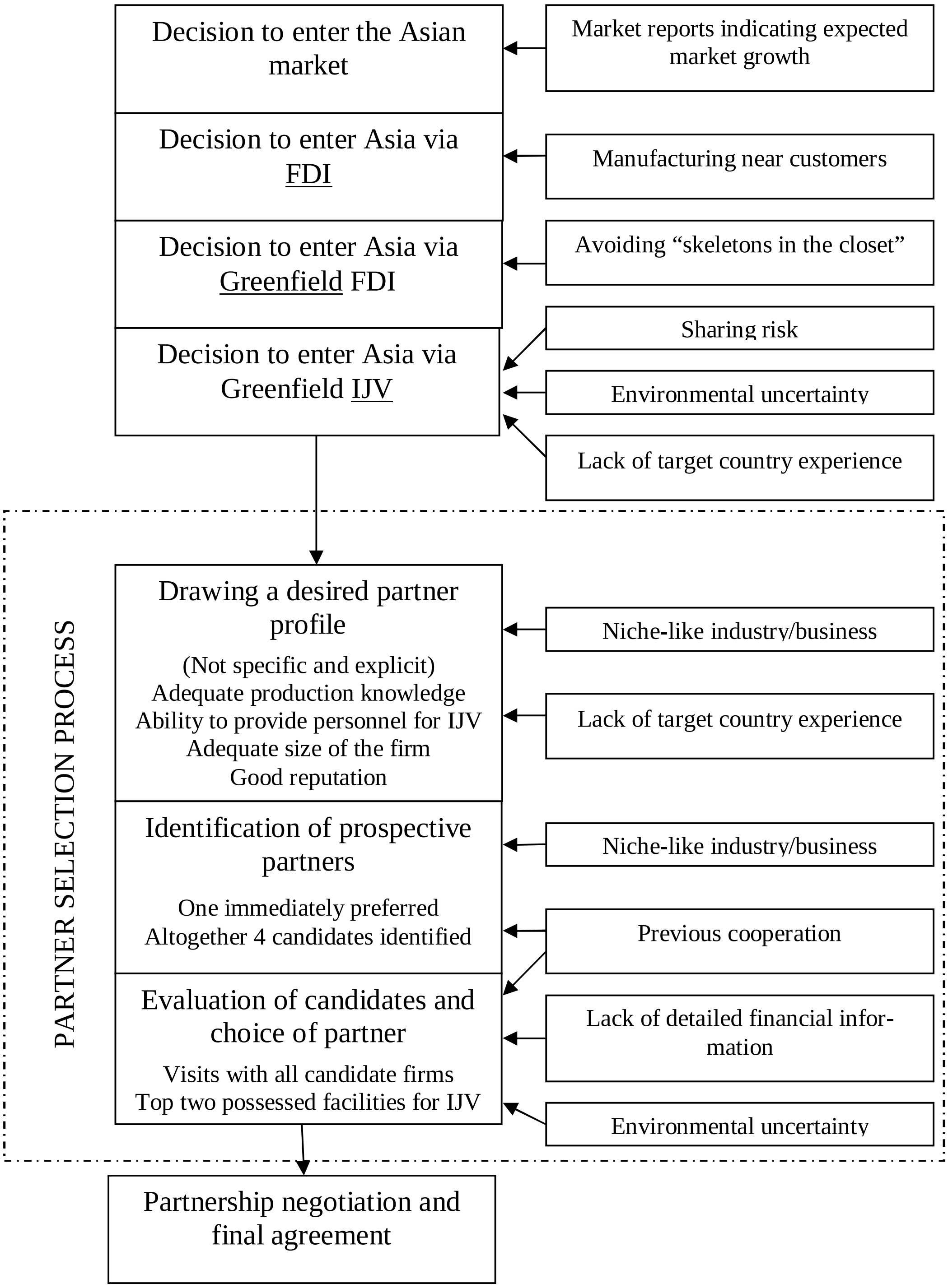


**Figure 5.** IJV formation process in Case A.

## 6.2 Case B description

### *6.2.1 Case B introduction*

*The Finnish partner (Company B):*

Company B provides services for the design and manufacturing of high-tech printed circuit boards. Its products are used in telecommunications networks, handheld devices, automobiles and several types of industrial applications. Company B was created during the late 90's when a long-standing Finnish multi-industry enterprise was split in two, and it mainly focuses on the high-end products in its field. The company is listed on the Helsinki stock exchange.

*Previous international activity of Company B:*

Company B started to aim for international markets in the late 90's. Before becoming active on the FDI front in 1998 the international aspect of Company B's operations was limited to certain international customers and suppliers of both machinery and materials. No significant exporting took place.

*Previous FDI operations of Company B:*

The first foreign direct investment operation by Company B took place in the end of the 90's as Company B acquired a full ownership of a manufacturing unit in France. This was later followed by a minority-share manufacturing joint venture investment in Thailand.

*The case IJV description (here referred to as IJV B):*

IJV B was formed in 2001 as a Greenfield joint venture between Company B and a Taiwanese partner. Even though the partner was not local it had an extensive background of operating with the Chinese and in China, and considered the local customs and culture familiar. IJV B was the second foreign direct investment by Company B in Asia, after the minority-share manufacturing joint venture investment in Thailand, and thus also its second international co-operative manufacturing unit. The minority-owned investment was completed as a partial acquisition, at the time the IJV B partner selection process was well under way and the preferred candidate already identified. The unit was majority-owned (51 %) by Company B, who several years later raised its ownership share temporarily into 70 %. Later, Company B transferred its ownership of IJV B under a separate holding company, and sold a share of 80 % of the holding company to a Hong Kong based firm.

IJV B's field of business, circuit boards for cellular phones, is naturally a business-to-business operation. The key features of the industry at the time of the investment were, firstly, the extremely large potential concerning sales or manufacturing volumes, and secondly, the rapidly increasing competition both globally and locally at the target country at the time of the investment.

*The interviewee for Case B:*

At the time of the IJV formation, the interviewee had already worked as the Financial Director of Company B for several years. He continued at the same position until his retirement in 2008. The interviewee was directly involved in the planning and implementation of the IJV formation as a member of the executive board of the firm which was in charge of pushing the IJV process forward. His prior involvement in foreign direct investment decision making comprised the fore-mentioned previous FDIs by Company B – the acquisition of the French manufacturing unit and the minority-share joint venture in Thailand in the late 90's.

### *6.2.2 Pre-partner selection decision making period*

Similar to Case A, there were motives most naturally categorized under strategic opportunities in Case B. However, the original stimulus could arguably be also perceived as a problem – in this case, the threat of not being able to cater to the main customer's needs. The business and the growth of Company B have historically been tightly linked to its main customer, a major player in global electronic industry. Thus, it is very central in Case B to note that the main driver for internationalization towards Asia was to grow and expand following the footsteps of the company's main customer. Here, the original stimulus for entering China can thus be labeled as following the main customer, also centrally motivated by entering a growing market, similar to Case A.

A collaborative mode was preferred from the beginning, as Company B was financially limited to enter the Far East market via a wholly-owned FDI. Company B also wanted a partner to divide the financial risk involved, and due to its lack of target-country-related experience, Company B needed a local partner, or a partner able to operate like a local, to access knowledge of local customs, language and networks:

> *"Already right in the beginning of the strategic planning process it was understood that the Far East comprised a challenging environment for a Western firm to establish operations in. Focusing on China, the environment was a*

*key reason for why we were looking for a Chinese or a Taiwanese partner with thorough knowledge of the local culture and language."*

Two years prior to forming IJV B – when Company B hadn't yet become an independent entity due to the split of the long-standing Finnish MNE – and also prior to acquiring a French manufacturing unit, the management of Company B stated in a draft of its strategy outline that the next geographical direction for growth is strongly indicated as Asia by its customer base (mainly the main customer). Still, due to inexperience in international operations, the board of the MNE considered it more sensible to start internationalizing within Europe before expanding to more distant and what were considered more uncertain environments:

*"The management suggested entering the Asian market via a manufacturing investment, as was wished by the main customer of the company. However, the company board rejected this suggestion – because the company was limited in its internationalization experience certain members of the board felt that the company should train internationalization by expanding its operations within Europe before going further out. They simply seemed to lack courage, which resulted in delay in entering the Asian market."*

As the original strategy outline spoke of Asia as the geographical direction of expansion, 'Asia' implied the Far East all along according to the interviewee. The country choice, China, was not separately made prior to identifying the preferred partner candidate, yet it was the main Geographical focus ever since the original investment stimulus coming from the main customer.

### *6.2.3 Partner selection process of Case B*

The decision process essentially took off following the split of the MNE and Company B becoming independent. In a management meeting in July 1999 it was planned that Company B should pursue investing in the Far East markets, without explicitly specifying a country or a more detailed area. According to documentation, the key aspects discussed were the reasoning for entering the Far East markets, the criteria for identifying potential candidates, setting a deadline for finding a potential partner, and naming the person in charge of the project planning. The meeting thus resulted in a decision to prepare material for the company board for its decision to invest in the Far East. A deadline for finding a suitable partner was set as the end of 1999, giving the team altogether six months for the search and selection process.

The head of a manufacturing unit of Company B in Finland had previously spent approximately a month in Asia gathering market information and laying groundwork for a potential investment operation. Also, the management compiled a concise view of the main actors within the market, including their production capacities and future plans, by using reports of market research institutes and companies. Following a desktop research, the first group to start traveling around Asia and visiting local actors in the circuit board manufacturing industry consisted of the CEO, the technology manager and the person named in charge of the project planning, largely due to his experience in visiting the Far East circuit board factories knowledge of the market.

*Drawing a desired partner profile*

As mentioned above, certain criteria for what Company B was to look for when identifying prospective IJV partners were set in the initial management team meeting. At this point, all that was stated, firstly, was that Company B was to look for a local partner who is also looking for a partner, thus indicating that Company B considered it important that the partner was already strategically aligned for inter-firm collaboration. Also, it was stated that the local partner should be of smaller size than Company B.

The key reasons for why to enter the Far East markets were stated in a rather broad manner. At that point, the reasoning referred to aspects such as globalization, low cost production, market potential, technology, developing competitiveness in Europe, and increasing capacity.

*Identification of candidates*

Initially the management of Company B had set very broad criteria for short listing potential partner candidates. They were looking for a local partner who is also looking for a partner, and was smaller than Company B.

The process of identification and screening started as desktop research based on reports by market research institutes and firms focusing on the electronic industry and more specifically on the circuit board industry. The reports included the most essential information as perceived by the Finnish firm, including names of the local firms and numbers such as turnovers, volumes, and personnel. Through these publications, Company B's trade show connections and knowledge gained on the longstanding Chinese trading business Company B was able to compile a long list of candidates that consisted of several dozens of local firms. Screening the long list started out slowly and quite informally inside the management team:

*"First of all, everyone had entered names to the long list using these different sources of information. The long list was then discussed within the management team on a name-by-name basis. We were basically asking each other 'What's your view on this one?' and stating our opinion early on in a way such as 'This one's definitely out of question'. Certain prominent names were marked on the list. This is basically how we started to proceed towards the short list."*

Also, the Shanghai office of a global consulting firm was engaged in the process in December 1999, at the time Company B was preparing its own short list, with an agenda to screen potential candidates and provide additional information on selected local companies. The CEO of Company B then visited the partner candidates suggested by the consulting firm to inquire their interest and possible terms in entering a potential partnership. However, these candidates were not of interest for Company B due to requirements for large financial investment.

*"The Shanghai people did their own search while our people did our own, travelling around Far East. In the end, none of the candidates that came from the Shanghai people interested us – they were simply too greedy, requiring significant financial investment, or would have more or less wanted to sell their whole company. We weren't looking for that. Our firm would have generated the kind of goodwill buying such a company that our financial result would not have been able to take it."*

Company B had no previous units in China. Its target-country-specific experience was solely limited to its trading business that started in the late 1980's – Company B sourced lower-end products for its Finnish customers from Chinese manufacturers, while its own production was focused on high-end products. While locating Chinese circuit board manufacturers with adequate quality systems in place with regard to producing for Western customers, Company B gained initial knowledge of local markets and manufacturers.

Company B had no previous business relationship with its eventual local IJV partner. However, the managers of the two firms had met each other; the first contact between the firms took place in an international trade show meeting in Germany in 1998, two years prior to starting the IJV partnership negotiation. In this discussion in informal settings the firms had briefly explored the idea of cooperating somehow, in no specific and detailed form or mode. This discussion seems to have affected the investment decision process of Company B:

*"During an evening at the German trade show the representatives of our firm and the Taiwanese firm had engaged in unofficial discussion on different pos-*

*sibilities of how the two could cooperate. Although this did not directly lead to taking action, it can be seen as the initial step in our cooperation."*

*Evaluation and choice of the partner*

After Company B had listed the first draft of candidates in its long list it started to eliminate the candidates and move towards a short list. The main bulk of the long list was eliminated due to such directly visible factors as the size and the origin of the firm. A factor here was also that the eventually chosen firm was publicly listed and thus raised the issue of availability of information:

> *"As we stated in the initial management meeting, we were looking for a local Far East partner that was smaller than us. Obviously several firms fit into those criteria. Still, the one we ended up choosing was just the kind what we desired – its turnover in US dollars was approximately equal to our turnover in Euros. Moreover, as it was a publicly listed company much of the key information was openly available, even right up on their website, thus there was no need to go into procedures and issues relating to confidentiality."*

What was also centrally in play was the level of technological knowledge of the firm. It was, besides ideal size of the firm, one of the key factors to raise the chosen partner above the other top candidates:

> *"What really interested us there with this candidate was their technological competence – they already had very smart factories in Taiwan. We knew very well that when your strategy is to go after the large multinational customers you don't play around with just anyone, they certainly require your partners to be of the sort who are capable and take care of their business."*

In the beginning of the year 2000 the preferred partner prospect was very clear, after selected potential candidates were thoroughly looked upon by the Shanghai office of a global consulting firm Company B had hired to complement its knowledge, and none of these were deemed interesting by Company B in comparison to its already identified leading candidate and eventual partner. This prospective partner was at this point recognized superior to other candidates mainly due to its technological competence, ideal size, and perceived reliability boosted by its status as a publicly listed company. As to what additionally motivated Company B to target this specific candidate was its preferably located production facility available for the JV.

Instead of bringing up the significant distance in national cultures between Finland and Taiwan, the interviewee stresses the importance of a good cultural fit in regards to the corporate cultures of the firms. The organizational culture fit seemed apparent for both parents, positively affecting the chemistry between the two management teams:

> *"When we started to put the thing together the people at the Taiwanese firm had been operating the circuit board industry for more than twenty years, they knew what they were doing and they knew the market. Our people were the same, experts in the circuit board industry. It was obvious that our cultures fit together, between the teams that were setting up this venture. It was more about industry professionals working together instead of financial experts working on the numbers."*

There was no clear second choice, a viable backup plan, in case the partnership negotiation fell through with the preferred candidate. When considering how Company B would have proceeded in case the JV partnership couldn't have happened with the preferred option, the interviewee believes they would have first gone back to short list evaluation. In Case B, the partner selection process was clearly separate from the IJV formation process – it seems that Company B would have been ready to reconsider their original founding criterion that required the partner to be a local Far East company:

> *"Of course it's pure speculation in this case, but it can be assumed that we would have moved back to take a closer look on the other options on our short list. Also, there was a competitor from Europe who had just started to set up their own manufacturing unit in the Shanghai area – we very well might have considered pursuing the option of joining forces with a European firm who had already taken care of the permits and other legal issues in setting up a venture there. Still, the first move would likely have been to really go into the details of the other local firms on our list. The chosen partner was thought of as an ideal partner in such an early stage, that no other candidate was really seriously considered as a possibility down the line."*

The preparation team started its work on the partnership immediately. Due to extensive financial reconfiguration within Company B during the spring of 2000 the financing of the IJV investment was secured in May 2000. After securing the financing, another consult, a global investment bank, ran its own screening of potential candidates, yet no candidates were found that would have challenged the preferred Taiwanese candidate and warranted a deeper look. In fact, the interviewee considered this move more as a basis for the company board to justify that it had all bases covered, so to say, due to the relative size and strategic importance of the venture:

> *"It seems that the board always wants to cover its back, meaning that they want the long lists and outside opinions to show that every stone was turned during the process, so that no one is able to point fingers at them later on. Therefore it can be surely said that the groundwork was done quite thoroughly."*

This was followed by a visit of the preparation team of Company B, consisting of the CEO, technology manager and another member of the team with previous experience in dealing with the Chinese, at the headquarters of the Taiwanese partner during early summer of 2000, leading to a meeting between the partners in Finland in August 2000. Simultaneously, during the summertime, a due diligence process of the Chinese operations of the partner candidate was outsourced and undertaken by lawyers of a global consulting firm. No other candidates were considered seriously enough to warrant a thorough intelligence.

The Taiwanese partner made it quickly clear that it was, in principle, willing to enter in a joint venture with Company B. For the basis of the partnership discussions, the Taiwanese prepared a document titled "Joint venture proposition", depicting the reasoning for the joint venture formation from the point of view of both partners, the multitude of motivations of the partners in regards to the joint venture formation, the strategy of the Taiwanese partner and its future plans, and an extensive list of pros and cons for the IJV setup. By discussing this document early on during the IJV negotiation both partners had a good understanding as to why each of them were to benefit of the joint venture, and built trust and commitment early on through open communication.

> *"When you look at that document you're able to see everything the Taiwanese partner was after – for example, they were very open with the fact that they wanted to learn our technology … The management people from both sides who were involved in the discussions during that time, they were so committed in the project that they seemed ready to take the joint venture operation to the end of the world."*

As described in the quote above, the Taiwanese partner was essentially motivated to enter an IJV partnership with a Western firm by its desire to gain access to and learn from the advanced technology provided to the JV by the Western partner. In addition to acquiring Western technology, also motivating the Taiwanese partner were the prospects of creating a higher-end market, reducing risk in entering a relatively risky environment, and expanding market share. The preferably located production facility available for the JV that was in possession of the Taiwanese partner –one of the factors increasing Company B's interest in it – also worked the other way around; the Taiwanese firm was motivated to find a partner to help it utilize its land and people more efficiently. Lastly, what motivated the Taiwanese firm to partner with Company B was its desire to broaden its customer base, more specifically through the existing ties between Company B and certain key players in the global electronic industry.

When the partners had gained a good mutual understanding of the benefits and strategy of the joint venture, the shares of ownership were discussed. Both partners were seeking a 50-50 joint venture agreement, but as Company B wanted to consolidate the JV into its numbers, it ended up possessing a share of 51 % in the JV. According to the interviewee there was no disagreement whatsoever when negotiating the share of ownership. The joint venture agreement was drafted and negotiated during a two-month period in September-November 2000. According to the interviewee the agreement negotiation was extremely smooth without any notable complications or disagreement, reflecting the concise joint venture proposition document guiding the discussion process preceding the negotiations. The agreement was later signed on the first of January 2001.

### *6.2.4 Development after the IJV formation*

The performance of the venture did not meet expectations of Company B at any point of the IJV's existence. Main reasons for the lagging performance during the early years of the venture were caused by the general atmosphere in the industry at the time – the venture suffered from price erosion and overcapacity in the Chinese market:

> *"The performance in the early years didn't follow the models we drafted in the beginning as price erosion was affecting the markets – the component prices were falling due to increased capacity. The amount of capacity in the current Chinese market is amazingly big."*

The strategic thinking in the management of Company B leaned on pursuing long-term partnerships with massive global players in the electronic industry. After three to four years since the JV agreement was done the main customer of Company B, the same one that gave the original impulse to invest in the Far East, was rapidly taking a larger and larger share of the production capacity of the joint venture. This didn't fit the customer strategy and risk management thinking of the Taiwanese partner:

> *"As our main customer was starting to form a clear majority of the joint venture's total sales it started to be a problem for our Taiwanese partner – their strategy was outlined in a way that no customer should form more than 10*

*percent of total sales. At that point the Taiwanese started to draw the line and things got more complicated between the partners."*

Another issue causing conflict was the Taiwanese partner's unwillingness to expand the production capacity of the unit within the same property as was strongly suggested by Company B. As the venture had reached its first positive result in 2003, and had just significantly improved in 2004, Company B had a strong desire to expand the production capacity of IJV B whereas the Taiwanese leaned on a calmer approach and suggested to push back the expansion for a couple of years. This, according to the interviewee, was also the point that started the deterioration of mutual trust in the partnership, and pursuing compromises and mutually satisfactory solutions to problems was no longer central to the partnership management:

*"At that point they simply stated that if we want to expand the operation, we should just go ahead and build a facility right there next to the old one, they just didn't want any part of it."*

Soon after disagreeing in regards to customer strategy and the expansion of the IJV's production capacity the Taiwanese partner informed Company B that it was planning its own manufacturing unit in the vicinity of the joint venture location as they weren't satisfied with the way the IJV was operated. In hindsight, the interviewee sees the customer strategy driven by Company B, and thus their soft take on risk management, as the ultimate keys to the downfall of the venture:

*"In August 2005 they informed us that they are planning to build their own factory just 30 kilometers away from the joint venture, so that they would be able to operate it the way they wanted to. And they built it. They saw what was happening to our company – we had to close one of our main production units, one that was almost exclusively producing for our main customer. It seems that they had a better grip of risk management than we did, and we overvalued our importance for our main customer. That's what started to drag things down – the share of the single customer was simply much too large and it was linked to our inability to attract other customers."*

According to the interviewee, most of the issues that begun to complicate the inter-partner cooperation were amplified by problems in certain inter-personal relationships between the personnel of the partner firms. Similar to Case A, also in Case B the major trigger for the downfall of cooperation, as recognized by the foreign partner, was change in personnel. Thus, the situation took a turn for the worse as new personnel representing both parents entered the venture management after a few years of operation. As the original management teams got along very well and shared the vision of the joint venture and its development, the ideology based on the shared vision didn't always carry on to the newcomers:

> *"I think all that disagreement and conflict was most often caused by interpersonal issues and chemistry – although the background for the conflict was very much built upon differences in strategic thinking. Personnel change, a new generation, always tends to lead into a change in culture. When a new generation enters the game it doesn't always care to learn about the history and the old documents … they get their own ideas and suddenly the dynamics of a 51 % vs. 49 % joint venture decision making change. Obviously it didn't bode well within the partnership."*

### *6.2.5 Evaluation of the IJV formation process*

When looking back to the process of the IJV formation the Company B representative considers it success by any measures – even though the eventual performance was not satisfying and the partnership deteriorated due to strategic and interpersonal conflicts. All of the negative outcomes were, as perceived by the interviewee, unforeseeable and developed after the venture was formed.

> *"We truly did – and still do – consider the joint venture formation process very systematic. We felt that every stage was undertaken with precision and the process as a whole was carefully planned. It was the largest project ever for our firm, and this definitely showed in how much effort was put into it."*

As previously stated, the "JV proposition" document drafted by the Taiwanese partner during the negotiations included a detailed description of the motives and objectives of each partner with regard to the proposed joint venture. This document was considered precise by all members of the management teams involved in the IJV discussion and negotiation process all along the joint venture timeline:

> *"I still think today that the JV proposition document, drafted by the Taiwanese and discussed during the IJV formation discussions, is completely valid. Everyone involved in the negotiation process surely saw the same big picture, thanks to it. The proposition document, in addition to the JV agreement, acted as a guideline, a kind of a bible, so to say, on how to coexist and cooperate, and which type of action is to be taken in different situations."*

Opposite to Case A, in Case B the local partner's unwillingness to expand the IJV was not against the original IJV design as agreed upon during the IJV formation discussion. Company B's aggressiveness in pursuing expansion was a change in strategy, and one that may be considered a mistake on its part, as indicated by the interviewee:

> *"It's a shame things ended up the way they did. If we think about the original design, having tripled the capacity in the facility without rushing things, we would have created quite a significant market player out of the IJV. We certainly could have expanded our cooperation into deeper levels, beyond the joint venture, but this one ended up in the financial history books."*

Regarding the strategic stance of Company B on its customer strategy – focusing strongly on very few and large global players in the industry – the interviewee of Company B describes it as fitting well to the still-standing perception on global circuit board markets by Company B's current management:

> *"Regarding our strategy – the management of the company is still under a strong impression that the massive multinational enterprises in the electronic industry are still aiming to form partnerships with few selected global circuit board providers."*

The IJV formation process of Case B, based on the interview material and additional documentation, is depicted in Figure 6 on the following page.

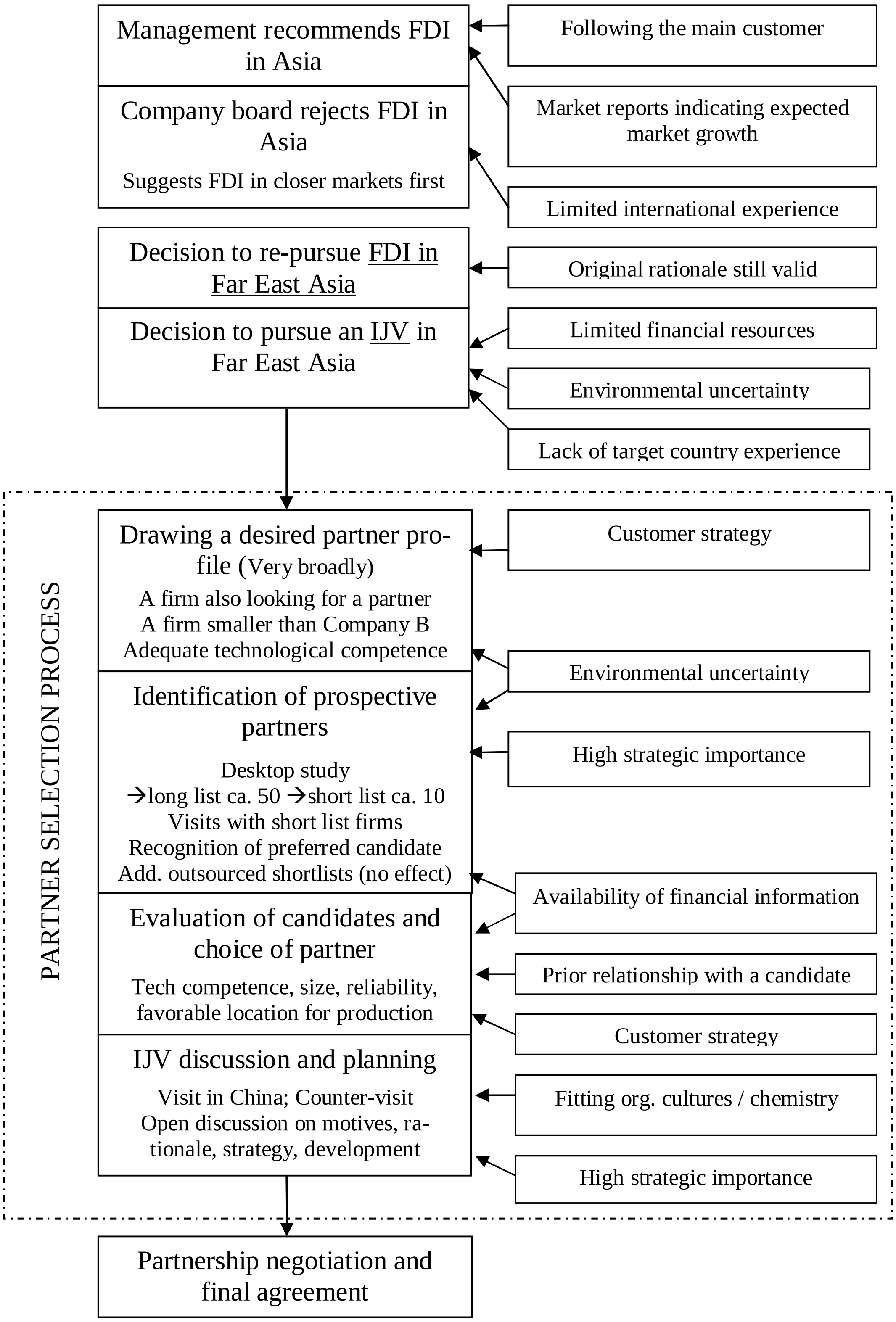


**Figure 6.** IJV formation process in Case B.

## 6.3 Case C description

### *6.3.1 Case C introduction*

*The Finnish partner (Company C):*

Company C has operated in the power solutions industry since the 1970's. It provides power solutions for companies within sectors that use electronics such as ICT and industrial electronics. Its products and services comprise custom-designed power supplies, DC power systems, manufacturing of demanding electronics and related service and maintenance. Today, Company C has international operations – ranging from manufacturing units to product development and service centers – in Europe, Asia and North America. It employs globally nearly 600 people.

*Previous international activity of Company C:*

Company C started to become active in international markets in the first half of 1990's. Prior to the partial acquisition of its first foreign manufacturing unit (the case IJV) the Company C had already established exporting operations in several European countries. Also, Company C had set up several sales units in Europe in the early-to-mid-1990's.

*The Case IJV description (here referred to as IJV C):*

In 1997 Company C acquired a share of 25 % of a German firm in the power source and solution business. It marked the first international manufacturing investment of Company C. At the time of data collection (November 2009), Company C still owned the share of 25 % in the unit. It was at the time the only non-wholly owned foreign direct investment by Company C.

IJV C, likewise to IJV A and B in the prior two presented case studies, operates in the business-to-business market. The interviewee describes the field of business, power source solutions, as a very specific niche business, where all even remotely significant players know each other internationally.

Similarly to Case B, the general driver for Company C's internationalization was to follow the main customer, a globally renowned firm operating in the electronics industry. In the late 90's the main customer accounted for more than 50 % of Company C's total sales. Such moves – following the main customer – were made in the US, and in China in the beginning of the 2000's. However, in the case of IJV C, the driver of following the main customer did not apply (more on the matter below).

*The interviewee for Case C:*

At the time of IJV C formation, the interviewee was a member of the board of Company C. Although not directly involved first-hand in the partial acquisition process other than authorizing the deal as a member of the board, the interviewee considers himself fully informed of all decision making concerning the IJV C formation. Later, the interviewee took the CEO position at Company C, and had worked as the CEO for almost four years at the time of the interview (November 2009), therefore being directly related to the later development of the IJV C operation and management.

### *6.3.2 Pre-partner selection decision making period*

The stimulus for the IJV decision process in Case C, an IJV formed in 1997 in Germany via partial acquisition, originated as the board and the management of Company C outlined its strategy based on, as presented by the interviewee, "a desire to become a European player". In the first half of the 1990's Company C had already strategically aligned itself to enter the international markets. Its strategy was to first enter the European market before going further, into Asia and North America. By investing in IJV C the firm was looking to open new avenues both technology-wise and market-wise. Company C was determined to reach a status it labeled as "a European player":

> *"If you want to become a European player, you have to be present at the German-speaking part of Europe."*

Similar to Company B in Case B, Company C's general driver for internationalization was to follow its main customer, a global player in the electronics industry. In the late 90's the main customer accounted for more than 50 % of Company C's total sales. However, the strategic thinking in the case of IJV C was to balance the customer base and thus to reduce the relative importance of the main customer:

> *"Generally, the basis for our internationalization had been built around following our main customer. This time the move, going to a new market and acquiring a share in this company, was to counter against our dependence on the main customer."*

Company C expected it could gain access for its products into the German market through the IJV. Meanwhile, the Germans were interested in accessing certain significant customers through Company C, and get its products into new markets as sold by Company C.

Therefore, in this case stimuli categorized as both problems (overreliance on a single customer / need to balance customer base) and opportunities (entering new and large market) can be clearly recognized.

There was no separate decision concerning the choice of a collaborative mode in entering the German market. An IJV investment instead of a wholly-owned subsidiary took place plainly due to the fact that no WOS opportunities were identified as Company C scanned potential investment targets on the German market. A Greenfield IJV, or a wholly-owned Greenfield unit for that matter, was not perceived as an option when weighing possibilities in entering the German market. The key reason for this decision was time, as Company C considered the process of setting up its own unit as much too slow:

> *"We didn't think about setting up our own unit, and then go on growing its operations, at any point. Money was not a factor – it would have been expensive to go there in any way. It simply takes too much time to set up a new unit and start from there. Acquiring an existing firm, or a share of it, was a way to get in there right away."*

### *6.3.3 Partner selection process of Case C*

The starting point for the process of selecting a partner – or in this case, the process of identifying potential acquisition targets – was a situation where Company C was intent to reinforce its presence in the European market and was scanning the German speaking countries, looking for potential investment opportunities:

> *"Our business is very much a niche business – it is relatively easy for someone like us to find all potentially interesting players in the market. For example, you'll need the fingers of one hand to count all players in the Finnish market. Therefore the European players know each other fairly well, and for a large part also personally, as a lot of business was done during international trade shows, such as the European Power Manufacturers' organization. So, these connections already existed, and more or less serious talks had been going on about our firm potentially joining forces with another European player. We were keeping our eyes and ears open and actively looking for opportunities."*

The identification and screening of candidates was very straightforward due to the fact that Company C was already aware of all potential targets and knew the players very well. It then quickly listed less than ten potential acquisition targets mainly on the basis of firm size and its perceived strategic compatibility with Company C:

> *"As our business is very niche-oriented, and the CEO had been in the business for more than twenty years, he knew every single firm we might have been interested in. You could say that the long list included a couple of dozens of candidates, but majority of them were scratched off to begin with, for some obvious reason such as being too large and thus way out of our reach. It was basically then that we had the list of potential targets, and it included a bit less than ten firms."*

After Company C had identified the potential targets it made inquiries about the firms' willingness to sell and/or to enter in a partnership. Discussions took place with several firms on the list, and also several of the target firms declined Company C's suggestion. From this point on the attitude of Company C leaned stronger than previously towards acquiring whatever was available on its list – a tendency the interviewee defined as opportunism:

> *"When the team went through the list of interesting targets in Germany, and several of them declined the offer, that's where the process turned opportunistic – we just took what we could get. There was no thorough evaluation of these firms, no defined list of criteria being used, no third party analysis or things like that."*

However, several CEO's and managers of the targeted candidates visited Company C in Finland. The representatives of Company C also traveled to visit a number of the targeted firms in Germany – indicating that there was a real effort to pursue discussions with several of the candidates. Still, according to the interviewee of Company C, the systematic approach was neglected and overshadowed by the strategic drivers for the investment:

> *"There was no analysis for example of how their products fit the global markets and how ours fit their home market. There was just the principle that we get a new sales channel into the German market, and we are able to balance our customer base and also our technological portfolio. Obviously we lacked in systematic approach."*

The beginning of discussions about Company C acquiring a share in IJV C took place in another trade show meeting in Europe. It turned out that the German firm was in a difficult financial situation, and thus forced to look for a partner to either invest in the firm or to provide financial resources to the firm in another manner, such as a loan. Meanwhile, the financial situation of Company C was relatively strong compared to the German firm and it was already looking for potential acquisition targets in the German speaking area. After one year since the meeting between the two firms, Company C acquired a quarter of the German firm and also provided a loan for IJV C to enable the continuation of its operations.

Company C would have preferred to acquire a majority share of the venture. The only reason for ending up with a share of 25 percent, according to the interviewee, was its availability – a larger share was not available. However, while negotiating the partnership agreement and the loan given by Company C to the IJV, Company C worked in certain options which could have eventually enabled it to convert its share into majority, and even purchase the sole ownership of the venture.

The process leading to the partnership agreement was strongly driven by the CEOs of both parties. Even though the team of Company C centrally involved in the investment process comprised the financial manager and the sales manager besides the CEO, according to the interviewee it was clear that the CEO dominated the decision making process:

> *"The CEOs were really the force in the process. They knew each other personally from the trade show meetings throughout the years, and they seemed to build a strong friendship bond when the partnership discussions gained steam."*

Meanwhile, the technological personnel of Company C were not convinced of a good fit in the partnership, and on the other hand the sales personnel saw the potential of a new distribution channel in a new large market area. As perceived by the interviewee who at the time was sitting on the board of Company C, the CEO drove the investment decision through regardless of the resistance of the technological personnel. This also reflected on the negotiation process for the IJV – the interviewee points out the partnership agreement documentation as a reference for the complications the partnership negotiations suffered from:

> *"I've seen more than ten different drafts of the partnership agreement, which alone tells you that it wasn't easily put together."*

### 6.3.4 Development after the IJV formation

As previously stated, Company C expected it could get its products into the German market as sold by IJV C. Meanwhile, the Germans were interested in accessing certain significant customers through Company C, and get its products into new markets as sold by Company C. However, the partnership in this regard did not produce the expected results. The main reason for the dissatisfying performance was eventually recognized as the incompatibility of the partners' products and customer base:

> *"Eventually it became clear that the German products did not fit the needs of our customer base, as our business plan was built on customized solutions and the Germans were mostly operating with standardized products. The transformation of the standardized German products into customized solutions did not produce competitive products – meaning that we could not get them sold. They were made to meet the German needs, not for the international market. At the same time, our products did not get sold in the German market. However, it took us quite a while to realize that they simply were just wrong for the market."*

The red flags raised by the technological personnel of Company C, largely ignored by the management during the investment decision process, seemed valid in hindsight as the technological incompatibility negatively reflected upon the partnership and the general drive for technological integration. Also, even though the technological personnel weren't adequately incorporated in the investment decision process, they seemed to have a significant influence on the management who in turn weren't strong enough to manage the technological integration, as perceived by the interviewee:

> *"The fact that both of the firms were very technological factored in to what became a 'not invented here' situation – a phenomenon where both firms claimed that the other's technology is useless. The technology people in both ends had a strong influence on the management, and the management seemed to be too weak to control the technology people and to prevent the phenomenon from interfering with the cooperation."*

Following the mutual realization of the technological incompatibility, and each party pointing its finger towards the other when locating the causes, the partnership reached a state where the communication and cooperation were practically deadlocked:

*"In the beginning of 2000's our role and status were simply that as stated by the ownership share – a 25 % owner. Meanwhile, we couldn't take advantage of the actual business potential there. Soon later we moved production to our facility in Estonia, but that was again not good enough for the Germans. We entered a situation where the German management was becoming very unwilling to cooperate with us in any way."*

In conjunction to the technological disagreement and incompatibility, Company C felt that the difficulty of managing the partnership was also boosted by cultural differences, seemingly in relation to organizational cultures and the standards of activity. Also, the inexperience of the firms in such cooperation and the shortcomings in their strategies were perceived to affect the partnership management by the interviewee:

*"It was obvious that, even though we were in Europe, the cultures and the general ways of doing things were quite hard to fit together. The individuals in both camps seemed to have their own interests… Both firms were quite small, and strategies in both firms at the time were a bit of a mess."*

Eventually, Company C was forced to admit a fundamental reason as to why it couldn't meet its goals concerning the German market entry via the IJV. After setting up their own sales unit in Germany and its disappointing performance it became obvious that Company C's products simply didn't meet the needs of the German customers, as was earlier suggested by the German partner:

*"In the end, they didn't sell our products nearly at all, while we sold a very limited amount of theirs. You could say that really none of what we expected to gain here was reached. We didn't get our products out in the German market. Later we set up our own sales unit in Germany, but that was closed down in a couple of years as well. They seemed to be right when saying that our products just won't do it in there. The Germans wanted the sort of customized solutions that we just could not provide."*

Early on, as Company C failed to accumulate sales for its own products in Germany through IJV C, and Company C was simultaneously unable to generate sales for IJV C's products outside the IJV home market, Company C was clearly strongly unsatisfied in the performance of the venture. The lagging performance continued all the way until past 2005 when the unit started to recover financially and the partners found a way to coexist in the IJV, leading Company C to evaluate its performance as at least satisfactory. As the technology clash between the partners watered down any efficient cooperation towards enhancing the strategic compatibility in the partnership during the first several years of operation, it took much longer to find the fit than expected:

> *"In 2005 we still considered the IJV worthless. Now [in the end of 2009] it is doing at least satisfactory, its debts have been paid and its financial status is good. In a way, the IJV now uses our firm as the backbone. It is too small to meet the needs of many larger customers but a way has been found for them to use our company to fill in some gaps. It uses our brand as a sort of guarantee there – many customers overlook the risk factors of such a small service provider when they very much make it visible that our firm is right there to back them up. "*

The possibility of converting its ownership into a majority share – its original goal – became reality for Company C only after a couple of years' operation. However, Company C did not choose to pick up the buying option as the IJV was not performing well and was suffering very much due to the falling telecommunications industry in the beginning of 2000's. Now, the interviewee considers the decision not to pick up the buying option clearly a mistake, even though Company C considered to depreciate the value of the investment in its books down to zero, as lately as in 2005:

> *"Now when you look back at that situation, and as you now know the IJV eventually began to perform better, we obviously should have converted the ownership option. We did have a long-term plan to take over the IJV, but as we noticed in the first three years of operation that the venture was not developing the way we expected, our management and the board considered that it wasn't worth for investing in – just rather let it burn out the way it was. The board even made a decision in 2005 to depreciate the value of the IJV down to zero. It was that hard in the telecommunications industry in the first half of the 2000's."*

There has been significant change in how strategically important IJV C has been perceived by Company C throughout the years. Like trust and commitment between the partners, the perception of strategic importance of the unit by Company C can also be described by a U-shaped curve. As the partnership negotiations took place and the agreement was completed Company C considered the venture strategically very important – it provided access to the German market, and Company C envisioned a possibility to access certain technologies through IJV C and thus to take advantage of them in global markets. Only after a couple of years the perception of the unit's strategic importance plummeted when it became clear to Company C that the IJV and its products did not have global potential and both the products and customers were too marginal to offer any solid strategic benefit for Company C. Now, as the unit has performed better and gained back its financial ground, it again holds potential to offer strategic benefits as seen by Company C:

> *"As the unit, along the telecommunications industry, started to climb out of its hole it started to attract some significant customers in its home market in Germany, firms such as Deutsche Telekom. This was naturally something our firm was interested in – gaining access to major European customers through the IJV – and it obviously raises the strategic importance of the venture up several notches. Now we are in a situation where the IJV could become a good point of entry for our firm to access the most significant customers in the German speaking area."*

After the performance started improving, coinciding with the recovering telecommunications industry, the partnership started to regain its formerly lost mutual trust and commitment. It is notable that trust between the partners was perceived as reaching minimal levels during the most difficult times in the IJV operation:

> *"The trust between the partners and the mutual commitment in the IJV operation is nowadays good, although the relationship has been through its own ice age. Its development could be described by a U-shaped curve along our partnership, starting high, going through the cold era, and later regaining the trust. During the cold times, in the early 2000's, neither partner really wanted to keep up the communications. Now, during the past three or four years, things have taken a significant turn for the better."*

### *6.3.5 Evaluation of the IJV formation process*

After IJV C has now seen over 12 years of operation the interviewee at Company C considers the decision to invest in IJV C a good one and its strategic drivers valid. For what comes to implementation during the formation process, the interviewee recognizes elements that should have been handled differently and with more detail, such as engaging the technological personnel into the process to evaluate the technological fit between the partners:

> *"The basic idea of going to Germany, through an acquisition, that was the right call. If we were in the same situation now we would still do the same. On the other hand, how to implement on the decision, both in-house and in the negotiations, that would surely change. We dug too many holes for our future operation there."*

Also, Company C held fast market entry in high importance and the limited timeframe was visible in several aspects of the formation process. However, there was no specific reason or strategic rationale as to why Company C was under such time constraints other than reacting to the offer made by the German firm. In the end the perception of limited time available factored in to the decision making but didn't alone lead Company C to choose a partial acquisition over a Greenfield operation as the operation mode for entering Germany:

> *"Although time – the fast market entry – was a factor we underlined when starting to work through the acquisition process there was really no solid reason to hurry things up. It was very much self-generated, to react to the opportunity that presented itself. Our perception of how important it was to act fast weighed in as to why the investment process wasn't as systematic as it should have been. Still, even now as we know that, it wouldn't be enough to make us choose to set up our own unit there from scratch, that's just too big and long of a process, even if you know you're not in a real hurry."*

Furthermore, the interviewee from Company C considers the decision not to take over the majority of IJV C when it had the option to do so in the early 2000's a mistake that was clouded by the downfall period of the telecommunications industry and the difficult financial situation of IJV C:

> *"Obviously we should have purchased that unit when we had the chance. IJV C had a good brand in Germany, it also had several longstanding customer relationships. We focused too much on its financial situation at the time and did not look at the long term. About the process as a whole, you could say that the path we chose in the beginning was right whereas the implementation was in many ways wrong."*

When looking back to the very beginning of the investment decision process, the interviewee considers the strategic foundation of the investment decision completely valid and systematically thought out. However, as a whole, rather than calling the decision process leading to the partial acquisition systematic, the interviewee in Company C describes the process as opportunistic:

> *"What was systematic there was the strategic alignment prior to the acquisition. Wanting to become a European player, and then recognizing the importance of being present at the German speaking area as soon as possible – all that was based on some type of calculations of the European markets and so on. On the other hand, with whom to go there, there was no systematic screening and evaluation of candidates and options."*

The interviewee in Company C notes that the problems in the relationship between the IJV partners were not purely caused by technology but also interpersonal relationships between certain key members in the organizations and the chemistry between them: However, even though not directly implied, it seems that the bad technological fit was the stimulus for the cooperative downfall, accelerated by other issues, leading to breakdown in communication and cooperative thinking. As perceived by the interviewee who at the time was sitting in the board of Company C, the fact that the CEO drove the investment decision through regardless of the resistance of the technological personnel, leading to issues in technological compatibility, was simultaneously a key factor in personnel commitment to the operation and its development:

> *"Now that we've evaluated the development in the IJV it seems that a major factor here was chemistry between certain strong individuals in both camps. That accelerated our way towards a locked-down situation in regards to the partnership, in the early 2000's … We certainly should have taken the technological personnel into the investment process and carefully listened to their arguments on the matter of technological fit between the partners. Practically they weren't in it at all – you just can not ignore such an important part of your staff when making such decisions. That's what led to the 'not invented here' phenomenon."*

To clarify, the lack of a good pre-IJV technological fit between the partners was not the dooming factor for the partnership in itself. Instead, the interviewee perceives a similarly critical mistake in that the technology personnel weren't adequately involved and listened to during the IJV decision process. This, in the interviewee's opinion, reflected on the commitment of the technological personnel in building a successful operation and partnership:

> *"The line of communication was just not good enough to really go deep into looking at potential adaptation of the German products into the global markets. These discussions did take place, initiated by the technology personnel of our firm, suggesting that the products should be re-designed. The German technology people resisted as they considered our products badly designed and theirs just fine. Once again, all this was caused by the fact that the technology people were not let in into the IJV decision process and the partnership negotiations. That is why they never bought it, the rationale for the cooperation."*

The interviewee from Company considers it clear that the lack of experience in FDI decision making was seen throughout the acquisition process. On the other hand, the experience gained from the process of forming IJV C has been valuable in subsequent decision making in regards to other foreign direct investment by Company C. Also, the interviewee suggests that experienced individuals could have helped if engaged into the process:

> *"There's no doubt that this process has influenced our later investment behavior. That sort of unprofessional approach hasn't been taken after the turn of the millennium and after seeing how things developed in Germany at that early stage. Maybe we should have brought in some experienced individuals into the process, for example in the role of third party consulting because an experienced professional surely would have known better than excluding the technological specialists from the process. These are aspects that are of course important to consider but a first-timer is not always completely up to the task."*

Even though the interviewee considers the decision process having been full of flaws and very much lacking a systematic approach, the eventual state of the venture is still viable for Company C to pursue its long-term goals. Its original preference for a wholly-owned manufacturing unit is again a potential future development in regards to IJV C:

> *"It's again a possibility that we eventually get another chance at acquiring the venture as we originally envisioned. You could say, in a nutshell, that even though we have gone a long way off the envisioned path and away from the starting point, the strategic foundation, the goals and the general settings were right all along, and we just might soon be back at the starting point after fully acquiring that unit."*

Overall, the understanding within Company C today is that even though the decision process was not completed in a systematic fashion and was implemented through an arguably limited approach, the process could have very well led to the identical decision in acquiring the available share in IJV C. What it likely would have changed instead, according to the interviewee, is the technological integration and strategy development following the IJV formation, due to stronger cooperation and personnel commitment:

> *"The fact that there really was no systematic analysis and research on the potential partner candidates, or systematic approach in the process in general, would not necessarily have changed the outcome of investing in this specific firm. What it could have done is provided arguments to get all personnel on board with the process and the eventual operation, instead of becoming very much one-man driven by our CEO. The organization as a whole never bought into it. Whether a systematically driven process would have changed the deci-*

> *sion to invest or not, it would have nevertheless certainly improved the partnership."*

The IJV formation process of Case C, based on the interview material and additional documentation, is depicted in Figure 7 below.

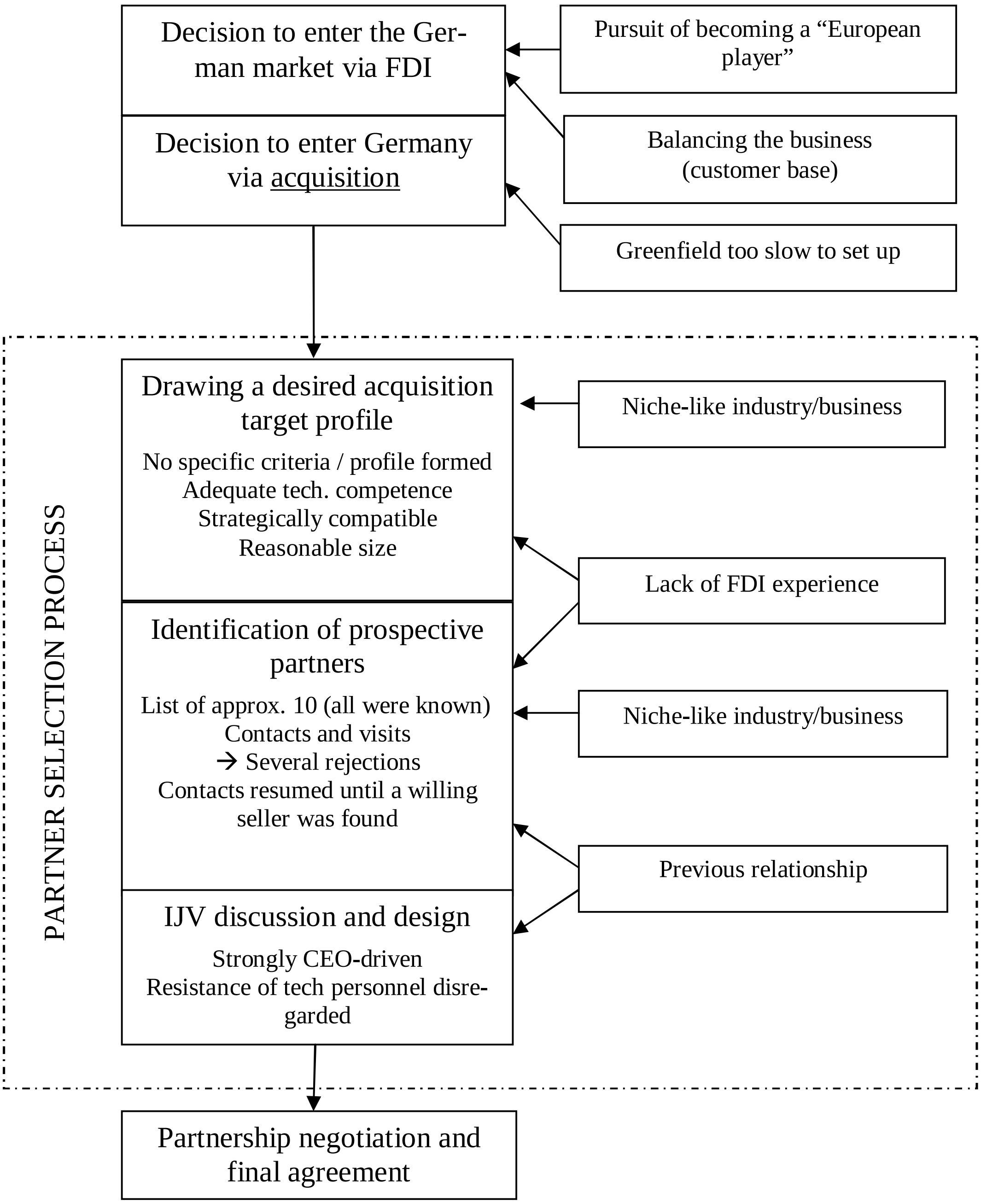


**Figure 7.** IJV formation process in Case C.

## 6.4 Case D description

### *6.4.1 Case D introduction*

*The Finnish partner (here referred to as Company D):*

Company D is an old family-owned firm with roots in the 19th century. During the first decades of its existence Company D operated in wholesales and limitedly in shipping. Later, in early 20$^{th}$ century, it expanded into the food industry. Eventually Company D became a broad-based food and beverage industry player, and later gave up its activities in wholesales.

*Previous international activity of Company D:*

Throughout its history and all the way until the 1980's Company D had been strongly focused on domestic markets and had no significant exporting in any of its business sectors. In the mid-1980's Company D made strategic alignments to concentrate on only two product categories, both within the food and beverage industry. During the same era Company D also made the decision to pursue operations in the international markets.

*Previous FDI operations of Company D:*

The first foreign direct investment by Company D was a wholly-owned acquisition in the UK in the mid-1980's. It was eventually sold in the late 1990's after the performance of the unit had never met the performance expectations set by Company D. Prior to acquiring a share in the case IJV, Company D had experience of setting up two joint ventures in one of its business sectors – one in Finland with a Finnish partner in the late 1980's, and another as a minority owner (20 %) with a Swedish partner in the early 1990's. The first of the two was short-lived as Company D decided to sell its share to the partner after only a couple of years of operation, while the latter is still operational and now majority-owned by Company D. Today, Company D is especially strongly placed in the Nordic countries, the Baltic countries and Russia, and in one product category it is the leading producer in Europe.

*The Case IJV description (here referred to as IJV D):*

The IJV between Company D and two Norwegian partners was formed in 1997 as Company D acquired 30 % of the share in IJV D. Its main partner was a Norwegian firm mainly operating nowadays in the real estate business and also, prior to forming IJV D, wholesales. The unit represents the first cooperative manufacturing unit of the specific business sector, a sector that has historically been the cornerstone of Company D, and the second in the history of the whole company. It also marks the entry of Company D into the Norwegian market. The third partner in the venture is the owner of a retail chain comprising almost 200 grocery stores in Norway. There was no previous relationship between Company D and either its Norwegian partners. The board of IJV D comprised three persons – one from each parent firm, the chairman representing the Norwegian majority owner. The owners and their shares in IJV D have remained the same ever since the partnership was formed.

Different from the other three cases, IJV D operates in consumer goods market. Thus, there are features that make its field of business significantly different to that of the other Case IJVs (IJV A, B and C). According to the interviewee, ceratin product categories within the foodstuff industry are dominated by very firms in each country. Also, the interviewee stresses that the value and importance of strong brands is at the very forefront in relation to succeeding in foodstuff markets.

*Interviewee for Case D:*

The interviewee had an extensive history working for Company D and besides being centrally and directly involved in the IJV D formation, he had also been directly involved in all prior investment decision processes of Company D. Four years prior to the IJV D formation the interviewee became the divisional business director and simultaneously a member in the corporate management team.

### *6.4.2 Pre-partner selection decision making period*

The original stimulus for Company D's decision to pursue FDI in the Scandinavian markets is clearly categorized under strategic opportunities, as Company D recognized the appealing potential of the Norwegian and Swedish markets. This, however, did not directly lead to a continuous process up to the formation of IJV D, and it may be here arguable that the stimuli starting the decision process concerning specifically IJV D are separable from those creating the original FDI interest, which is described below.

As mentioned, the stimulus for investing in the Scandinavian market arose from the recognition of appealing potential of the Norwegian market. During the midnineties Company D had started to reconsider its internationalization strategy for one of its two business sectors, including previous wholly-owned FDI units in UK and Estonia and sales units in three Baltic countries. After keying in on Central

Eastern Europe and the Nordic countries as the focus of strategic research, the firm came to the conclusion that markets in certain Nordic countries, specifically Sweden and Norway, were appealing due to their sales potential in relation to existing competitive situation, whereas the Central Eastern European countries were already dominated by certain global players in the business, and the profitability of the current firms operating in the region was not encouraging.

When the two Nordic countries of interest were agreed upon, Company D quickly determined that acquisition was the means to enter the market as the value of possessing existing strong brands in the market was deemed a key success factor for the operation. Therefore, strict criterion (possession of a top brand) set by Company D made the population of potential acquisition targets extremely limited:

> "*We knew that there were good markets in the Nordic countries – Finland, Sweden and Norway. We also knew that each of those markets were already shared between a couple of main players, and if you wished to change the competitive environment and the market shares, that could only be done via acquisitions, acquiring one of the leading firms.*"

Regarding motives to collaborate, there was no specific choice made to enter the Norwegian market via an IJV rather than a wholly-owned subsidiary. Instead, Company D preferred to acquire a share as high as possible in any of its acquisition targets. However, none were willing to sell a share. This process led Company D into a state of readiness for acquiring an existing player in the market in case one became available.

During the same period of time in the late 90's, the top executives of both family-owned firms – Company D and its eventual Norwegian partner in IJV D – met during an international business event. During this meeting the Norwegian firm suggested Company D to acquire a minority share in the Norwegian unit. This eventually led to Company D acquiring a share of 30 percent.

This Norwegian firm was family-owned, mainly operating in real estate and wholesales industries, and looking to cut its wholesales operations. Within its wholesales operations, the Norwegian firm owned a small-scale manufacturing unit in foodstuff industry, selling its products to the wholesale customer base. In its structural reorganization discussions the Norwegian firm intended to cut its wholesales operations while still holding on to the manufacturing unit – incorporating and expanding its business by looking for a partner with specific knowledge and experience in the business.

Even though the Norwegian firm did not meet the original criteria Company D had set for acquisition targets – being a smaller player in the market than what was preferred – acquiring a share of it was considered a good opportunity to gain experience and learn about the Norwegian market in case a major player became later available for acquisition. Thus, the original stimuli for FDI in Scandinavia can be described as recognition of appealing market potential, and the main FDI motivation as learning about the local markets on a limited financial risk:

> *"Acquiring a share in IJV D was not a goal here – the goal was to become player in the Nordic market, gaining information and learning of the Norwegian market from within. This was the key, and we felt that IJV D was a good way of reaching that goal, as it required relatively small financial investment and did not involve significant risks."*

As quoted above, the interviewee clearly portrays the investment in IJV D as a vessel for gaining market knowledge. The investment in IJV D was therefore more considered as a stepping stone in becoming a major player in the Norwegian market through more significant acquisitions, and acquiring a share of it was not considered to alter Company D's state of readiness concerning acquisitions of any of its originally targeted firms in the market:

> *"We knew at the time, and it is still relevant, that there still exists manufacturing in our business in Norway that isn't yet in the hands of the large multinational enterprises, and thus it significantly raises the likelihood of units becoming for sale. We had our eyes on certain key players that we considered potential future sellers and we certainly were interested in those potential opportunities. We considered that by acquiring the minority share in IJV D we would learn about the Norwegian market and gain valuable market information that could help us in the decision making regarding such potential future investment."*

### *6.4.3 Partner selection process of Case D*

As described on the previous page, Company D considered the viability of an operation in its field of business in any particular market dependent on the possession of a top brand in the market. Therefore, drawing a desired partner profile or identifying potential candidates were not distinct functions in Case D, as Company D merely looked at the very top firms in both Sweden and Norway, ones that were already well known, and proceeded to inquire the willingness of those firms to sell.

Company D had a very clear idea and specific criteria on what sort of candidates it was targeting at in the Nordic countries. Firstly, it was interested in the competitive position of the candidates – anything outside the top three in either the Swedish or Norwegian market was not on the acquisition target watch list. As already described, the reasoning here was that the business relies heavily on the value of brands, and reaching a significant competitive position in either market required to acquire a firm in possession of a strong brand. Secondly, only family-owned firms were targeted as Company D perceived that the multinational firms, in general, were not willing to sell their units because they fit their strategy and were profitable.

> *"Big, strong players in Norway and Sweden with strong brands – obviously they were very easy to identify. The other significant players were owned by multinational corporations with strategies that dictate the firms to hold their share in their units and are not interested in selling. Those that we really saw ideal were the number two's in each country, privately owned firms. Those could have been significant strategic moves and they would have really been carefully thought of – assessing the risks and the financial investment in relation to our resources, and so on. This one we ended up investing in, it was a much lighter version of something like that, very limited risk and so on."*

Most significantly here, in comparison to the other three cases, is the fact that Company D ended up partnering with a firm that wasn't identified as a prospective partner or an acquisition target in the first place. As previously described, IJV D was rather considered as means, instead of ends, for Company D to reach its strategic goals in the Norwegian market, by gaining market knowledge to help in future acquisitions and operating in the market.

In this case there was no genuine weighing of alternative partners. After the Norwegians made the proposition to set up the venture, the partner decision for Company D was purely entwined – either investing in Norway by accepting the proposition, or declining and staying put, waiting for another investment opportunity to present itself. Company D was staying alert in regards to buying opportunities in enticing firms, yet it was not actively pursuing partnerships or acquisitions in the market. The main reason here is the fact that Company D considered only very few firms interesting – the market leaders in both Norway and Sweden – and those had no intention to sell.

All in all, the IJV D formation process following the initiation by the Norwegian firm was considered smooth and simple by Company D. Also, it was apparent that the relatively small size of the investment factored into the effort and detail Company D incorporated into its decision process concerning the IJV formation:

*"Two heads of family-owned firms met each other, recognized mutual benefits, and the chemistry between the two seemed well in synch. It was all quite simple – as the financial investment was relatively small – no heavy due diligence processes or such were undertaken."*

What Company D brought into IJV D, and what made it enticing for its Norwegian partner, was its experience and expertise in the business. Mainly this concentrated in two factors: First of all, Company D took care of raw material procurement operations, enabling IJV D to benefit of the Finnish firm's volumes and trading partnerships, leading to better differentials (cost of raw materials relative to global market price) and quality. Secondly, Company D provided the knowledge of technology and manufacturing processes to increase the efficiency of the manufacturing process:

*"Even though they had been manufacturing in small-scale for quite a while, their technological knowledge and skills in manufacturing were still weak. Our production manager was able to tune up their machinery and significantly increase its efficiency. We could also positively influence their packaging technology. Another thing was that through our knowledge the IJV avoided unnecessary machinery investment – the locals seemed to suggest investing in new machinery every time a problem had to be solved, whereas our manager suggested changing the processes and ways things are done. Those were great examples of beneficial cooperation."*

Company D would have preferred a majority share in the venture if given the opportunity. However, the interviewee indicates that the decision process preceding the partial acquisition would have been undertaken in a more detailed and analytical fashion due to the larger financial contribution:

*"I suppose we would rather have acquired a majority share in the IJV, but then we would have also looked at this decision much more carefully. Also, the thinking in our firm was that we could increase our ownership along the way, by for example buying out the other minority owner in the venture."*

Even though Company D held a minority share in the venture, it was satisfied in the shared decision making in IJV D and its influence on all matters it considered important. The interviewee seems to be satisfied in the compatibility of strategies, assets and expertise of each partner in IJV D, indicating a successful partnership design from this point of view:

*"Even though we clearly held a minority share there, the partnership agreement gave us a lot of security in being able to affect the decision making. Cer-*

*tain decisions, such as expansion, acquisitions, financial agreements and stability, and so on – they were strictly controlled by the partnership agreement and the majority owner could not just go ahead and do as it wished. We were very much heard in all decision making, and obviously our knowledge was especially valued in aspects such as procurement, manufacturing and packaging technology. We felt all along that decisions were being made for the good of the firm, and different partners contributed on different aspects."*

### *6.4.4 Development after the IJV formation*

In the beginning, for several years, the operation was developing well and the unit was profitable, which seemed to be the case with most players in the Norwegian market at the time. The situation changed dramatically as Lidl, a global discount supermarket chain, entered the Norwegian market in 2004. The price competition in the market, as created by the newcomer who changed the market dynamics, was difficult for IJV D:

*"Our key reseller was one of the main competitors of Lidl in Norway. Lidl entered the Norwegian market like it did in other markets, by aggressively challenging the existing competition. They were spearheaded by their own private labels in our product group as in other groups as well. This resulted in drastically lower price level throughout the market. As our reseller reacted by lowering its prices and forced us to act accordingly, the profitability of our lower-end product line was shattered. It was significant as the lower-end line had positively accounted for a major proportion of our volume and thus the financial result."*

The disappointing development eventually led to personnel changes in top management. As the IJV agreement dictated that the chairman of the board was named by the majority partner, managerial moves by the Norwegians directly influenced the IJV management as another member of the Norwegian owner family stepped in as the new chairman of the board. Also, the CEO of IJV B was changed twice in a short period of time, the second change being due to the CEO's own decision.

After 2007 the performance of IJV D has improved due to reorganization and Lidl's retreat from the market – in fact all 50 Lidl stores in Norway were sold in 2008 to REMA 1000 which sells the products of IJV D – yet the same strategic obstacle remains – the existence of a minority shareholder that owns a grocery store chain, and the deep-rooted relationship between REMA 1000 and the main partner which was well known in the Norwegian market.

*"In the past couple of years the management has been able to turn things around a bit, and even returned the unit back to profitability, by cutting costs and trimming the sales organization. Still, the same old strategic problem – how to expand distribution in Norway – has not been solved and will not likely be solved as long as there's a grocery store chain involved in the ownership."*

The Norwegian unit is fairly small in the context of Company D's business in general, the total sales or production capacity of Company D. The financial investment required for entering the venture was considered very small and thus no real financial risks were noted. Therefore the unit was strategically important only as a vessel for gaining market information – and as such its strategic importance has declined in later years when Company D feels that it has gained the knowledge it needed.

After 13 years of operation and much fluctuation in the performance of the Norwegian venture, Company D is fairly satisfied in the overall performance and outcomes of the operation as a whole when reflected upon its original goals and strategic motivation:

*"As we realized that this is not the platform that enables us to gain significant ground on the Norwegian market the strategic importance of the venture obviously decreased. Nevertheless, through this operation we know the Norwegian market and its competitive situation very well – that puts the firm in a much better position to make strategic decisions regarding operations there for the future. After all, that was the key reason we chose to enter this specific partnership in the first place."*

Although meeting its main goal, gaining knowledge of the Norwegian market, the interviewee of Company D does not consider the IJV operation a success, which the interviewee defines as a larger market share through strengthened distribution network and valuable brands. Also, reaching the main goal and gaining the answers that Company D was looking for as it chose to acquire the share in the IJV causes the interviewee to raise the question of the future of IJV D:

*"Still, we can't call the operation a success – that would have been the case if we were able to expand the distribution and the brand was as strong as we believed it was. This operation has given us the answer for the questions we originally had, and therefore you could that say it has fulfilled its purpose. Because of this it could now make sense to sell the share in the IJV."*

### 6.4.5 *Evaluation of the IJV formation process*

All three parents in IJV D were family-owned. The interviewee of Company D considers this as an influence on some aspects of the joint venture operation, as well as on business and internationalization in general. In this case, and in conjunction to the relatively small investment and thus strategic importance, it shows as limited attention to detail and analysis to back the decision making:

> *"There's a thing about family-owned firms – emotions are more often part of decision making and making moves. Here we had a goal of going to Norway to learn things through a minority investment – the numbers weren't crunched throughout and the proposed joint venture wasn't analyzed to death. It was more about a general vision suggesting that this partnership was a good idea. And that's what it was, before the fall, and the eventual comeback."*

The strong sense of history as a family-owned firm, and the organizational culture to match it, is thus a clear factor influencing decision making in Company D. The willingness to explore and push forward without a high degree of certitude of future events based on calculations and analyses seems to be a built-in aspect of the management culture in Company D:

> *"Our organizational culture, in regards to decision making, was such that we are systematic to a certain point, but then you also have to be brave, go forward, and believe in it – and not about extensively searching for reasons for why not to do something. After all, if you really want to prove something, anything, by numbers, you can get it done."*

Besides the problems regarding potential to expand distribution in the Norwegian market, the importance of strong brands in the food and beverage industry seemed to constitute an even more founding strategic obstacle. The brands of IJV D were not as strong in the Norwegian market as Company D expected at the time of the investment. In hindsight, the interviewee considers the brand strength analysis done when assessing the decision to acquire a share in IJV D inadequate, reflecting the lack of target-country-related experience and more specifically the lacking knowledge of local market conditions:

> *"We should have gone deeper when looking at the strength of the brand. We didn't really question the brand strength in regards to how the partner evaluated it … Obviously it now seems that we overvalued its potential on national level, and that really creates the ceiling for the whole unit's growth potential."*

The key role of brand strength is further underlined by the interviewee's perception that connects it to the other strategic obstacle confronting IJV D – the limited distribution. If the brands were strong, that could have significantly helped to remove the strategic obstacle regarding the expansion of distribution, according to the interviewee:

> *"In Finland certain leading store chains were trying to secure the position of their own labels in our product groups and declined taking our products for sale – all the way until the 80's and 90's when the our brand strength practically forced them to take our products in due to customer demand and preferences. It took until 1998 for us to be treated equally, regarding activities and promotional campaigns, on a national level in all chains."*

Lastly, to underline how brand strength was the main underlying obstacle for growth, the interviewee in Company D comes back to one of their top acquisition targets prior to acquiring the share in IJV D, one that Company D targeted for several years regardless of the IJV D acquisition:

> *"Now, if that production company we really looked at and listed as maybe the most probable acquisition target suddenly became available, what would our company do? My best guess is nothing. There is no brand to build on. We could have expanded our distribution, ended up acquiring market capacity, but in the end still lost out to the leading brands."*

The IJV formation process of Case D, based on the interview material and additional documentation, is depicted in Figure 8 on the following page.

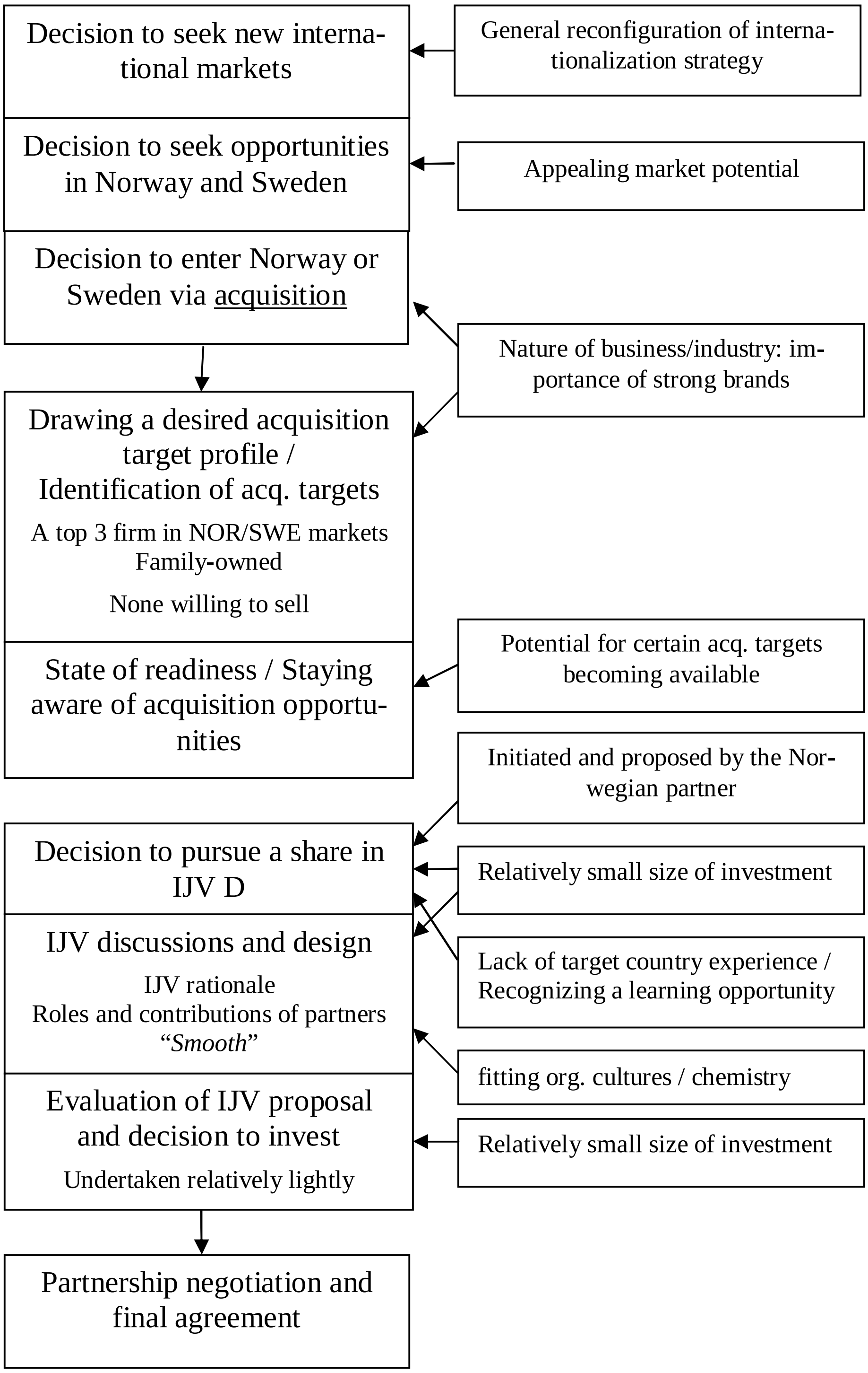


**Figure 8.** IJV formation process in Case D.

## 6.5 Case comparison and analysis

In this chapter the four case studies are compared to each other and analyzed in relation to earlier models and typologies in the literature. The chapter closes with a summary of contextual effect on the partner selection decision process and analysis of its performance outcomes.

As expected, in accordance to earlier literature (Björkman 1989, Larimo 1987, Woodside and Pitts 1998), the stimuli for the IJV formation seems to relate to strategic opportunities rather than problems or crises. No crisis-related stimuli could be identified in any of the four case companies' IJV decision processes; however, in Case C, the local partner appeared to be driven by financial crisis, forcing it to seek investors to survive by gaining capital. In all of the four cases certain common key elements of the decision processes were visible, and the suggestion in previous literature stressing that partner selection can be distinguished into at least two separate parts (Williamson and Lilley 1993, Wong and Ellis 2002) – partner identification and evaluation – gains support here, even though they clearly seem to overlap in all four cases.

### *6.5.1 Rationality of decision processes*

Both Woodside and Pitts (1998) and Björkman (1989) found decision making patterns indicating differences concerning development of alternative solutions, and its lack thereof, in contrast to the rational choice model. Björkman (1989) found that FDI decision making of the Finnish firms studied consisted of development of only one single FDI alternative at a time – including decisions on the country, specific location, and the specific firm to acquire. Woodside and Pitts (1998) found that the decision processes in both of their two studied IJVs included no search for alternative IJV partners, yet as they also point out, this result is very likely due to the fact that each of the firms studied represented the most well known and successful enterprises in their respective industries within their respective domestic markets. The results here are not completely in line with these two previous studies – first of all, in each of the four cases a separate decision regarding the firms' intent to enter a certain country or area was made prior to searching for potential cooperators or acquisition targets. Secondly, development of alternatives in the form of searching and considering more than one potential partner at a time seemed prevalent especially in the Greenfield IJV cases (Case A and B). However, there were also indications of extending search for alternatives for justification purposes (Case B) as what was considered an ideal partner was identified fairly early on. The partial acquisition cases differed also in this regard; In case C the search for a partner seemed resembling a *short selection* mode, as the foreign partner was contacting adequate targets one by one, whereas in Case D the identification became irrelevant due to the strict criteria applied by Company D.

According to March and Sevón (1988) traditional rational choice models presume the decision maker possesses: (1) knowledge of alternatives, (2) knowledge of consequences, (3) knowledge of preferences, and (4) rules by which a decision maker can select the best alternative based on its consequences for his/her preferences. In each of the four cases the foreign partner considered itself well aware of alternatives concerning prospective partners. In Case A this was due to the specificity of the industry and thus a very limited population of potential candidates. In Case B the alternatives were sought out by a thorough search process involving two third party consults. In Case C, the niche-oriented nature of its industry limited its acquisition target population, and all potential candidates were considered known. In Case D, the strict criteria for acquisition targets limited the population, and a separate search process became thus irrelevant as all candidates were well known.

All four cases applied certain criteria to screen and evaluate the prospective partners. However, the specificity of these criteria and the systematicity of the evaluation and screening varied strongly. In Case A, the foreign partner did not explicitly formulate a defined set of criteria for screening and evaluating prospective partners but consensus within the management team existed regarding the main features it would focus on when looking for the partner (size, reputation, ability to provide personnel, production knowledge). The eventual choice was influenced by the candidate’s possession of a suitable manufacturing facility, which was not originally defined as a criterion for partner choice, but its apparent cost benefits made it a significant factor. Out of all four cases, Case A was the only one in which the foreign partner had ranked several – three to be exact – adequate candidates in order, and seemed aware of its further moves in case the IJV proposition with the preferred candidate fell through.

In Case B, certain very broad screening criteria were explicitly laid out before advancing to long-listing partner candidates, and further movement towards a short list was largely based on technological competence. In Case C, the limited population and good awareness of existing candidates again was a factor for the lack of defined selection criteria. In Case D the population was limited due to strict criteria, therefore forming a simple and systematic process until the idenfication and evaluation of candidates, yet following the Norwegian partner’s initiative a re-started simple and less-than-thorough decision process took place, building around a decision to either reject or accept the offer.

Regarding the distinction between the *maximizing* and the *satisficing* strategy (Simon 1957), both were present in the case data. The Greenfield cases (A and B), and particularly Case B, resembled the maximizing strategy; in Case B, the interviewee even used the word “ideal” to portray how the eventual partner was perceived during the formation process. A satisficing strategy appeared in both of the two partial acquisition cases (C and D); in Case C the foreign partner’s willingness, as described by the interviewee, “*to become a European player*” was the overriding factor to invest in the German market even if the most desired acquisition targets weren’t available; again as described by the interviewee, “*we simply took what we could get*”. Similarly, in Case D, the desired acquisition targets weren’t available, and the foreign partner later chose to accept an offer made by a firm that did not meet the original criteria.

The amount of time available or allocated for the IJV formation was not recognized as an influencing factor in any other case than Case C. Even in Case C, the limited time for the IJV formation mainly factored into the decision to enter Germany via acquisition rather than a Greenfield operation, although the interviewee also indicates the perceived hurry as a factor to a limited evaluation of the partnership rationale. In the Greenfield cases (A and B), the foreign partners did have a set timetable for the IJV formation and partner selection but considered it generous and of no effect on the decision process. In Case D time was not considered a significant factor at any point and no timetable existed.

The availability of information was a factor on each of the four cases. In identifying partner candidates, availability of information was mainly a factor in Case B, as the other three cases focused on limited candidate populations as already described. In Case B, the foreign partner’s lack of international and target-country-specific experience reflected on partner identification by, firstly, through bringing in a project coordinator with specific market knowledge, and secondly, by the use of external consults. However, the use of the consult agencies is more directly linked to the high strategic importance and the large relative size of the investment according to the interviewee. In evaluating the prospective partners, the availability of accurate and detailed financial information was considered important in both of the Chinese Greenfield cases (A and B). This was highlighted by the status of Company B’s partner selection of a publicly listed company, separately brought up by the interviewee as a clearly positive factor. Also, the perceivably and physically distant market environment combined with the foreign partners’ lack of target-country-specific experience factored into highlighting the importance of accessing information about local customs and culture.

Limited financial resources expectedly and logically affected the IJV formation process. Financial limitations were noted to be a key factor for the choice of a collaborative mode over a wholly-owned subsidiary in cases A and B. When specifically focusing on partner selection, limited financial resources seemed less of a factor, mainly in play as the selectors in cases A and B valued partner's possession of suitable manufacturing facilities. In cases C and D the financial limitations seemed not to significantly affect any major part of the IJV decision process.

### *6.5.2 Reflections on the Das and Teng typology*

The strategic decision making process typology by Das and Teng (1999), based on a synthesis of previous categorizations, was presented in Table three (p. 36). The five decision process modes included in the typology were the rational mode, the avoidance mode, the logical incrementalist mode, the political mode and the garbage can mode. These five modes are next discussed in accordance to the four case studies.

First, the *rational mode*, founding on the argument that human behavior is either rational or boundedly rational, is characterized by its comprehensiveness, and decision makers enter decision situations with known objectives, gather extensive information, develop alternatives, and objectively select the optimal candidate (Das and Teng 1999). All four case firms had a clear understanding of the motivation and general drivers for the FDI, and less explicitly so for the partner selection decision process, or in Cases C and D, the acquisition target selection process. Gathering information varied strongly within the case firms, largely due to differing types of industry/business specifications and therefore the amount of market information, as two of the cases (A and C) operated on niche-oriented markets, and one case (Case D) based the strategic rationale for the investment on acquiring a firm with a top two brand in its possession. Therefore, the limited population of alternatives as perceived by these three case firms caused a lesser need to identify alternative partner options. In Case B, the large perceivably large population of potential actors raised the need for gathering information on the alternatives. All four case firms developed alternatives, meaning consideration or pursuit of different partners or acquisition targets, and aimed for objective selection of the optimal alternative, yet only one (Case B) actually managed to select a partner it considered optimal, and another (Case A) was able to make a selection from within more than one candidate perceived adequate. In cases C and B, the eventual partner represented the single available option.

Second, the *avoidance mode*, based on the notion that strategic decision making processes often lead to a resistance to strategic change, practically depicts a decision situation where the decision maker purely creates rationale for maintaining the status quo in order to avoid uncertainty (Das and Teng 1999). None of the four cases clearly indicate that the avoidance mode is relevant in an IJV partner selection context. The only weak reference towards maintaining a status quo can be identified in Case A, where the selector clearly valued its prior relationship with the eventually selected partner, and even though it identified a second and a third alternative, it seemed to hold a preference ever since the original decision to pursue an IJV operation in China. However, in such situation where a firm decides to pursue its first FDI in a given market, meaning a new strategic approach in the given market, partner selection based on avoiding strategic change would clearly be paradoxical.

Third, the *logical incrementalist mode* refers to a step-by-step process that consistently moves towards a broader goal, and in which the decision maker gathers incremental information and feedback and thus avoids making dramatic decisions at any point, due to an unstable environment and his/her limited cognitive capabilities (Das and Teng 1999). References of different levels to this particular mode can be found in Cases B and C. In Case B, the identification and screening of potential candidates and the evaluation of the candidates clearly overlap, and the selector goes back to the identification routine in several points of the process by applying third party consult services. However, none of these additional searches changed the original preference of partner, and the interviewee in Case B clearly indicates that the strategic importance and size of the investment drove the firm, as described by the interviewee, "*to make sure that no stone was left unturned*", thus suggesting that a motivating factor for the additional searches was on justifying the partner choice and the rationality involved. Another reference to the logical incrementalist mode in Case B was the fact that the firm had not ranked other potential candidates in a preference order except for the eventually selected partner, and would have moved back to evaluate the other candidates in case the IJV proposition fell through. In Case C, on the other hand, the logical incrementalism showed in how the foreign partner contacted the identified candidates one by one, discussed potential IJV designs and the candidates' willingness to sell a share of their firm, moving on when rejected, until a willing seller was identified.

Fourth, the *political mode* reflects a decision process where groups of organizational members with competing interests fight for a favorable decision, leading to a power struggle resulting in a win by the most powerful people (Das and Teng 1999). References to the political mode can be recognized only in Case C within the qualitative data whereas the management teams of the other remaining three case firms seemed to operate under a clear consensus. In Case C, the technological personnel clearly opposed the rationale for the partial acquisition in the case IJV, whereas it was strongly supported by the sales personnel. In the end, according to the interviewee, the CEO-driven management team chose to neglect the views of the technological personnel, leading to eventual compatibility issues.

Lastly, the *garbage can mode* represents the least rationally-driven decision process mode within the typology, referring to a disorderly and anarchical process without on apparent structure, where organizations are viewed as ‘organized anarchies’ without a particular rationale for making a strategic choice (Das and Teng 1999). Also, in the garbage can mode, organizations are viewed as contexts into which streams of problems, solutions, participants and choice opportunities are poured (Björkman 1989). Features of the garbage can mode were very limitedly visible within the four cases, as all processes seemed to be objective-driven. In Case D, however, the decision process to acquire a share in the case IJV was triggered by the initiative made by the Norwegian firm, and the motivation to accept the offer differed from the original FDI motivation that had led the firm into the state of readiness, waiting for the opportunity to present itself. Still, even in Case D the reference to the garbage can mode is limited to the solution-problem –level, and the eventual decision process, according to the case interview, indicates certain structure and consideration of the IJV rationale.

### *6.5.3 Reflections on the Viljamaa typology*

In chapter 3.5 four alternative modes (*Evaluation of alternatives, Default selection, Entwined selection, Short selection*) of partner selection were presented. The presentation based on Viljamaa’s (2007) findings on external expert service provider selection. Next, the case study findings are reflected on these four modes.

None of the four cases is a perfect fit for the *Evaluation of alternatives* mode, or follow the rational choice model, even though both Case A and Case B do show resemblance in that direction as discussed in Chapter 6.5.2. In these cases the decision to form an IJV in a certain target area or country existed prior to moving on to a separate process of selecting partners. Also, in both cases certain selection criteria were first set before moving on to a search for potential candidates. However, there was no clear distinction between searching, evaluating and choosing the partner – the firms in both cases were active in evaluating prospective partners throughout the identification process, and a preference for a certain candidate existed very early on in both Case A and B.

Concerning Case A, the major factor was the niche-oriented nature of its industry as it was relatively well aware of each one of the limited potential candidate population, making the search process fairly irrelevant and explaining the preference for partner choice early on. A previous relationship also seemed to clearly affect the early preference, even to a level where the preference was present all along and other candidates were measured upon the original preference and the eventual chosen partner. In Case B, the criteria set for screening potential candidates was fairly generous (a local firm, smaller than Company B, also searching for a partner) and several sources of information were used, leading to an extensive long list, thus resembling the rational choice model in this account. However, it had an early preference for partner choice, and conducted additional third party search and evaluation processes largely to justify the relatively large financial investment and the significant strategic importance of the process. Still, Company B never thoroughly evaluated and considered a partner candidate other than the selected one, and the interviewee indicated that in case the IJV formation could not have been completed with the preferred candidate Company B would likely have moved back to its short list and considered other options without an already-known second choice – thus limitedly resembling the *short selection mode* in this account.

The mode of *default selection* did not appear in any of the four cases, as expected and speculated in Chapter 3 based on the generally significantly greater strategic importance and size of financial investment in IJV partner selection in comparison to Viljamaa’s (2007) original setting (external expert service provider selection). As the mode in essence requires the selector to have previous activities in the target country so that the ‘obvious’ partner choice can exist, three of the four cases were out of the default selection mode boundaries due to lack of experience in the target country.

Case D, the only one of the four cases where the foreign partner did not initiate the IJV discussion, is closest to the *entwined partner selection* mode in Viljamaa’s (2007) typology. However, certain distinctions appear – firstly, a decision to pursue acquisitions in the target country did exist prior to the initiative made by the local partner, and secondly, a decision to reject this offer would have led Company D to remain in its state of readiness, keeping itself ready for potential acquisition opportunities, instead of pulling the plug on the FDI plan. Both of these distinctions clearly relate to the fact that in Case D the partial acquisition was considered a stepping stone and a vessel to gain market information before a larger, and a strategically more significant acquisition to serve the original FDI motivation of Company D. Therefore, the strategic context seems to separate the process of Case D from the Viljamaa (2007) typology.

### 6.5.4 *Summary of context influence*

As two of the cases (Cases C and D) were formed by partial acquisition of an existing firm and the other two as Greenfield ventures (Cases A and B) the data enables comparison of decision processes between the two different types. The case data clearly indicates certain distinctive features between the two. Overall, the Greenfield cases resembled the rational choice model and the previous partner selection process models (Hamill and Hunt 1998, Ellram 1991, Mitsuhashi 2002, Young et al. 1989) much more than the partial acquisition cases. As the interviewee of Company C described its partner selection decision process opportunistic, the opportunism was visible on Case D as well – Company D stayed alert, the FDI process on hold, waiting for an acquisition opportunity to appear within its narrowly defined watch list of potential acquisition targets, and advanced into partially acquiring a firm as an opportunity presented itself. Also, neither of the partial acquisition cases turned out as collaborative ventures by choice – both Company C and D merely acquired the share available without specifically aiming for collaboration, and neither were driven by motives requiring the existence of shared decision making. In both of the Greenfield cases clear collaborative motives existed as both Company A and B considered their firms incapable of entering the target country via a wholly-owned investment, both because of their limited financial resources and knowledge about local customs, culture and language. Furthermore, in the partial acquisition cases the foreign partners were much more interested in the competitive position of the prospective partners in comparison to the Greenfield cases, who instead were clearly more focused on skills and know-how on the task-related front, and trust and commitment in the partner-related front.

Besides a two-versus-two distinction based on the form of investment, the cases were divided in two based on the IJV location. Two of the cases (A and B) concerned IJVs formed in China, representing both physically and culturally distant environment and economically an emerging market, especially notably so at the time of the investment (1999, 2001). The two other cases (C and D), instead, featured IJVs formed in Western European countries, obviously dealing with far lesser distance and context uncertainty in comparison to the Chinese cases.

As expected, the greater distance reflected on the importance given to accessing knowledge on local customs, culture and language. As neither Company A or B, representing the distant cases, had significant previous operations in the target country, the lack of experience seemed to amplify the importance of accessing local knowledge, in line with common logic.

There are certain indications of selection uncertainty relating to greater distance. In Case A, the interviewee clearly states his awareness of potential opportunistic behavior of the Chinese, and refers to aspects of contextual uncertainty in relation to the decision of a Greenfield form over acquiring an existing firm ("*…you never know what kinds of skeletons you'll find in the closet, it is definitely not reasonable to take such risks")* and the evaluation of prospective partners, where limited access to detailed financial information was noted as a clear cause for concern. In Case B, accessing detailed financial information was similarly valued, and therefore the eventual partner's status as a publicly listed company was considered important.

Regarding cultural distance, some additional findings were made. Organizational culture seemed to be a factor in two of the cases; in Case B, the interviewee referred to a good culture fit due to fact that both management teams were technologically driven ("*It was more about industry professionals working together instead of financial experts working on the numbers")* while the interviewee in Case D referred to the fit arising from the partners' roots as family-owned firms. Bad fit of organizational cultures seemed to negatively affect IJV C as well ("*It was obvious that, even though we were in Europe, the cultures and the general ways of doing things were quite hard to fit together"*) yet it became a factor after the IJV was formed and therefore had no role in the IJV formation decision process.

Experience in the target country was also perceived to have an influence on how firms proceeded in their quest for suitable partners. There are clear indications in the qualitative data for the importance given to prior relationship and cooperation when selecting IJV partners, therefore supporting Mitsuhashi's (2002) suggestion for firms' tendency to apply the relational mechanism (i.e. valuing existing relationships) in order to reduce selection uncertainty. There were also indications of trying to overcome the lack of target-country-related experience by the use of third party services and recruitment of target-country-experienced personnel. Lack of experience – international, collaborative or target-country-related – did not seem to translate into lesser rationalism within the IJV formation process, as the two perceivably most rational formation processes were undertaken by firms forming their first collaborative direct investment.

As brought up in several instances, the perceived strategic importance and the relative size of the investment were clearly factors in how firms approached and proceeded in the process of forming the IJV and selecting its partner. Decision making in Case B clearly reflects the significant importance and relative size of the investment through a systematic and comprehensive process, whereas the relatively small size and importance of Case D comprises a justification for a less-than-precise evaluation by Company D, according to the interviewee.

### *6.5.5 Partner selection process and performance*

Regarding the IJV performance of the four cases, two features were common in all of them. Firstly, in all four cases the foreign partner considered the eventual IJV performance lower than what was originally expected during the IJV formation. Secondly, performance of the venture fluctuated strongly in all four cases, therefore indicating that the timing of performance measurement may cause significant change in results in survey studies. In Case B, IJV performance was considered adequate during the first couple of years of operation, yet rapidly falling worse as driven by the downfall of the IT sector and disagreement largely caused by later personnel change on both sides. In Case C, the performance was for several years considered extremely unsatisfying – at worst the venture was considered practically worthless – yet a decade after the IJV formation performance is on significant rise. Also in Case D, performance took a drastic downturn after changes in the competitive dynamics of the markets caused by an aggressive newcomer, again becoming better during the later years.

Also common to all cases is the fact that the main changes in IJV performance were mostly caused by aspects unforeseeable during the IJV formation. The only clear linkage between the pre-formation period and later performance was noted in Case C, where neglecting the views of the technological personnel led to a venture comprising bad technological fit, causing unsatisfying IJV performance for several years. Still, the partners were able to reconfigure their strategies and now consider the IJV to have good potential and are satisfied in its current performance. In Case D the foreign partner overvalued the brand of the prospective partner, causing a discrepancy between the expected performance and the actual performance of the IJV, yet the IJV still enabled the foreign partner to meet its main goal, which was to gain market experience and information. All in all, case data suggests that the eventual negative performance discrepancy regarding the IJV was caused by developments either within the partnership due to such things as personnel changes during the IJV operation or by changes in the external environment, and such developments can not be directly linked to partner selection decision making.

Summarized information and details of the four case studies are presented in Table 16 and Table 17 on the following pages.

**Table 16.** The case study summary (1/2).

| Finnish partner | COMPANY A | COMPANY B | COMPANY C | COMPANY D |
|---|---|---|---|---|
| **JV name** | IJV A | IJV B | IJV C | IJV D |
| **JV country** | China | China | Germany | Norway |
| **JV business** | B-2-B (Industrial textiles / paper machine clothing) | B-2-B (Circuit boards (for cell phones) | B-2-B (Power source solutions) | Consumer goods (Foodstuff) |
| **Nature of JV business re: JV formation (at the time of the investment)** | Very specific, very few competitors | Potentially very large volumes, increasing competition | Niche; all even remotely significant players know each other globally | Markets of each country dominated by few large firms; value of brands |
| **Year of inv.** | 1999 | 2000 | 1997 | 1997 |
| **Original % of FIN partner** | 60 % | 51 % | 25 % | 30 % |
| **Current %** | terminated | 20 % | 25% (unchanged) | 30% (unchanged) |
| **Form of inv.** | Greenfield IJV | Greenfield IJV | Partial acquisition | Partial acquisition |
| **Originally desired % of ownership** | Majority | Majority (51%) | Majority | Not considered - potentially majority |
| **Target country experience** | Exports (small-scale) | Trading (small-scale) | Exporting (very limited) | None |
| **IJV / international experience prior to case IJV formation** | WOS in USA, Brazil, Portugal | WOS in France | None in manufacturing | WOS in UK, Estonia; sales units in the Baltic countries (EST/ LAT/LIT), RUS; (IJV in Sweden by another business sector) |
| **Contact initiator / 1st move** | Case firm (Company A) | Case firm (Company B) | Case firm (Company C) | Local partner |
| **Previous relationship with partner** | Technology transfer; top managers knew each other → significant effect on the process | Business wise none / top managers of firms knew each other from trade show meetings (unofficial settings) | Top managers knew each other → effect on the process | None |
| **Impulse** | Market growth forecasts | Following the main customer | Desire to become a 'European player' | Recognition of appealing market potential |
| **FDI Motivation** | Entering a growing market, manufacturing near the customer | Entering a growing market | Entering a large market / balancing the business customer wise | Learning about the Norwegian market; entering a new market |
| **Collaboration Motivation** | Dividing risk; financial limitations; accessing knowledge of local customs, language and market | Dividing risk; financial limitations; accessing knowledge of local customs, language and market | None good WOS acq opportunities found; WOS GF too slow to set up; "the opportunity presented itself" | Access to brand, distribution; gaining knowledge of local market; top acq choices not willing to sell |
| **Perception of partner's motivation** | To obtain advanced technology (Note: Company A tried to limit partner's access to manufacturing know-how); no clear understanding of partner's motives (not discussed between partners) | To obtain advanced technology; more efficient utilization of land & personnel; developing a higher-end market; expanding market share & broaden global customer base (openly discussed when forming the IJV) | Forced to sell due to financial reasons | Access to (and learning from) partner's manufacturing knowledge |
| **IJV Formation process description** | Target Area (Asia) → GF JV form → shortlist of 4 (ranked in order), of which one preferred from the start → due diligence → negotiations → signing. 1.5 years. | Target Area (Far East) → JV form → GF form → screening criteria → desktop search → longlist (approx 50) → 1st shortlist (under 10) → consult's shortlist (3) → discussions & visits → negotiation → signing. 1.5 years. | Target area (CE) → Acq form → listing (appr. 10) → contacts & discussions → finding a willing seller → negotiations → signing. Approx. 1 year. | Target area (NOR/SWE) → Acq form → identifying screening criteria and candidates (very specific) → none willing to sell → state of readiness → Reacted to an offer made by NOR firm → negotiations → signing. |

**Table 17.** The case study summary (2/2).

| Finnish partner | COMPANY A | COMPANY B | COMPANY C | COMPANY D |
|---|---|---|---|---|
| **JV name** | IJV A | IJV B | IJV C | IJV D |
| **JV country** | China | China | Germany | Norway |
| **JV business** | B-2-B (Industrial textiles / paper machine clothing) | B-2-B (Circuit boards (for cell phones) | B-2-B (Power source solutions) | Consumer goods (Foodstuff) |
| **Later development and the main reasons for development** | Partners' disagreement with strategy development and additional investment (expanding) in the IJV; changes in personnel caused changes in strategic thinking, leading to complications in cooperation | Price erosion/overcapacity in the market; partners' disagreement on customer strategy (balance) and JV expansion; amplified by interpersonal issues (which were fueled by personnel change) | Tech. incompatibility in early stages; perceived value of IJV C has taken a U-shaped development due to long-term commitment in developing the IJV in later stages - currently perceived as having 'strong potential' | Share of ownership unchanged; performance does not meet expectations mainly due to limited distribution network access |
| **Size and strategic importance of IJV** | Relatively small | Very significant | Important at the time of inv., later much less so | Relatively small |
| **Partner search** | No clearly stated pre-criteria; ca. 20 companies operating in the business; ca. 5 potential candidates - "all potential partners in the market were known by the company"; a clear top 3 comprised the final list | Pre-criteria clearly stated prior to search; >50 partner candidates in the long list; several sources of information used (reports, visits, consulting agency) - "very thorough" | No clear pre-criteria; ca. 10 partner candidates identified /operating in the business; no systematic approach in place; all identified targets were contacted | Were only interested in top firms in the business in each of the two target countries (SWE/NOR); had identified those and waited for a share to become available; the IJV D partner was not among these identified |
| **Partner choice** | Selected partner was preferred from a very early stage; no thorough evaluation/due diligence took place on other candidates | Selected partner was preferred from a very early stage; still several others were evaluated (also using third party examination) | Several candidates refused on the offer for IJV; main reason for choosing the partner was basically its willingness to sell the share of 25% | Accepted an offer |
| **Speculation: If this partner had not agreed to IJV, what then?** | Another identified shortlist partner would have been chosen; there was a clear order on top 3 candidates | Not clear; no other candidate was up to the "ideal" level; would have gone back to short list evaluation | Not clear; would have moved on in the short list evaluation | Would have stayed put, waiting for other opportunity |
| **General perception of the IJV negotiation stage** | No major complications or problems; outsourced lawyer and his experience valuable in preparing exact paperwork; lasted 6 months | Very easy, strong mutual understanding, no complications; lasted 2 months | Quite difficult; the agreement documents are very complex; e.g. the resales agreement was agreed upon after a lengthy process, yet no final documents were completed - causing issues later | Very easy, rapid mutual trust and understanding |
| **Issues in IJV formation (as identified afterwards)** | Lack of understanding of partners' product/customer strategies; Not finishing the resales discussion & agreement in negotiation stage | None - described as "very smooth" | Process was opportunistic rather than systematic. Main source of problems was neglecting the technological personnel when forming the IJV → led to "not invented here" | Process was very smooth - Should have paid more attention to evaluating brand strength and potential for expanding distribution |
| **Time constraints for IJV formation** | No strictly set timetable for the formation process; according to the interviewee there were no time constraints that would have effected the IJV formation decision making | Fast entry to market was important due to being able to service the main customer; A timeframe (considered very generous) for selecting a partner was set at a very early stage. | Time (fast entry to market) was deemed important (leading to ACQ over GF), but for unclear reasons. The formation process was hurried because of the presented opportunity (share was available) | None, other than the partner who made the initiation obviously wanting a decision |

# 7 SUMMARY AND CONCLUSIONS

To begin the seventh chapter, the study is briefly summarized. Following the summary, conclusions of the study are presented, combining findings of the two differing perspectives on IJV partner selection and their respective quantitative and qualitative empirical studies. Then, the limitations of the study are presented, and finally, some future research avenues are discussed.

## 7.1 Summary of the study

In the first chapter of the study the research gap, research questions, scope and structure of the study were presented. The main research question of the dissertation was outlined as "*How do firms select their IJV partners and how does partner selection influence subsequent IJV performance?*" and further detailed into three sub-questions for additional breakdown of the research agenda. The three sub-questions dealt with the influence of IJV context and bounded rationality on partner selection, and the key factors and decisions separating firms in regards to how they select their IJV partners.

The second chapter – the first theoretical part of the study – was built upon the grounds of the main bulk of IJV partner selection criteria research following the lead of Geringer (1988). Together with the first empirical part (Chapter 5), the main goal there was to expand upon the knowledge on contextual influence on the relative importance of partner selection criteria, as well as to examine the relationship between the selection criteria and IJV performance. Following the mainstream of IJV partner selection criteria studies, it was aimed to define the limits of the selection criteria approach in explaining the IJV partner selection phenomenon. The main theoretical grounds of the selection criteria approach relied upon the resource-based view of the firm, the resource dependency theory and transaction cost theory. In Chapter 2, a set of hypotheses regarding the contextual effect on partner selection criteria and its relationship with IJV performance were stated for later empirical examination in Chapter 5.

The third chapter – the second theoretical part of the study – the phenomenon of IJV partner selection was examined from a process-oriented point of view. The main goal of the chapter was to examine how firms differ with regard to the paths they take in selecting their IJV partners, adding to the process descriptions of previous research by proposing alternative process modes. The theoretical backbone of Chapter 3 was built upon a behavioral theory approach, comprising models and typologies drawn from the strategic decision making literature and partnering models drawn from the purchasing literature. It was emphasized that the IJV context, dissected into factors relating to the foreign partner, the IJV location, the specific investment and the strategic contingencies, has an impact on both the relative importance of selection criteria, and the mode and level of rationality a partner selection process may undergo.

Three aspects of the literature were essentially pointed out as IJV partner selection is perceived from a process-oriented perspective: Firstly, a rational choice model does not portray the complex reality of IJV partner selection decision processes; instead, the processes tend to be completed under the constraints of bounded rationality – the scarcity of information, time and/or resources – essentially affecting the path a firm follows in its quest for an IJV partner. Secondly, decision processes can be broken down to several phases and/or routines in varying ways, yet some broad-viewed consistency can be recognized, and thus the inspection of an IJV partner selection decision process would logically focus on (1) pre-partner selection decision process period, including the IJV trigger/stimuli and general readiness for the IJV, (2) partner search/identification, and (3) partner evaluation and choice. Thirdly, previous typologies of decision processes have been synthesized fairly effectively, leading to general level decision process typologies (e.g. Das and Teng 1999) by which different modes of decision processes can be presented in order of rationality of each process mode. Also, applying other types of partnering models, such as those presented in the purchasing literature (e.g. Ellram 1996, Viljamaa 2007) would seem useful in the IJV partner selection research context. These models also seem to suggest that the process of selecting an IJV partner can not always be regarded as an independent decision making process separate to the IJV formation decision process entity, as in several cases the decision to form an IJV is entwined with the choice of a specific partner. Furthermore, examining whether the partner selection decision making process is truly a separable entity demands inspection regarding the whole IJV formation process, especially key decisions such as decision on the target country/area, decision on direct investment, decision to invest on a collaborative venture, and a decision on the form of investment.

To close the third chapter, and to conclude the theoretical parts of the study, a summary of the theoretical framework was presented. Thus, the two-fold theoretical part spawned a theoretical framework illustrating how IJV partner selection – perceived both as a set of selection criteria and as a decision process – is influenced by four different types of contextual and situational factors, and suggested an influence of IJV partner selection on the subsequent performance of the venture.

The methodological choices of the study were presented and discussed in the fourth chapter. The decision to take a mixed-method approach – applying both quantitative and qualitative data – was based on gaining a triangulated and synergistic view of evidence on IJV partner selection, following Eisenhardt (1989). For its natural applicability and enabling comparison to previous studies, a quantitative approach and a survey research was chosen as the method to examine the partner selection criteria and its relative importance under differing contexts. As the quantitative approach focusing solely on partner selection criteria was deemed incapable of describing the whole complexity of the IJV partner selection phenomenon, a qualitative approach was taken in order to explore IJV partner selection from a process-oriented perspective. Thus, selected companies were highlighted in the quantitative data and were contacted for interviews during late 2009 in order to undertake comparative case studies.

In the fifth chapter, the results for the quantitative empirical study were presented and discussed. First, the relative importance and a factor analysis of the partner selection criteria were presented, resulting in highlighted relative importance of trust and commitment as selection criteria, and a factor composition comprising eight selection criteria factors. Next, analyses concerning the relationship between contextual variables (i.e. foreign partner, location, and investment-specific variables, the investment motives) and the relative importance of the selection criteria were examined, leading to a finding that the relative importance of the criteria was most strongly influenced by the region of the IJV, the level of development of the IJV host country, and the form of investment. Finally, the focus was placed on the relationship between the relative importance of the selection criteria and the performance of the joint venture, and the results seemed to indicate that the well-performing IJVs had placed an especially strong importance on certain partner-related criteria such as trust, commitment and management compatibility.

In the sixth chapter, a qualitative approach was taken to examine the processes of four case IJVs formed in 1997–2000 with a Finnish firm acting as the foreign partner, thus forming the second empirical part of the study. In addition to describing the selection process, Chapter 6 focused on the context effect on partner selection decision making and performance implications of choosing specific paths in the IJV formation. The results seemed to indicate that the IJV context had a significant effect on different components of the IJV formation process and the process mode a firm followed, and suggested that the linkage between the partner selection process and the eventual IJV performance is less clear than what was indicated by the criteria-oriented perspective. Lastly, Chapter 6 examined the extent to which the IJV partner selection process can be seen as its own separate decision making entity within the IJV formation process, leading to findings indicating its limited separability.

After the summary of the study, the seventh chapter next comprises the conclusions and contribution of the study. Finally, limitations of the study and further research avenues are discussed.

## 7.2 Conclusions of the study

To begin, some general conclusions regarding the study can be made. Firstly, as expected, firms vary significantly in regards to the paths they follow on their quest for suitable IJV partners. Differences are apparent both in the relative importance of selection criteria as well as the structure and the rationality of the partner selection decision process. Thus, the call for more holistic explanation for the IJV partner selection process is clearly justified, and neither the economic theory approach nor the behavioral theory approach alone is capable of completely grasping the phenomenon.

Secondly, although the selection criteria approach suggests the dominance of trust, commitment and management compatibility as the key traits that firms value when selecting IJV partners, the case studies indicate that the strategic rationale is more central to partner selection. The fore-mentioned partner-related aspects are relatively highly valued throughout the selector population, even by those firms that were not satisfied with IJV performance, indicating a tendency to perceive trust, commitment and management compatibility as general prerequisites of forming an IJV partnership. Also, it should be noted that those firms within the quantitative data sample, gathered *ex-post*, who were satisfied with the IJV performance and the cooperation within the IJV partnership, may possibly overvalue the importance given to trust, commitment and managerial compatibility prior to the IJV formation due to their later high levels.

In light of a presented research gap, the main research question of the dissertation was stated as follows: *How do firms select their IJV partners and how does partner selection influence subsequent performance of the IJV?* As the study and the approach call for more holistic approaches to studying the IJV partner selection phenomenon in the midst of a stream of literature focusing on a single selection process component, the main research question was formulated as general and broad by nature to reflect this ideology. Next, the study proceeds following the three sub-questions set to further break down the main research question.

*Sub-question 1: What kind of influence do contextual factors (i.e. firm-specific, location-specific and investment-specific factors as well as features of the strategic context of the firm) have on IJV partner selection?*

The first of the three sub-questions concerned the contextual effects on how firms select their joint venture partners. The contextual factors were grouped to refer either to the firm-specific context (in this study, due to the empirical focus, the foreign-partner-specific context), location-specific context, the investment-specific context and the strategic context of the firm. As the quantitative and qualitative results on the matter were already separately discussed in chapters five and six, brief combined conclusions on the different contextual effects are next presented.

Regarding the foreign-partner-specific context, *firm size* logically influences the resources available for the IJV formation process and therefore should affect the boundaries of rationality in decision processes. However, in comparative analysis, the case studies did not indicate differences in selection process rationality in relation to firm size, largely because firm size varied fairly little within the cases as no small firms nor large multinationals were present in the qualitative study sample. As firm size also seemed to have, at best, a very limited influence on the selection criteria, it may be concluded that the size of the firm is not a key factor within the IJV context determining how firms select their IJV partners. Regarding experience, the results give some support to earlier findings on the familiarity or novelty of a strategic decision and the speed and relative ease a firm repeats a similar type of decision process, thus referring to the *IJV experience* of the firm and its management. Even though *FDI experience* and *target-country-related experience* weren't significant factors relating to the relative importance of the selection criteria, influence of experience was more apparent from the process-oriented perspective. Concerning target-country-specific experience, firms seem to value previous cooperation, even in cases where (minor) complications have occurred within those previous relations. It clearly is also a factor in the resource need of the firm concerning access to knowledge of local customs, culture and language. Lacking IJV or target-country-related experience seemed to affect both the identification of prospective partners as well as the evaluation of candidates. Additionally, the qualitative results clearly highlight the effect of the nature of industry/business of the IJV which was not included as a variable in the quantitative study. Especially the stage of identifying prospective partners is likely to significantly differ between firms operating in niche businesses involving small populations and limited competition. In summary, the foreign-partner-specific context seemed to have a fairly limited influence on partner selection, mainly visible from the process-oriented perspective through the influence of experience and the type of industry/business the firm operates in.

The location-specific context, mainly concerning *context uncertainty* and *socio-cultural distance*, seem to have the most visible contextual effect on IJV partner selection. Criteria-wise, the IJV partners in Asia are selected by valuing low-cost labor and production costs, as well as access to raw materials and ability to negotiate with the local government – all in line with vast previous literature on FDI by Western Firms in Asia. Also, as mentioned above, firms seem likely to use the relational mechanism (Mitsuhashi 2002), i.e. valuing existing ties, to reduce selection uncertainty, and the case studies indicated its highlighted importance when operating in unfamiliar an distant environment. Regarding knowledge of local customs, culture and language, its importance seems central in contexts of high uncertainty and distance, yet it also seems to be a pre-requisite for partner prospects and thus more directly involved in the motivating factors for firms to pursue a collaborative operation mode in the first place. Also, importance of local knowledge may well be apparent in socio-culturally close environments in the form of market knowledge, as indicated by the qualitative study.

Certain aspects of the investment-specific context seem to significantly affect how IJV partners are selected. Within all contextual elements analyzed in this study the most significant singular influencing factor was the *form of investment*. It can be concluded that partner selection, both from the process-oriented and the selection criteria-oriented points of view, differs significantly between Greenfield IJVs and partial acquisitions. A vast majority of selection criteria dependent on the form of investment were valued more when partners were selected for Greenfield IJVs. The strongest counterpoints were criteria concerning valuable trademarks or brands, access to marketing or distribution systems, and access to post-sale networks were valued more in the cases of partial acquisitions. From the process-oriented perspective, the selection processes were drastically different between the Greenfield cases and the partial acquisition cases; the Greenfield cases resembled much more the traditional partner selection mode, and the partial acquisition cases were more opportunistic by nature. Instead of looking for a partnership *per se*, the partial acquirers were scanning for potential acquisition targets, both partial and whole. Combining the quantitative and qualitative findings, firms looking to acquire a share in an existing company instead of starting one from scratch focus on the strategic positioning of the candidate within its market, and/or the value of its brands/trademarks, whereas those forming Greenfield IJVs tend to value different skills and abilities, financial resources as well as determinants perceived important for effective cooperation in the IJV partnership significantly more than the other firms.

The *role of the initiator*, i.e. whether the firm is active or reactive in initial IJV partnership contact, seems to have only a limited influence on what criteria firms value when selecting partners. Being reactive seems to increase the importance of trust and commitment as was expected based on uncertainty concerning the potential opportunistic behavior of the initiating firm. However, the role of the initiator is a more relevant determinant for partner selection when perceived from a process-oriented perspective, as reactive firms may tend to neglect identifying alternative solutions (i.e. candidates), leading to a selection process where the decision to form an IJV is entwined with the decision to form an IJV partnership with a specific firm. Lastly, among the investment-specific context, *relative partner size* seems to have a limited influence on the relative importance of selection criteria; the only significant, yet strong, difference concerned the importance given to financial resources of the partner, significantly more highly valued by the smaller firms. The qualitative study is not able to add to the examination of the relationship between partner selection and relative partner size by case comparison analysis, as the foreign partner was significantly larger than the local partner in all four cases. Instead of the relative size of partners, the qualitative study indicates that the *relative size of the IJV* (to the size of the foreign partner) may factor into the resources put into the formation process and thus the boundaries of rationality in the selection process, *in lieu* to the perceived strategic importance of the IJV.

Finally, within the strategic context of the firm, the FDI stimuli and motivation may be more relevant factors concerning the ownership strategy and form of investment decisions than the actual partner selection decision process. The results indicate that the collaboration motivation is, on the other hand, more relevant to how firms choose their IJV partners. Lastly, the perceived strategic importance of the IJV was clearly a factor in all four cases within the qualitative studies. The results indicate that a high perceived strategic importance may, at least partially, compensate for the negative effect of firm size on resource contributions, and seems a more relevant antecedent for IJV formation decision making than the size of the firm.

*Sub-question 2: Do firms that select their IJV partners under lesser limitations in regards to time, information and financial and/or other resources end up with more suitable partners and a higher satisfaction on IJV performance in comparison to the more limited firms?*

One of the key aspects in focus in this study is the relationship between IJV performance and partner selection. The quantitative study, focusing on the differences between well-performing and medium-to-low performing firms in regards to the relative importance of the selection criteria, indicated that firms satisfied in the performance of the IJV tended to value certain partner-related criteria (trust, commitment, compatibility) more than those who were not satisfied. The qualitative data, on the other hand, enables a more holistic perspective on this relationship than the criteria-oriented results of the quantitative study, yet the relationship between performance and partner selection becomes expectedly less clear.

Even though certain criteria seem to be valued more highly by those firms which were more satisfied to the IJV performance, this study indicates, in accordance to Varis (2004), that it may be naïve to directly connect the pre-formation selection criteria and the subsequent performance of the venture. According to the case studies (most notably Case B), firms may appear to have succeeded in selecting partners, yet post-formation development, IJV management and operation may include complications deteriorating the subsequent IJV performance such as changes in management personnel leading to changes in strategy. These complications are arguably often independent of – or at least unforeseeable at – the formation stage of the IJV.

*Sub-question 3: What are the key factors and decisions within the IJV formation process that differentiate firms in regards to how they select their IJV partners?*

The third sub-question concerned the process-oriented approach in the study, aiming to explain the diversity of paths firms may take on their quest for IJV partners, and more specifically, to identify those points (i.e. decisions) within the processes and the contextual factors that most significantly divide the selection process modes from each other. It was also targeted at explaining the extent to which the process of selecting IJV partners is truly separable from the IJV formation decision making process entity.

Certain aspects of the IJV context appeared to be especially visibly in play in regards to the process modes firms followed in selecting partners. As each were separately discussed in relation to the first sub-question, each will be very briefly discussed here. First, the *form of investment* was a significant divider, also relating to the strategic context of the firm as the partial acquirers lacked a specific collaborative motivation prior to scanning the market opportunities, and therefore the stage of identification of prospective partners can more adequately be described as identification of potential acquisition targets. Second, the perceived *strategic importance* and the *relative size of the IJV* clearly seem to affect the partner selection decision process and its systematicity, adding to the willingness of firms to contribute resources and the management's need for justification before making the final partner decision. Third, lack of *target-country-related experience* limits firms' options in valuing previous cooperation when looking for local partners, thus affecting both the identification and evaluation mechanisms. However, lack of target-country-specific experience in combination with a high perceived strategic importance may well drive the firm more strongly towards a highly-rational selection process, as the existence of prior relationships seems to be likely to create early preferences and limit the extent to which the alternatives are evaluated and considered. Although selection processes seem to strongly differ according to their resemblance of the rational choice model, even in the least rational cases firms are likely to pursue developing alternatives. Likely factoring into this phenomenon, again, is the strategic importance of the IJV and the partner decision.

Regarding the components in the partner selection process, there seems to be a visible distinction of the mechanisms of identification and evaluation/choice of partner, supporting earlier literature. Also supporting earlier literature concerning FDI decision making (e.g. Björkman 1989, Woodside and Pitts 1998), these mechanisms are not clearly in chronological order as evaluation often takes off in early stages of the identification process, thus causing overlapping of the two components. In line with this finding, a distinct stage of "choice" is not apparently clearly visible and separable from evaluation of candidates as firms seem to rank candidates fairly early on. Regarding the four alternative modes of partner selection, modified from Viljamaa (2007), the *default selection* mode does not seem to be directly applicable in the IJV partner selection context, whereas key traits of the other three modes were apparent within the qualitative sample. The most logical explanation for the non-applicability of the default selection mode would be the drastic difference in the strategic importance of the decision in Viljamaa's original setting in comparison to IJV partner selection. Similarly, the different decision process modes within the Das and Teng (1999) typology were partially fitting to the findings of this study, yet the *garbage can mode* and the *political mode* did not seem helpful in explaining how partners were selected. Regarding the garbage can mode, the results coincide with those of Björkman's (1989), and the lack of explanatory power of the two modes in this context may again reflect the strategic importance of this type of decision and the management's strive for thoroughness and consensus regarding decisions of this kind of amplitude.

In relation to the third sub-question the study also aimed to expand on the perception that the process of selecting IJV partners forms a separable and thus an independent decision making entity within the IJV formation process. The results indicate that the IJV partner selection process can only limitedly be considered independent and separable from the larger IJV formation process entity. The case studies support the expectations of its limited separability, suggesting that partner selection is often entwined to the decision to form the joint venture, most often in cases where the firm is reactive to an outside proposal to form an IJV. Also, the case study results indicate that partial acquisitions may not be intended to be partial, thus resulting in joint ventures, but instead are chosen due to the presented opportunity and availability. In this case, the decision to collaborate is entwined to the partner decision. Therefore, it can be argued that entwined partner selection may be expanded to reflect entwining also to other IJV formation process decisions than the final decision to form the joint venture – such as country/location decision, collaborative decision and/or the form of investment decision.

## 7.3 Contribution of the study

Theoretically, the key contribution of this study arises from the behavioral approach to the partner selection phenomenon. Even though the strategic decision process literature is extensive, and even in the FDI front the amount of research focusing on the underlying decision processes has accumulated ever since the 1960's, a further focus into the partner selection has not been applied from this perspective. Overall, the combination of the two theoretical approaches, and focusing on IJV partner selection criteria as well as the underlying process, clearly produces a more holistic perspective into the phenomenon.

The present study contributes to the prior theoretical knowledge on IJV partner selection by, firstly, expanding our understanding of how different components of IJV partner selection are affected by the different dimensions of the IJV context and the strategic contingencies, therefore adding to a more detailed explanation of why selecting IJV partners is often characterized as case-specific. Also, the drastic differences between firms forming Greenfield IJVs and firms completing partial acquisitions in regards to their partner selection processes indicate that pursuing concise models for IJV partner selection may demand separate analyses as divided by the form of investment. Clearly, the Greenfield IJV form seems to better respond to the earlier literature on IJV or ISA partner selection, whereas in partial acquisitions the partner might often be perceived as a necessary evil due to a lack of competitive full acquisition options.

Second, the study shows how prior models of the IJV partner selection process depict a limited population of firms selecting their IJV partners, and implicitly assume several conditions that do not apply to a major proportion of the actual IJV partner selection processes. As called for by Aharoni & Brock (2010), the present study incorporates the concept of bounded rationality into the equation, and expresses the variation of partner selection process modes by applying previous decision making and process typologies indicating significant differences concerning the underlying rationality.

Another contribution of the study relates to the previous findings indicating the separability of the partner selection process. Al-Khalifa & Peterson (1999), adding to the pioneering findings by Tomlinson (1970), implied that IJV formation and partner selection should clearly be considered two separate decision processes. Even though this argument responds well to the “ends” and “means” thinking derived from the psychological theory (Dichter 1971, Maslow 1970) as suggested by Al-Khalifa & Peterson (1999), the present study argues for a limited separability of the partner selection process from the IJV formation decision process entity. To widen the perspective herein, the strategic decision process literature was incorporated into the study, as well as inspection of the applicability of selection modes drawn from the purchasing literature, and the presentation of the *entwined selection mode* applied and modified from Viljamaa (2007) most clearly expresses how partner selection process is not a universally separable decision process entity in the IJV or ISA contexts.

Third, regarding the partner selection-performance connection, the quantitative study presents statistically significant differences between the well- and the medium-to-low-performing IJVs in regards to the relative importance of selection criteria. These results especially indicate the exceptionally high levels of importance of partner-related aspects such as trust, commitment and compatibility within the selection of partners to the well-performing ventures, clearly a contribution to the scarce amount of partner selection-performance research as well as a notion to managers assessing the relative importance of the partner-related criteria. However, the case studies reflect the multitude of factors potentially affecting the eventual performance of the IJV, usually relating to aspects within the IJV operation and management, and thus giving support to the notion regarding the relationship between partner selection and subsequent performance by Varis & Conn (2002:12) suggesting that “*whereas it would be naïve to suggest that such a relationship does not exist, actually corroborating it to a significant degree of certitude and ascertaining that confounding or intermediate factors are not more important, is pragmatically impossible*”. Therefore, it is here concluded that valuing trust, commitment and management compatibility may be crucial with regard to the future of the IJV, yet it may also be more sensible to examine the selection criteria in relation to intermediate measures concerning the IJV cooperation, management and development, rather than linking it directly to the performance outcomes.

Furthermore, regarding the managerial contribution, the present study indicates the importance of considering the multitude of contextual dimensions when selecting an IJV partner. Even though a firm is limited in resources, experience or information, a structured and systematic approach to selecting a partner may considerably enhance the foundation for eventual successful IJV operation. The results suggest that a firm may at least partially overcome its resource boundaries in case the decision is held in a high strategic importance and treated as such.

The strategic rationale and compatibility are first and foremost important yet the partner-related aspects underlining the cooperative foundation are also essential. The case studies additionally indicate the importance of involvement of all main functions of the firm when assessing the IJV rationale and design. As they may be key to achieve a complete understanding of the IJV rationale, it should not be overlooked that the involvement may significantly affect the commitment of personnel in the eventual development of the IJV as the project advances from formation to the operation stage.

Finally, the case studies clearly indicate the eventual benefits of open communication regarding the objectives, upsides and downsides of each partner during the initial IJV design discussions, reflecting on the IJV partnership through increased trust and commitment. Also, extensive initial design discussions enable the partners to assess their cultural compatibility, and a strongly explicit mutual benefit perspective may significantly enhance partners' willingness to develop the venture in full cooperation.

## 7.4 Limitations of the study and future research avenues

Several limitations should be taken into account when assessing the generalization of the results in this study. These limitations mainly concern the features of the empirical data and its collection.

Even though the effects of several types of biases, such as distortion and memory failure (Mintzberg et al. 1976) as well as post-rationalization – i.e. recalling past strategies as being more rational and consistent than they really were (Golden 1992) – can be reduced by using multiple interviewees (Ghauri & Grønhaug 2010), both the quantitative and qualitative empirical studies used a single informant approach, i.e. a single person represented a firm and its decision making. This was due to the accessibility of data – only a very limited amount of persons were closely related to the partner selection decision processes and accessing several interviewees equipped with valid information was deemed unfeasible. Therefore, other sources of information were needed for additional support and triangulation. To expand on the single informant responses within the qualitative empirical study, additional information was gathered by using several different sources such as annual reports, press releases, meeting agenda documentation, and other relevant documentation. In compiling the case data, the interview material and the above-mentioned documentation were also supported by the questionnaire responses of each firm, originally gathered for the quantitative empirical study.

Third, regarding the quantitative empirical study, the limited size of the sample clearly affects the generalization of the results. Also, the sample size limited the availability of reasonable options for statistical analysis. However, as argued for in Chapter 4.2, the sample size is well comparable to majority of the previous studies, and larger than the samples in several of the main reference studies (e.g. Al-Khalifa and Peterson 1999, Chen and Glaister 2005, Glaister 1996, Glaister and Buckley 1997, Maurer 1996).

The empirical data was exclusively collected from Finnish firms acting as the foreign partners in IJVs located in several countries. This brings up two essential limitations for the generalization of the research findings: First of all, as the point of view taken in this study concerned that of the foreign partner only, the dyadic nature of a joint venture process is neglected. Second, the country-of-origin effect on IJV formation decisions is not here analyzed or otherwise accounted for, thus the findings may not translate to other cultural or institutional backgrounds. This has been the case in the vast majority of previous research in the field of IJV partner selection. The single country-of-origin and the sole view of the foreign partner are apparently common to a large part of previous literature (see Table 1 on p. 18), and mainly caused by the difficulty and cost of collecting data from several countries (Geringer and Hebert 1991). Therefore, there clearly is a gap for future research with a dyadic focus on IJV partner selection, as the current existing dyadic research on the phenomenon (Demirbag et al. 1995, Tatoglu and Glaister 2000, Tomlinson and Thompson 1977) is extremely scarce and covers a very limited ground especially in consideration to a process-oriented perspective, and the contextual effects on partner selection as well as its outcomes.

Another sample issue concerned the features of the cases in the qualitative empirical study. Because of comparison purposes in relation to the form of investment and also for distance and context uncertainty, two Greenfield IJV cases and two partial acquisition cases were selected, and two of them were located in Western Europe while the other two in Far East Asia. Problematic here was the fact that the only case data composition available, with regard to the other criteria posited for the case selection (p. 63), featured two Greenfield IJVs in China, and two partial acquisitions in Western Europe, instead of one of each form in each of the two geographical/cultural contexts. However, the interviews gave quite clear indications for the role of each contextual factor as perceived by the respondents of the case firms, and special awareness of the issue took place during the interviews showing in the form of additional clarifying questioning.

As the industry and the type of market the firm operates in appeared to significantly affect the IJV partner selection process, it might be fruitful to more specifically focus on partner selection decision making in different industrial contexts. Several features in this context are of apparent interest, such as firms in business-to-business markets in comparison to firms in consumer markets, the R&D intensity, and global competition, to name but a few.

Furthermore, it was concluded that connecting eventual IJV performance to certain pre-IJV formation selection criteria composition may appear somewhat naive, as the case study results indicated that a perceived success in selecting a suitable partner in a rational, systematic and precise manner may lead to a complete failure, or on the other hand, an opportunistic process lacking a systematic approach may eventually lead to a satisfying IJV relationship and bright future expectations. How should one then approach the outcomes of IJV partner selection instead of focusing on the direct performance relationship? Perhaps the performance focus in connection to partner selection should, instead of eventual IJV performance, be placed upon the success in selecting a *suitable* partner as perceived at the beginning of the IJV operation, attempting to exclude effects that were unforeseeable at the time of the investment. Regarding the selection criteria approach, linkages to different dimensions of compatibility or fit could enlighten the selection of a suitable partner (see, e.g., Douma et al. 2000, Chi Cui et al. 2002, Weber et al. 1996, Luo 1998, Child et al. 2005, Marks and Mirvis 1992, Bronder and Pritzl 1992 for conceptualizations regarding different aspects of fit).

Regarding the theoretical part of the study, it must be noted that the current study combines elements from several streams of literature to achieve a comprehensive understanding of IJV partner selection. Because of this chosen approach the depth of elaboration in relation to all of these streams varies, and for this reason may not cover every aspect within each of the approaches. For a systematic approach, it was here pursued to to cover and explain the aspects of the theories that are most directly related to IJV partner selection, and thus present useful tools for their holistic understanding. Aharoni and Brock (2010) recently strongly encouraged IB researchers to follow the lead of those examining IJVs from the behavioral point of view, and to reincorporate the concept of bounded rationality, and thus give the study of decision making an important role in the ongoing development of the IB field. It is here agreed on – as the wealth of selection criteria research has accumulated since the late 1980's, it might be fruitful to redirect the research focus towards the underlying decision processes in IJV partner selection research. Additionally, the call by Shenkar and Reuer (2006) for multicase studies to identify processes, dynamics and evolution of different types of alliances is here supported and considered a strong potential direction for contributions in IB research.

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# APPENDIX

**Appendix 1.** Thematic outline of the case interviews.

1. **Background information on the case firm and the respondent**

   - The history of international operations of the case firm: exports, foreign production, international co-operative operation modes (years, countries) – *cross-checked with additional documentation*
   - A brief description of the internationalization strategy of the firm and its development throughout the past decades
   - The respondent's position / career development in the case firm, highlighting the time of the case IJV formation period and further development
   - The respondent's role and participation in decision making regarding the case firm's foreign operations throughout the time of employment in the case firm
   - The respondent's similar experience (as above) accumulated under previous employers

2. **The Case IJV formation**

   - A free-form description of the process leading to the case IJV formation
   - Pre-FDI: The original impulses and motives behind the international production decision; also, establishing the starting point for the timeline for the decision making process
   - Rationale for forming an IJV over a wholly-owned unit
     - The effect of the following factors on pursuing an IJV over WOS (each asked separately): Features of the target country/area; financial resources; previous international and target-country-specific experience; attributes of a known partner candidate; other
   - The existence and the nature of a potential predetermined ownership strategy when entering the IJV formation process
   - Personnel directly involved in the IJV formation process in general
     - Personnel involved in: decision to explore FDI opportunities and to enter an FDI formation process; the partner selection process; the final partner selection and IJV formation decision

3. **The IJV partner selection process**

   - A free-form description on the process of selecting the IJV partner
   - Respondent's perception on whether certain distinct stages within the partner selection process can be identified in hindsight
     - Each asked separately: Drawing a desired partner profile; identifying prospective partners; evaluating the candidates; partnership negotiations; final decision
   - Clarification of the timeline with regard to each of the fore-mentioned process components (as applicable)
   - Drawing a desired partner profile: existence of a potential predetermined selection criteria, their nature, and the personnel setting these criteria

- Identifying potential partner candidates
  - Sources of information used in identifying partner prospects (cues: previous business connections of either the firm or the individuals, other connections, consult services); personnel directly involved in the identification
- Evaluating the partner candidates
  - The nature of the criteria that were in the evaluation of partner candidates and their relative importance (cues: competences/skills/know-how, financial resources, reputation, trustworthiness, commitment, objectives)
- IJV partnership negotiations:
  - A freeform description of the negotiation process (cue: potential points of disagreement, solutions to overcome these disagreements)
  - The existence of a clearly preferred partner candidate when entering the negotiations
  - Number of candidates that the firm negotiated with

**4. Objectives and motives for the IJV**

- The extent to which the respondent considered that the partners, at the time of the IJV formation, reached a precise mutual understanding of each other's motives and objectives in forming the IJV partnership
- The extent to which the respondent perceived, at the time of the investment, the partners' motives and objectives compatible/in conflict
- The extent to which the respondent perceived, at present time, the partners' motives and objectives compatible/in conflict
  - If this perception changed significantly over time, the reason(s) for the change

**5. The evaluation of the IJV formation process, as perceived at present time**

- Whether the respondent perceives, at present time, that certain aspects should have been taken into stronger consideration or whether the firm should have proceeded in a different manner when forming the IJV and selecting the IJV partner
- If such aspects were brought up, the factors for why the firm did not originally consider these aspects in a required manner (cue: financial / human resource / other resource limitations, international / collaborative experience, cultural differences, time limitations due to strategic reasons)

**6. Systematics of the IJV formation and partner selection process**

- The extent to which the respondent considered the IJV formation process and especially the partner selection process systematic, at the time of the investment
- The extent to which the respondent considers the IJV formation process and especially the partner selection process systematic, as evaluated at present time
- The extent to which the IJV formation and partner selection process has had an influence on the later investment behavior of the firm