

# STRATEGIC DETERMINANTS OF PARTNER SELECTION CRITERIA IN INTERNATIONAL JOINT VENTURES

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**Abstract.** Prior studies are vague regarding determinants of criteria for selecting “complementary” partners for international joint ventures (IJVs). This paper first distinguishes task and partner-related dimensions of selection criteria. The paper then argues that relative importance of task-related selection criteria is determined by the strategic context of the proposed IJV and the parent firm, specifically the critical success factors of the venture’s competitive environment and the parent’s static and dynamic position vis-a-vis these factors.

Joint ventures (JVs) involve two or more legally distinct organizations (the parents), each of which actively participates, beyond a mere investment role, in the decisionmaking activities of the jointly-owned entity [Geringer 1988]. It is considered to be an international joint venture (IJV) if at least one parent is headquartered outside the venture’s country of operation or if the JV has a significant level of operation in more than one country [Geringer & Hebert 1989].

The use of JVs, in both international and domestic contexts, has exhibited dramatic increases in recent years [Harrigan 1988; Hergert & Morris 1988]. In fact, more JVs and other collaborative ventures have been announced since 1981 than in all prior years combined [Anderson 1990]. IJVs are also a critical concern for international business because of their growing strategic importance. These ventures are increasingly being perceived as critical elements of corporations’ business units networks, as strategic weapons for competing within firms’ core markets and technologies [Harrigan 1987].

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For example, one recent study found that over 85% of the 3268 sample JVs were in the same industry as one or more of the parent firms [Geringer & Woodcock 1989]. Several studies have also suggested that trends toward the increasing frequency and strategic importance of joint ventures, particularly IJVs, are likely to continue during the 1990s [Deloitte, Haskins & Sells International 1989; Anderson 1990]. Yet, despite their increasing importance, many IJVs have had performance problems, with estimates of unsatisfactory IJV performance ranging from 37% to over 70% [Janger 1980; Harrigan 1985; Deloitte, Haskins & Sells International 1989].

Prior research has suggested that the choice of a particular partner is an important variable influencing IJV performance, since it influences the mix of skills and resources which will be available to the venture and thus the IJV's ability to achieve its strategic objectives [Tomlinson 1970; Berg & Friedman 1982; Killing 1983; Harrigan 1985]. These studies have typically cited the need for selecting the "right" (e.g., [de Hoghton 1966; Devlin & Bleakley 1988]) or "proper" (e.g., [Reynolds 1979]) partner, particularly when IJVs involve a firm's core markets or technologies [Moxon & Geringer 1985; Reich & Mankin 1986; Geringer & Hebert 1989; Hamel, Prahalad & Doz 1989]. Further, such a partner is commonly argued to be one which is "complementary" [de Hoghton 1966; Franko 1971; Gullander 1976; Killing 1983; Harrigan 1985; Dymsha 1988]. Indeed, it has been argued that a lack or erosion of complementarity is the most important factor undermining effectiveness of the IJV process [Chowdhury 1989]. Since IJVs vary according to their specific contexts, attempting to identify a universal list of criteria which firms should employ when seeking a "complementary" partner would be futile [Killing 1983]. Nevertheless, prior studies have generally been vague or silent regarding which criteria a firm might use in attempting to select a "complementary" partner, or in identifying which contextual variables might help determine the relative importance of these criteria.

The objective of this study was to promote a better understanding of how firms proceed in selecting partners for IJVs. The emphasis is on identification of variables which help determine the selection criteria which firms employ when seeking IJV partners. Based on a synthesis of prior research, the paper argues that the relative importance of IJV partner selection criteria is determined by the strategic context of the proposed venture and the parent firm. Specifically, it is hypothesized that relative importance of selection criteria is related to the critical success factors of an IJV's competitive environment, and to static and dynamic dimensions of the parent firm's position vis-a-vis these factors.

### **PRIOR RESEARCH EXAMINING IJV PARTNER SELECTION**

The issue of IJV partners and particularly their selection has received limited attention in the joint venture literature. In general, prior IJV studies are characterized by either total absence of direct reference to partner

selection or the issue is accorded only one or a few sentences. Even when mentioned, it has usually been in the context of a discussion of motives for IJV formation or on subsequent management of the ventures, and selection of partners is typically treated as a given. The few studies that empirically examined partner selection are discussed below.

Tomlinson's [1970] study of the joint venture process in India and Pakistan was the first to identify and focus upon partner selection as a distinct and separable decision in the IJV formation process. To help understand partner selection, he tried to identify distinct categories of selection criteria. Of the six general categories examined, "favorable past association" was cited by respondents as the single most important criterion, although it was not sufficient to ensure effective IJV performance. Although less important than favorable past association, the categories of "facilities," "resources," "partner status" and "forced choice" were reported as being of approximately equal importance. The final category, "local identity," was found to seldom represent a primary criterion for partner selection. Tomlinson also investigated the possibility of identifying a set of specific contextual variables which might help predict the selection criteria used for particular IJVs. Of eight groups of variables examined, parent size, nature of business (categorized as oil, chemicals, engineering, electricals, vehicles, metals, and tobacco/food) and the stated motivation for IJV formation exhibited the strongest relationships with reported selection criteria.

Tomlinson's pioneering study provided several valuable insights into the IJV partner selection process. However, generalizability of his results may be constrained by several factors. First, he focused solely on a convenience sample of forty-nine British firms involved in seventy-one IJVs in India and Pakistan, and the ventures were almost exclusively oriented toward serving local markets in these countries. In addition, the selection criteria categories he developed were not mutually exclusive. His data's validity may also be compromised by the likelihood that some interviewees had not been involved in partner selection. Since several IJVs were formed twenty or more years prior to interviews, accuracy of information regarding selection criteria might have been diminished even if the executives *had* participated in the selection process.

Tomlinson and Thompson [1977] examined Canadian firms' IJV experiences in Mexico, using data from interviews with forty Mexican and Canadian parent company executives, other business people and government representatives. Traits that Canadian firms should seek in local partners for IJVs in Mexico were listed, namely, financial status, business compatibility, common goals, ability to negotiate with the government and compatible ethics. They also identified traits that Mexican firms sought in foreign partners, including financial resources, technology and experience in its application, international visibility and reputation, commitment to the Mexican IJV, international experience, management depth and the ability to

communicate with Mexicans. However, the study failed to indicate relative frequency or intensity with which specific partner traits were sought by either Mexican or Canadian firms, or any contextual variables which might influence the criteria which were employed.

Renforth [1974] examined the IJV process between U.S. multinational corporations and local family or non-family firms in Jamaica and Trinidad and Tobago, to determine whether IJVs performed differently if they incorporated local partners with distinctly different operating characteristics (i.e., family versus non-family firms). The international division manager in each U.S. parent's home offices rated eleven possible criteria according to their relative importance in selecting foreign IJV partners. Respondents apparently evaluated criteria with respect to hypothetical IJVs, which might have introduced some degree of artificiality into the responses. He attempted to categorize the criteria based on whether they had strong, mild or no influence on the selection decision. However, the categories did not exhibit statistically significant differences in means when evaluated at even a 0.10 level. Nevertheless, Renforth noted that IJVs could accommodate the demonstrated differences in philosophy, policies or operating procedures which resulted from inclusion of a family or a non-family firm partner and still produce equivalent, satisfactory results. Except for the family/non-family variable, Renforth did not document any explicit attempts to identify contextual variables which might influence the relative importance of specific selection criteria.

Daniels [1971], in an examination of foreign direct manufacturing investment in the U.S., also examined investments made via IJVs. Although IJV coverage was abbreviated, the results did enable Daniels to conclude that firms sought similarly-sized organizations as partners. The rationale for this preference was that, by selecting a similarly-sized partner, a company "could be assured that the two firms placed the joint venture in about the same importance. Furthermore, the two firms were then in more nearly equal power positions for bargaining" [Daniels 1971, 60].

In contrast to Daniels' findings, Adler and Hlavacek [1976] focused on a nonrandom sample of JVs oriented toward product innovations and formed almost exclusively between firms considered "large" and "small" relative to each other. They identified a listing of "typical criteria" used to select partners for JVs in this specific type of strategic context, including an established marketing/distribution system in the market to be served; a salesforce of suitable size, caliber and image calling on specific customers; technology to improve on or complement one's own current technology base; the kind of personnel needed; a given minimum available financial resource; and relative company size. However, no information was presented regarding relative frequency or importance attached to each, nor how these criteria might vary from those used for JVs in which partners did not vary widely in size, or which were not oriented toward product innovations.

Awadzi [1987] used a sample of forty manufacturing IJVs in the U.S. to examine the relationship between relative bargaining power and partner selection criteria. He distilled his analysis down to four selection criteria, each with an hypothesized positive relationship with IJV performance: complementarity of partners' resource contributions, past association between partners, relatedness of partners' businesses, and relatedness of foreign partners' and IJVs' businesses. Awadzi argued that, "the more resources a firm can contribute to a joint venture, the greater the likelihood that it would be selected as a partner"(p. 32). He did not attempt to identify differences in priorities among different resource contributions, or contextual variables which might influence these priorities. In addition, he did not clearly identify what specific partner contributions would qualify as "complementary resources," instead leaving that decision up to the respondents. Except for non-financial complementary resources, none of Awadzi's selection criteria evidenced significant positive relationships with IJV performance.

In conclusion, past research has had only limited success identifying selection criteria that firms utilized, and particularly in identifying variables which might help explain why, or how, relative importance of criteria varies among IJVs. The problem was especially evident for IJVs oriented toward developed countries. Nevertheless, several conclusions may be drawn. First, partner selection appears to be an important variable in the formation and operation of IJVs, since the specific partner chosen helps determine the mix of skills and resources, operating policies and procedures, and overall competitive viability of an IJV. Partner selection also appears to be a distinct decision within the IJV formation process, and it appears possible to identify what selection criteria were employed as well as their relative importance in this decision.

In addition, results of prior studies suggest that, while an almost unlimited range of alternative criteria may exist, it might be possible to simplify analysis by distinguishing broad categories of these criteria. However, prior efforts at developing such typologies have had limited success, due to lack of thoroughness or conceptual distinctness of their categories. Yet, review and synthesis of prior research suggests that development of a parsimonious yet thorough typology might be possible. In particular, it appears possible to distinguish between criteria associated with the operational skills and resources which a venture requires for its competitive success (i.e., "task-related" criteria) and criteria associated with the efficiency and effectiveness of partners' cooperation (i.e., "partner-related" criteria). More specifically, "task-related" criteria refer to those variables which are intimately related to the viability of a proposed venture's operations *regardless* of whether the chosen investment mode involves multiple partners. The variables could be tangible or intangible, human or nonhuman, in nature. Examples include patents or technical knowhow, financial resources, experienced managerial personnel, and access to marketing and distribution systems. In contrast, "partner-related" criteria refer to those variables which become

relevant *only if* the chosen investment mode involves the presence of multiple partners. Examples include a partner's national or corporate culture, the degree of favorable past association between the partners, compatibility of and trust between partners' top management teams, and a partner's organizational size or structure.

Finally, results of prior studies suggest that, while selection of a "complementary" IJV partner is critical, the criteria firms used for selecting these partners have varied extensively. Further, this variation seems to be attributable to the specific competitive circumstances confronting an IJV. This suggests that the relative importance of partner selection criteria may be determined, on a contingency basis, by variables associated with the strategic context of the IJV and the parent firm. However, the specific nature of this relationship has not been clearly identified in prior studies. In addressing this latter situation, the paper's focus will be restricted to task-related selection criteria and their relationship with variables associated with an IJV's strategic context, specifically the requirements of the IJV's competitive environment and the parent firm's position relative to them. The focus on task-related criteria reflects arguments by Renforth [1974] and Harrigan [1987] that relationship traits are less important in determining effectiveness of cooperative strategy than are industry traits, and that venturing firms should concentrate principally on the competitive needs of an IJV [Harrigan 1988].

### RESEARCH HYPOTHESES

The use of the IJV form of organization results in additional costs attributable to shared decisionmaking and coordination of partners [Stopford & Wells 1972; Killing 1983; Harrigan 1985]. Therefore, it is assumed that a firm typically attempts to form an IJV only if perceived additional benefits outweigh expected additional costs of utilizing the IJV option [Beamish & Banks 1987]. As reviewed above, numerous studies have suggested that these additional benefits will accrue from selecting a partner who can supply the complementary skills or capabilities that are expected to help the firm attain its strategic objectives. However, prospective partners can complement a firm on a variety of dimensions. Thus, merely advising a firm's managers to seek "a partner with complementary capabilities" provides relatively little guidance regarding the specific capabilities a potential partner should provide, or the trade-offs a firm might make between alternative complementary skills or resources.

The concept of critical success factors (CSFs) may be useful in overcoming this problem. CSFs are those few key areas of activity which must be performed particularly well in order for the organization to outperform its competitors [Vasconcellos e Sa 1988]. These factors are determined by the underlying characteristics of the firm's industry [Porter 1980] and by characteristics of the tasks to be carried out by a venture [Prahalad & Doz 1987]. They may vary by industry, by company, and may even change over

time [Jenster 1987]. Yet, because they can have a significant effect on firm performance, thus on attainment of corporate objectives, managers must attempt to identify these factors. Hofer and Schendel [1978] asserted that CSFs are well known to the existing competitors in an industry, although they may not be as evident to others, including potential new entrants. In contrast, it has been claimed that accurate identification of the CSFs confronting an organization may entail significant difficulties [Leidecker & Bruno 1984]. Nevertheless, the central issue regarding these factors is managers' *perceptions* regarding CSFs and the firm's position relative to them. This is supported by Anderson and Paine's assertion that, "Following the arguments of Weick [1969], it is generally accepted that the perceptions of environmental and internal characteristics (rather than the 'objective' characteristics of the environment) are the important properties to consider in the strategy formulation process." [1975, 813]

Managers' evaluations of relevant CSFs and the firm's position vis-a-vis these factors provide the foundation for a firm's competitive strategy [Porter 1980]. If a firm decides to enter a particular business, it can be assumed that the firm's management will attempt to implement a strategy promoting attainment of corporate objectives. Thus, the decision to pursue IJV formation and assume the added costs of interfirm coordination should reflect management perceptions that one or more partners can be selected who will enhance the venture's position vis-a-vis CSFs, thereby promoting attainment of organizational objectives. Benefits from a prospective partner's contributions might occur throughout the entire range of a venture's value chain, including one or more of the primary activities of inbound logistics, operations, outbound logistics, marketing and sales, and service, as well as the support activities of human resource management, technology development, procurement and the firm's infrastructure [Porter 1985]. However, management must concentrate their attention on those few activities which must be performed particularly well, which requires distinguishing between skills or activities of greater or lesser importance [Vasconcellos e Sa & Hambrick 1989]. As a result, the weighting of selection criteria should reflect the perceived relative importance to the firm of various contributions a partner can make toward improving competitive position and developing sustainable competitive advantage. Following this line of reasoning, it is expected that managerial perceptions of a proposed venture's CSFs will evidence a strong positive relationship with the relative importance of partner selection criteria.

H1: An increase in the perceived importance of a potential critical success factor to IJV performance will be correlated with an increased weighting of selection criteria associated with that factor.

This hypothesis may be exemplified as follows: as the perceived importance of a well-established distribution system (a potential CSF) to an IJV's performance increases, it is expected that the relative weighting of the criterion of finding a partner with access to a well-established distribution

system will also increase. Support for this hypothesized relationship may be found in the work of Davidson [1982, 46], who maintained that,

Selection of a local partner is a critical decision in joint venture formation. In the most general terms, the global firm requires a partner whose strengths meet the primary needs of the venture. If marketing and distribution are the principal requirements, the ideal local partner will be an experienced and established distributor of related products. If relations with the home government is critical, a local partner with close ties to the government is needed.

This statement supports Hypothesis 1 in predicting that, to promote successful performance, a positive correlation will be observed between perceived CSFs and the relative importance of partner selection criteria associated with those CSFs. However, this first hypothesis fails to take into account the relationship between criteria importance and the parent firm's existing capabilities vis-a-vis the CSFs. If a parent lacks the required capabilities within an area critical to the IJV then, unless these gaps are overcome, the venture will probably perform poorly [Vasconcellos e Sa & Hambrick 1989]. Yet, as the firm's existing capabilities more closely approximate the requirements associated with the venture's CSFs, the relative need for selecting a partner with such capabilities may correspondingly diminish. Therefore, the expected nature of this relationship between a parent firm's relative competitive position and the relative importance of partner selection criteria can be stated as follows:

H2: The stronger the current perceived competitive position of the parent firm vis-a-vis requirements dictated by a potential CSF, the lower the relative weighting of partner selection criteria associated with that factor.

This hypothesized negative correlation may be exemplified as follows: as a parent firm's perceived relative competitive position on "access to a well-developed distribution system" increases, it is expected that the relative importance of the criterion of selecting a partner with such access will decrease correspondingly.

Although a negative correlation between the variables in Hypothesis 2 is predicted, this relationship is not expected to be obtained for every case. The second hypothesis only addresses the expected relationship between the *existing* competitive position of the parent firm vis-a-vis the proposed venture's perceived CSFs. It fails to account for the potential *dynamic* aspect of this relationship; i.e., the perceived difficulty associated with future efforts by the parent firm to achieve a tenable competitive position vis-a-vis the CSFs. In certain instances, managers may perceive that existing gaps between their firm's capabilities and the venture's competitive requirements are likely to persist over time, despite efforts by the firm (e.g., gaps attributable to patented technology controlled by another organization). However, in other situations a significant gap between the firm's capabilities and the competitive requirements may be perceived to exist in a *static*

sense, yet be expected to substantially diminish or completely disappear with the allocation of resources and effort or with the passage of time (e.g., reduction in barriers due to regulatory changes). Thus, it seems critical to also consider the dynamic aspect of a parent firm's competitive position when developing selection criteria, particularly since long-term need for a partner and its contributions has been shown to be strongly related to the satisfactory performance of IJVs [Beamish 1984]. Therefore, the expected relationship between perceptions of a parent firm's competitive position over time and the relative importance of partner selection criteria can be stated as follows:

H3: The greater the perceived difficulty associated with a parent's future intrafirm efforts to achieve a tenable competitive position vis-a-vis a CSF, the higher the relative weighting of selection criteria associated with that factor.

Again using the distribution system example, this third hypothesis asserts that as the perceived difficulty of the parent firm's efforts to obtain access to a well-developed distribution system increases, the relative importance of the criterion of selecting a partner with access to such a distribution system will also increase.

In conclusion, it has been hypothesized that relative importance of task-related partner selection criteria will be contingent upon the strategic context of the IJV, particularly the CSFs confronting the proposed venture and the parent firm's current and expected future competitive position vis-a-vis these CSFs. The next section discusses the methodology which was used to test these hypotheses.

## RESEARCH METHOD

### *Selection of Sample*

Prior research suggests that the IJV process in developed countries may be different than in less developed countries in terms of motivation for IJV formation, characteristics of the competitive environment, availability and types of partners, and the typical division of equity, inter alia [Robock, Simmonds & Zwick 1977; Tomlinson & Thompson 1977; Beamish 1984]. Recent trends also suggest that IJVs are being used to compete within firms' core markets and technologies, particularly within developed country contexts [Harrigan 1987; Geringer & Woodcock 1989]. This study was thus limited to IJVs (i.e., at least 1 parent or 15% of revenues from outside the JV's country of operation) whose primary target market included one or more developed (OECD) country. However, the partners could have been from non-developed countries and IJV operations may also have been located elsewhere. In addition, due to resource and language constraints, the study was restricted to U.S.-based firms. To control for variation resulting from number of partners [Daniels, Ogram & Radebaugh 1983], the study was limited to IJVs with only two parents. A maximum of 75%

of initial IJV equity may have been held by either partner. Higher initial equity concentrations were perceived to reflect minority investment projects, rather than an IJV and its characteristic give-and-take operational format. To improve the likelihood that the person(s) involved in partner selection would still be employed with the parent or IJV and to minimize memory decay, all IJVs must have been formed during the five years prior to data collection. A list of qualifying IJVs in manufacturing industries (SIC 20-39) and formed between 1980 and 1985 was obtained from secondary sources (*Mergers and Acquisitions*; *The Wall Street Journal Index*; Cambridge Corporation's *Yearbook on Corporate Mergers, Joint Ventures and Corporate Policy*; *Predicasts' F&S Index of Corporate Change*; and U.S. Department of Commerce's *Foreign Direct Investment in the United States*). It was assumed that this listing represented a reasonable approximation of the overall population of qualifying ventures and that any selection bias would be minimal.

Dispersion of the 1018 qualifying parent firms suggested sample selection from geographic clusters, so five clusters (containing 547 firms) were identified: central California, southern California, Texas, the Great Lakes and the mid-Atlantic Coast. A sample of 100 qualifying firms was randomly selected from these clusters. To provide motivation for participation and accurate responses, participants were guaranteed anonymity and were promised a summary of research results [Cooper 1981]. Complete data were collected for 81 IJVs. Of the 19 nonresponding firms, 5 no longer existed, 10 expressed an inability or unwillingness to participate, and 4 supplied insufficient data for inclusion in the study. Of the participating firms, 34 had a U.S. partner, 21 had a Japanese partner and 26 had a Western European partner. The IJVs' intended market focus included one or more country in North America (35 IJVs), Asia (12 IJVs) or Western Europe (13 IJVs). Twenty-one ventures had a global market focus.

### *Data Collection Approach*

Since desired information was specialized in nature, participants had to be the executive(s) most knowledgeable about the topic. Prior research and results of pre-test interviews with nine executives from four firms revealed that one to three "key" executives in each firm typically had intimate involvement throughout the partner selection process and had access to the requisite data. The combination of limited population and busy executive schedules impeded efforts to obtain multiple respondents. However, pre-test results and comments by respondents suggested a high level of consensus among a firm's "key" executives regarding perceptions of research variables. Data were collected from one senior executive of each sample parent company via a pre-tested questionnaire, followed by semi-structured in-person interviews to provide test-retest confirmation of responses. Each respondent had direct responsibility for the IJV's operations and had been intimately involved with the IJV during its formation. Participants were

encouraged to utilize additional information sources, if necessary, to refresh their memory on specific aspects of the selection process. However, many executives reported that their careers and reputations within parent organizations were strongly influenced by the outcome of the venturing process and that details of the process were especially vivid.

All variables utilized ex post measures of senior executives' perceptions of variables' relative values at the time the partner was being selected and the IJV was being formed (e.g., "At the time the venture was being formed, how much importance did your company place on selecting a partner with the following skills or characteristics?"). Prior research on strategic issues indicated that self-reporting represents a sound method for identifying intended strategies [Hambrick 1980] and that it produces reliable data [Pearce, Robbins & Robinson 1987]. Responses were assessed using 5-point Likert-type scales (e.g., 0="not important," 4="very important"). Pre-testing revealed that ordinal classification of perceptions was a more realistic task for respondents than use of interval or ratio level measures. Particularly given limited available time of senior executives, readily understood and completed Likert-type scales were more feasible than potentially more precise, but more complex and time-consuming, interval-approximating methods such as Thurstone-type scales. Questionnaires were restricted to 5-point scales because of pre-test respondents' comments that more numerous response categories exceeded their ability to discriminate, producing "noise" rather than more precise data.

Given the research topic and limitations of prior research, an exhaustive set of distinct variable categories was not possible to obtain, nor was it necessary in order to adequately test the hypotheses. Based on prior studies, a list of thirty potential CSFs/selection criteria was obtained [Steiner 1968; Tomlinson 1970; Stopford & Wells 1972; Renforth 1974; Tomlinson & Thompson 1977; Beamish 1984]. Due to the time and attention requirements of an extensive list of categories, participants in the pre-test sample stressed the need for using a short questionnaire in order to maximize both data accuracy and response rate. On the basis of pre-test respondents' comments regarding the most important variables and the maximum feasible length of the questionnaire, the original list was substantially reduced. In the final questionnaire, fifteen categories were examined for each research variable:

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|--|----------------|
| a. Government pressures, regulatory requirements, etc.     | (Regulation)   |
| b. Access to financial resources                           | (Financing)    |
| c. Government subsidies, tax credits and other inducements | (Govt Subsidy) |
| d. Experienced managerial personnel                        | (Management)   |
| e. Technically skilled employees                           | (Employees)    |
| f. Location of joint venture facilities                    | (Site)         |
| g. Low per-unit costs                                      | (Low Costs)    |
| h. Patents, licences or other proprietary knowledge        | (Patent)       |

- |  |                  |
|--|------------------|
| i. Trademarks or reputation of parent firms        | (Trademark)      |
| j. Rapid market entry                              | (Rapid Entry)    |
| k. Full line of products or services               | (Full Line)      |
| l. Sales to government                             | (Govt Sale)      |
| m. Perceived local or national identity of venture | (Local Identity) |
| n. Marketing or distribution systems               | (Marketing)      |
| o. Post-sales customer service network             | (Service)        |

Respondents were asked to identify the perceived relative importance to IJV performance of each CSF category, as evaluated at the time the venture was formed. Similar responses were obtained regarding the relative competitive position of the parent firm along each dimension at the time of venture formation, as well as the difficulty expected to be encountered over time through internal efforts to achieve a viable competitive position on each dimension. Questions regarding the four research variables were not presented contiguously within the questionnaire, to alleviate complications arising from ex post rationalization.

#### *Data Analysis Techniques Employed*

Analyses were conducted using SPSSx, with responses of "Not Applicable" (NA) coded as missing values and excluded from analyses. However, it was apparent from interviews that NA responses could be recoded to meaningful integer values without significant distortion of the data. For the partner selection criteria, critical success factor and difficulty of internal development variables, a response suggesting a particular category/criterion was not applicable was approximately the same as stating the category/criterion had minimal importance, or a value of zero. For the competitive position variable, a response suggesting a firm's competitive position on a particular dimension was not applicable was interpreted as stating that the firm's competitive position on that dimension was approximately the same as (neither worse nor better than) its competitors, or a value of two. Thus, to enhance reliability, analyses were also conducted on data with the NA responses recoded as above.

Because of the extent of tie values across variable categories, bivariate correlations were analyzed using the Kendall *tau-b* statistic as the preferred nonparametric measure of association, since it is an ordinal variable analog of the Pearson *r*-square statistic used widely with tests involving interval level data [Hildebrand, Laing & Rosenthal 1977]. The three strategic context variables were closely related to each other conceptually, since an objective was to promote development of an integrated schema for understanding allocation of weights to selection criteria categories. However, inter-correlation between associated response categories of the three variables had the potential for confounding use of bivariate correlations for testing individual hypotheses. Thus, to enhance construct validity and understanding of relationships among the variables, second-order partial correlation coefficients were obtained for each category. Partial correlations permitted the

relationship between individual categories of a strategic context variable and the relevant partner selection criteria categories to be determined, when controlling for effects of associated categories of the other two variables.

## RESULTS

Hypothesis 1, predicting a positive correlation between perceived importance of potential critical success factor categories and the relative weighting of their associated selection criteria categories, received very strong support. As shown in Table 1, 14 of 15 correlations for the raw data and 15 of 15 for the recoded data samples evidenced hypothesized positive relationships significant at the 0.01 level or less. These findings were further supported by results of partial correlation analyses, in which 12 of 15 second-order partial correlation coefficients from the raw data sample and 13 of 15 from recoded data exhibited statistical significance ( $p \leq 0.05$ ) in the hypothesized direction.

Hypothesis 2, predicting a negative correlation between perceived relative competitive position on a particular variable category and the weighting applied to the associated selection criteria category, received mixed support. As shown in Table 2, 9 of 15 correlations for the raw data and 10 of 15 for the recoded data evidenced the hypothesized negative relationships significant at 0.05 or less. However, analysis of second-order partial correlations revealed statistically significant relationships ( $p \leq 0.05$ ) for only 5 of 15 correlations for the raw data and 6 of 15 correlations using recoded data. These latter results suggested that intercorrelation might be confounding the nature of the observed relationship between the competitive position and selection criteria variables. Thus, first-order partial correlations were calculated. Results of these analyses suggested that the poor support for Hypothesis 2 was largely attributable to intercorrelation between the competitive position and difficulty of internal development variables. As shown, when effects of only the critical success factor variable were controlled for, 10 of 15 first-order partial correlations for the raw data and 11 of 15 for the recoded data samples exhibited statistically significant relationships ( $p \leq 0.05$ ). However, when only the difficulty of internal development variable was controlled for, only 4 of 15 first-order partial correlations for the raw data and 2 of 15 for the recoded data samples evidenced statistical significance ( $p \leq 0.05$ ).

Hypothesis 3, predicting a positive correlation between perceived difficulty of internal development categories and weighting of their associated selection criteria categories, received strong support. As shown in Table 3, 13 of 15 correlations for the raw data and 15 of 15 for the recoded data samples evidenced the hypothesized positive relationship significant at 0.05 or less. Partial correlation analysis provided further support for these findings, with 11 of 15 second-order partial correlations significant at the 0.05 level for both data samples.

**TABLE 1**  
**Correlations between Partner Selection Criteria and Critical Success Factor Variable Categories**

Critical Success Factor Category	Partner Selection Criteria Category	Tau-b for Raw Data	Tau-b for Recoded Data	Partial Correlations <sup>1</sup>	
				Raw Data	Recoded Data
Regulation	Regulation	.38**	.38**	.35**	.24*
Financing	Financing	.41**	.42**	.36**	.36**
Govt Subsidy	Govt Subsidy	.49**	.47**	.48**	.33**
Management	Management	.35**	.38**	.35**	.39**
Employees	Employees	.54**	.53**	.63**	.50**
Site	Site	.38**	.43**	.22#	.36**
Low Costs	Low Costs	.59**	.59**	.58**	.50**
Patent	Patent	.25**	.27**	.26**	.28**
Trademark	Trademark	.38**	.41**	.45**	.48**
Rapid Entry	Rapid Entry	.64**	.64**	.58**	.56**
Full Line	Full Line	.14#	.25**	.18#	.04
Govt Sale	Govt Sale	.85**	.83**	.89**	.80**
Local Identity	Local Identity	.70**	.71**	.51**	.52**
Marketing	Marketing	.28**	.41**	.13	.17#
Service	Service	.57**	.60**	.48**	.44**

<sup>1</sup>Second-order partial correlations, controlling for identical categories of competitive position and difficulty of internal development variables.

\*\*reflects  $p \leq 0.01$ , \*reflects  $p \leq 0.05$ , #reflects  $p \leq 0.10$

To further explore the usefulness of the three research variables in explaining relative importance of partner selection criteria, stepwise regression analysis was conducted on each of the fifteen categories. The critical success factor, competitive position and difficulty of internal development variables were specified as independent variables in the equations, and partner selection criteria as the dependent variable. As shown in Table 4, and consistent with results of the correlational analyses presented above, the three research variables—particularly critical success factor and difficulty of internal development—were valuable in explaining variance in the relative importance attributed to selection criteria. Specifically, the critical success factor variable explained a significant proportion of the variance in selection criteria weightings in 12 of 15 regressions for the raw data and 13 of 15 for the recoded data. Difficulty of internal development evidenced significance in 10 and 11 of the regressions for the raw and recoded data samples, respectively, while the competitive position variable produced significant relationships in only 5 and 4 of the respective regression equations. Overall, the combined effect of the three variables explained from 10% to 76% of the variance in the weightings of the selection criteria categories.

## DISCUSSION

It was evident from prior research and the results of this study that partner selection is an important variable affecting IJV operations. The specific partner chosen can influence the overall mix of available skills and resources, the operating policies and procedures, and the short- and long-term viability

**TABLE 2**  
**Correlations between Partner Selection Criteria and Competitive Position Categories**

Competitive Position Category	Partner Selection Criteria Category	Tau-b for		Second-Order Partial Correlations <sup>1</sup>			First-Order Partial Correlations <sup>2</sup>			First-Order Partial Correlations <sup>3</sup>		
		Raw Data	Recorded Data	Raw Data	Recorded Data	Raw Data	Recorded Data	Raw Data	Recorded Data	Raw Data	Recorded Data	
Regulation	Regulation	-.26**	-.27**	-.18	-.16#	-.37*	-.33**	-.12	-.12	-.01	.01	
Financing	Financing	-.35**	-.31**	-.13	-.15#	-.42**	-.38**	-.08	-.08	-.04	-.04	
Govt Subsidy	Govt Subsidy	-.53**	-.52**	-.38**	-.38**	-.58**	-.51**	-.29**	-.29**	-.31**	-.31**	
Management	Management	-.14#	-.08	-.04	-.06	-.23*	-.23*	.04	.04	.07	.07	
Employees	Employees	-.29**	-.27**	-.19*	-.27**	-.48**	-.47**	-.02	-.02	-.06	-.06	
Site	Site	-.31**	-.27**	-.34**	-.26**	-.35**	-.31**	-.30*	-.30*	-.14#	-.14#	
Low Costs	Low Costs	-.06	-.09	-.08	.01	-.04	-.03	-.16	-.16	.09	.09	
Patent	Patent	-.38**	-.29**	-.12	-.23*	-.56**	-.55**	.02	.02	.03	.03	
Trademark	Trademark	.02	.02	-.01	-.05	-.05	-.09	.04	.04	.03	.03	
Rapid Entry	Rapid Entry	.07	.03	.06	.06	.03	-.01	.13	.13	.13	.13	
Full Line	Full Line	-.06	-.04	-.06	-.01	-.10	-.08	-.12	-.12	.05	.05	
Govt Sale	Govt Sale	-.16	-.26*	-.08	-.11*	-.27#	-.26**	-.37*	-.37*	-.09	-.09	
Local Identity	Local Identity	-.61**	-.49**	-.22*	-.21*	-.49**	-.43**	-.27*	-.27*	-.10	-.10	
Marketing	Marketing	-.42**	-.36**	-.09	-.09	-.50**	-.45**	-.09	-.09	-.18*	-.18*	
Service	Service	-.30**	-.18*	-.23*	-.22*	-.47**	-.38**	-.03	-.03	.10	.10	

<sup>1</sup>Correlations controlling for identical categories of critical success factor and difficulty of internal development variables.

<sup>2</sup>Correlations controlling for identical categories of critical success factor variable.

<sup>3</sup>Correlations controlling for identical categories of difficulty of internal development variable.

\*\*reflects  $p \leq 0.01$ , \*reflects  $p \leq 0.05$ , #reflects  $p \leq 0.10$

**TABLE 3**  
**Correlations between Partner Selection Criteria and**  
**Difficulty of Internal Development Variable Categories**

Difficulty of Internal Development Category	Partner Selection Criteria Category	<i>Tau-b</i> for Raw Data	<i>Tau-b</i> for Recoded Data	Partial Correlations <sup>1</sup>	
				Raw Data	Recoded Data
Regulation	Regulation	.50**	.44**	.28**	.22*
Financing	Financing	.49**	.48**	.29**	.26**
Govt Subsidy	Govt Subsidy	.64**	.60**	.42**	.27**
Management	Management	.32**	.37**	.27**	.28**
Employees	Employees	.53**	.50**	.37**	.24**
Site	Site	.16#	.38**	.08	.06
Low Costs	Low Costs	.33**	.48**	.09	.17#
Patent	Patent	.56**	.58**	.39**	.40**
Trademark	Trademark	.18*	.20*	.09	.05
Rapid Entry	Rapid Entry	.06	.30**	.08	.06
Full Line	Full Line	.27**	.35**	.40**	.33**
Govt Sale	Govt Sale	.53**	.74**	.31*	.22*
Local Identity	Local Identity	.65**	.68**	.29*	.28**
Marketing	Marketing	.53**	.61**	.40**	.40**
Service	Service	.41**	.64**	.27*	.28**

<sup>1</sup>Second-order partial correlations, controlling for identical categories of competitive position and critical success factor variables.

\*\*reflects  $p \leq 0.01$ , \*reflects  $p \leq 0.05$ , #reflects  $p \leq 0.10$

of an IJV. Because of this, it is critical for prospective joint venturers to understand the process of partner selection and the variables which influence that process. Although complementarity has repeatedly been argued to be a fundamental objective in partner selection, prior studies have had limited success in providing insight into what this might entail. Therefore, the objective of this study was to increase understanding of how firms select partners for IJVs, and to identify variables which might help determine the partner selection criteria used by these firms. Since each IJV typically evidences some degree of uniqueness, the focus of this study was oriented toward development of a broader conceptual foundation of the basis for determining relative importance of criteria, rather than toward examination of specific selection criteria.

The study's first contribution was to introduce a novel typology of selection criteria, one which distinguishes between task-and partner-related dimensions of selection criteria. This typology explicitly acknowledges those requirements which are common to both IJVs and other forms of organization (i.e., the task-related dimensions), as well as those which are unique to a multi-partner organization (i.e., the partner-related dimensions). The proposed typology may facilitate further theoretical and empirical examination of partner selection, since it simultaneously provides conceptual simplification while overcoming conceptual or operational limitations of prior categorizations. Although both dimensions appear important for long-term IJV functioning, this study focused on task-related selection criteria and variables which may help determine the relative importance attributed to them.

**TABLE 4**  
**Results of Regression Analyses**

Partner Selection Criteria Category	Significant Independent Variables <sup>1</sup>	Raw Data			Recorded Data		
		Beta	T-value	Adjusted R <sup>2</sup> for Equation	Beta	T-value	Adjusted R <sup>2</sup> for Equation
Regulation	DID	.43	3.90**	.39	.39	3.11**	.31
	CSF	.34	3.10**		.25	2.10*	
Financing	DID	.45	4.67**	.37	.41	4.18**	.36
	CSF	.30	3.15**		.31	3.16**	
Govt Subsidy	DID	.37	2.43*	.55	.29	2.47*	.53
	CSF	.37	2.83**		.33	3.02**	
Management	CP	-.31	-2.12*		-.32	-3.56**	
	CSF	.33	3.27**	.21	.38	3.87**	.30
Employees	DID	.33	3.20**	.58	.32	3.28**	.47
	CSF	.54	6.94**		.48	5.02**	
Site	DID	.34	3.45**		.24	2.13*	
	CP	-.16	-1.69#		-.25	-2.45*	
Low Costs	CP	-.35	-2.73**	.10	-.28	-2.88**	.27
	CSF	.66	6.84**	.42	.44	4.59**	.48
Patent	CSF	.63	7.00**	.41	.70	8.59**	.46
	DID	.18	2.03*		.19	2.30*	
Trademark	CSF	.48	4.86**	.23	.51	5.30**	.25
	CSF	.60	5.94**	.35	.68	8.18**	.45
Rapid Entry	DID	.54	3.22**	.16	.41	4.03**	.16
	CP	.34	2.08*				
Govt Sale	CSF	.74	11.41**	.74	.78	12.06**	.76
	DID	.44	4.63**	.61	.19	2.94**	.64
Local Identity	DID	.30	2.38*		.50	5.34**	
	CP	-.25	-2.04		.30	2.53*	
Marketing Service	CP	.62	6.41**	.38	-.18	-2.24*	.48
	DID	.43	3.73**	.32	.70	8.70**	.55
	CSF	.39	3.32**		.41	4.39**	
					.43	4.53**	

<sup>1</sup>DID = identical category for difficulty of internal development variable.

CSF = identical category for critical success factor variable.

CP = identical category for competitive position variable.

\*\*reflects  $p \leq 0.01$ , \*reflects  $p \leq 0.05$ , #reflects  $p \leq 0.10$

The study's second contribution was its development of a contingency-based conceptual schema for explaining the weighting of task-related selection criteria, which represents a substantial extension of existing IJV theory. For our sample, the relative importance of a particular task-related selection criterion was shown to be closely related to three variables associated with a parent firm's strategic context. These variables included management perceptions of: (1) the extent to which that dimension was critical to the venture's performance, (2) the parent's current competitive position vis-a-vis that CSF dimension, and (3) the anticipated future level of difficulty to be encountered in internal efforts to achieve a viable competitive position on that CSF dimension. As hypothesized, the critical success factor and difficulty of internal development variables generally evidenced very significant positive relationships with the relative importance of task-related selection criteria. The competitive position variable tended to have a negative correlation with the relative importance of task-related criteria, although the data from this variable appeared to have been subject to confounding, principally from effects of the difficulty of internal development variable. Nevertheless, the data suggested that parent company managers' evaluations typically involved analysis of both their firm's current (a relatively static measure) and anticipated future (a dynamic measure) relative competitive position, with importance being skewed somewhat toward the dynamic component of relative competitive position. Overall, these three variables seemed valuable in helping to understand how the relative importance of selection criteria was determined. Indeed, they explained a substantial proportion of the observed variance in the relative importance attributed to selection criteria. They provide the foundation for developing a simple, yet robust, framework for explaining this aspect of partner selection, and appear consistent with existing literature in international business strategy.

The study's results offer potentially valuable contributions toward improved understanding of the partner selection process and how firms proceed in selecting partners. In particular, the data help overcome limitations of prior IJV studies by giving fuller meaning to the concept of task-related complementarity as a basis for partner selection. Among other considerations, managers seeking a complementary IJV partner must determine the specific task-related skills and resources they may need from a partner, as well as the relative priority among these needs. This requires management to thoroughly analyze their own firm—and compare their current and potential future capabilities to those deemed necessary for IJV success—to determine what additional task-related capabilities may be necessary in order for the IJV to be competitively successful. Management must also establish priorities among these desired capabilities. As one measure of complementarity, prospective partners should thus be able to provide the additional task-related skills and resources which, in both the short- and the longer term, are expected to be necessary to fill these capability gaps.

In addition, comments by Hofer and Schendel [1978] regarding the relative ease of evaluating potential critical success factors suggests that the observed relationships between the critical success factor, competitive position, and difficulty of internal development variables and task-related selection criteria may have some predictive potential, further enhancing their value as conceptual and diagnostic tools. For example, prior research has shown that it may be possible to accurately predict experts' ratings of industries' CSFs, without requiring intimate knowledge of the specific industries [Vasconcellos e Sa & Hambrick 1989]. This research also demonstrated that firms tended to exhibit superior performance when their externally rated levels of skills and resources matched the projected CSFs of the firms' competitive environments. These results suggest the possibility of using strategic frameworks and/or expert panels to evaluate firms' CSFs and competitive positions, and thereby predict the nature and intensity of the firms' capability gaps. Such analysis could identify which, if any, organizations might qualify as potentially complementary partners for an alliance. This information might have substantial value to a firm considering involvement in an IJV, by determining which prospective partner firms it might approach (or be approached by), as well as the relative bargaining power which would be wielded by each party. This same type of analysis might also be valuable for a competitor seeking to proactively manage the potential negative repercussions resulting from the establishment of such an alliance.

The results of this study strongly support the assertion that the partner selection process as a whole, and partner selection criteria in particular, represents an important topic within the IJV literature. Because it has previously received relatively scant attention, the topic of partner selection offers a number of fruitful areas for future research. One such area involves the need for further refinement of the dimensions of task-related selection criteria, as well as the identification of additional variables which might help determine task-related criteria and their relative importance, and which could be measured using "objective" measures rather than (or in addition to) relying on more subjective data such as management perceptions. To the extent that this quest is successful, the potential explanatory power of a resulting model should be significantly enhanced.

Future research might also be focused on partner-related criteria and their role in the partner selection process. Indeed, while overcoming deficiencies along task-related dimensions may be a *necessary* condition for selecting a "complementary" partner, it may not be *sufficient* [Geringer 1988]. The IJV form of organization entails additional costs associated with coordination, conflict and compromise, which can affect prospects for achieving the strategic objectives of the venture and its parents [Killing 1983; Beamish & Banks 1987; Geringer & Hebert 1989]. Partner-related dimensions can be critical variables in this regard, since they can influence the efficiency and effectiveness of cooperation between partners [Tomlinson 1970]. Focusing future research on these variables and the nature of their relationship with

partner selection may spur development of a more sophisticated framework of the IJV partner selection process. Such research may also attempt to identify whether there might be differences in criteria weighting and/or the methods used for examining competitive environments based on contextual variables, such as culture or nationality. For example, do U.S. parents place the same level of emphasis on task- versus partner-related criteria when selecting IJV partners as do non-U.S. firms [Sullivan & Peterson 1982; Brown, Rugman & Verbeke 1989]?

Finally, from the standpoint of both practitioner and theorist, it would be useful to examine the link between the overall partner selection process, including partner selection criteria, and IJV performance. This would permit formal testing of the hypothesis that selection of "complementary" partners results in improved IJV performance. However, unless a multi-stage or longitudinal analysis is employed, the researcher is confronted with the trade-off between studying recent partner selection processes (and thus limiting potential memory decay) versus studying ventures of sufficient age to permit collection of performance data. In addition, it might be desirable to obtain each partner's evaluation of performance and to use several different performance measures, to enhance the level of understanding and insight available from such a study [e.g., Beamish 1984; Schaan 1983; Geringer & Hebert 1990].

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