

Strategic partnering with Chinese companies: hidden motives and treasures

Citation for published version (APA):

Duysters, G. M., Saebi, T., & Dong, Q. (2007). *Strategic partnering with Chinese companies: hidden motives and treasures*. UNU-MERIT, Maastricht Economic and Social Research and Training Centre on Innovation and Technology. UNU-MERIT Working Papers No. 034

Document status and date:

Published: 01/01/2007

Document Version:

Publisher's PDF, also known as Version of record

Please check the document version of this publication:

- A submitted manuscript is the version of the article upon submission and before peer-review. There can be important differences between the submitted version and the official published version of record. People interested in the research are advised to contact the author for the final version of the publication, or visit the DOI to the publisher's website.
- The final author version and the galley proof are versions of the publication after peer review.
- The final published version features the final layout of the paper including the volume, issue and page numbers.

[Link to publication](#)

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal.

If the publication is distributed under the terms of Article 25fa of the Dutch Copyright Act, indicated by the "Taverne" license above, please follow below link for the End User Agreement:

www.umlib.nl/taverne-license

Take down policy

If you believe that this document breaches copyright please contact us at:

repository@maastrichtuniversity.nl

providing details and we will investigate your claim.



**UNITED NATIONS
UNIVERSITY**

UNU-MERIT

Working Paper Series

#2007-034

**Strategic Partnering with Chinese companies: Hidden motives
and treasures**

Geert Duysters, Tina Saebi & Dong Qinqin

Strategic Partnering with Chinese companies: Hidden motives and treasures.

Geert Duysters¹, Tina Saebi² & Dong Qinqin³

Abstract

In this paper we aim to investigate the key drivers of international alliance formation from the perspective of Chinese companies. Our results indicate that Chinese companies enter into alliances with Western companies mainly to get accesses to international markets and to develop their technological and managerial competences further. Therefore we can say that Chinese companies particularly value task-related criteria when selecting Western partners. Nevertheless we also find that Chinese companies also include 'soft' factors such trust, compatibility or reputation in their partner selection process. We therefore conclude that in searching for Western partners, Chinese companies try to find a combination of 'hard' competencies such as technology and other resources as well as more 'soft' attributes such as trust, mutual understanding and commitment.

JEL Codes: F23, L24

Key words: Strategic alliances, China, Innovation, Internationalization

UNU-MERIT Working Papers
ISSN 1871-9872

**Maastricht Economic and social Research and training centre on Innovation and Technology,
UNU-MERIT**

UNU-MERIT Working Papers intend to disseminate preliminary results of research carried out at the Centre to stimulate discussion on the issues raised.

¹ UNU-MERIT, Maastricht, the Netherlands And TU/e Eindhoven, The Netherlands

² UNU-MERIT, Maastricht, the Netherlands

³ Wuhan University of Technology, Wuhan, China

1. Introduction

Strategic alliances with Chinese companies have become an important value-creating strategy for many Western companies. By establishing alliances with Chinese companies, Western firms are increasingly tapping into the enormous 1.3 billion consumer market. Over the past decade China has developed into a manufacturing powerhouse that is experiencing unprecedented growth rates. The international alliance literature has followed this trend with great interest and accordingly examined the strategic alliances motives of Western companies in China extensively. With a few notable exceptions (Dong and Glaister 2006; Hitt, Ahlstrom, Dacin, Levitas and Svobodina, 2004; Luo, 1997, 2002) however, little is known about the underlying motives of Chinese companies to enter alliances with Western partners. What is known to be the strategic motives of Chinese companies is mainly based on the perceptions of foreign partners (Dong and Glaister, 2006). This deficiency in the literature can be seen as a major weakness for two main reasons: Firstly, prior research has suggested that strategic motives for alliance formation can differ noticeably between local and foreign partners (Dacin, Hitt, and Levitas, 1997; Demirbag, Mirza, and Weir, 1995; Tallman and Shenkar, 1990; Yan and Gray, 1994). A divergence in alliance motives can lead to conflict situations, where alliance partners hold different expectations about the goals of the alliance. Hence, failing to understand or acknowledge the strategic objectives of the foreign partner firm can not only exacerbate this problem but eventually hinders the successful implementation of the alliance. Foreign companies seeking to collaborate with Chinese companies must adapt to *guo qing*, which means they must adapt to “national characteristics” or “a country’s special circumstances” (Yan 2004). Secondly, as strategic motives influence the partner selection criteria of alliance partners, failing to understand the latent strategic motives of Chinese companies prevents Western companies to further acknowledge the expectations with which the Chinese partner has agreed to enter into the particular alliance. To fill this void in extant international alliance literature, this paper investigates the key drivers of international alliance

formation from the perspective of Chinese companies. Hence, the research question of this paper seeks to investigate:

What are the underlying strategic motives of Chinese companies to enter international alliances and how do these motives influence the partner selection of Chinese companies?

By answering this specific research question we address a main deficiency in international alliance literature that has so far given little attention to the perspective of local companies domiciled in rapidly developing countries (Hitt, Ahlstrom, Dacin, Levitas and Svobodina 2004; Luo 2002; Yan and Gray 1994). We intentionally depart from previous research in this field by providing a comprehensive analysis of the strategic motives of local companies based upon an extensive literature review of original Chinese research. We choose to focus on primarily Chinese academic literature because it is reasonable to assume that Chinese companies are less reluctant to provide information on their alliance motives to Chinese scholars than to foreign researchers. Furthermore, Chinese scholars are often closely networked with Chinese companies and have a profound knowledge of the culture and ways of doing business in Chinese companies. Hence, we find that Chinese studies are better able to provide us with unique insights into the Chinese view on strategic alliance motives. To the best of our knowledge this is the first paper to combine the findings of various Chinese sources into one paper. We are therefore able to provide a comprehensive analysis of the Chinese perspective on international alliance motives to the Western audience. In order to validate our findings we have also conducted interviews with eight leading Chinese alliance companies in order to fully grasp the underlying motivations of international alliance formation.

In the remaining of this paper, we will firstly provide a brief account on the importance of China as an alliance partner, highlighting the role of the Chinese government in attracting foreign partners. Section 3, 'data and methodology' is followed by a presentation of our findings on the strategic motives and partner selection criteria of Chinese companies in section 4. Subsequently, section 5 provides a thorough discussion of our findings and aims to explain why certain partner selection criteria are so important to Chinese companies. Our explanations are embedded in the institutional environment of China that has, in many ways, shaped local firms. Section 6 concludes with implications for Western companies that aspire to establish alliances in China.

2. Alliances in China

The 1.3 billion consumer market along with its rising economic performance has transformed China into an attractive overseas investment location. China has therefore attracted a lot of attention in terms of investors in manufacturing plants. However, China's rapid economic growth has also fuelled government-led efforts to move the country into a next stage of development. In particular, since the mid 1980s, the Chinese government has strongly encouraged the inflow of foreign investment in R&D in order to enhance the technology capabilities of local firms (Wu and Callahan 2005) and consequently regarded multinational companies as the most important source of foreign R&D investment (Zhao & Sun, 2003). To ensure technology transfer to the domestic market, R&D investments became a prerequisite for the formation of Sino-foreign joint ventures, although technology collaborations mostly comprised simple equipment and rarely involved advanced R&D work (Walsh 2003). Partly due to WTO-related reforms, foreign companies are no longer required to partner with local firms in order to invest in most high-tech industries (MOFTEC, 2000). Nevertheless, major

cities such as Beijing and Shanghai encourage the formation of international R&D alliances by offering preferential treatment policies (Wu and Callahan 2005). Wu and Callahan (2005) find that the rapid growth of foreign invested R&D centers and partnerships in China is mainly due to the country's accession to the WTO in 2001 and the associated foreign investment policies of China. In fact, China has become one of the global R&D investment hot-spots over the past years (see figure 1).

Chinese Premier Wen Jiabao recently declared in his annual report at the National People's Congress in Beijing that "China has entered a stage in its history where it must increase its reliance on scientific and technological advances and innovation to drive social and economic development". An almost unlimited pool of bright engineers has already attracted a large number of high-tech companies such as IBM, Motorola and Microsoft to invest in China's R&D facilities.

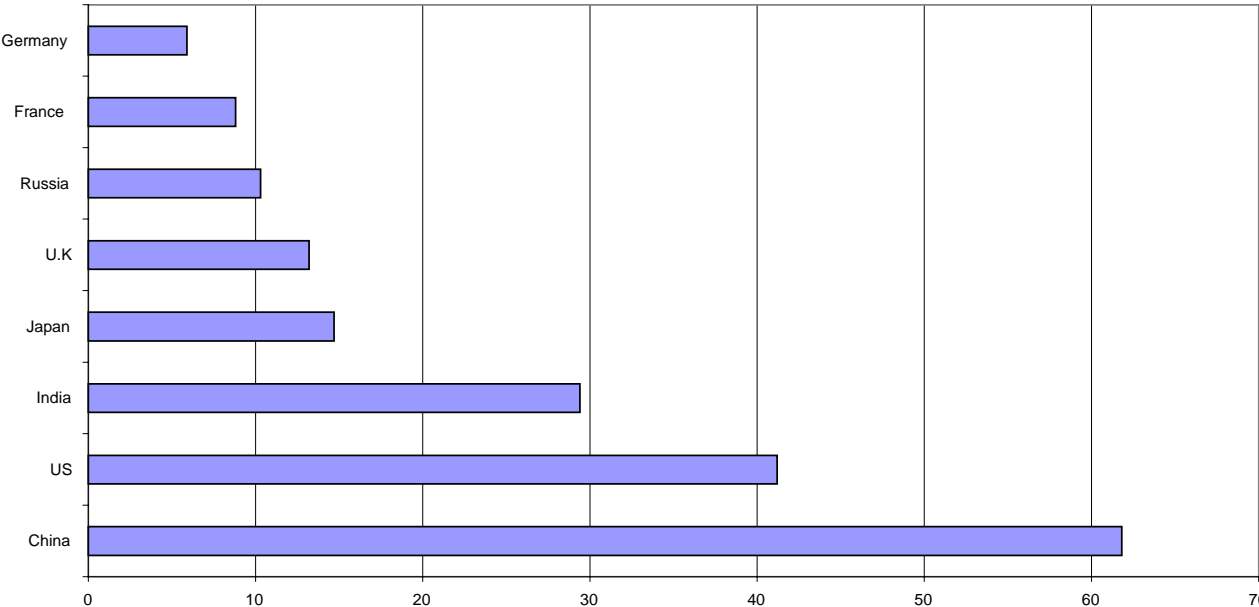


Figure 1: Most attractive prospective R&D locations (Source: adapted from World Investment Report 2005)

As a result of the increasing importance of China as R&D offshore location an increasing number of Western firms have teamed up with local Chinese partners to get key access to rising industries as well as to established customer, supplier and distribution networks in the country (Jagersma 2002). In particular, R&D alliances with local firms enable Western companies to leverage resources and capabilities from local partners and adapt products to the local market (Wu and Callahan 2005). Especially, in comparison to setting up wholly owned foreign subsidiaries in China, allying with local firms offers the superior advantage of maintaining flexibility in an unfamiliar and turbulent business environment. Chinese alliance companies often have complementary skills, resources and more easy access to Chinese markets and distribution systems, reducing the initial required start up investment by Western companies. But equally important is the fact that Chinese partners can provide country-specific knowledge, contacts with regulatory authorities, and management of the local workforce (Inkpen and Beamish, 1997)

In spite of these noted advantages and widely heralded features, China is still in a transition period, exhibiting typical signs of an emerging market economy, such as significant resource deficiencies, little experience with foreign investors, or international markets (Beamish 1988; Schaan and Beamish, 1988). Besides the challenges to operate in unfamiliar and uncertain business environment, Western alliance companies find it difficult to assess and evaluate potential partners, as only little public information on the attributes of local Chinese companies is available (Child and Yan, 2003). Characterising China as a transition economy, it can be reasonable expected that Chinese companies will have different strategic motives and partner selection criteria than Western firm. Hence, our analysis seems to be highly relevant for Western companies that aspire to establish alliances in China, because we are able to provide them with the inside view of how and why Chinese companies agree to alliance offers from Western companies.

3. Data and Methodology

To provide a comprehensive analysis on Chinese alliance motives to the Western audience, this paper draws on both primary and secondary Chinese sources. In association with Wuhan University of Technology, a thorough literature review on Chinese written alliances studies has been carried out, complemented by structured interview with eight Chinese alliance companies. All eight companies were selected on the presence of international alliance experience. To ensure a balanced mix, we interviewed local companies of different size and industries. The experts, native planning or general managers were selecting on basis of their established reputation in the field of alliances and ability to sufficiently contribute to the goal of the interviews. To facilitate the interviews, a questionnaire was designed in Chinese and presented to the interviewees. The interviews lasted between thirty to sixty minutes and contained questions about:

- Company demographics (size, location and sales volumes)
- Reasons for alliance failure
- Strategic motives to enter international alliances
- International partner selection criteria

Strategic alliances were defined to include strategic supplier relationships, minority stakes, joint ventures, cross-licensing arrangements, joint marketing agreements and research consortia. We excluded mergers, acquisitions, internal alliances, franchising, simple licensing, and non-strategic supplier relationships from our definition. Specifically, our questions did not target individual alliances, but respondents had to consider the entire alliance portfolio when answering the questions. Shifting the level of analysis from individual alliances to the alliance portfolio of companies is more likely to generate a comprehensive overview of the company's alliance activities and experience. As the average alliance portfolio of firms in our dataset consisted of 13 alliances, the total dataset refers to 104 alliances. Figure 2 indicates

that only 25 % of the companies in our sample had formed more than 20 alliances over the last five years. While the percentage of international alliances constitutes a relatively small share of the entire alliance portfolio of the companies in our sample, the total dataset nevertheless refers to 32 international alliances. In line with earlier studies (Kale et al., 2002; Duysters and Heimeriks 2007), the number of alliances that a firm has formed can be used as a proxy for alliance experience. With an average of four international alliances, we can reasonable assume that the responding companies have some basic experience with international alliance partners. The responding companies were selecting from a variety of industries: 50% of companies in our sample operate in the automobile industry, while the remaining companies are in the pharmaceutical, software, telecommunication and construction industries. The majority of companies (75%) in our sample are large, with an employee base greater than one thousand persons. Only 25% are small sized companies with a maximum employee base of 500 people. 50% of companies that we interviewed are located in the Wuhan province; the remaining ones are based in Liuzhou (Guangxi province) and Neimenggu.

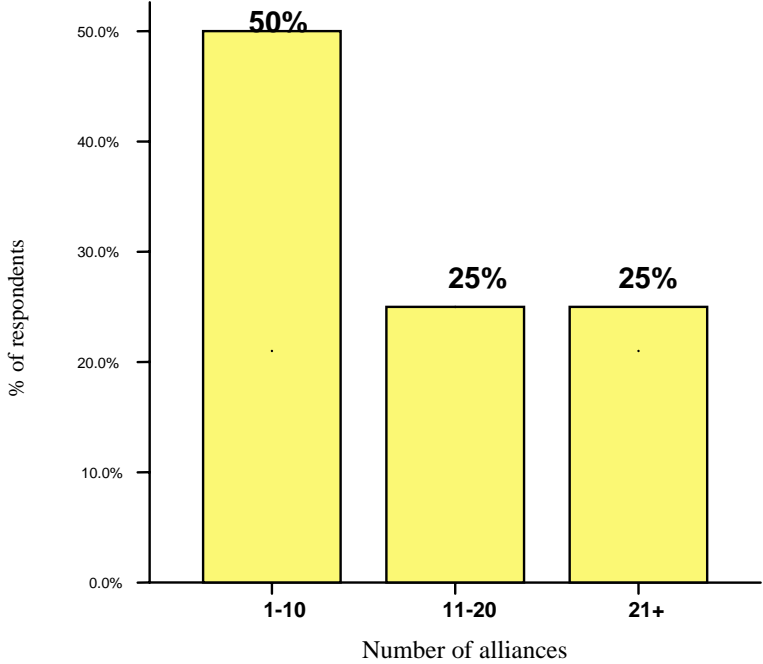


Figure 2: percentage of alliances formed over the last five years

4. Strategic Motives and Partner Selection of Chinese companies

4.1 Access to international markets.

Chinese studies report that the key objective of Chinese companies entering international alliances is to gain access to international markets (Zhang, 2007; Yang 2006; Liu 2005; Gu 2003; Ti Kan Mu, 2003). In particular, Chinese studies report that especially after the entry of China to WTO in 2003, local Chinese firms have increasingly pursued alliance with international partners (Ti Kan Mu, 2003; Liu 2005). Chinese companies report that allying with Western partners allow them to rely on the partner's established distribution and marketing channels in order to enter foreign markets (Liu 2005, Chen and Wang 2002). Further, Chinese partners aspire to learn about the dynamics and requirements of foreign markets by help of their Western partners (Wu 2007, Wang, Shi, and Chen 2005).

4.2 Access to technologies and technological capability

Another important strategic motive for Chinese companies is to gain access to advanced technologies of the Western partner firm (Ti Kan Mu 2003; Wang 2007; Liu 2005; Lin and Guo 2005; Chen and Wang 2002; Wu 2007; Liang 2005; Zhou 2006). Particularly, in high tech industries, the formation of international alliances is considered to be a necessary strategy for small and medium sized companies. Investigating the competitive capability of local companies in high-tech industries, Lin and Guo (2005) find that the average life span of local small and medium sized companies amounts only to 2.5 years. In order to overcome the outdated technology base that causes the premature exit of many local companies, Lin and Guo (2005) urge the necessity to form alliances with international partners that possess advanced technologies. Interestingly, Chinese studies like to refer to the alliance between Changhong (a Chinese TV manufacturer) and Japanese Panasonic, where the Chinese partner successfully gained access to and imitated its partner's technology and became a close

competitor in the following years (Zhou Liang 2006). (*It would be interesting to hear Panasonic's side of the story*). Further, Chinese companies consider allying with Western firms as a viable cost-effective strategy to acquire not only advanced technologies but technological and R&D capabilities of the Western partner firms (Xu Lin 2006; Fan Zengqiang 2003) Therefore technology-related learning constitutes a major international alliance formation motive for Chinese companies (Gao Jian 1996; Chen and Wang 2002; Wu 2007; Liang 2005, Zhou 2006).

4.3 Access to managerial know-how

Further, Chinese studies find that the managerial capabilities and decision making processes of local Chinese companies are not sufficiently developed in order to effectively compete in an international environment (Ti Kan Mu, 2003). Particularly, Luo (1999) finds that many firms in China have inferior organizational and managerial capabilities than their counterparts in advanced industrialized countries. Hence, allying with Western companies, Chinese firms aspire to acquire the advanced managerial know-how from their Western counterpart (Wang, Shi and Chen Huafeng, 2005).

4.4 Access to intangible and tangible resources

For local Chinese companies access to complementary resources, both tangible and intangible, presents another key alliance formation driver (Liu 2005). Interestingly to note, Chinese studies report that local companies increasingly value intangible resources, such as reputational capital or market experience, more strongly than partner's capital (Wang, Shi and Chen Huafeng, 2005). Seeking complementary intangible resources has become an important motive of international alliance formation for Chinese companies.

4.5 Interviews with Chinese alliance companies

In order to validate our findings on the underlying motivations of international alliance formation from the literature review we have conducted structured interviews with eight leading Chinese companies that are active in the field of alliances. The main motivations that arise from these interviews are described in table 1:

| | Importance (average score) | Range of |
|------------------------------------|--|----------|
| Strategic alliance motives: | 5= very important, 1= not importance at all | answers |
| Technology, R&D capability | 4.75 | 4-5 |
| Management skills | 4 | 3-.5 |
| Access to international markets | 3.75 | 1-5 |
| Government relations | 3.25 | 1-4 |
| Capital, other resources | 2.6 | 1-5 |
| Manufacturing | 2 | 1-5 |

Table 1. Chinese strategic motives to enter international alliances

Our interviews strongly indicate that learning-driven motives, technology and management related constitute the most important drivers for international alliance formation for Chinese companies. Similarly, gaining access to international markets is another key alliance motive. This implies that Chinese companies have very strategic motives to enter into strategic alliances with Western companies. Most Western companies see alliances with Chinese companies as an entry mode into the vast Chinese market but hardly realize that Chinese companies themselves have very strategic motives to enter into strategic alliances with Western partners. Surprisingly, we find that Chinese managers aspired to form alliances with Western companies that had good relations to their own Western country's government. This reflects the Chinese emphasis on good government relationships. What is a necessity in China

is also considered as important in their ventures abroad. Access to capital was a less important motive for the responding firms. For Chinese companies government relationships with their own government is key to doing successful business in China. Therefore they also assume that similarly government relations are also very important in doing business abroad.

We further asked the respondents to evaluate the importance of various *partner selection criteria* in terms of choosing their Western alliance partners.

| | Importance (average score) | Range of answers |
|--|--|------------------|
| Partner selection criteria: | 5= very important, 1= not importance at all | |
| Partner firm shows commitment | 4.8 | 4-5 |
| Organizational fit | 4.8 | 1-5 |
| Synergy in strategy alignment | 4.28 | 3-5 |
| Global strategic network position of the partner company | 4.2 | 3-5 |
| Complementary resources and competency | 4 | 4-5 |
| Future alliance possibilities with the same partner | 4 | 3-5 |
| Agreement on power and profit distribution | 3.8 | 2-5 |
| Customer benefit | 3.6 | 2-5 |
| Financial status of partner | 3.6 | 3-4 |
| Size of partner company | 2.8 | 1-4 |
| Management fit | 2.8 | 1-5 |
| Cultural compatibility | 2.1 | 1-4 |

Table 2. Partner selection criteria for the selection of Western partners

Our interviews indicate that both “hard” as well as “soft” factors make up the most important partner selection criteria. In spite of the widespread belief that relational aspects are most important for Chinese companies we find that, next to the degree of commitment, hard factors, such as organizational fit, strategic fit and complementary resources determine for a very important part the choice of the Western partner in the alliance. In our interviews, many Chinese companies have emphasized the need to have both trustworthy and economical relationships with their partners. As one executive emphasized “Trust and commitment is not enough to build a successful alliance but helps to make a well developed alliance (in organizational and strategic terms) to become more successful”.

4.6 Alliance Failure: the Chinese perspective

The main problem reported in the Chinese literature is a reluctance on the side of the Western companies to share technology and knowledge with their Chinese counterpart (Dong 2004, Zhou 2006). From our interviews, we can confirm this finding. In particular, an alliance manager of a major Chinese automobile companies reported that the technologies involved in the partnership are often obsolete and do not meet the demands of the Chinese firm. Chinese managers often find that the Western partner is only willing to share technology that has become mature or obsolete. Also we found that the fact that the partner was not willing or could not deliver expected competences was a major failure reason. Given the fact that we found earlier that access to technology was a main reason for Chinese companies to enter into alliances with Western firms this can be seen as one of the main obstacles to more successful Sino-Western alliances.

| Reasons for alliance failure | Importance (average score) | Range of answers |
|--|--|-------------------------|
| | 5= very important, 1= not importance at all | |
| Partner's strategy did not match ours | 4.3 | 2-5 |
| Partner could not deliver expected competences | 3.4 | 2-5 |
| Lack of trust | 3.2 | 1-5 |
| Partner's culture did not match ours | 2.7 | 1-5 |
| Our company could not deliver expected competences | 2.3 | 1-4 |
| Operational problems | 2.3 | 1-3 |
| Government intervention | 2.6 | 1-5 |
| Language barriers | 2.3 | 1-4 |
| Legal issues | 2 | 1-5 |

Table 3: Failure reasons for Sino-Western alliances

5. Discussion

The findings of the Chinese literature review as well as from our interviews with Chinese managers strongly indicate that access to international markets is a key driver for international alliance formation. Similarly, access to technological and managerial competences as well as to intangible assets present further important strategic alliance motives for Chinese companies. In order to understand why these alliance motives are considered vital by Chinese companies, it is necessary to acknowledge that Chinese companies exhibit various characteristics that are typically associated with a transition market economy. The necessity to embed this discussion in the context of the Chinese institutional environment has been highlighted by previous studies (Hitt, Ahlstrom, Dacin, Levitas and Svobodina, 2004).

According to Hitt et al (2004), local Chinese companies are likely to differ in their strategic motivations and partner selection criteria from developed market firms. These differences between developed and emerging market firms are likely to surface as a function of differences in norms, resources, and infrastructures (Hitt et al 2000). Of particular interest is the fact that firms from developed markets have longer established repertoires for alliance activity than Chinese firms, which usually have less experience in exploring partnership opportunities (Hitt et al 2000) as strategic alliance is a relatively new form of organizing (Lewin, Long, and Carroll, 1998). Also, important differences in the underlying institutional infrastructures of emerging and developed markets affect managers' strategic orientations (Garten, 1996). It is important to note that, although emerging economies have grown at a stronger pace than most developed country economies, many of the businesses in emerging markets are young or recently privatized (DeCastro & Uhlenbruck, 1997). As a result the resource endowments of Chinese firms are unlikely to be strong hence requiring local firms use alliances as a means of acquiring tangible and intangible resources to develop their capability to compete in their domestic and global markets. Child and Faulkner stated that "when one of the partners . . . comes from an emerging country and the other from a highly developed economy, their configuration of objectives . . . will almost certainly differ from that in the case of partners from two developed countries" (1998: 297). Therefore we consider it a necessity to analyse the strategic motives and resulting partner selection criteria of local Chinese firms in the context of the Chinese institutional environment.

5.1 Discussion of Chinese strategic motives

Main Finding 1: Access to international markets is a very important alliance formation driver

Chinese studies report that the key objective of Chinese companies entering international alliances is to gain access to international markets (Zhang, 2007; Yang 2006; Liu 2005; Gu 2003; Ti Kan Mu, 2003). It is important to note that Chinese companies are not fully equipped

in terms of technological and managerial know-how in order to effectively compete in international markets (Peng 2000), and hence aim to avoid direct competition at all cost. Therefore, by allying with Western companies, Chinese firms can acquire necessary capabilities and knowledge without the need to directly face Western competitors. As such, alliances with Western firms serve two main purposes: first they act as a gateway to international markets without the need to compete directly, and second, Chinese companies gain access to necessary capabilities and knowledge that later on enable these companies to enter these international markets without a foreign partner. Consequently those deficiencies that initially prevented Chinese firms from directly entering international markets have become the major drivers of international alliance formation.

Main Finding 2: Access to partner's technology and technological capabilities is an important alliance formation driver

One of the main deficiencies of local Chinese companies is a lack in advanced technologies and technological capabilities (Hitt et al 2004). This significant technology gap is dividing China from the developed market economies (Svetlicic and Rojec, 1994) and consequently hinders local Chinese firms to effectively compete in product technologies with firms from developed market countries. Particularly, Chinese companies cannot develop or offer new and sophisticated products in sufficient quantity and quality to be competitive with firms from other countries (Hitt et al 2004). As a result, Chinese firms seek access to new technology in order to develop products that can be competitive (Gillespie & Teegen, 1995). As the access to advanced technologies is often only attainable by means of foreign alliances (Oliver 1997) the Chinese government soon realized the merits of international alliances as a vehicle to overcome deficiencies in innovation and product development (Shenkar 1990). Hence, with preferential treatment policy, lower income taxes and favourable financing terms, the Chinese government has ever so encouraged its local firms to ally with foreign alliance partner

possessing advanced technologies to improve their technological capabilities and to eventually increase Chinese firm's competitiveness in global markets (Keister 1998, Luo 2000; Shenkar and Li 1999). As a result, one of the main concerns of local Chinese companies is to gain access to current technology (Chen and Wang 2002, Liang 2005, Yu and Fang and Han 2004, Wang and Qian 2003, Zhou 2006, Fan 2003). Consequently, Chinese companies are likely to stress the access to advanced technologies as a main criterion for partner selection. Our findings however also reveal that Western companies are very reluctant to share their technologies and knowledge with their Chinese counterparts. This seems to put a lot of stress on the relationship between Western and Chinese companies and proves to be a main reason for alliance failure.

Main Finding 3: Access to partner's managerial capabilities is an important alliance formation driver

In our interviews we found that access to advanced management skills is a very important motive to engage in strategic alliances with Western partners. As many Chinese firms are formerly state owned enterprises that have been recently privatised, managers generally have little experience with managing market-oriented, decentralised businesses (McDonald, 1993; Lau, 1998). As a result, management capabilities and decision-making processes are often not well developed in local Chinese firms (Shama 1993; Lyles & Baird, 1994). Consequently, as Chinese firms have had little exposure to modern management concepts, techniques, and processes (Hitt et al 2000).. the need to compete in market-oriented economies with more managerially sophisticated competitors forces Chinese firms to seek Western partners with strong managerial capabilities.

Main Finding 4: Access to partners' intangible assets is more important than tangible resources

Chinese literature reports that local companies increasingly consider intangible assets to be more significant than tangible assets of partner firms (Wang, Shi and Chen Huafeng, 2005). Initial emphasis on tangible assets such as partner's capital can be explained by the poorly developed financial and capital market of China, where capital had been only attainable at a high cost (Svetlicic & Rojec, 1994; Hitt et al 2000). Hence, by allying with Western companies, Chinese companies could circumvent the capital market problem in the country. As long as financial and capital markets are not fully developed and the economy remains unstable, attaining partner's capital is likely to remain an important objective of Chinese alliance companies. However, a more recent driving force for Chinese companies to pursue alliances with Western partners is to develop reputational capital. As an increasing share of Chinese consumers grows an affinity for name brands, thereby declining inferior and counterfeit products, Chinese firms prefer to ally with foreign firms having well-known products (Luo 2000). As Hitt et al (2004) observe, "legitimacy afforded by a firm with a strong global reputation enhances the Chinese partner's ability to compete in global markets, thereby allowing it to earn needed hard currency and achieve growth" (p.176). Consequently, Chinese companies are more likely to select Western partners with strong positive reputations to reduce the perceived risk in the market..

5.2 Analysis of Chinese partner selection criteria

With the main objective to access international markets, Chinese companies value certain partner characteristics as particularly vital. According to Chinese alliance studies, Chinese companies fancy a Western partner that possess advanced technologies, managerial competences and established reputation along with the willingness to share all these attributes with the Chinese partner. According to Geringer's classification of partner selection criteria

(1988, 1991), Chinese partner selection criteria can be characterised as '*task-related*'. Task-related selection criteria emphasize the resources and capabilities that the focal company lacks in order to compete effectively (Dong and Glaister 2006). In the case of Chinese companies, task-related selection criteria include technological capability, managerial skills, foreign market power, and international marketing expertise (Luo, 2002). Therefore our findings are in line with studies by Luo (2002), Hitt et al. (2004) and Dong and Glaister (2006), which report that Chinese firms attach great importance to the foreign partners' complementary technological, managerial, and other unique capabilities. In line with Dong and Glaister (2006), the task-related selection criteria of Chinese companies are clearly determined by the strategic motives for international alliance.

However, our interviews also show that Chinese companies do not value task-related criteria exclusively. In particular, *partner-related selection criteria* (Geringer 1988, 1991) such as compatibility and trust between partners are highly valued by Chinese companies. Companies selecting alliance partners upon 'partner-related' criteria strongly value organization fit between partners; as is the case for the Chinese companies in our sample. It appears that Chinese companies value both task-related and partner-related criteria when selecting Western alliance partners.

5.3 Partner selection criteria and reasons for alliance failure

Prior research has suggested that the choice of a particular partner is an important variable influencing international alliance performance (Harrigan, 1988; Killing, 1983; Mohr & Spekman, 1994; Park & Ungson, 1997; Parkhe, 1991). Therefore, we believe that the Chinese preference for both task-related and partner-related criteria has implications for the implementation and outcome of international alliances. In the view of Chinese companies that we interviewed, the viability of the alliance is both determined by the partner's willingness or ability to provide the expected competences. Having analysed the Chinese need for advanced

technologies and managerial competences, it comes as no surprise that denying this access causes frustration on the side of the Chinese companies. Similarly, 'soft' factors such as trust or compatibility between the partners is highly valued by Chinese companies (Luo 2000, Luo and Chen 1996), as our interviews confirm. Consequently a lack of trust is considered as an important reason for alliance failure from the view of Chinese companies in our sample.

6. Conclusions and Managerial Implications

With a few notable exceptions (Dong and Glaister 2006; Hitt, Ahlstrom, Dacin, Levitas and Svobodina, 2004; Luo, 1997), extant Western literature on Sino-Western alliances has, so far, failed to acknowledge the importance of investigating the strategic motives of Chinese alliance companies and has subsequently treated them as passive partners. In this paper we therefore tried to fill this void by investigating the key drivers of international alliance formation from the perspective of Chinese companies. Our results indicate that initial deficiencies in the Chinese institutional environment have shaped the strategic motives of local companies: accesses to international markets, technological and managerial competences are the most important motives for Chinese companies to enter alliances with Western companies. Consequently, Chinese companies emphasise task-related criteria when selecting Western partners. However, we also find that Chinese companies similarly value 'soft' factors such trust, compatibility or reputation when selecting partners. We conclude that even if Western partners possess the desired 'hard' attributes such as technology or resources, Chinese companies still need to experience a mutual understanding or compatibility in order to consider the alliance as successful.

These findings have important implications for Western alliance companies that are preparing to engage in Sino-Western alliances. For Western companies it seems to be of crucial importance to acknowledge the motives and partner selection criteria of Chinese companies.

For example if Western firms realize that access to technology and knowledge is one of the main reasons for their Chinese counterparts to partner with them they can design a knowledge diffusion strategy that enables knowledge transfer of those knowledge assets that can be shared and that prevents unwanted knowledge spill-overs to their Chinese partners. The reluctance of Western companies to share technology and knowledge with their Chinese counterparts is very clearly reported in the Chinese literature (Dong 2004, Zhou 2006). This finding is confirmed in our interviews. A profound understanding of these and other issues concerning Chinese motives to enter into alliances will therefore provide them with some basic stepping stones that enable them to cross the turbulent river that still divides China from the West.

Appendix I: Abbreviated survey

I. Company demographics and alliance background

1. What is the number of employees of parent company?
2. What is the total worldwide sales volume in 2006 (US\$)?
3. What is the primary industry your company is active in?
4. How many strategic alliances has your company formed over the last **5** years?
5. How many **international alliances** has your company formed over the last **5** years?

II. Reasons for alliance failure

Please rank the importance of the reasons for alliance failure (1 = not at all important; 5 = very important)

6. Partner's strategy did not match ours
7. Partner's culture did not match ours
8. Lack of trust
9. Partner could not deliver expected competences
10. Our company could not deliver expected competences
11. Operational problems
12. Legal issues
13. Language barriers
14. Government intervention

III. Strategic alliance motives

Please rank the importance for the following international alliance motives (1 = not at all important; 5 = very important)

15. Access to partner's technology, R&D capability
16. Access to partner's management skills
17. Access to international markets
18. Government relation
19. Capital, other resources
20. Manufacturing

IV. Partner selection Criteria

Please rank the importance for the following partner selection criteria (1 = not at all important; 5 = very important)

21. Synergy in strategy alignment
22. Customer benefit
23. Partner firm shows commitment & trustworthy
24. Organizational fit
25. Management fit
26. Cultural compatibility

27. Agreement on power and profit distribution
28. Complementary resources and competency
29. Financial status of partner
30. Size of partner company
31. Global strategic network position of the partner company
32. Influence on future alliance possibilities with the same partner

References

- Beamish P.W 1988 *Multinational joint ventures in developing countries*. London: Routledge.
- Child, J., and Yan, Y. (2003) Predicting the Performance of International Joint Ventures: An Investigation in China. *Journal of Management Studies* 40(2), 243-320.
- Child, J., & Falkner, D. (1998). *Strategies of cooperation*. Oxford, England: Oxford University Press.
- Dacin, M.T., Hitt, M.A. and Levitas, E. (1997). Selecting partners for successful international alliances: Examination of US and Korean Firms. *Journal of World Business*, 32(1), 3-16.
- Demirbag, M., Mirza H., and Weir, D.T.H (1995). The dynamics of foreign-local joint venture formation and performance in Turkey and the role of industrial groups. *Management International Review*, 35 (special issue), 31-51.
- DeCastro, J. O., and Uhlenbruck, N. (1997). Characteristics of privatization: Evidence from developed, less-developed and formerly communist countries. *Journal of International Business Studies*, 28, 123-143.
- Dollinger, M. J., Golden, P. A., and Saxton, T. (1997). The effect of reputation on the decision to joint venture. *Strategic Management Journal*, 18, 127-140.
- Dong, L., and Glaister, K.W. (2006). Motives and partner selection criteria in international
- Fombrun, C. J., and Shanley, M. (1990). What's in a name? Reputation building and corporate strategy. *Academy of Management Journal*, 33: 233-258.
- Garten, J. E. (1996). The big emerging markets. *Columbia Journal of World Business*, 31(summer) 6 -31.

- Gillespie, K., and Teegen, H. J. (1995). Market liberalization and international alliance formation: The Mexican paradigm. *Columbia Journal of World Business*, 30(winter) 58-69.
- Hitt, M.A., Ahlstrom, D., Dacin, M.T., Levitas, E., and Svobodina, L. (2004). The Institutional Effects on Strategic Alliance Partner Selection in Transition Economies: China vs. Russia. *Organization Science*, 15(2), 173-185.
- Hitt, M.A., Dacin, M.T., Levitas, E., and Borza, A. (2000). Partner selection in emerging and developed market contexts: Resource-based and organizational learning perspectives. *Academy of Management Journal*, 43(2), 449-467.
- Inkpen, A. and Beamish, P. (1997). Knowledge, bargaining power, and the instability of international Joint ventures'. *Academy of Management Review*, 22, 177-202.
- Jagersma, P.K. (2000). Building successful China alliances. *Business Strategy Review*, 13(4), 3-6.
- Keister, L.A. (1998), Engineering growth: Business group structure and firm performance in China's transition economy. *American Journal Sociology*, 104, 404-440.
- Lau, C.M. (1998). Strategic orientations of chief executives in state-owned enterprises in transition. In Hitt, J. E. Ricarti Costa, & R. D. Nixon (Eds.), *Managing strategically in an interconnected world*: 101-117. London: Wiley.
- Lewin, A. Y., Long, C., & Carroll, T. 1998. The co-evolution of new organization forms. Working paper, Centre for International Business Education and Research, Duke University, Durham, NC.
- Luo, Y.D. (1997). Partner selection and Venturing Success: The Case of Joint Ventures with Firms in the People's Republic of China. *Organization Science*, 8(6), 648-662.
- Luo Y. (1999). Dimensions of knowledge: Comparing Asian and Western MNEs in China. *Asia Pacific Journal Management*, 16, 75-93.
- Luo, Y.D. (2002). Partnering with foreign business: Perspectives from the Chinese firms. *Journal of Business Research*, 55, 481-166.
- Luo, Y., Chen, M (1996). Managerial implications of guanxi-based business strategies. *Journal of International. Management* 2 293–316.
- Lyles, M. A., and Baird, I. S. (1994). Performance of international joint ventures in two Eastern European countries: A case of Hungary and Poland. *Management International Review*, 34: 313-329.
- McDonald, K. R. (1993). Why privatization is not enough. *Harvard Business Review*, 71(3), 49-59.

- Oliver, C (1997) Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal* 18, 697-713.
- Peng, M. W. (2000). *Business Strategies in Transition Economies*. Thousand Oaks, CA: Sage.
- Schaan, J.L., and Beamish, P. W. (1988). Joint venture general managers in LDCs'. In Contractor, F. J. and Lorange, P. (Eds), *Cooperative Strategies in International Business*. New York: Lexington Books, 279-99.
- Shama, A. (1993). Management under fire: The transformation of managers in the Soviet Union and Eastern Europe. *Academy of Management Executive*, 7(1), 22-25.
- Shenkar, O (1990). International joint venture's problems in China: Risks and remedies. *Long Range Planning* 23 (3) 82-90.
- Shenkar O., Li. J. (1999) Knowledge search in international cooperative ventures. *Organisational Science*, 10, 134-143.
- Svetlicic, M., and Rojec, M. (1994). Foreign direct investment and the transformation of Central European economies. *Management International Review*, 34, 293-312.
- Tallman, S.B., and Shenkar, O. (1990). International co-operative venture strategies: Outward investment and small firms from NICs. *Management International Review*, 30, 299-315.
- Walsh (2003). Foreign high-tech R&D in China: Risks, rewards and implications for US China relations, the Henry L. Stimson Center 2004.
- Wu and Callahan (2005). Motive, form and function of international R&D alliances: Evidence form the Chinese IT industry. *Journal of High Technology Management Research* 16; 173-191
- Yan, A.M., and Gray, B. (1994). Bargaining power, management control, and performance in United States-China joint ventures: A comparative case-study. *Academy of Management Journal*, 37(6), 1478-1517.
- Yan, R. (2004). To Reach China's consumers, adapt to Guo Qing. *Harvard Business Review on Doing Business in China*, Harvard Business School Press, Boston, MA

References in Chinese

- Chen Feiqiong, Xu Jinfa (2000). Knowledge alliances with Western MNCs: the effective way for Chinese enterprises to enhance competitiveness. *Quantitative & Technical Economics*, 15-18.
- Chen Chunyuan, Wang Qiaohong (2002). Strategic alliance: new mode of enterprise development, *Modern Management Science*.
- Ding Q. (2007). On development of strategic alliance between enterprise in China. *East China*

Economic Management 17(4).

- Dong Shuli (2004). Reasons why the strategy of “market for technology” is not effective and our countermeasures, *Science-technology and Management*, No 4, 4-7.
- Fan Zengqiang (2003). The technologic alliance of transnational corporation: causes, effects and enlightenment, *Journal of Central Finance University*, 65-68.
- Ge Weihua, Zhao Changping, Wang Fanghua (2003). Countermeasures and suggestions for Chinese enterprises in transnational alliances. *Science and Management of S& T*, No 7, 102-106.
- Gu Xiangyang (2003) Study on Strategy Alliance of Enterprises of Our Country Based on International Economy Integrating. Master Thesis.
- Guo Yan (2004) Choice of Strategic Alliances Forms and Risk Control. Doctoral Thesis.
- Hua Jinke, Zeng Deming (2007) Research on Partner Selection in Technical Standard Strategic Alliance. *Science & Technology Progress and Policy*, No 2, 14-16.
- Huang Z.W. (2005) A brief discussion on trans-national strategic alliance and automobile industry of our Country. *Academic Exchange*, 132(3), 100-105.
- Ji Yiming, Zhang Jinlong (2005). Comparative analysis between Chinese and Western alliance motives, *Journal of Hunan Business College*, 12(4), 39-41.
- Li Peipei (2007). Study on Chinese Enterprises' Learning in Technology Alliance Master Thesis.
- Li Chunyan, Zhong Shuhua (2004). The government and the Enterprises' technological alliances. *Science and Technology Management Research* No 3, 38-42.
- Liang Jiaqiang (2005). Motives and tendency of strategic alliances. *Industrial Technological economy*, 24(8), 19-21.
- Liu Z.G. (2005) Promoting Chinese firms' internationalization by international alliances. *Journal of Economist*, 12, 75-77.
- Lin X.L. and Guo W.X. (2005). Strategic alliances of High-tech Enterprises. *Commercial Research* 328, 14-18.
- Sun Jie (2006). Research on strategic alliance between Chinese enterprises and western MNCs. Master Thesis.
- Shi Y.X (2002). The problem and solution in strategic alliance in China. *Contemporary Finance & Economics*, 208, 68-78.
- Shi Shuling (2007). Game Analysis on the Cause of Knowledge Alliances Formation Based on Resources Theory, *Science & Technology Progress and Policy*, No 6.
- Tan Shuang (2007) Research on Allies Choice in the Corporations' Transnational Dynamic Alliances. Master Thesis.
- Ti-Kan Mu (2003). The motivation of Chinese enterprises to develop strategic alliances. *Commercial Research* (283).
- Wang Tao, Li Tianlin, Xu Jinfa (2000). A Summary of Strategic Alliance Motives based on Resource-based View. *Science Research Management*, 21(6), 68-74.

- Wang Xuemei, Lei Jiaxiao (2007). Making Market for Technology: a research review on China's alliance policy. *Special Zone Economy*, No 1, 250-252.
- Wang Xue (2007). A Study on the Choice of International Market Entry Mode for China' Enterprise. Master Thesis
- Wang Yan, Qian Zhifa, Deng Zhouping (2003). Analysing Reasons of Strategic Union by Multi-corporation, *Journal of Anhui University of Technology (Social Sciences)* 20(5), 43-47.
- Xu Lin (2006). A research on the R&D strategic alliance of MNCs and our countermeasures. Master Thesis.
- Yuan Lei (2001). Picking the Partner of Strategic Alliance. *China Soft Science*, 53-57.
- Yu Jiang, Fang Xin, Han Xue (2004) Mechanism study on enterprise alliance for telecommunication standard competition. *Science Research Management* 25(1), 129-132.
- Yu M. (2006) Research on the strategic alliance governance mode of Chinese automobile industrial enterprises with multinational automobile corporations. *Science-Tech Information Development & Economy* 16(8), 175-176.
- Yuan. K.K. (2001). Upgrading strategic alliances between Chinese firm and foreign enterprise. *Journal of Chongqing Institute of Commerce*. No.2, 31-33
- Zhang Lei (2006). Research for Internationalization Development Strategy in China Enterprise. Doctoral Thesis.
- Zhao Changping, Wang Fanghua (2001). A study about the drivers of international strategy alliance formation between MNC. *Journal of SJYU (Social Science Edition)* 9(3), 41-44.
- Zhao Changping, Wang Fanghua, Ge Weihua (2004). Study on the Synergy of the Formation of Strategic Alliance, *Journal of Shanghai Jiaotong University* 38(3), 417-421.
- Zhou Liang (2006). Research on strategic alliance and evaluation of technological capability in Chinese firms. Master Thesis.
- Zhou Haiwei, Zhu Yong (2006). Research on Management Strategy of Technical Control in Multinational Corporation's Joint Venture in China, *Journal of Zhengzhou Institute of Aeronautical Industry Management*, No 6.

The UNU-MERIT WORKING Paper Series

- 2007-01 *Developing science, technology and innovation indicators: what we can learn from the past* by Christopher Freeman & Luc Soete
- 2007-02 *The impact of innovation activities on productivity and firm growth: evidence from Brazil* by Micheline Goedhuys
- 2007-03 *Estimations of US debt dynamics: Growth cum debt and the savings glut in Kouri's model* by Thomas Ziese
- 2007-04 *States and Firms on the Periphery: The Challenges of a Globalizing World* by Gabriel R.G. Benito & Rajneesh Narula
- 2007-05 *How Do Consumers Make Choices? A Summary of Evidence from Marketing and Psychology* by Zakaria Babutsidze
- 2007-06 *Inter-firm Technology Transfer: Partnership-embedded Licensing or Standard Licensing Agreements?* by John Hagedoorn, Stefanie Lorenz-Orlean & Hans Kranenburg
- 2007-07 *The Behavior of the Maximum Likelihood Estimator of Dynamic Panel Data Sample Selection Models* by Wladimir Raymond, Pierre Mohnen, Franz Palm & Sybrand Schim van der Loeff
- 2007-08 *Location and R&D alliances in the European ICT industry* by Rajneesh Narula & Grazia D. Santangelo
- 2007-09 *How do social capital and government support affect innovation and growth? Evidence from the EU regional support programmes* by Semih Akcomak & Bas ter Weel
- 2007-10 *The Micro-Dynamics of Catch Up in Indonesian Paper Manufacturing: An International Comparison of Plant-Level Performance* by Michiel van Dijk & Adam Szirmai
- 2007-11 *Financial Constraint and R&D Investment: Evidence from CIS* by Amaresh K Tiwari, Pierre Mohnen, Franz C. Palm & Sybrand Schim van der Loeff
- 2007-12 *The Spatial Hierarchy of Technological Change and Economic Development in Europe* by Bart Verspagen
- 2007-13 *The origins and implications of using innovation systems perspectives in the design and implementation of agricultural research projects: Some personal observations* by Andy Hall
- 2007-14 *Technology supply chain or innovation capacity?: Contrasting experiences of promoting small scale irrigation technology in South Asia* by Andy Hall, Norman Clark and Guru Naik
- 2007-15 *Are firms that received R&D subsidies more innovative?* by Charles Bérubé & Pierre Mohnen
- 2007-16 *Foreign direct investment and firm level productivity. A panel data analysis* by

Geoffrey Gachino

- 2007-17 *Technological spillovers from multinational presence towards a conceptual framework* by Geoffrey Gachino
- 2007-18 *Technological capability building through networking strategies within high tech industries* by Wim Vanhaverbeke, Bonnie Beerkens and Geert Duysters
- 2007-19 *External technology sourcing: the effect of uncertainty on governance mode choice* by Vareska van de Vrande, Wim Vanhaverbeke & Geert Duysters
- 2007-20 *Exploration and Exploitation in Technology-based Alliance Networks* by Wim Vanhaverbeke, Victor Gilsing, Bonnie Beerkens, Geert Duysters
- 2007-21 *ICT Externalities: Evidence from cross country data* by Huub Meijers
- 2007-22 *Knowledge Flows, Patent Citations and the Impact of Science on Technology* by Önder Nomaler & Bart Verspagen
- 2007-23 *R&D offshoring and technology learning in emerging economies: Firm-level evidence from the ICT industry* by Zhe Qu, Can Huang, Mingqian Zhang & Yanyun Zhao
- 2007-24 *The Environmental Porter Hypothesis: Theory, Evidence and a Model of Timing of Adoption* by Ben Kriechel & Thomas Ziesemer
- 2007-25 *Measuring the Effectiveness of R&D tax credits in the Netherlands* by Boris Lokshin & Pierre Mohnen
- 2007-26 *The productivity effects of internal and external R&D: Evidence from adynamic panel data model* by Boris Lokshin, René Belderbos & Martin Carree
- 2007-27 *National System of Innovations and the role of demand. A cross country comparison* by M. Abraham Garcia-Torres
- 2007-28 *The Global Challenges of the Knowledge Economy: China and the EU* by Can Huang and Luc Soete
- 2007-29 *Redefining Foreign Direct Investment Policy: A Two Dimensional Framework* by Sergey Filippov & Ionara Costa
- 2007-30 *Redefine the Nexus between Foreign Direct Investment, Industrial and Innovation Policies* by Ionara Costa & Sergey Filippov
- 2007-31 *Innovation and Competitive Capacity in Bangladesh's Pharmaceutical Sector* by Padmashree Gehl Sampath
- 2007-32 *R&D collaboration networks in the European Framework Programmes: Data processing, network construction and selected results* by Thomas Roediger-Schluga & Michael J. Barber
- 2007-33 *Determinants of alliance portfolio complexity and its effect on innovative performance of companies* by Geert Duysters and Boris Lokshin

2007-34

Strategic Partnering with Chinese companies: Hidden motives and treasures by Geert Duysters, Tina Saebi & Dong Qinqin