Social Ties and Partner Identification in Sino-Hong Kong International Joint Ventures

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Abstract

Partner identification is an important and under-studied precursor to selection and eventual performance of international joint ventures (IJVs). The mechanics of the identification process were investigated in-depth across a sample of eighteen Sino-Hong Kong IJVs using the case study research method. The cross-case findings of this exploratory investigation support the idea that social networks provide a valuable resource for reducing IJV partner search costs. Specifically, the findings reveal that while weakly-linked bridge ties are valuable in identifying potential partners, searches based on strong ties tend to be shorter and provide a more robust basis for inter-partner cooperation.

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Introduction

In his critical appraisal of international joint venture (IJV) research, Parkhe (1993) argued that certain core questions at the heart of the IJV relationship have been overlooked by studies which are methodologically impeccable but theoretically weak. In particular, he reasoned that prevailing norms emphasizing sophisticated analyses of data drawn from mail surveys and secondary sources are fundamentally ill-suited for dealing with the inherent "messiness" of cross-border cooperative alliances. Parkhe proposed instead a research program geared towards a deeper understanding of the mechanisms of interfirm cooperation and motivated by goals of theory development. He further added that the "maximally efficient procedure" for advancing IJV theory begins with the iterative dialogue of ideas and evidence that is characteristic of the multiple case study research method.

In response to Parkhe's (1993) call, this study addresses a question which, though pivotal in the IJV formation process, has received scant attention in the literature, namely, how do investors come to identify potential alliance partners? If IJVs can be described as "organizational marriages", the emphasis here is on the early stages of the courtship process. Previous studies in this area have relied on a number of unquestioned assumptions regarding identification and have generally focused on the subsequent step of partner evaluation. However, a premise of this paper is that the overall selection process is fundamentally shaped by the manner in which potential alliance partners are initially identified. Case study evidence from a sample of Sino-Hong Kong IJVs seems to bear this out.

The paper is presented in five parts. In the first section a brief survey of research pertaining to partner selection is presented. Then propositions linking partner identification with investors' social networks are derived. Third, the cross-case research design is described. Next, the study's main findings are presented and their implications discussed. Finally, conclusions are drawn and directions for further research are suggested.

Existing research on partner selection

IJV research can be broadly categorized into three areas; (1) antecedents, which include motives promoting IJV formation and partner selection (e.g., Geringer, 1991; Tallman and Shenkar, 1994), (2) outcomes, which encompass studies relating to failure and performance (e.g., Brown, Rugman and Verbeke, 1989; Makino and Delios, 1996; Pearce, 1997), and (3) specific management issues pertaining to, for example, control and conflict (e.g., Fey and Beamish, 2000; Yan and Gray, 1994). The issue of partner selection is arguably pre-eminent in this list of topics for the success and stability of the joint venture "marriage" is widely held to be determined by the compatibility of the alliance partners (Luo, 1997; Saxton, 1997). Consequently, considerable empirical work has been done with a view to identifying the determinants of a good match (Harrigan, 1988; Lasserre, 1984; Luo, 1998).

IJV partner selection

Tomlinson's (1970) investigation of the joint venturing process in India and Pakistan represents an early study in this area. From a list of six selection criteria which included "resources", "partner status" and "local identity", respondents identified "favorable past association" as the single most influential variable in the decision process. In a subsequent study, Adler and Hlavacek (1976) identified a number of additional criteria including "an established distribution system in the market to be served", and "technology to improve on or complement one's own current technology base." In the 1980s the research emphasis shifted from the selection process per se, to the inter-relationship between the needs of the IJV and the contribution of each partner to the venture. For example, Lasserre (1984) proposed a method of partner selection based on an analysis of the strategic fit of the firms involved. Continuing this line of reasoning, Harrigan (1988) argued that ventures are more likely to
succeed when partners possess complementary missions, resource capabilities, managerial capabilities, and other attributes that create a strategic fit in which the bargaining power of the venture’s sponsors is evenly matched. Beamish’s (1987) study reinforced the emerging idea that partner selection influences IJV performance. After analyzing data from 66 joint ventures involving partners in lessor developed countries, Beamish concluded that MNE executives in high-performing ventures had higher expectations of their local partners than did their counterparts in low-performing ventures.

By the early 1990s the question of partner selection had received an extensive treatment from scholars and a variety of selection criteria had been identified. Geringer (1991) made the first serious attempt to organize these criteria by introducing a novel typology distinguishing between task- and partner-related dimensions. The former are associated with the operational skills and resources which a venture requires for its competitive success, whereas the latter are associated with the efficiency and effectiveness of partners’ cooperation. Geringer’s paper sparked a stream of research into partner-related factors affecting the decision process. For example, Kumar (1995) measured partner-related criteria in terms of industrial and foreign experience, combined with the quality of production facilities and personnel. Recently Luo (1998) extended Geringer’s (1991) typology by identifying a third category of selection criteria, namely cash flow or capital structure, which measures the financial fit of the IJV partners. Taken together, strategic (task-related), organizational (partner-related), and financial attributes are all necessary to the formation of stable and high-performing joint ventures. Like the legs on a stool, Luo (1998) argues that a bad fit on any dimension will result in an unstable alliance. However, with the exception of Lasserre’s (1999) recent paper, this hypothesis remains largely untested.

With its emphasis on critical success factors, Geringer’s (1991) study - and those studies which it inspired (e.g., Arino et al., 1997; Kumar, 1995; Luo, 1997) - did not directly address the mechanics of partner selection. Indeed, the actual process by which potential alliance partners are first identified seems to have been largely ignored in the IJV literature in preference for a focus on selection outcomes. This omission is somewhat surprising given that the selection process, deemed to be fundamental in the pursuit of high performing ventures, can be disassembled into at least two stages; initial identification and subsequent evaluation of potential candidates (Williams and Lilley, 1993). While much is known about the latter exercise, the former has received little attention from scholars. This state-of-affairs leads to the first research question: On what basis are potential IJV partners first identified?

It is plausible to assume that the default proposition implicit in the IJV literature is that partner selection is made on the basis of objective information gathered systematically via market research. In other words, once the decision to cooperate has been made, the identification of potential partners follows a linear process whereby a large number of candidates are systematically screened according to the predetermined criteria identified by Geringer (1991) and others. Sources used in the initial identification of potential alliance partners may include embassies and consulates, government agencies, management consulting companies, and investment advisors (Tsang, 1995). However, there is some evidence to indicate that foreign investors do not follow this approach in practice.

The evidence on partner identification is scant but includes Tomlinson’s (1970) finding that alliance partners often have an association or connection that predates the venture formation. More recently, in his exploratory investigation of Sino-US IJVs, Maurer (1996) found that the majority of joint venture partners were identified on the basis of a prior association. Often partners were past customers, suppliers, even former joint venture partners. Moreover, the manner in which potential alliance partners were identified had an unequivocal effect on the subsequent evaluation process. Specifically, the US managers in the study screened an average of three to four potential partners unless there was a prior association, in which case only one potential partner was considered. This supports the previously untested idea that partner identification is distinct from partner evaluation. From this it can be assumed
that the efficacy of the evaluation process is contingent upon the prior identification process. If partner identification is conducted in an ad hoc and unsystematic fashion, there may well be little point in conducting a comprehensive screening following the procedures outlined in the studies mentioned above. Another, equally plausible hypothesis is that the identification of familiar partners negates some of the need for a thorough evaluation as the candidates' traits are already known to the investor. In either case, the performance of the resulting venture may well be influenced more by the identification process than the evaluation process. For this reason, it can be inferred that partner identification is a critical and distinct decision in the overall selection process. Since Tomlinson’s (1970) paper, very few IJV studies have considered the possibly influential role of past associations on the partner selection process. Consequently, a second research question posed in this study is: *What role, if any, do social ties play in the identification and selection of potential IJV partners?*

**Social ties and partner identification**

Little is known about the actual mechanisms used in IJV partner identification. However, the studies by Tomlinson (1970) and Maurer (1996) hint at the value of prior associations or relationships as conduits for information about opportunities to form alliances. Existing relationships with others provide information benefits when they span social boundaries. This idea formed the basis of Granovetter’s (1973) “strength of weak ties” thesis which recognizes that because bridge ties tend to be weak (e.g., acquaintances rather than intimates), information traverses greater social distances and reaches more people via weak rather than strong ties. Yet as Burt (1992) has recently argued, it is not the strength of a tie that is significant, but whether or not the tie is a non-redundant link between individuals possessing complementary resources or information. Information benefits will always accrue to those linked by bridge ties to otherwise disconnected social clusters, irrespective of whether those ties are strong or weak. Seen from this perspective, awareness of opportunities to form alliances will be contingent upon the idiosyncratic benefits of each individual's social network.

Given that the search for IJV partners may bear some resemblance to the search for international exchange partners, relevant insights may be drawn from recent work investigating foreign market entry. Several studies within that body of research have revealed that international exchange partners are frequently identified on the basis of prior social ties (Axelsson and Johanson, 1992; Ellis, 2000; Ellis and Pecotich, 2001). Other studies have shown how exchange opportunities can be communicated to the firm via its existing relationships with network partners (Blankenburg, 1995; Johanson and Mattsson, 1988). Industrial and high-technology firms in particular seem to rely heavily on their connections with customers and suppliers when entering foreign markets (Axelsson and Johanson, 1992; Coviello and Munro, 1997).

While there is a significant difference between choosing a foreign channel partner and a foreign JV partner, in terms of the initial search process the difference is only one of degree. In both cases the identification of suitable partners will incur non-trivial search costs and this will compel exporters and investors alike to exploit those information sources that reduce those costs. In the context of joint venturing, a potential investor may be expected to rely on existing ties with others when those ties expedite the diffusion of market information across international boundaries (Ellis, 2000; Rangan, 2000). This can be expressed in propositional form as follows:

**P1:** The identification of IJV partners will be facilitated by the antecedent ties of the initiating actor.
In addition to information benefits, social relationships offer other resources such as uncertainty-reducing norms regarding behavioral expectations and trust (Uzzi, 1996). Trust is particularly important in the formation of organizational alliances because it reduces the likelihood of opportunistic behavior thus promoting the stability of the new venture (Madhok, 1995; Parkhe, 1993). Trust-based alliances result when new ventures are embedded within existing social relationships (Uzzi, 1996) or when potentially trustworthy partners are referred by known others (Gulati, 1995). However, these relational outcomes are contingent on the type of tie linking the actors. Specifically, strong ties, or relationships characterized by frequent interaction or high intimacy, are more likely to evidence trust than weak ties (Bian 1997; Granovetter, 1973). This has important implications for the joint venturing process. On the one hand, bridge ties that are weakly linked are more likely to be used in the search for potential partners due to their higher frequency in social networks, as per Granovetter’s (1973) observation. But on the other hand, potential partners identified via strong ties are more likely to be perceived as trustworthy. Given the high need for trust in the early stages of the alliance, this implies the following:

**P2:** Potential IJV partners are (a) more likely to be identified via weak ties than strong ties, but (b) are more likely to be selected when identified via strong ties than weak ties.

If the traditional assumption in IJV research is that investors choose partners that exceed the maximum number of desired criteria, an alternative view posits that under the constraints of bounded rationality, investors may simply settle for a candidate that satisfies some key criterion (Cyert and March, 1992; March, 1994). In search contexts characterized by high uncertainty and risk, optimal exchange partners cannot be easily identified. Rather than trying to identify the ideal partner in the market, investors will limit their search to those potential partners about whom they have the greatest knowledge and then select the best choice from among this restricted set (Podolny, 1994). As investors will have better information about partners they know well and with whom they interact frequently, the length of the search may be seen to be contingent on tie strength. Investors relying on weak ties will have less confidence in the partners identified and will thus be inclined to conduct more exhaustive searches that those relying on strong ties. Searches based on strong ties are more likely to end just as soon as a satisfactory partner is identified. This suggests:

**P3:** Searches for IJV partners will be shorter and less exhaustive when based on strong rather than weak ties.

In summary, partner searches based on strong ties are both more likely to be shorter and to result in alliances credited with an initial stock of trust appropriated from pre-existing relationships (Uzzi, 1996). Alliances built on trust enjoy a number of advantages because in the absence of such a foundation each partner will be more tentative in making contributions (reducing the potential value of the synergy that can be gained by two firms pooling their assets) and more circumspect in hedging against opportunism (raising the costs of the operation) (Madhok, 1995). Connecting these two ideas leads logically to the conclusion that:

**P4:** IJVs based on strong ties will exhibit higher levels of inter-firm cooperation.

**Case methodology**

To assess the empirical veracity of these proposed claims, the formation of eighteen Sino-Hong Kong JVs were analyzed in some depth. Sino-Hong Kong JVs offer a number of unique methodological advantages in a study of this nature. First, it can be expected that alliances
spanning dissimilar political and economic boundaries will be the most challenging to form and the most inherently unstable. In such settings partner selection will be especially critical and choosing the right partner will do much to increase the adaptability of the IJV and reduce operational uncertainty (Luo, 1997; Tatoglu and Glaister, 2000). It follows that JVs linking partners whose values have been shaped by fundamentally different economic systems (e.g., Sino-Hong Kong JVs), will be most suited for studies investigating partner selection. Second, obstacles to the flow of information across national boundaries resulting from the interplay of market imperfections and environmental volatility, will increase the costs of transacting and make contract writing an impractical solution to the ever-present threat of opportunism. Under such circumstances, investors will tend to rely on those potential partners about whom they have the greatest knowledge (Larson, 1992; Podolny, 1994). This would suggest that evidence for the role of social ties in the partner selection process is more likely to be found for foreign investors doing business in transition economies such as China. Finally, the decision to study alliances linking PRC investors with Hong Kong permanent residents was made in the expectation that a variety of tie types could be observed, reflecting the cultural and geographic proximity of the two groups. Although this choice limits the generalizability of the study, a point to which we will return below, this decision was entirely consistent with the exploratory aims of the study.

China is the world's largest recipient of foreign direct investment outside of the United States and the bulk of that inward investment is channeled via IJVs (China Statistical Yearbook, 2000). For these reasons China has attracted the attention of investors and scholars alike with numerous studies done investigating Sino-foreign IJVs (e.g., Pan and Li, 1998; Wong et al., 1999; Yan and Gray, 1994; Zhao and Zhu, 1998). It is worth noting however, that much of the available research on Chinese joint ventures is based on secondary data taken from publications prepared by the Ministry of Foreign Trade and Economic Cooperation (e.g., Pan and Li, 1998; Zhao and Zhu, 1998) or its provincial counterparts (e.g., Luo, 1997). Such studies boast large sample sizes but offer little in-depth analysis into important partner selection issues. Conversely, and following a trend towards small N samples evident in studies set in other emerging economies (e.g., Arino et al., 1997; Beamish, 1987), a handful of researchers have examined IJV-related issues in a Chinese context using the case study research method. This group includes Yan and Gray (1994: four case studies investigating bargaining power) and Wong et al. (1999: partner- and operation-related problems identified in six ventures). Given the exploratory nature of the current research problem, the methodological approach adopted here follows that taken by this second group.

Research design

In this study the research aim was to identify how foreign partners actually identify potential JV partners prior to evaluation and to consider the role, if any, played by antecedent social ties in that exercise. To explore the decision-making mechanics of IJV partner selection, an embedded, ex-post case study research methodology was used. This methodological choice is appropriate when the investigation must consider both the phenomenon (partner identification) and the context (in this instance, the overlapping social networks of the transacting parties located in separate political and cultural environments) in which the phenomenon is occurring (Yin, 1993). In contrast with the "hard" or quantitative approaches used in previous partner selection research, and given the "soft" nature of this aspect of interfirm cooperation, the primary emphasis in this study was on the collection of qualitative data (Parkhe, 1993). This choice was consistent with other research investigating IJVs in transition economies (e.g., Arino et al., 1997; Steensma and Lyles, 2000). Various tactics were employed to establish the quality of the research. These included, but were not limited to, the incorporation of multiple sources of evidence at a site (to improve construct validity), pattern-matching analysis (relating to internal validity), an experimental-like replication logic to guide sampling decisions (relating to external validity), and the use of a replicable protocol.
Sample selection
A key feature of this study’s research design is the use of multiple cases and data analysis based on comparing the findings of the individual cases. Individual cases are selected for independent investigation and it is the conclusions, based on each individual case, that are considered to be the information needing replication by subsequent cases (Parkhe, 1993). In case study research sampling is purposive, rather than random. Following an experiment-like replication logic cases are selected from a specified population for theoretical rather than statistical reasons (Eisenhardt, 1989; Yin, 1989). Subsequent cases are selected to extend the emerging theory to a broad range of organizations and this provides the confidence that the emerging theory is generic (Miles and Huberman, 1994).

In this study the population was defined as all Sino-Hong Kong joint ventures based in southern China. Receiving more than one quarter of China's inward foreign investment flows, Guangdong Province remains the most attractive destination for foreign investors (China Statistical Yearbook, 2000). Hong Kong is by far the single largest investor in this province – and indeed in all China – accounting for nearly two-thirds of Guangdong's inward investment. The next biggest investors, the Virgin Islands and the United States, contribute twelve and five per cent of Guangdong's FDI respectively (Guangdong Statistical Yearbook, 2001).

From this pre-specified population of firms 18 IJVs were selected for case studies. Again, the final sample was chosen on conceptual grounds rather than with the aim of getting a representative mix of firms. In other words, by selecting a broad mix of both small and large contractual and equity joint ventures from a number of cities and industries, the aim was to rule out possible industry-specific effects and to demonstrate that the underlying theory is generic by identifying those elements common to all partner identifications. Similarities observed across a diverse sample of IJVs offer a surer basis for evaluating propositions than constant elements observed in a homogeneous sample of firms (Harris and Sutton, 1986; Yin, 1989). The final sample is described in Table 1 and includes 13 equity joint ventures and five contractual joint ventures across five cities and representing more than a dozen manufacturing industries.

Data collection
An inherent advantage of using the case study research method is the ability to incorporate multiple sources of evidence or measures of the same phenomenon yielding potentially higher levels of construct validity than research methods that rely only on single sources of information (Yin, 1989). In this study data triangulation was achieved by conducting semi-structured interviews with as many participants involved in each selection decision as possible. At a minimum this meant interviewing both the Hong Kong and Chinese partners which we were able to do in all but one case. At other times, influential intermediaries provided an important perspective.

Gaining initial access to a new JV was somewhat problematic given the sensitivity of the topic as perceived by potential informants. In each case studied approaches were made on the basis of connections or referrals made on behalf of the first author. In addition to providing intimate access to key decision-makers, these introductions played an important role in establishing a level of initial trust in the interviewer-interviewee relationship. Thus, this approach, although not suited to studies driven by goals of statistical generalization, served to improve the level of confidence in the truth value, or the internal validity, of the findings.

Data collection activities were based on a detailed three page interview guide. Informants were asked about the history of each IJV with particular attention paid to the number of potential partners identified and the reasons why each was chosen or rejected.
of the IJVs studied were established within the last fifteen years ensuring that the details surrounding the formation of each venture were not lost to history. Nevertheless, because of the time frames involved there was a danger of missing information or biased recollections of past activities (Golden, 1992). For example, when reconstructing stories of how each investor met their JV partner, informants on both sides of the border commonly cast themselves as the active player in the search process. This potential hazard reinforced the need for data triangulation followed up with post-interview verification of transcripts.

The interviews ranged from 30 to 120 minutes with an average duration of around 90 minutes. Of the 35 interviews held with the JV partners themselves, only one was conducted in Hong Kong. Other interviews were held in Guangzhou, Dongguan, Foshan, Shenzhen, Nanhai, and Shunde, all located in the Pearl River Delta region. All interviews were conducted in Cantonese, the mother tongue of all the informants.

As informants were universally uncomfortable being taped, detailed field notes (374 pages) were completed within three hours of each interview to minimize the effects of limited recall. Interviews were transcribed fully within three days of each site visit and transcripts (totaling 173 pages) were then returned to informants for verification. This validity check resulted in five minor corrections being made. Interview data were then coded separately by two research assistants and from these individual case studies were prepared following a standardized case outline. The eighteen case studies are the formal presentations of the evidence contained in the evidentiary database.

Cross-case findings

As can be seen from Table 1, the final sample contained a good mix of IJVs representing a number of diverse industries. The stories behind each start up were solicited independently from each founding partner to permit verification. The eighteen individual case reports (available from the authors) document the formation of each JV identifying the key personalities involved, the motives behind each decision, and the partner identification stories reported by informants on both sides of the exchange.

Finding partners

Whether their motives were the reduction of production costs or the pursuit of market opportunities, the eighteen diverse investors in this study sought partners in a similar fashion - by exploiting their existing ties with others. Across the sample, IJVs were typically formed on the basis of the initiating actor's existing social network and these bridge ties served to provide a direct or indirect link between the eventual partners. The pattern of relationships observed in each case is presented in Table 2. This table highlights not only the connections between the investors and their PRC partners (n=19), but also with those other candidates considered but not chosen (n=24).

Only two of the 68 interpersonal ties observed in the sample were not based on existing social connections (represented by the dashed lines in Table 2). In one case (GFW) a Hong Kong investor named Chan Ming was introduced to a potential JV partner (the Guangzhou A Watch Company) by an official from the H District External Trade Committee. Chan Ming had met the official by chance after approaching the Committee for general information regarding the possibility of forming a JV. When the official learned that Chan Ming wanted to invest in the watch processing industry, he actively sought to introduce a candidate to Chan Ming. As Chan Ming had already decided to invest, he was happy to have one more choice. However, as it turned out, the potential partner recommended by the official was overlooked in preference for another candidate introduced to Chan Ming by his brother Chan Wai. Similarly, another non-selected partner in the BTF case had been met, not through existing social connections, but through a chance encounter at a furniture exhibition. These two
uncommon examples support the broader view that the investors in this study preferred those potential candidates with whom there was some existing connection (supporting P1). In the case of GFW, Chan Wai introduced his brother (the Hong Kong investor) to his employer, Uncle Hui (the eventual PRC investor). This pattern of behavior was repeatedly observed; in the HHP case, the Hong Kong investor, Chan Kwong, formed a venture with a lifelong friend born in the same village; in the PMP case the investor chose a former classmate of his wife's to be his partner, and so on.

The specific ties observed in the sample were as idiosyncratic as the JVs themselves. However, three broad tie types were identified across the sample; business ties (e.g., suppliers, customers, employees, business associates), family ties (e.g., immediate family, extended family), and friendship ties (e.g., “old friends,” school ties, former neighbours). Across the sample the most common ties were those where investors relied on their existing business connections (e.g., the relationship between Li Ming Wah and Chan Lok in the DCP case). Also common were those connections made via family links (e.g., Chan Ming's reliance on his brother in the GFW case and the key role played by Tse Ka Ying's sister-in-law in the KMP case). In several cases, friendship ties were instrumental (e.g., Chan Kwong's friendship with Uncle T in the HHP case and the friendship between Chen Cao and Uncle Yau father in the ZZK case). Often one JV partnership was the result of the interplay of several kinds of tie (e.g., as in the GFW, PMP, SMA, ZZK, KSC, and FAE cases). All told, the sample included nineteen family ties, thirty business ties, and seventeen friendship ties.

Tie strength

The diverse tie types linking the IJV partners were aggregated into two groups for further analysis; strong and weak ties. (The two exchanges where no prior ties were observed are omitted from the following analysis.) A strong tie was inferred on the basis of familial connections or where informants reported that they were "old friends". In the context of Chinese business, the term “old friend” connotes a long-standing relationship which is more akin to a family tie in terms of intimacy and obligation than a mere friendship link. Using Hwang’s (1987) terminology, ties linking old friends and family members are primarily expressive evoking relatively high levels of attachment and stability. In contrast, ties between casual friends, business associates and acquaintances tend to be more instrumental in nature serving as a means to attain goals that go beyond the value of the relationship itself.

Tie strength is cross-tabulated with partner identification in Table 3. Comparing the two groups (selected versus non-selected partners) reveals that while weak ties were more evident in the search for JV partners (supporting P2a), final selection decisions were more often based on strong ties ($\chi^2 = 3.9699, p<.05, \Phi = 0.0602$) supporting P2b. Potential partners recommended by family members and old friends were almost twice as likely to be selected (eighteen cases to ten), whereas partners recommended by casual friends and acquaintances were much more likely to be rejected (23 cases to 15).

IJV search behavior

An implicit assumption in the literature on IJV partner selection is that the initial identification process consists of the following stages: (1) identifying those characteristics desired in a potential partner, (2) determining the appropriate channels or information sources to identify likely candidates, and (3) approaching the right prospects accordingly. In no case studied was this pattern of behavior observed. In at least four of the eighteen cases (KOP, SHT, KMP, and FDP), the foreign investor did not search at all but was first approached either by an interested partner or an entrepreneurial intermediary. (In some of these cases studied, there was not even a motive to form a joint venture until after contact had been made (e.g., KMP, FDP).) However, those investors that did take the initiative to search for Chinese partners generally did so by exploiting their existing connections. For example, in the JEP case, the Hong Kong investor (Mr Yiu) had a very clear desire to invest in the eel processing
industry and consequently he decided to search for a partner in Shunde, a place known to have an abundant supply of eel. As Mr. Yiu did not know anyone in Shunde, he requested an introduction from a friend who had excellent business connections within that city. A similar pattern was observed in other cases (e.g., MPC, DCP, FKC, SMA, SYW, ZZK, KSC, and BTF).

In no case studied was the identification of partners facilitated by formal market research. When searching for IJV partners the informants in this study relied heavily on their existing connections with others. This is not to say that informants did not refer to economic criteria when explaining their selection process. Often they did. But in every such case it can be shown that the decisive factor in the selection process was more social than economic. For example, in setting up the SYW venture, the Hong Kong investor (Pang Ke Ming) first explained:

Since our plant is in Guangzhou, we can deliver the goods to our clients (in the Middle East) conveniently... Since many plants that supply us with watch-parts are located in Dongguan and Guangzhou, we can keep our plant close to these suppliers.

Further, Pang Ke Ming explained that two other potential JV partners were not selected because the factory of one was too small and the other had been unable to agree on partnership terms during negotiation. However, his reasons for finally choosing his brother as his partner were unequivocal, as explained by an informed insider:

I can’t say whether this was the best choice. Anyway, brother is brother... We have a Chinese idiom: ‘If you go to fight with a tiger, your brother will help you. If you go to fight in a war, your brother will help you’... We have good trust towards each other. Sometimes (the brothers) have a confrontation on the works. But it is not a big deal. They are brothers, therefore they can trust each other.

It should be noted that this example is somewhat unusual for it was the only case studied where the JV partners were family members. Although family ties were evident in a number of cases across the sample (e.g: in the GFW, ZZK, KSC, BTF and FDP cases), they were commonly used a basis for providing introductions to non-related potential partners (eighteen indirect ties to one direct tie). Indeed, when called upon, family members were much more likely to play the role of match-maker than were friends and acquaintances (28 indirect ties to nineteen direct ties). In only two cases was the final partner introduced by a friend of the investor (JEP, QYL cases).

Relying on family ties and “old friends” was also found to affect the duration of search activities. Across the sample searches were classified as either selective (i.e., ending when a suitable partner was found) or exhaustive (i.e., continuing after a suitable partner was found). In most cases studied, investors continued their searches even after a suitable candidate had been identified. These ongoing searches perhaps reinforced investors’ confidence in the candidates already met. Cross-tabulating search type with tie strength (Table 4) reveals that searches were more likely to continue in this fashion when weak ties were used (as happened in 82 per cent of such cases), than when strong ties were used (only 57 per cent of cases). This suggests that an investor’s confidence in a potential JV partner is contingent upon the type of tie used in the search supporting P3 ($\chi^2 = 4.6957$, p<.05, $\Phi = 0.0711$).

Relational outcomes and JV performance

Finally, each IJV partner was asked to provide information regarding the level of cooperation in the partnership and the business performance of the venture. Three measures were used, with each rated on a ten-point scale; perceived cooperation, productivity and profitability. Virtually every informant rated his or her JV as having a high level of
cooperation. Nevertheless, a small but significant difference ($t=2.068, p<.05$) was observed favoring those ventures based predominantly on strong ties ($x = 8.833$) versus weak ties ($x = 8.817$) providing support for P4. To ascertain JV performance levels, the dyadic responses on the productivity and profitability measures of each venture were averaged and the resulting composite scores were used to arbitrarily split the sample into high and low performing ventures. These data were then cross-tabulated with tie strength but no performance differences were observed between the two groups ($\chi^2 = 0.0159, p>.95$). Taken in conjunction with the earlier findings, this suggests that while strong ties are more valuable in the search for JV partners and are more likely to result in alliances exhibiting high levels of cooperation, tie strength itself has little direct effect on performance outcomes. Whether identified via strong ties or weak, the interpartner “fit” and the resulting venture performance is affected more by other factors.

**Discussion**

In contrast with the default search model assumed in existing IJV research, Hong Kong investors tend to rely on their existing connections with others when searching for potential joint venture partners in the PRC. Several explanations for this behavior are plausible. First there is the "limited resources" argument. Small-to-medium sized enterprises have limited resources with which to fund market research. In light of this, such firms economize by exploiting their existing sources of information, namely, their interpersonal networks. This argument, although intuitively appealing, isn’t borne out by the case study evidence. In this study several large firms were investigated including the Hong Kong parent of the MPC joint venture which is a listed public company and the KSC joint venture which reported an annual income of US$20m and employs 2,000 workers. In these cases and others resources were presumably available to sponsor searches more systematic and comprehensive than those observed here.

A second explanation is the "China experience" argument which suggests that those who have had prior experience in the market are better able to identify potential alliance partners. Those without such experience will have to rely on intermediaries such as trade-promoting agencies or government departments to either make introductions or provide a short-list of suitable candidates. However, again the case study evidence is contrary. In this study three Hong Kong investors had had no prior experience working in China (namely, the investors in ZZK, KSC, and QYL ventures). Yet, instead of using the services of official trade-promoting agencies, in each case they relied on the second-level connections of known intermediaries. Interestingly, in each of these cases only one potential partner was identified precluding the possibility of any evaluation of alternative candidates.

A third and related explanation is that the Hong Kong investors were merely doing what all Chinese deal-makers do, which is exploit their guanxi or interpersonal relationships. The Chinese concept of guanxi refers to drawing on one’s connections in order to exchange favors in personal relationships (Luo, 2000). The development of a guanxi relation between two people requires a shared identification with a common guanxi base (Tsang, 1998). Guanxi bases may be defined by a common hometown or dialect, kinship or friendship, even work places and social clubs (Tong and Yong, 1998). For example, in this study a shared sense of identification with a common ancestral home played a role in the selection decision in the SHT case. Yu Kwok Keung, the Hong Kong investor, explained why his search for a JV partner took him to his home town:

> I still have many relatives in Lok Wing Town… I am familiar with the place. This is the place where I had lived. Many officials in the town government are part of my peer group. In China, if you belong to this town, the officials and people there will treat you better. It is easy for us to build trust with each other.
However, the shared identification with a common guanxi base serves merely as the foundation for guanxi xue or the practice or art of guanxi (Guthrie, 1998). According to Yang (1994, p.6), “guanxi xue involves the exchange of gifts, favors, and banquets; the cultivation of personal relationships and networks of mutual dependence; and the manufacturing of obligation and indebtedness.” When queried on the role of guanxi xue in the selection process, most investors shared the dismissive view of Chan Kwong (of the HHP venture) who stated that "business is business". For example, Chan Ming of GFW explained:

We won’t use our money to do favors… We won’t select a partner to give face. Doing business is not like playing a game. We are very serious. I think this is not a ‘face’ issue. Instead it is more important that we trust (the local partner). Many firms in China promise you a lot before joining a venture. Afterwards, they cannot keep the promise. This is very common in China.

It is also worth noting that the particularly Chinese guanxi base of a common ancestral village or clan was evident in only four (out of sixty-eight) ties and in each case informants generally preferred not to rely solely on these ancestral links in gauging the trustworthiness of a potential partner. According to the wife of the Chinese investor of the KMP venture, “relative guanxi is just the first step to build up trust.” For this reason her husband (Tse Ka Ying) acknowledged the importance of building up the relationship at a number of levels:

Of course, relative guanxi between us can help to build up the trust. But the more important fact is that we have numerous contacts, at a social and business level. Through close interaction, we build up trust between us.

Similarly, the mere fact that both partners had been born in the same village was merely the first step towards establishing trust in the SHT case. As Yu Kwok Keung said:

It is hard to say whether you can trust anybody unless you have had the experience of working with him… We had not worked together before. I think the trust is based on the fact that we are come from the same village. But more important is that I had known him for over two years before we established this joint venture. After two years of observation, I felt comfortable that I had a good understanding of him.

Repeatedly in the interviews the critical ingredient of "trust" was identified as having driven the selection decision. While the full spectrum of guanxi bases was evident in the sample, these existing links served primarily as conduits for communicating information regarding the identification and trustworthiness of potential partners, rather than as platforms on which to engage in guanxi xue. In the fullest sense of the word, the concept of guanxi provides no additional insight into the process of partner identification observed in this study. This echoes Guthrie’s (1998) finding that economic development in urban China has brought a growing distinction between social ties (guanxi) and the use of these ties in the gift economy (guanxi xue). Based on data collected via 155 interviews with Chinese officials and managers, Guthrie concluded that Chinese managers no longer view the use of connections in China “as any different from the way business is conducted throughout the world” (1998, p.281).

Perhaps the best explanation for the case study evidence is that Hong Kong investors adopt a satisficing approach in their search for IJV partners (March 1994). Instead of spending significant resources on a comprehensive search based on information sourced from a variety of channels and culminating in the identification of the best choice from among a large list of alternatives, the investors in this study relied on more informal information sources, considered very few alternatives, and generally chose partners considered to be “good
enough.” The high level of uncertainty in the investment environment combined with the paucity of good quality information regarding the risk levels of different investment alternatives compelled the decision-makers in this study to exploit their social networks in both their search for, and evaluation of, potential JV partners. Consistent with Granovetter’s (1973) finding, weak ties or acquaintances provided investors with the greatest amount of information regarding investment alternatives (as reflected in the number of partners identified). However, consistent with the claims of Burt (1992), Uzzi (1996) and others, strong ties between intimates provided a better base for establishing the trustworthiness of potential partners and embedding new ventures in an initial stock of trust appropriated from pre-existing relationships. In this study, searches based on strong ties were more likely to be both shorter and more successful, as measured in partner selection/identification ratios and the levels of cooperation in the resulting ventures.

Conclusion

This cross-case exploratory study sought to address two research questions: (1) on what basis are potential IJV partners first identified? and (2) what role, if any, do social ties play in the identification of potential IJV partners? The findings revealed that in their search for potential alliance partners, none of the 35 investors interviewed in this study relied on market research or information procured from official trade-promoting agencies. In all 43 cases of partner identification studied potential partners were identified primarily on the basis of existing social networks which were defined in terms of business, familial and friendship ties. Moreover, this pattern of behavior was observed across a range of firm types and industries supporting the idea that social networks provide a valuable resource for reducing search costs. In the initial search and identification process, weak ties between actors were most valuable in terms of generating the largest number of leads. However, strong ties, where they existed, expedited the search process and provided a more robust basis for final selection and subsequent inter-partner cooperation. Finally, whether identified via strong or weak ties performance outcomes were broadly similar across the sample indicating that other partner- and task-related factors are also critical in the joint venturing process. The determinants of JV performance are much more likely to be described by the match of partners’ core competencies (Harrigan 1988) than in the manner in which they first met. Further research is clearly needed before firm conclusions can be drawn. Possible research avenues are suggested by the two main limitations of this study:

1. In this study the population was defined as Sino-Hong Kong IJVs. This choice, consistent with the exploratory aims of the study, was meant to control for the possible extraneous effects of cultural distance: the only true barrier to investment among these two groups of investors is an economic one. However, the generalizability of the findings must be interpreted with care. While the study of cross-border alliances involving partners of similar ethnicity on both sides is not especially unique (consider the case of Hispanic investors based in Mexico and the southern United States, or Malay investors from Singapore and Johor, or even English investors from Hong Kong and the United Kingdom), subsequent research needs to widen the socio-cultural gap between investors to see whether the search patterns observed here are truly generic. Plausibly social networks, where they exist, will become more valuable with socio-cultural distance as market uncertainty and potential search costs rise (Podolny, 1994; Uzzi, 1996).

2. In addition to this study, at least two others have found a connection between “past association” (or social ties) and partner identification; (i) Tomlinson's (1970) study of 49 British firms in Pakistan and India, and (ii) Maurer’s (1996) recent study of Sino-US IJVs. The common thread in all three studies is the marriage of partners from diverse economic backgrounds (i.e., developed and developing nations, free markets and economies in transition). This suggests that the value of social ties is correlated with the uncertainty of
exchange. This further suggests that social ties will be least valuable between IJV partners from countries with similar levels of economic development. Further research is needed to test this claim.

**Summary**

As well as being mechanisms for minimizing transaction costs and pooling complementary assets, IJVs are also vehicles for transferring knowledge between firms (Lyles and Salk, 1996). Before the strategic aspects of any proposed venture can be assessed, knowledge germane to the evaluation of potential partners must first be exchanged. This study has highlighted the role social ties play in the early stages of that knowledge transfer process.

Recent IB research has begun to uncover a connection between social structure and the pursuit of opportunities for international exchange and investment (e.g., Ellis, 2000; Rangan, 2000). Consistent with that work this study supports the emerging view that economic exchange across borders follows information exchange which, in turn, reflects antecedent network connections. Despite pressures for globalization, knowledge barriers persist creating "information insufficiencies" as indicated in the visible stickiness of trade flows (Rangan 2000). In such settings boundary-spanning networks provide valuable conduits for information and create platforms for building trust.

**References**


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Table 2: The Ties That Bind
Table 3: Descriptive Statistics for Partner Identification

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Table 4: Tie Strength and Search Duration

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