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Strategic Partnering with Chinese companies: Hidden motives and treasures

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Strategic Partnering with Chinese companies: Hidden motives and treasures.

Geert Duysters[1], Tina Saebi[2] & Dong Qinqin[3]

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

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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.

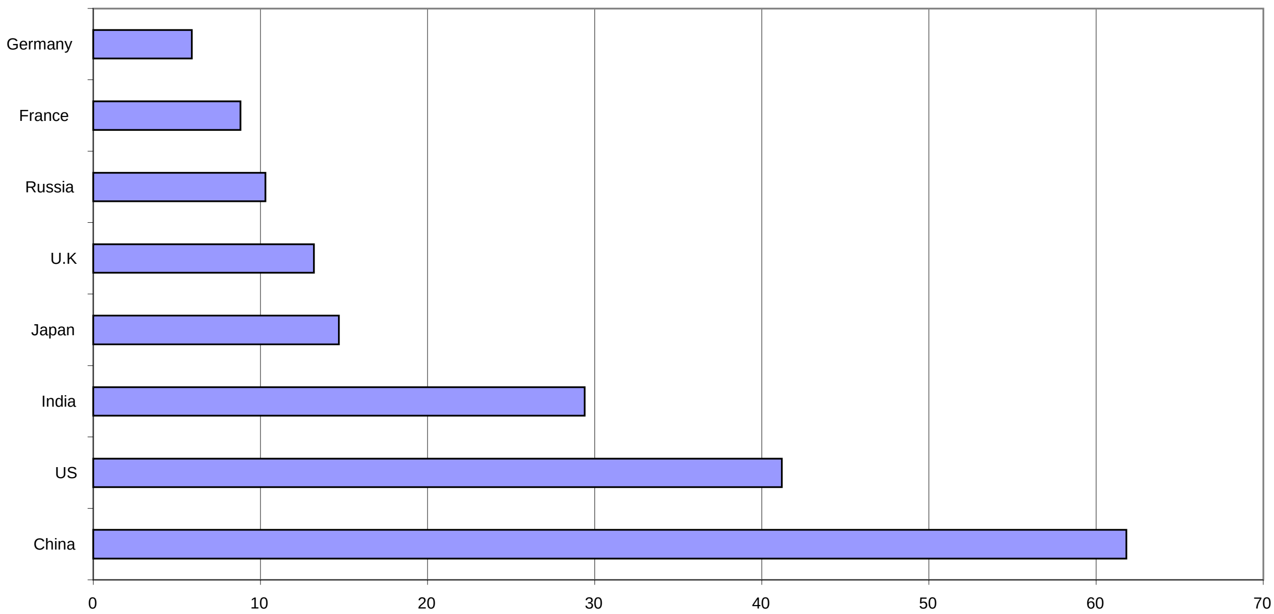

Figure 1: Most attractive prospective R&D locations (Source: adapted fromWorld Investment Report 2005)

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 asses 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.

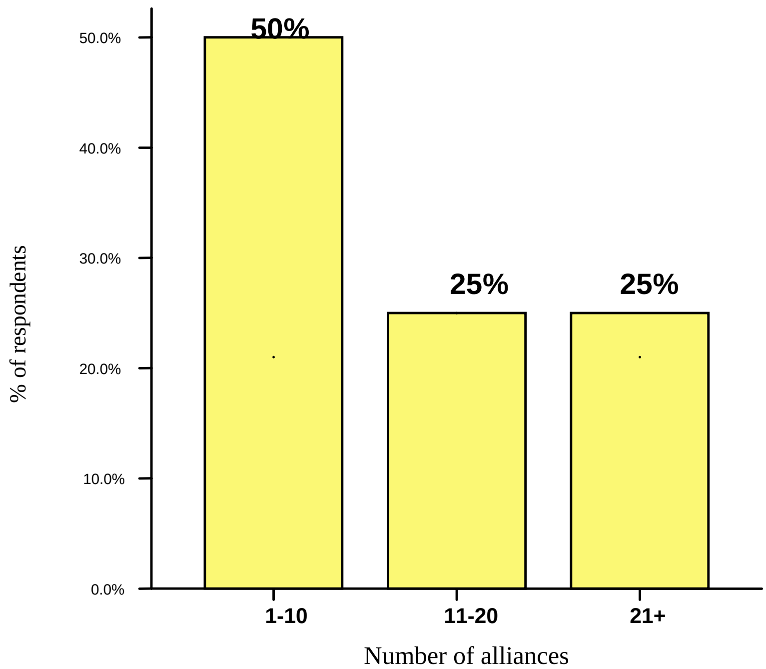

Figure 2: percentage of alliances formed over the last five years

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:

Strategic alliance motives:	**Importance (average score)** 5= very important, 1= not importance at all	Range of 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.

Partner selection criteria:	**Importance (average score)** 5= very important, 1= not importance at all	Range of answers
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) 5= very important, 1= not importance at all	Range of answers
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 are 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

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