

Cross-national distances and Alliances

“ The necessity to ally with local partners accompanied with distrust “

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PREFACE

This is the final chapter of my two year study at the RSM Erasmus University. It was hard work, many hours of studying, debating, presenting and listening. Looking back, these two years have added so much to me as a person. I remember that I was present at a presentation to promote this study. A former student held a presentation and he talked about how much this study meant for him. How he was able to look at things from multiple perspectives, how his confidence rocketed sky high. I remember that at that moment, I thought of two things. One was that I hoped that he was meaning all that he said and that it was not just a pitch talk. The second one was that I wanted to be at his place after two years. I can now truly say that I do believe that he meant everything he said because I feel the same and secondly I am so happy that I have accomplished this study as well.

Of course, I could not achieve this without help. I thank Cees Vletter who provided me with the chance to start this study and his full support. I thank Frank Wijen and Juup Essers for pushing me to achieve my best and to keep me motivated at all time. It was not always easy to take but when I look back at the end result, it was definitely worth it. I also thank to all the interviewees for their time and openness.

Finally I would like to thank my wife, Havva. I could not achieve this without you. You have supported me to start this study and made it very easy for me to put the many hours in this study. Especially that you took so good care of our little girl Elif. To Elif, You were definitely my inspiration. Although you are now too young to understand, I hope that you will be proud of your father and that this inspires you to go beyond your old man!

Mustafa Adal
Rotterdam, 2012

MANAGEMENT SUMMARY

The globalization of the world economy has increased the cross border alliances significantly in the last decades. This has, however, been also accompanied with high failure rate. A smart partner selection is crucial to be successful in strategic alliances. Next to a matching partner, trust is regarded as a key aspect in strategic alliances. Trust is important in every relationship but more so when there are high uncertainty and large risks. The consequence of cross border alliances is that it creates uncertainty by cross-national distances of the home country of a firm and the host country.

Current literature has studied the influence of trust in strategic alliances but has focused more on the trust building after an alliance is established. The partner selection process did receive more attention in the recent years. This has been largely focused on creating a “fit” between two or more partners. The influence of initial trust, which is the beginning of a possible long-term relationship, on the partner selection process has received less attention.

Trust is about expectation and the perceived cross national distances, which influences this initial trust, may alter the view of a company towards the potential partner.

So how can firms select a suitable partner in cross border alliances when faced with a pre-idea or as defined in this thesis “perceived” cross national distance? How can management control their bias towards potential partners?

This thesis aims to provide an answer to these questions. A model has been developed by extensive literature review. The factors cross-national distance, initial trust, partner need and partner selection criteria are integrated in this model.

This study used an explanatory single case study approach. The selected firm was based on three criteria, 1) the existence international alliances activity, 2) various alliances with different cross national distances 3) a clear partner selection process.

Semi-structured interviews were held to test the propositions derived from the model. This model gives insight on how the partner selection process is influenced in

cross-border alliances. It starts with the image that managers have of a specific country. This has been defined as “perceived” cross-national distance. This “felt” distance creates a level of initial trust in general towards the host country and subsequently towards the potential partner.

This research also aimed to study the influences of the need for a partner and the initial trust on the partner selection criteria. This was the prime objective of this thesis, to provide insight on how firms can effectively manage the selection of potential partners in cross-border alliances. It appeared that initial trust itself does influence the partner selection criteria. This thesis showed that criteria are valued higher as well as screened more extensively in cases where there is a large cross-national distance. The use of network ties for reference purposes was done more frequently in cases of low initial trust. One of the discussed actual cases during the interviews showed how costly a partner selection based on the wrong perceived cross-national distance could be. The initial trust was high due to smaller perceived distance to the host country, which led to different partner selection criteria and a low need for a partner, which eventually proven to be the wrong choice.

In general, this thesis showed the influence of initial trust in a partner selection process. This is more important in cross-border alliances where trust is deemed as one of the key elements for alliance success.

Firms need to be aware that there is a contrast between a high need to ally with a partner derived from a perceived cross-national distance which on the other hand also creates a low initial trust that complicates the partner selection process.

The conclusion of this thesis is that managers need to be more aware of the influence of a perceived cross-national distance and the consequences of this, which can be summed as; a) reducing the chance of finding a more “fit” partner due to ungrounded partner selection criteria and b) increase chance of alliance failure due to lack of initial trust. In order to overcome this, the unfamiliar countries should be studied prior to a partner selection process and the experience in familiar countries should be more shared within the organization.

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CHAPTER ONE – INTRODUCTION

1.1 Introduction

Strategic alliances activities have increased significantly in the last decades. The value of these transactions rose from USD 300 billion in 1985 to 6.000 billion in 2008¹.

It has proven to be a popular strategy for entries in international markets. (Lane & Beamish, 1990; Osborn & Hagedoorn, 1997).

These alliances allow the partners to share risk and resources. They provide an opportunity for firms to learn from each other and thereby improve their performance (Hamel,1991). It is a common way for multinationals to access a different country. The most popular type of international strategic alliance and which has received a great degree of attention is the International Joint Venture (IJV). An IJV is described as a new created entity by two or more partners of which at least one is headquartered outside the country where the new entity is established. The different partners hold ownership interests and actively participate in the decision making process of the IJV (Geringer, 1991; Park and Ungson, 1997).

Although the strategic alliances are a popular way of creating additional value, it has also a high rate of failure (Dyer, Kale, Sing, 2001; Lambe and Spekman, 1997). The reasons for these failures can be summed as, failing to meet partners' expectations (Gill and Butler, 2003), lack of trust (Das and Teng, 1998; Ring and Van de Ven, 1994), deceit and opportunism (Das, 2005; Das and Rahman, in press), strategic incompatibility (Arino and de la Torre, 1998), poor organizational integration (Gulati and Singh, 1998), ineffective management of internal tensions (Das and Teng, 2000), cultural distance (Brown et al. , 1989; Lane and Beamish, 1990).

These researches have contributed significantly in understanding why many alliances have failed. Still there is an increase of alliance activities. An important focus on strategic alliances has been the pre-alliance process in order to prevent wrong

¹ Thomson Financial, Institute of Mergers, Acquisitions and Alliances

decision-making. Lambe and Spekman (1997) state that alliance success is determined largely by smart partner selection. Koot (1988) argued that the partner selection process is difficult but also critical to alliances' success.

There has also been other research focused on the partner selection issues (Beckman, Haunschild, and Phillips, 2004; Dollinger, Golden and Saxton, 1997; Geringer, 1988; Hitt et al., 2000; Lambe, Spekman, and Hunt, 2002, Roy and Oliver (2009). These researches have been analyzing the specific characteristics that are critical in the selection of a partner. Many valuable frameworks have been developed to examine and analyze these characteristics. Shah and Swaminathan (2008) have identified four key factors that have been shown to influence partner selection and subsequent strategic alliance performance. These are trust, financial pay off, commitment and complementarity. In a more recent study Roy (2012) have identified six categories of regarding partner selection criteria:

- Character criteria
- Partnering intent criteria
- Market power criteria
- Factors of production criteria
- Political capital criteria
- Partnering ability criteria

These studies have also contributed to make the link between outcomes of unsuccessful alliances and how to prevent them. Yet, there are still many failures in these international alliances.

When discussing international strategic alliances such as IJV's, the cross-national differences cannot be ignored. Much research has been done on differences in cross-national distances. One of the most important studies regarding this topic is Hofstede where he identified four dimensions, power distance, uncertainty avoidance, individualism/collectivism and masculinity/femininity.

While many have embraced Hofstede's cultural scores as the basis of measurement of cross-national distance there is also some criticisms for this approach (Guillén & Suárez, 2001; Shenkar, 2001). These will be highlighted in the chapter literature review.

Ghemawat (2001) describes cross-national distance as, not only cultural but also geographical, economic and administrative, the so-called CAGE distance framework. This framework makes a deeper analysis than the traditional used country portfolio analysis (CPA) or the Hofstede's dimensions of national culture.

As stated earlier, there have been many studies on strategic alliances and partner selection criteria. The majority of them has been focused on specific criteria and measuring the importance of these. There have been fewer studies examining the relative importance of the specific criteria. Zaheer (2006) argued that trust itself is an important theme in international collaboration. This study was a response to the influential paper of Madhok (1995) in which trust across national boundaries was studied. Zaheer went beyond this and studied the international part of it.

Although Zaheer went further in the trust theme, it focused its study on actions that might result from higher or lower trust, which is argued to be influenced by asymmetry of institutional and cultural aspects. The specific partner selection criteria were not studied. Trust itself has been expressed in many research as being a critical component for alliance success (Krishnan et al.2006, Gulati(1995).

In this research I am interested in the effect that initial trust has on the specific partner selection criteria. In some studies the trust theme has been identified as a partner selection itself (Shah and Swaminathan, 2008) and in others trust has been argued to be one of the most important theme (Arino et al.2001; Zaheer, 2006)

However, surprisingly I could not find a study on the role of trust itself on the partner selection criteria.

1.2 Research question

My research is to provide an answer for firms investing in cross-border Joint Ventures with different cross-border distances. As distances can cause unfamiliarity, which can lead to lower trust, I want to research the effect of this initial trust to the partner selection criteria. My research question is therefore;

How can firms manage effectively the partner selection criteria in cross national alliances evaluation when faced with different levels of initial trust?

1.2.1 Sub research questions

Derived from my main research question, I have the following sub-research questions:

- 1) How do cross-national distances influence initial trust when engaging in an IJV?
- 2) How does initial trust influences the partner selection process, specifically the critical partner selection criteria, needed to achieve a successful IJV?

1.3 Contributions

The first contribution to theory concerns literature regarding cross-national distances and initial trust. Current literature is described as if the cross-national differences are objective criteria, in the sense that firms can easily understand the differences and how they should value this when selection a partner. This thesis suggests that initial trust is formed towards a foreign country *before* entering an alliance and that this will likely influence the partner selection process. This thesis therefore aims to provide more insight on this initial trust formation prior selecting a partner.

The second contribution to theory concerns the literature on partner selection criteria. The current literature has focused on many criteria that are argued to be important, however the relevant importance of these criteria, which might be influenced by initial trust, has been ignored.

CHAPTER TWO –LITERATURE REVIEW

2.1 Introduction

In this chapter I will first briefly give an overview of the existing literature on strategic alliances. This is order to answer the question why firms enter into cross-border alliances. Subsequently the theory on cross-national distances will be discussed. This can be seen as the legitimacy of this research, which is that distances does matter and should be studied separately as opposed to alliances within the same country. Thirdly, the theory on partner selection will be reviewed. This is the variable that is being used by firms to select their potential partners. In order to be able to answer the prime question of this thesis, this needs to be explained by the use of present studies. Finally trust itself will be explained. The scope of this study is that cross-national distances can create different levels of initial trust. Therefore the many views on trust itself will be described and subsequently a definition will be used.

At the end of the Theory review a conceptual model derived from the theory will be presented. This model will be described by means of propositions which will be tested at the end of this thesis.

2.2 Strategic alliances

There are many descriptions of strategic alliances available. All of them intend to provide a clear definition for what is basically a relationship between organizations working together for strategic purposes. Spekman et al.(1998) uses the following description: “ a strategic alliance is a close, long-term, mutually beneficial agreement between two or more partners in which resources, knowledge, and capabilities are shared with the objective of enhancing the competitive position of each partner”.

In this definition the sharing between partners and long term relationship is being emphasized. Although the “ sharing” is used in almost all of the definitions, the time span (e.g. long term) is not always used. Some also contradict that a strategic alliance is only about a long term relationship (Forrest, 1996). A commonly used definition is of Das & Teng (1998): “ inter-firm cooperative arrangements aimed at achieving the

strategic objectives of the partners”. This is the definition used in this research as well. Strategic alliances research has derived largely on two main theories. The transaction cost economics (TCE) (Williamson, 1975,1985,1993) and the resource-based view (Das&Teng, 2000).

The transaction theory has been very useful in explaining strategic decisions, specifically in the context of my research, international expansion (Buckely & Casson, 1976;Hennart, 1982;Rugman, 1981;Teece, 1983) and strategic alliances (Balakrishnan & Koza, 1993;Hennart, 1991).

This theory has an aim to explain and influence strategic decisions (Masten, 1993). Ghoshal (1996) has criticised this approach by arguing the two major assumption of the TCE. The first criticism is the assumption of the TCE that the human nature is opportunistic and in order for organizations to be successful they need hierarchical controls that are not accessible to markets. Ghoshal argues that this approach leads to a vicious circle that the assumption of opportunism and the sanction to control this will lead to more controls and more opportunistic behaviour in order to overcome the sanctions. The second criticism is regarding the “ game rules” of the TCE. It determines success by predefined criteria that lead to a logical outcome. This can be useful when explaining strategic decisions in stable environments (Monteverde & Teece, 1982; Walker & Weber, 1987). However, when the environment is not stable or not easy to predict, it causes difficulties for this theory as also acknowledged by Williamson (1994:85). As an alternative, the resource based view describes that firms are seeking for resources that can be used to create competitive advantages (Wernerfelt, 1984). This seeking for resources leads to interfirm collaboration (Gulati, 1999; Nohria& Garcia-Pont, 1991). In this research we focus on cross national alliances with the aim to provide insight on the influence of initial trust on partner selection criteria. The chosen form is International Joint Venture as this is the most common used form of collaboration in international strategic alliances.

Here below is a table showing the potential advantages for strategic alliances derived from current literature.

Tabel Summary strategic alliances

Advantage	Description	Literature
Gaining access to a particular source or market	Firms will enter into an alliance to gain access to a particular source, such as knowledge of a market, specialized employees, or a new (foreign) market	Chi,1994;Doz&Hamel,1998;Hennart, 1988; Tallman & Shenkar, 1994
Risk and cost sharing	Two or more firms can share the risks and cost in a business endeavour	Hamel,Doz, & Prahalad, 1989;Kogut, 1988
Economics of scale	Partnering can increase production volume so that this can decrease fixed costs.	Mohr & Spekman, 1994; Hennart, 1988
Learning	An alliance can help a firm to learn from the partner such as lean manufacturing, or HRM in an unfamiliar country	Inkpen & Crossna, 1995; Hamel, 1991; Hamel,Doz, & Prahalad, 1989

There are other used advantages in current literature but the above are the common used advantages. Of course, there are also disadvantages described in current literature (Doz & Hamel, 1998; Gulati, 1995; Hamel, Doz, & Prahalad, 1989). This will not be described in this thesis as it will not add value to the scope of this thesis, which is to provide more insight on partner selection process.

2.3 Partner Selection

Lambe and Spekman (1997) suggest that alliance success is largely determined by a smart selection process. A firm needs to know what kinds of characteristics are important in a particular project, such as an International Joint Venture. In this research I will investigate the partner selection process for a company in alliance projects with various cross-border distances, which I will highlight in the next chapter. The assumption that a smart selection process is indeed a critical component for alliance success is my starting point. I will now go through the various studies in current literature to provide an overview on which I will select a basis of partner selection criteria that I will use in my research.

There are many theories used in the partner selection process. Here below are the summaries of the most common used theories.

Transaction cost view

From a transaction cost point of view, the focus is in how an transaction exchange should be organized in a certain environment in order to minimize the production and transaction costs (Williamson, 1985, 1991). In line with this approach, this theory suggests that firms will choose the partner based on the involved transaction costs per partner in the specific transaction.

Resource-based view

This view suggests that firms can create sustainable competitive advantage by acquiring their resources. The resource based view describes that firms are seeking for resources that can be used to create competitive advantages (Wernerfelt, 1984). This seeking for resources leads to interfirm collaboration (Gulati,1999; Nohria& Garcia-Pont, 1991). In this respect, the firm should select a partner that has resources that are considered to be complementary.

Organizational learning perspective

The organizational learning perspective suggests that firms enter into an alliance to acquire knowledge and to learn new skills and capabilities (Powell et al., 1996, Mothe & Nohria, 1998)

This interpretation would lead to the conclusion that firms need to be able to adopt these new skills that a possible partner could provide. In selecting a partner potential partners should be evaluated based on their knowledge and level of learnability.

Institutional Theory

This theory suggests that in organizations, in order to survive, it must conform to the prevailing rules and beliefs (institutional environments) (Scott, 1995). This means that organizations can choose partners in order to obtain legitimacy (DiMaggio & Powell, 1983; Scott & Meyer, 1983).

These theories are the most common used theories and are generally accepted in the current literature on strategic alliances. Hitt et al. (2000) suggests that resource-based and organizational learning perspectives are particularly useful in explaining why firms select certain partners in cross-border alliances. A firm in search of a particular asset in a foreign country may also need to learn the local way of doing business. This thesis shares this view from Hitt et al. (2000) and will use the resource-based view and organizational learning in this research.

Alliance formation

The search for a partner is derived from the need to form an alliance. The alliance process is usually described in multiple phases (Dwyer et al. 1987; Lorange & Roos, 1992; Ring & van de Ven, 1994). This approach to cut the total process in stages is useful to understand why and when a process is important. It creates the possibility to label the processes to different variables. Kogut (1988) describes three stages, 1) formation, 2) operation and 3) termination. Roos (1992) describes also three stages, 1) alliance formation 2) alliance implementation and

3) alliance evolution. I will focus on the first stage of the alliance formation, as this is the phase that firms select their partners.

In order to establish the context of the alliance formation, which in this research is the partner selection process, I have chosen the International Joint Venture (IJV) alliance formation. This is the most popular context in cross-border alliance formation. There have been many studies on this specific context, such as Tomlinson (1970) British IJV in India and Pakistan; Adler & Hlavacek (1976) product innovation JV between large and small firms; Geringer (1991) US based international Joint Ventures; Hitt et al. (2000) alliances between organisations in developed and emerging markets.

One of the most cited and used criteria is the one developed by Geringer (1991). Geringer has created a framework with two types of partner selection criteria, the Task-related and the Partner related criteria. Geringer describes the Task related criteria as the operational skills and resources that are needed for a project in order to create competitive success. The Partner related criteria are described by Geringer as the effectiveness and efficiency of the partner. This framework has been used in many studies on partner selection (Glaister and Buckley, 1997; Tatoglu, 2000; Glaister et al. 2005). Although the study of Geringer has been the most influential one, it does not take into account the international context such as culture of nationality. Geringer has also addressed this as a future research subject. Hitt et al. (2000) has focused on this context by researching international strategic alliances by examining differences in partner selection criteria for firms in emerging and developed markets. Hitt et al. developed a table in which it shows the relative importance of the partner selection criteria for firms separated for emergent and developed markets. Hitt et al. suggests that there are differences in how firms value the partner selection criteria depending if they are from an emergent or developed market. This study has made important contributions for partner selection criteria with an international context, being emergent market firm or developed market firm.

Shah and Swaminathan (2008) further developed a framework in which they have identified four important partner selection criteria, trust, commitment, complementary and financial pay off. They made a contribution by placing these criteria within the context of specific alliance project type. This study suggests that the alliance project type has a moderating effect on the partner selection process.

Zaheer and Zaheer (2006) studied the role of trust in international context. They argue that “not only the level and degree of trust differ across international borders, but also the nature of trust can vary in different national context”. This study has examined both sides of the strategic alliance in which it argues that both will act different based on their own international context.

The study by Madhok (2006) where he makes an appeal for more cross-disciplinary work in order to gain more insights in the functioning of important phenomena for interest such as for International joint ventures was partially taken up by Roy (2012) In his study Roy (2012), where he has built on Geringer’s work on partner selection criteria and has attempted to provide more insight as described by Madhok, he has distinguished six criteria for partner selection;

Character criterion: This criterion reflects the morality and the ethics of the partnering firm. This includes transparency and the positive reputation

Partnering intent criterion: This criterion reflects the commitment of the partner firm for the partnership. This can be measured by the shared goals and objectives.

Market power criterion: This reflects the firm’s strength in the market. This includes measurement such as market share, financial health and firm size.

Factors of production criterion: This reflects the strategic assets, such as soft skills (managerial and labours skills) and technical (raw materials, technology).

Political capital criterion: This reflects the partner's strength of its relationship with governmental and non-governmental organizations and licenses.

Partnering ability criterion: This reflects the partner's ability to form and maintain relationships with other firms. This can be measured by their partnering success rate.

In his study Roy has linked the host country governance, partner selection and partner trustworthiness. He has provided more insight on trust and partner selection criteria, these were done based on host country governance. It was also focused on trustworthy behaviour. In his limitation, Roy also addresses that this behaviour is "more likely to be the result of the importance on partner selection criteria than the reverse". Another limitation was the fact that this research was done only in Asian countries. In my research I am interested in the initial trust and the relation to the different partner selection criteria as well as the influence of various relative cross-national distances on initial trust.

Although the other various studies use different types of criteria, the majority has reoccurring criteria. In this respect, I have chosen the Roy (2012) criteria to use in my research. He has made a more detailed selection when compared to Geringer and Shah and Swaminathan. Also this research attempts to gain insight on the influence of initial trust on partner selection criteria and does not have the goal to provide more or other types criteria in this respect. The many studies have provided many insights on the various criteria. This research has the intention to assess whether initial trust has an influence the way that firms value the various partner selection criteria. Therefore the selected partner selection criteria are merely used as a reference to test the proposition that these criteria may be valued differently. In case, the findings produces other criteria, which are not within the above mentioned criteria (Roy, 2012), then this will be explicitly clarified.

Here below is a summary of the studies regarding partner selection of the past years.

Table partner selection

Author	Subject	Selection Category
Tomlinson (1970)	International Joint Venture (IJV)	Resources, status of partner, forced choice, local identity
Tomlinson & Thompsons (1977)	IJV	Research on Mexican and Canadian partnering selection. Mexicans: International experience, financial resources, communication ability with Mexicans Technology Canadians: Common goals, financial status, compatibility, political power and ethics
Laserre (1984)	Transfer of Technology	Distinction between strategic fit and resource fit.
Geringer (1991)	IJV	Distinction between partner related and task related criteria. Partner related: Compatibility, motivation, partner characteristics, and reliability. Task related: marketing resources, R&D, production, customer services and financial resources.
Dacin, Hitt and Levitas (1997)	International alliances	Industry attractiveness, complementarity, unique competencies, market knowledge, management and technical capabilities, adaptation skills, alliance experience and willingness to share expertise.

Hitt et al (2000)	International alliances	<p>Study on partner selection firms from emerging and developed countries.</p> <p>Emerging: more emphasis on financial assets, technical capabilities, intangible assets and willingness to share expertise</p> <p>Developed: Local market knowledge and access and unique competencies</p>
Hitt et al (2004)	Strategic alliances	<p>Study on partner selection criteria China vs Russia.</p> <p>Chinese more emphasis on managerial capabilities, unique and intangible resources than Russian.</p>
Zaheer & Zaheer (2006)	International collaboration	<p>Role of trust in different international context. The levels of trust as well as the nature of trust varies in the different cultures</p>
Shah and Swaminathan (2008)	Strategic alliances	<p>Identified four factors of criteria influencing partner selection and performance: trust, commitment, complementary and financial pay off. Argued that alliance context has a moderating role.</p>
Roy (2012)	International Joint Ventures in Asia	<p>Identified six partner selection criteria and studied these against institutional distance. Argued that country governance influences partner trustworthy behaviour.</p>

2.4 Trust

In the previous paragraph I have reviewed existing literature on partner selection. In this review, trust has also come forward in many of the literature as an important partner selection criterion. It is considered a key ingredient for establishing a productive working relationship (Ring & van de Ven, 1994). Current research also suggest that trust is considered a facilitator for strategic collaboration (Zucker, Darby, Brewer, & Peng, 1996).

Firstly definitions of trust will be provided and subsequently an overview of the existing literature on cross-national distances. By providing an overview for both of these subjects, trust and cross national distances, the aim is to show the importance of trust but also the general accepted view that trust is strongly influenced by unfamiliarity and that cross national distances increases this unfamiliarity and subsequently the partner selection criteria. This is the basis of my research in which I will research the effect of initial trust on partner selection criteria in cross-national alliances. In this respect, it is important to show the importance of trust in general.

Defining Trust

Firstly, I will provide a definition of trust. Although my research is based on initial trust, I will make no distinction in this definition for initial or not as trust is the outcome of different variables but in the end it is the level of trust which is affected and not the definition of trust itself. The variables of this trust will be researched by the cross-national distances and the partner selection criteria.

There are many definitions of trust and there is no one approach that can currently embrace all the various aspects of the complex meaning of trust (Bigley & Pearce, 1998). There is however often an overlap on the various aspects (Rousseau et al., 1998). One of the most influential paper on trust has been of Gulati (1995,2008). Gulati describes trust as “ the expectation that another organization can be relied on to fulfil its obligations, to behave in a predictable manner, and to act and negotiate fairly even when the possibility of opportunism is present”.

The word “ expectation” is an important key element in trust. In business and our personal life, we act upon expectations. In this research context, a firm has expectations of a possible partner. How is this expectation formed? In the previous chapter an overview of the existing literature on partner selection criteria has been provided. In some cases, also trust is a part of the criteria itself. In my research I want to investigate the influence of initial trust itself on the partner selection criteria.

The importance of trust between organizations have received much attention in literature (Zaheer & Zaheer, 2006; Krishnan, Martin, and Noorderhaven, 2006; Janowicz & Noorderhaven,2002). Krishnan et al (2006) studied the influence of uncertainty on trust-performance and suggested that trust influences the alliance process. Other scholars identified trust as a key factor contributing to alliance success as well (Dyer & Chu, 2003; Moht & Spekman, 1994; Zaheer et al., 1998).

In current literature a general premise is that familiarity with a partner enables firms to develop confidence in the partner’s trustworthiness (Gulati,1995; Sako and Helper, 1998; Dyer and Chu, 2000; Uzz and Gillespie, 2002). This is an important premise as I will research partner selection criteria in a cross-national alliance context, which contains unfamiliarity circumstances. In the remaining of this chapter I will provide an overview of the literature on cross-national distances.

2.5 Cross national distances

One of the most influential studies on international context has been Hofstede(1990). He has identified four dimensions that are of importance when analyzing national culture. These are power distance, uncertainty avoidance, individualism/collectivism and masculinity/femininity.

Hofstede has provided a set of cultural indicators for a large sample of countries. Firms and scholars have used these indicators frequently. It not only provided an explanation for many cross national collaboration failure, it has also been the bases of many future research on this topic. A logical outcome has been that this theory has been criticized as well. One of the most important criticism has been that Hofstede

has only used national culture as only dimension for cross-national differences. This approach has excluded other dimensions on which countries can differ (Ghemawat, 2001). Recent study has pointed out that several of Hofstede's cultural variables have their roots in economic, language, religion, and legal factors (Tang & Koveos, 2008).

Another criticism is that Hofstede's cultural distinctions per country are static in the way that it does not take into account that these cross-national distances can change over time. Research has shown that it can change over time (Inglehart & Baker, 2000; Shenkar, 2001).

There are more criticism such as the used sample but nevertheless it has and still is the bases of many research. In providing a multi leveled context for cross national distances Ghemawat (2001) describes cross-national distance as, not only cultural but also geographical, economic and administrative, the so-called CAGE distance framework. This framework makes a deeper analysis than the traditional used country portfolio analysis (CPA) or the Hofstede's dimensions of national culture.

This research does not attempt to provide more insight in more or less dimensions for cross-national distances. The main goal of this research is to provide more insight on the effect of initial trust on partner selection criteria in cross-national alliances. I have previously argued that familiarity is an important component for trust. Gulati (2008) studied the influence of familiarity on trust and concluded that it does positively affect trust. In this context, the larger the distance is, the larger the unfamiliarity will be. I am therefore interested in only the distances itself and not whether a component of cross national distance has more or less impact on familiarity. I will therefore use CAGE distance model as an initial assessment of expected distances, which in effect will lead to high or low trust. The variables of this model will be used to label the distances derived from the data analysis of the interviews. In case there are other variable mentioned, besides these four, then these will be specifically described.

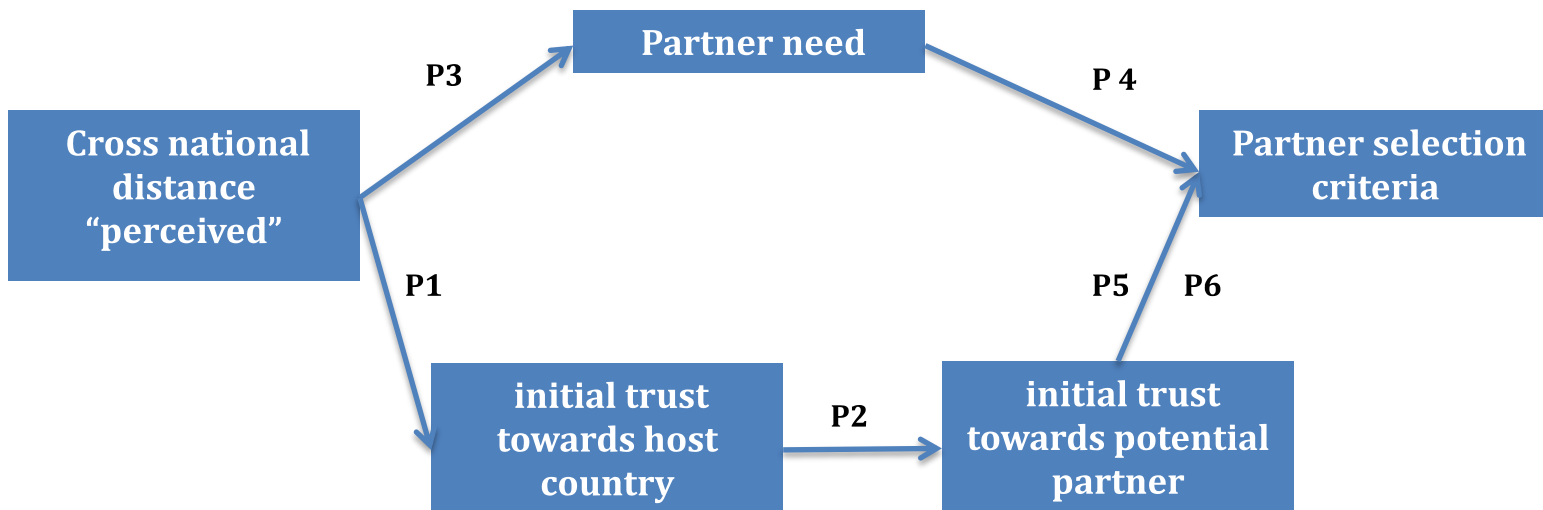
2.6 Conceptual framework

Based on the theory review the model on the next page has been created to show the influence of cross-national distance when engaging in a cross border alliance. Several propositions have been developed from this model and have been tested in the case study, which is described in Chapter 5. The model has the starting point that it assumes that the perceived cross-national distances influence the initial trust towards a country and subsequently the initial trust towards a potential partner. This assumption is based on several studies which examined the effects of various cross-national distances on alliances (Kogut & Singh, 1988; Shane, 1992). Gulati (1995, 2008) argues that familiarity influences trust. In this respect, the previously mentioned cross-national distances are expected to create unfamiliarity towards a country and subsequently to different levels of trust. The model has explicitly extracted the trust towards a country and trust towards a potential partner. This way it can test the stand-alone propositions and gain more insight on the specific trust development. In other words, if the first relation, that cross-national distance influences initial trust towards a country cannot be supported, then the second proposition that initial trust towards a country influences the trust towards a potential partner can still be tested and supported.

Another assumption is that these cross-national distances also influence the need for a partner. This due to existing studies in which learning is explained as an important part of alliances which creates the opportunity to learn from a partner in an unfamiliar country (Barringer & Harrison, 2000). These two, initial trust and alliance need, have been identified as being within the scope of this research. The initial trust is chosen obviously as it is the central theme in this thesis. The partner need variable was selected due to close relation within the partner selection criteria. The choice to enter a country with a partner is an important part of the partner selection process and therefore is also included in the model.

The final part of the model is the partner selection criteria. The theory on the partner selection criteria, the variables as well as the importance of this has been explained in the previous paragraphs. This variable will be used to assess the influences of the two main research subjects as mentioned before.

CONCEPTUAL MODEL



2.7 Propositions

This research starts with the premises of the need for strategic alliances, specifically in the context of this research, the cross border joint venture. The need for an alliance is imbedded in the idea that it will create an advantage, such as gaining access to a specific resource (Hennart, 1998), economics of scale (Hennart, 1998; Mohr & Spekman, 1994), risk and cost sharing (Hamel, Doz & Prahalad, 1989), gaining access to foreign markets (Doz & Hamel, 1998; Tallman & Shenkar, 1994). The increase of the cross border alliances in the last decades suggest that more firms are seeking to create these kind of advantages beyond their own border. This leads to more alliances further to the home country of the firm.

In this research the cross national distances is described by using the CAGE distance framework of Ghemawat (2001). This consists of cultural, geographical, economic and administrative distances. Several authors have examined the influence of different types of distance such on transactions costs and the governance in international alliances, such as cultural (Kogut & Singh, 1988; Shane, 1992).

As stated by Zaheer&Zaheer (2006) “ in general terms, it is clear that national culture powerfully influences trust”. This is however based on the formation of trust as an outcome of the norms and values of the country of origin. In this context, the study of Lane (1997) suggests that trust is increased between suppliers and buyers in Germany because of the great stability and consistency in the institutional conditions. Although this is an important part of trust in general, this paper has the focus on the influence of the perceived distance to initial trust. The CAGE distance framework is used in this research as to identify the perceived distance. Trust is based on the ability to predict the behavior (expectations) on how a person or organization will act. Therefore it is not the aim of this research to establish the cross national distance based on the use of studies which have provided a theoretical basis of explanation of these distance, but only to establish the influence of perceived distance on initial trust. This clarification leads to the following proposition;

Proposition 1: *A perceived cross-national distance between the home and host country will negatively influence initial trust of the home country firm towards a host country.*

Derived from proposition the assumption that a low initial trust towards a country will also influence the trust towards potential local partners as they are a part of the country itself.

Proposition 2: *a negative initial trust towards host country will negatively influence the initial trust towards potential partners.*

Learning is described as one of the advantages for interorganizational relationship (Doz,1996;Inkpen&Crissan, 1995; Hamel, Doz & Prahalad, 1989). This learning is explained as that these kinds of alliances provide the opportunity to learn from a partner in an unfamiliar country (Barringer & Harrison, 2000). Although there are more advantages of a partnership in international operations, this advantage, which is the basis of the commonly used theory “ Organizational learning”, goes beyond the more rational reasoning, as used in the transaction cost theory.

In the context of this research, this learning implies that there are unfamiliar aspects in gaining access in a country outside the home country. The following proposition summarized these ideas:

Proposition 3: *A perceived cross-national distance between the home and host country will create unfamiliarity. This unfamiliarity will increase the need for a partner.*

Lambe and Spekman (1997) suggest that a smart selection process largely determines alliance success. Many other scholars have acknowledged this and have also provided specific criteria needed to form a successful alliance (Geringer, 1991; Shah and Swaminathan, 2008; Roy, 2012). While Geringer used two general criteria (task and partner related), Shah & Swaminathan and Roy provided more specific partner selection criteria. In this research, the Roy criteria as described in Chapter two have been used in order to identify these criteria in the case study. This research does not have the aim to provide more criteria, it has the objective to see how these are influenced by cross-national distances. As earlier described and following the previous proposition, a partner need is influenced by the expected added value that a potential partner has to be successful in a host country. This suggests that the more added value is expected, the higher the need for a partner will be. This implies that different partner need levels will have different specific criteria.

Proposition 4 *A high perceived partner need in a cross-national operation will increase the number of partner selection criteria.*

Zaheer and Zaheer (2006) studied the role of trust in international context. They argued that not only the level of trust differs but also the nature of trust itself.

From this theory I propose that in case of different levels of initial trust, in international context, this will have a positive or a negative effect on the various partner selection criteria. In case of a low level of initial trust, this could lead to higher importance of the various partner selection criteria.

Proposition 5. a) A low level of initial trust towards a potential partner in the host country will high likely influence the partner selection criteria. This will lead to increased importance of the same criteria when compared to high initial trusted partners and,
b) This low level of initial trust will also increase the number of partner selection criteria when compared to high initial trusted partners.

The general accepted assumption is that a firm will choose a partner with the maximum matched partner selection criteria. An alternative view is that some firms may choose partners that only satisfy a few key criteria in specific situations (March, 1994). These specific situations can arise in high uncertainty markets. Wong & Ellis (2002) argued that in high uncertainty settings a firm will rely more on network ties when searching for a partner. Uncertainty settings can arise in high cross-national distanced alliances. This suggest:

Proposition 6. If there is low initial trust a firm will a) make more use of network ties and b) this will have more influence on selecting a partner than in alliances with smaller cross national distance.

CHAPTER THREE –METHODOLOGY

3.1 Introduction

This chapter describes the followed research methodology, which are a theoretical research and a case study. In chapter one, I have described the research problem and subsequently the research question. The second step has been the literature review (Chapter two) to explore the current studies and derived from this the explanation of the main components for this thesis. In the following paragraphs the research strategy, sample and data collection will be described.

3.2 Research strategy

The general accepted way of answering the “How” questions, where the researches has not much control over the event and where the focus of the research is within an actual real life context, the Case Study is a preferred method (Yin, 2003, 2009). The alternative to the case study is the experiment. However, this is seen as only useful where you do have the control. The case study is accepted as being appropriate when the research subject is defined broadly and has complex variables. These apply for this research as the perceived cross-national distance and derived from this the initial trust levels, the partner need and the influence on the partner selection process are difficult to and complex to define. The choice for case studies in the research field of international alliances has also been advised and used largely in the earlier studies (Smits, Carrol, & Ashford, 1995 NOG AANVULLEN). Typical criticism used against the use of a case study is that it may lack basis for scientific generalization. This is however not the case if it has the purpose to generalize to theoretical propositions and not to populations as used in statistical research.

Within the case study there is a distinction between single and multiple case studies. Single case study can be used for either a typical case or an extreme case Yin (2003). In case of a single case, this needs to represent a critical test to existing theory. The used case study is selected based on these criteria.

The goal of a case study is to benefit from theoretical propositions that can be used to test and to gain insight on more variables. The initial research question and subsequently the literature review are the bases to prepare the case study. After this theoretical preparation, a company is selected that fits the criteria needed to test the propositions derived from the literature review.

This company is selected based on 1) the existence international alliances activity, 2) various alliances with different cross national distances 3) a clear partner selection process.

In order to determine the employees that were to be interviewed, preliminary meetings were held with the directors of several divisions and with the director of the Corporate business development department. These meetings have been used to select relevant persons to be used for the interviews.

As described earlier, semi-structured interviews have been used to gain more insight on the research topic. The majority of the questions are open in order to provide the interviewee the opportunity to speak freely. This has the aim to gain insight on the thoughts and believe of the interviewee. These thoughts will then be used to test the theoretical propositions.

The semi-structured interviewing technique allows the testing of the theoretical proposition as well as to increase the chance of gaining new insights about the research topic, which may not be visible during the theoretical review, and subsequently the propositions. Only the first two interviews were recorded as it became clear that there was a high level of confidentiality involved and a choice as a consequence the choice was made to not record the interviews from thereon. This was done to increase the chance for interviewees to speak freely and subsequently notes were made instead.

The analysis of the collected data from the interviews is done by labeling and categorization. The important findings are separately labeled by use of excel sheets in which they are categorized. This categorization is used to gain insight on the key causal mechanisms, which is a) that cross-national distances influence trust and the need for partnership and b) that subsequently these two influences the partner selection process. This analysis of the data helps to identify how the different levels of initial trust influence the firm's ability to evaluate the different partners in order to have a long-term relation with it.

In order to analyze the case study data, the literature review and company documentation is used to establish triangulation. After this the final conclusion is used to write the management implications and suggestions for future research.

3.3 Sample and data collection

This thesis has the goal to research the influence cross-national distance on partner selection criteria in international Joint Ventures.

Sampling: judgemental sampling is used to select a fitting company. The criteria for this selection are (1) the company's international alliance activity (2) the presence of various cross national distances 3) clear presence of a partner selection process.

The interviewees for this research are selected based on natural sampling, which were done on bases of preliminary meetings with the directors to establish a list of potential interviewees . These were employees who are directly involved with the partner selection process.

Data collection: semi-structured interviews have been used for this case study to identify how cross-national distances influence the partner selection criteria.

The majority of the interviews were not recorded as this was not advised due to the confidentiality of the research topic and the fact that this company is stock listed. Notes were made and the transcripts were presented to the informants for verification. These interviews have been summarized and categorized to test the propositions.

In general, the used questions are based on the conceptual model and the derived propositions. The objective of these questions is to gain insight on the used partner selection criteria and increase the chance that the interviewee can offer new insights in the research topic. In case of new insights were brought forward, dynamic interaction has been used to elaborate on that new insight.

The semi-structured approach has the goal that the relevant data is gathered to test the causal mechanisms derived from the theoretical propositions.

Other documentation such as annual reports, management reports and other available documentation is used as a second source of information.

3.4 Measurement

Dependent variable

Need for Partner: Derived from the current literature and the propositions, it is expected that the need for a partner can be influenced by perception of a cross-national distance. This may also influence the partner selection criteria as well.

Initial trust: This is the most important element of this thesis which is to provide more insight on the influence of perceived cross national distance on initial trust and as a consequence on the partner selection process.

Partner selection criteria:

Semi-structured interviews regarding specific partner selection in cross-national distances will be used to identify the role of the partner selection criteria and the influence of initial trust and the need for a partner. These interviews will be summarized and labelled, according to the earlier described propositions.

Independent variable

Cross-national distances: In order to determine whether there is a cross-national distance, the CAGE distance framework (Ghemawat, 2001) is used as guidance. This contains cultural, geographical, economic and administrative distances. In this research the cross national distance is defined as the “perceived” distance. No research has been done on what these distances actually are or how they should be seen. The semi-structured interviews were used to understand if and how the interviewee feels these distances.

CHAPTER FOUR – CASE STUDY

4.1 Introduction

This chapter describes the case study at Royal Vopak. Firstly, the general company profile is described. Secondly, in-depth information is provided regarding the interviews, such as the questions used. Finally the analysis of the main findings is presented.

4.2 Royal Vopak²

Vopak - with its headquarters in Rotterdam, the Netherlands - is the world's largest independent tank storage provider, specialized in the storage and handling of liquid chemicals, gasses and oil products. Vopak operates 83 terminals with a combined storage capacity of more than 29 million cubic meters in 31 countries. The terminals are strategically located for users along the major shipping routes. The majority of customers is active in the chemical and oil industry, for which Vopak stores a large variety of products destined for a wide range of industries.

With almost 400 years of experience in storage and transshipment, Vopak is almost genetically dedicated to service. Total commitment to our customers' success has resulted in excellent business relationships. Our operations are based on the principles of transparency, loyalty, commitment to our people and mutual trust.

The company's annual turnover is 1.2 billion euro (2011) Vopak's shares are listed at the Amsterdam AMX-index. Vopak and its joint ventures employ an international workforce of more than 5,900 people.

The company has more than 30 Joint Ventures of which the majority is outside the Netherlands. These are also spread in the many regions throughout the world. These are managed by the five regional divisions which are shown on the next page.

² Company website

Vopak Consist of five divisions;

- Asia
- The Netherlands
- EMEA
- North America
- Latin America

The company has 80 terminals of which 27 consist of Joint Ventures. There are alliances in the Netherlands as well as in Asia. This has been the reason to choose Vopak as a case study. There are different cross-national distances present in many alliances. The partner selection process starts with the business development teams. These teams are responsible for the business cases and subsequently also are fully involved in the partner selection process. Members of this team have been interviewed. These members consist of one director of the EMEA region, two managers and two business development analysts. Next to this department, members of the Global Business Analysis team have been interviewed. This team is a part of the Global Head Office and they are key part involved in the review of all projects, including cross border alliances. The Manager of this department and three of the business analysts have been interviewed. Next to the members of these departments, some executives have also been interviewed. These are directors who not only have a solid background in alliances but are also involved in the alliance formation process. These consist of the Global Director Control & Business Analysis, the Global Director Tax, Global Commercial Director, Finance Director EMEA and Director Commercial LNG. All of the interviewees are part of the EMEA or the Netherlands division. The other divisions such as Asia North America and Latin America were not interviewed. This is done on purpose as the scope of this thesis is to research the influence of cross-national distance from the home country and the host country. The divisions EMEA and the Netherlands are established in the Netherlands, which is the home country of Vopak. The other divisions have local (outside Netherlands) offices with local employees.

A total of 15 persons have been interviewed as shown in the table below.

Table list interviewees

Interviewees	Title
Interviewee nr.1	Global Director Control&Business Analysis
Interviewee nr.2	Manager Business Analysis – Global
Interviewee nr.3	Business analyst- Global
Interviewee nr.4	Manager Business Development- EMEA
Interviewee nr.5	Global Director Tax
Interviewee nr.6	Manager Business Development – Netherlands
Interviewee nr.7	Business Development Analyst - Netherlands
Interviewee nr.8	Commercial analyst – Global
Interviewee nr.9	Business Development Analyst – Global LNG
Interviewee nr.10	Director Business Development - EMEA
Interviewee nr.11	Global Commercial Director
Interviewee nr.12	Finance Director - EMEA
Interviewee nr.13	Commercial Director – LNG
Interviewee nr.14	Business Analyst - Global
Interviewee nr.15	Business Analyst - Global

4.3 Findings

Partner Selection Criteria

The majority of the partner selection criteria, which were derived from the interviews, were within the expectations. These expectations were the outcome of the existing theory. In this study the six partner selection criteria of Roy (2012) were used, character, partnering intend, market power, factors of production, political capital and partnering ability. Five of these criteria were also mentioned in the majority of the interviews. These were, character, market power, partnering intent, factors of production and political capital.

In general, all of the Interviewees stated that potential partners need to have added value. The partnering ability of a potential partner was not directly mentioned in the interviews, however two Interviewees did share that sometimes they do ask the opinion of a known network tie to assess whether the potential partner is compatible. One even mentioned that if someone that he knows in his network has worked with a potential partner, he may ask if this partner can be selected and might be a “fit”. This does fit in the description of partnering intent but was mentioned in only one interview. In general it is safe to state that the mentioned partner selection criteria in the interviews was within expectations as set out in the theory review. In order to have a clear picture of the company and how they assess a potential partner, the partner selection criteria will be defined further by showing some mentioned examples and quotes from the interviews.

Character criterion

As mentioned before, this criterion reflects the morality and the ethics of the partnering firm. All of the Interviewees mentioned this as an important criterion. They made reference to the seven values of the company, agility, integrity, professionalism, service, improvement, passion and ownership. Especially integrity and reputation was used to illustrate this. All of the Interviewees not only mentioned reputation as an important criterion but also that in case there is a bad reputation, the company would or should not enter into an alliance.

One interviewee said “However, if they do not qualify as reliable and trustworthy than no go”

Another interviewee said “If you work with Shell and BP, you know that you can trust them”

Market power

This criterion reflects the firm’s strength in the market. This includes market share, financial health and firm size. 10 of the 15 Interviewees mentioned financial solidness as a criterion. Market share and firm size was not mentioned in any of the interviews. Even financial health was depending on the project type.

8 of the 10 Interviewees who found financial solidness important, stated that in case they have a strategic land, the financial solidness might even not be that important.

“ Financial solidness is more important beyond the " western countries"

Factors of production criterion

The theory describes this criterion as strategic assets, such as soft skills and technical (raw materials and technology). Within this case study, the chosen company relies heavily on strategic locations. These locations can only be used if there is land available. This land is crucial for this company and therefore this study sees this as part of strategic assets. This was the most used criterion. All of the Interviewees mentioned ownership of a strategic located land as a very important criterion. Based on the interviews, this was rated as the most important one. Three Interviewees even mentioned that in case there is a vital piece of land available, even though there is no fit looking at the objectives and goals of the partner, still they might be chosen as an alliance partner. 8 of the Interviewees mentioned that financial solidness would not be valued as that important in case of such a critical entrance to land.

Political capital criterion

This criterion reflects the partners’ strength of it’s relationship with governmental and non-governmental organizations and licences. This was used in all interviews as well. It is seen as a very important criterion especially in some cross-national alliances. This will be discussed further in the findings when describing the influence of cross-national distances on partner selection criteria. As Vopak is closely related to the oil industry, it relies on licenses from governments. It is heavily dependent on licenses and permits from governments. If a partner has licenses or good connections, it is seen as an important criterion. More so in particular countries.

“ In China political power is more important than in the Netherlands”

Partnering intent criterion

This criterion reflects the commitment of the partner firm for the partnership. This can be measured by the shared goals and objectives. 8 Interviewees mentioned the commitment of a partner as an important criterion. However, all of them mentioned

shared goals and objectives as an important criterion. Current literature sees shared goals and objectives as means of measurement for partnering intent. Although some Interviewees did not directly mention this intent, they do value shared objectives as a criterion needed to accomplish a successful alliance.

Partnering ability criterion

This reflects the partner's ability to form and maintain relationships with other firms. This can be measured by their partnering success rate. Two Interviewees only mentioned this indirectly. It was seen as important in situations where there is much doubt and unfamiliarity. In such circumstances the Interviewees said that they would use their network to investigate whether the potential partner has any relationship with other known countries to assess if they fit Vopak's way of doing business. This will be discussed further when describing findings on cross-national distances.

Cross-National Distance

In the theory review many different views on cross-national distances were discussed. As an outcome it was chosen to use the CAGE distance framework of Ghemawat (2001) as a measure to assess the impact of perceived cross-national distance on the earlier described partner selection criteria. The CAGE-model has four dimensions, cultural, geographical, economic and administrative. The findings relating to cross-national distance have been labelled to these dimensions.

Cultural

Ghemawat describes this distance as how people interact with one and another, which is determined by a country's cultural elements. These elements are religious beliefs, social norms and values and language. This cultural distance was mentioned in all of the interviews. Each Interviewee stated that this was of an very important influence on alliances. Surprisingly, the majority also stated that this cultural distance is often underestimated. Five Interviewees mentioned the same case as an example of this underestimation. A project in Turkey, which was initiated with a partner, was in the end terminated. The reason for this was stated as that it was thought that a.o. the

cultural distance was not that distant, in such a way that it would be considered as crucial. The need to understand the local culture was illustrated by the following citations as well; ““ The Chinese always say yes but not always mean it”, “ In Spain they talk about it but do not write it down”, “ The further away a country, the larger the cultural differences”.

Administrative distance

This distance is described as government regulations, policies and tariffs. This distance was also mentioned by all of the Interviewees. This was also expected due to the environment in which Vopak does business. It is a heavily regulated business model where governments have a high influence. 13 Interviewees mentioned this distance as an influence for the need of a partner. Countries such as China, India and other emerging countries were used as an example. China is considered a separate country as it is usually obligated to have a partner. 7 Interviewees mentioned that it is almost impossible to do business in India without a partner. The administrative distance was illustrated by one of the Interviewees with high experience in cross-national alliances as; “ *The Port of Rotterdam here in the Netherlands owns the strategically places land and knows exactly what to do with in the future. There is a defined plan and it is very transparent. In some countries the land is still owned by grandmas and grandpas. There is no governmental plan that you can rely on*”. Both cultural and administrative distances were mentioned by the majority as an important influence on the need for a partner and the associated partner selection criteria.

Economic Distance

This relates in general to the distance of wealth or income of consumers between countries. Research suggests that rich countries not only engage in relatively more cross-border economic activity but they also do this more often in similar rich countries as well. The business case of a firm determines the influence of this distance. In case where there is much labour needed in the production process, it is typically outsourced to countries with lower labour costs. In the Vopak case, the

labour expenses are not viewed as a critical component. It is a high technology driven business. Another item is that Vopak relies largely on international operating customers. It therefore has no preference for a country purely looking on the economic distance. This distance was also not mentioned in any of the interviews and the explanation above is considered as a possible reason.

Geographical Distance

This distance is the most visible one. It relates purely on the geographical distance. How far away is a country? Of course, the distances have been narrowed down due to efficient transportation. Not only by road but also by air. It is much easier to do business currently then it was in the past. The technological improvements have influenced this distance as well. Communication with distant countries is much easier than it was. Still the distances remain, whether smaller or not. The Interviewees did not mention this distance as an important one when assessing the need for a partner or evaluating a partner. The cultural and administrative distances were mentioned as more important. When asked for examples, Australia was used by 8 Interviewees as a country with a high geographical distance but where Vopak does not even use a partner. They expected that it had to do with that the Australian culture and their regulations are more close to the Dutch one, when compared to a China or India.

One Interviewee said " *I have never been in Australia but I would have a high trust when doing business there*". Only one interviewee said that the further away a country, the larger the cross-national distances.

Trust

This study's main component to provide an answer for a successful partner selection is trust. In the previous chapter different views on trust has been discussed. The definition of Gulati (1995) has been selected to be used in this study. Gulati describes trust as " the expectation that another organization can be relied on to fulfil its obligations, to behave in a predictable manner, and to act and negotiate fairly even when the possibility of opportunism is present". The scope of this study is the earlier stage of a possible alliance and therefore " initial trust" is used as a component in this

research. All of the Interviewees mentioned initial trust as being crucial when selecting a partner.

As one of the interviewee said *"The most JV's are unsuccessful because of a lack of trust"*. Another interviewee said *"Are they honest? Then you look at the rest, so in other words, initial trust."*

When asked what determines this trust in cross-national distances, the country of origin was mentioned as an influence on initial trust. The perceived distances as explained above was said to be influencing the initial trust for potential partners. The interviewees that acknowledge the influence of cross-national distances were asked for examples. 6 Interviewees mentioned that they would have a higher initial trust in a partner in Germany than in an emerging country such as Pakistan, India or China. Also Australia was seen as a high trust country by these Interviewees. The following quotes were noted to illustrate this;

"The same goes for Mexico, people have a prejudice towards this country, thinking that they do things not as good as we do".

"This also goes for Eastern-Europe. I also have the feeling that you need to be more careful there. Although I have no experience there, it is the feeling I have".

"I would not value political power as a partner selection criterion as heavily in Germany than I would in Turkey or Pakistan"

Distances such as cultural and political were named by all the Interviewees who stated that it influences the levels of initial trust. Not only does the perceived distance influences this but also the unfamiliarity was named as influencing trust. One Interviewee said *"In Spain they talk about it but do not write it down"*. Another response was *"You cannot test a Dutch integrity value in Indonesia"*. All of the Interviewees acknowledged that levels of initial trust differ per country. Some of the Interviewees mentioned there own experience and other also said that the image

they have is influenced by what they see in the media. Three Interviewees who worked on a project in Mexico stated that they had a more difficult time having this project approved because they felt that there was low initial trust for the country. In general, the Interviewees said that it is internally preferred to have an internationally operating partner instead of a local partner. However, they expressed that there should be a more open-mindedness when selecting a partner in unfamiliar countries. On the other hand it became clear that this is not an easy thing to do as there is a perceived image of a country which influences the initial trust. This in contrast to alliances in the Netherlands, which was illustrated by one interviewee who said *"There was a good fit in this project. We had the same culture, we knew each other"*.

4.3.1 Desk research

Next to the interviews internal documentation was also used as additional source and for triangulation purposes. The most important documentation was a paper written on Joint Venture Strategy. This paper dates as of 2012. The objective of this paper was to initiate a discussion that would lead to a more professional approach towards Joint Venture partner selection and consequently improvement of the ability to establish successful partnerships. This paper makes a distinction between externally and internally driven reasons.

Externally driven reasons:

- Unable to own or lease a land in a particular country
- Legal requirements dictating a certain percentage of local ownership
- In case of an acquisition, the target comes with an existing Joint Venture

Internally driven reasons:

- Increase of chance of success (based on critical success factors)
- High risk of investment
- Insufficient financing available
- Creating strategic value within the Vopak Network

The paper further discusses the partner selection criteria that are listed as;

- Financial capability of the partner
- Reputation and reliability
- Relative size and ability to build a healthy level of mutual dependence
- Compatibility with Vopak Business Model
- Compatibility of operating policies and philosophy
- Ability to build up trust and commitment between partners based on a common or shared set of values

Next to these criteria the paper further provides some business drivers that are seen as value adding contributions. These are summed as;

- Access to land
- Buy-in from local stakeholders
- Access to attractive financing
- Access to significant customer commitments
- Ability to make the investment more cost effective

The conclusion of the paper suggests four reasons for success or lack of success behind the existing partnerships. These are the business / financial success of the venture, the ability to add value and thus creating a mutual dependency, commitment and trust levels based on a common set of values and complementary of the contribution of the partners.

As part of this paper, an analysis of the 18 current Joint ventures were also done. This contains the key considerations to enter into a partnership and the key partner selection criteria. The investigated Joint Ventures also include the ones who are obtained through an acquisition and where the JV partner selected Vopak. As the scope of this study is the own choice to form an alliance and subsequently the partner selection criteria, these Joint Ventures are not used in the analysis. These are summed in the following two tables as shown on the next page.

TABLE 1 - Key considerations for JV partnership

Legal requirements	Risk Sharing	Strategic Network	Access to land	Political influence	Access to financing	Secure commercial base load
2	6	1	5	6	3	3

In Table 1 it can be seen that the top 3 of the key considerations are the risk sharing, access to land and political influence. This is in line with the findings from the interviews as well. An important observation is that all of the 6 JV of which a partner was selected due to risk sharing, also were selected for political influence. Although the paper itself does not draw conclusions, this is as expected from the interviews and current literature. The JV's mentioned are established in India, Middle East and Russia. These are not only mentioned in the interviews as countries with large cross-national distances but also as countries with low initial trust. This supports the idea that on the one hand large cross-national distances increases the need for a partner due to political influence and on the other hand it is also seen as a higher risk.

TABLE 2 - Key partner selection criteria

Financial strength	Solid Reputation	Reliability	Value Fit	Operation compability	Access to land
5	5	6	3	3	6

Table two describes the key partner selection criteria and the number of JV partners that are chosen based on those criteria. It can be seen that value fit and operation compability scores less than the other criteria. This is also in line with the findings of the interviews in which access to land, financial strength and trustworthiness were pointed out. Compability and having a fit were not mentioned often. The paper does not refer to cross-national distances and the influences this might have on the partner selection process. It does provide recommendations for further study; “ Most of the selection criteria have relative straightforward ways to evaluate against during a due

diligence process. This is however much more complex when it comes to reviewing the critical factor related to having a common or shared set of values. It is recommended we do some further study and analysis on this, as well as look for best practices at companies who are more advanced on this.”

This conclusion does support the need for cross-national distances and the influence of this on the JV process. The critical factor relating to a common or shared set of values lies within the core of cross-national distances such as cultural differences. The need for trust as described in this paper but also as indicated by the interviewees for this thesis is very high. In the conclusion of this thesis, this will be further elaborated.

Based on the findings from the interviews and the internal documents the following graph has been developed. This graph is not designed based on quantitative research method but is merely to show a graphic insight based on the above-mentioned findings. The graph shows the two research subjects, initial trust and need for partner based on cross-national distances. It can be seen that trust is lower in high cross-national distances and the need to ally with a partner is the opposite.

Chart 1 – Influence cross-national distance

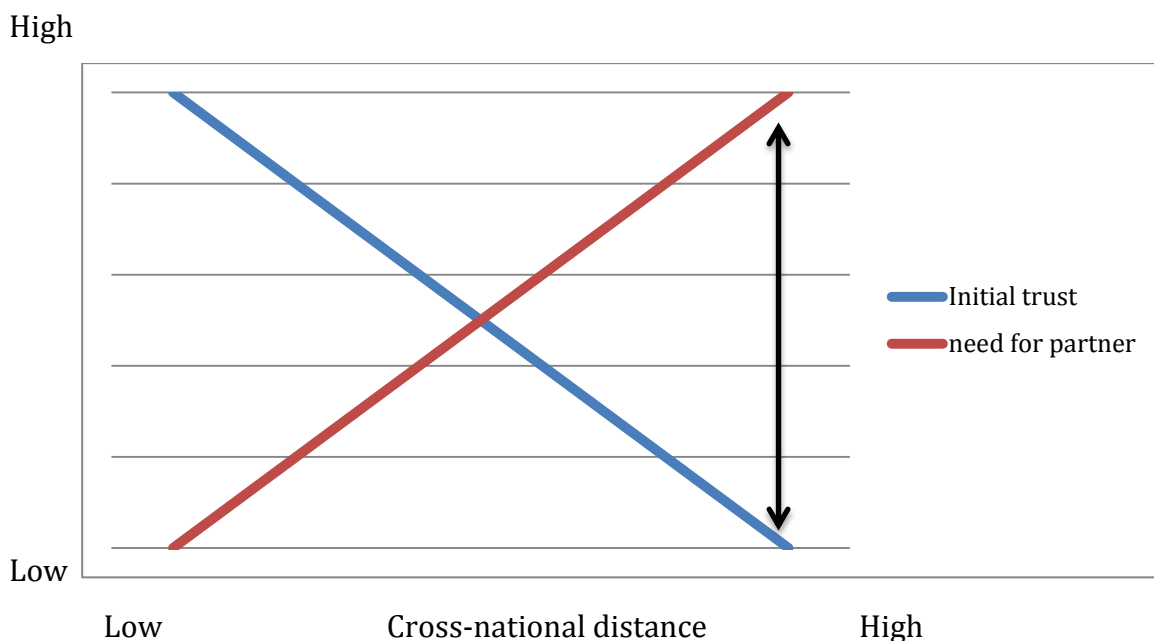


Table - Summary partner selection criteria

Partner Selection Criteria	Interviews	Desk Research
Character	Reputation of potential partner mentioned in all of the interviews	Solid reputation as one of the key selection criteria in JV memo paper
Market Power – financial health and size	Financial health mentioned in all the interviews.	Financial health and relative size as key selection criteria in JV memo paper
Factors of production	Land and/or licenses to build a terminal mentioned in all of the interviews	Access to Land used as a key consideration to enter into a partnership
Political capital	Used in all interviews as a criterion in particular countries with large cross-national distances	Political influence as a key consideration. All JV's done with purpose of risk sharing, linked with political influence criterion as well.
Partnering intent	Shared goals and objectives mentioned in the majority of the interviews	Value fit as a selection criterion.
Partnering ability	Reference checks mentioned in all interviews in case of low initial trust and partners from particular countries with large cross-national distances	Not mentioned in the JV paper memo

Table – Summary cross-national distance

Cross-national distance	Interviews	Desk Research
Cultural	Mentioned in all interviews	X
Administrative	Mentioned in all interviews	X
Geographical	Only one interviewee mentioned this distant	X
Economic	Not mentioned	X
Influence cross-national distance on trust	Level of initial trust varies depending on the country. It is lower based on felt cross-national distance.	X

Table – Summary influence initial trust

Subject	Interviews	Desk Research
Importance of trust	Mentioned in all interviews as high importance.	Mentioned as one of the reasons for success or lack of success in JV memo paper
Initial trust Influences the selection criteria	Some Interviewees found financial solidness more important for partners in countries with low initial trust. In case of low initial trust, it is regarded as being more important having more control via Joint Venture agreements.	X
Initial trust	- More use of external references	x

<p>Influences how criteria are reviewed</p>	<p>from network ties in countries with low initial trust.</p> <ul style="list-style-type: none"> - No difference in the importance of external reference, these external advises have equal weight in any country, regardless of level initial trust. - Need to perform more research when first time in a country 	
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Table - Summary Partner need

Subject	Interviews
Influence cross-national distance	Perceived cross-national distance increases the need to ally with a local partner.
Influence partner need on the number of selected partner selection criteria	The Interviewees did not mention that for instance, in case of a high need of a partner, that there would be more or less partner selection criteria.

Table - Summary other findings

Other findings	Interviews
Country of origin network ties	A Dutch external reference was valued more than a local one by the majority of the interviewees, due to familiarity of same culture and unfamiliarity to the local reference.
Difference of perceived versus actual distance	An actual case was described whereby the cross-national distance was perceived to be smaller than it actually was, which led to an unsuccessful project.

CHAPTER FIVE – DISCUSSION AND CONCLUSIONS

5.1 Introduction

This chapter starts with the discussion concerning the research results within the context of the earlier derived propositions. This is followed by providing the contribution to the theory and management practice. Finally, the limitations of this research and suggestions for future research will be described.

5.2 Propositions

The main research question of this thesis is, how does cross-national distances influence the partner selection criteria in order to achieve a successful alliance? The research result must be discussed in the context of the propositions. Specifically, the goal is hereby to gain insight if these results match the propositions. There are three possible outcomes, the research result may be supported, partially supported or not supported. This is referred as “testing” of the propositions.

Proposition 1: *A perceived cross-national distance between the home and host country will negatively influence initial trust of the home country firm towards a host country.*

Proposition 2: *a negative initial trust towards host country will negatively influence the initial trust towards potential partners.*

Cross national distances influences trust due to unfamiliarity and unknown aspect of a country when entering a foreign market. It was expected that this perceived distance towards a country in general would have a negative influence on initial trust towards a potential partner and as a part of this, that this trust would be positively influenced if the country of origin of the possible partner had smaller cross national distance.

The perceived cross-national distance was the outcome of the felt distance of the interviewee. It was asked during the interview what they viewed as cross national distance. All of the interviewees named culture as an important distance and the majority named the governance, legal structure of a country as an important

measurement of distance. This can be summed as administrative distance as described by Ghemawat. Economic distance was not mentioned and geographical was used occasionally.

The case study showed that the perceived distance had a clear influence on the initial trust towards a country in general and from this also to the potential partner. The interviewees used terms such as “different culture”, “lack of familiarity” as key causes why they had lower initial trust, as opposed to potential partners in a JV close to the Netherlands, such as Germany or Belgium. Below are some quotes from the interviews.

“The same goes for Mexico, people have a prejudice towards this country, thinking that they do things not as good as we do”.

“This also goes for Eastern-Europe. I also have the feeling that you need to be more careful there. Although I have no experience there, it is the feeling I have”.

Both of the propositions are supported by this research.

Proposition 3: *A perceived cross-national distance between the home and host country will create unfamiliarity. This unfamiliarity will increase the need for a partner.*

Based on the idea that the need for an alliance is caused by expectation that it will create an advantage, (Hennart, 1998; Mohr & Spekman, 1994; Hamel, Doz & Prahalad, 1989; Doz & Hamel, 1998; Tallman & Shenkar, 1994) and that firms continue to search for this advantage in a more globalized world, it was expected that the need to ally with a partner would be higher in countries with high cross-national distances.

One interviewee said, *“ I would not value political power as a partner selection criterion as heavily in Germany than I would in Turkey or Pakistan”.*

All of the interviewees stated that, in case of either no familiarity or in case where there is a large cross-national distance, you need an alliance partner.

Examples were given such as the Africa and EMEA region. Countries such West-Africa, Turkey, Pakistan and China were provided as an example.

This proposition is therefore supported.

Proposition 4: *A high perceived partner need in a cross-national operation will increase the number of partner selection criteria*

This proposition was derived from the expectation that a perceived cross-national distance will create unfamiliarity for the involved persons from the home country firm when entering a foreign market. This unfamiliarity means that the entering firm has the perception that there is an information gap of what the firm knows and what he needs to know, thus the need for learning is increased. Learning is described as one of the advantages for interorganizational relationship (Doz,1996;Inkpen&Crissan, 1995; Hamel, Doz & Prahalad, 1989). This learning is explained as that these kinds of alliances provide the opportunity to learn from a partner in an unfamiliar country (Barringer & Harrison, 2000). The Interviewees did feel that cross-national distance increases the notion of unfamiliarity and that the need for a partner is increases as well. However, it was also mentioned that it should be a partner with local knowledge. A smart selection process largely determines alliance success (Lambe and Spekman, 1997). Specific partner selection criteria are defined which were briefly described in chapter two. In order to have a framework to be able to recognize criteria mentioned by Interviewees, six criteria were used from the partner selection criteria used by Roy (2012). This research does not have the aim to provide more criteria but has the objective to see how cross-national distances influence these criteria. A partner need is influenced by the expected added value that a potential partner has to be successful in a host country. This suggests that the more added value is expected, the higher the need for a partner will be. This implies that different partner need levels will have different specific criteria. It was expected that a high need for a partner would increase the number of partner selection criteria. The Interviewees mentioned that different criteria are required depending on the need.

It was stated multiple times that in country where political ties are important, that you definitely need a partner. The need for a partner was hereby expressed as being high, however no claims were made regarding an increased number of partner selection criteria. Therefore this proposition is not supported.

Proposition 5. a) *A low level of initial trust towards a potential partner in the host country will high likely influence the partner selection criteria. This will lead to increased importance of the same criteria when compared to high initial trusted partners and,*

b) *This low level of initial trust will also increase the number of partner selection criteria when compared to high initial trusted partners.*

Trust has been generally acknowledged as being a key factor for contributing to alliance success (Dyer&Chu, 2003; Mohr & Spekman, 1994). Zaheer and Zaheer (2006) studied the role of trust in international context. They argued that not only the level of trust differs but also the nature of trust itself. Krishnan et al. (2006) studied the role of trust for alliance performance under high and low uncertainty environment. They suggested that trust matters more in high uncertainty environments. This has lead to the idea that in case of a low level of initial trust, this could lead to higher importance of the various partner selection criteria. The Interviewees were asked how they would value the partner selection criteria if they had a low initial trust when compared to high initial trust. The majority named financial solidness as being more important if they had low initial trust. They would value this criterion higher if they had low initial trust. In general they stated that they would review (by use of references) the criteria more strictly. It was also stated that the Joint Venture agreements should be drawn up more specifically and detailed in case of low trust. One interviewee said “ If you go to countries with with less reputation, you will have a longer list of criteria. None of the other interviewees mentioned that they would increase the number of partner selection criteria for

potential partners in case of low initial trust. Therefore this proposition is considered as partially supported.

Proposition 6. *If there is large cross national distance a firm will a) make more use of network ties and b) this will have more influence on selecting a partner than in alliances with smaller cross national distance.*

The general accepted assumption is that a firm will choose a partner with the maximum matched partner selection criteria. An alternative view is that some firms may choose partners that only satisfy a few key criteria in specific situations (March, 1994). These specific situations can arise in high uncertainty markets. Wong & Ellis (2002) argued that in high uncertainty settings a firm would rely more on network ties when searching for a partner. It was expected that high uncertainty will arise in high cross-national distance alliance and that therefore a firm in search of a partner under these circumstance will make more use of network ties to select a partner.

The Interviewees were not directly asked whether they would use network ties to evaluate a partner but was asked how they proceed in search of a partner in a country with high cross-national distances. A part of their answers contained that they would use external advisors and reference from their own networks. Some stated that it was common to ask Dutch international banks for reference. All of the interviewees stated that they would use references for partners in unfamiliar countries. This part of the proposition is therefore considered to be supported.

The second part of the proposition was the suggestion that this would have more influence in alliances with high cross-national distances than with small. The Interviewees felt that there was no or very little difference in how they would value it. Example was given that if an ING bank tells us that company X has a bad reputation we take that seriously, whether in India or in Germany. This proposition is therefore not supported.

Tabel Summary Propositions

Proposition	Outcome
Proposition 1	Supported
Proposition 2	Supported
Proposition 3	Supported
Proposition 4	Not Supported
Proposition 5 a)	Partially Supported
Proposition 5 b)	Not Supported
Proposition 6 a)	Supported
Proposition 6 b)	Not Supported

5.3 Contributions to theory

The first contribution to theory concerns literature regarding the cross-national distances. The cross-national distances such as cultural and administrative are considered to be the largest influence on the “felt” or “perceived” distance between home and host country. It is a mix between managers with experience and with managers with no experience but is rather based on media information. The idea that firms use the framework of Ghemawat or Hofstede was not supported in this case study. It is rather based on persons involved in a cross border alliance and relies on his or her image of a particular country. The person’s personal experience is an important part of evaluation of a partner selection process. As one experienced business development manager pointed out about West-African partners that they show up late at an appointment because otherwise it would be seen as submissive.

The second was is the notion that a “perceived” cross-national distance influences initial trust towards a country. In current literature trust is generally accepted as a key factor for not only alliance success but also as an important partner selection criteria. This thesis used the “perceived” cross-national distance as a starting point to see whether this influences the initial trust. This thesis shows that interviewees already have a feeling of trust or distrust even before any research has been done.

The third contribution is that initial trust towards a country does influence the initial trust towards a partner and that this is reflected in the valuation of the various partner selection criteria. The current literature has made contributions regarding important selection criteria and also that depending on the circumstances that these could vary, but the notion that initial trust has an influence before even starting the partner selection process was a gap in the literature.

Finally, this study suggests that on the one hand, the cross-national distances increase the need to ally with a local partner and on the other hand the same distances creates a lower initial trust. This is a difficult and complicated starting point. You have the feeling that you need a partner and also have problems trusting the partner. This is gap in the current literature that should receive more attention.

5.4 Contributions to management practice

The contribution of this thesis to the management practice is that it creates more awareness of the “perceived” cross-national distance rather than the actual distance. This additional knowledge can improve the pre-entry process of a firm by gaining more insight in the actual cross-national distance rather than the perceived one. The second contribution is that it creates more insight of the influence of initial trust towards a country (based on perceived cross national distance) and subsequently on the potential partners. This thesis shows that it influences the partner selection criteria as well as the valuation of these criteria. By being aware that initial trust towards a country influences the initial trust towards a partner, it can reduce the managers’ bias against the potential partners. In the interviews almost all of the interviewees mentioned getting to know the partner increases the trust. It is therefore recommended, taken into the account the finding that the perceived cross national distance leading to a degree of initial trust, those managers should have more information regarding a country. This can lead to a more effective and more successful partner selection process. During the interviews, one particular partner selection case was a good example of the findings in this research. Prior to the selection of a partner in a first time entry of a foreign country, there was perceived

cross-national distance. This distance was thought to be small when compared to the Netherlands. A partner was selected based on the wrong assumption, which was that political power was not particularly important. This proved to be costly decision as the actual cross-national distance, in the form of administrative and cultural, was larger than assumed. Next to the in-depth information that managers need to obtain about an unfamiliar country, there should also be more knowledge sharing within the organization. Experienced managers can share their information with other non-experienced managers about selecting partners in not only a particular country but also regarding the partner selection process in unfamiliar countries. This in order to decrease the possible chance of bias.

5.5 Limitations and future research

In this section the limitations of this research are explained and future research suggestions are presented.

Limitations

First, the methodological limitations will be discussed, being construct validity, internal validity and external validity.

Construct validity refers to the degree of which correct operational measures have been established for the theoretical constructs (yin,1994). Therefore triangulation by using multiple sources is desired. This was partially done through documentation review, which was used next to the interview. This provided partial triangulation but it was not expected to be a perfect match. This was however compensated by the use of existing literature from several perspectives.

Internal validity refers to the correctness of the established causal relationship, where it is stated that one condition leads to another one Yin (1994). Although the causal relationships used in the conceptual model was derived from extensive research of the existing literature, only one case study was used. This is a limitation to internal validity as no possibility of cross-case analysis was possible.

External validity is the degree that the finding of this case study can be generalized (Yin, 1994). A clear limitation to the external validity is the use of a single case. This was however reduced by choosing an internationally operating company with numerous international alliances. Next to the choice of this company, this research measured “perceived” distance and “felt” initial trust. It was not specifically related to a country’s characteristics. This increases the generalization as this can be used for companies in other countries.

Future research

In order to limit the scope of this research, only the influence of perceived cross-national distance on initial trust was used. There are other factors mentioned in current literature such as alliance project types and experience influencing the trust as well and this could be studied in order to gain more insight on which of these variable have a more strong influence.

This research used a Dutch international company as a case study. Future research could be done by using companies from different country of origin to test the used model of perceived cross-nationals distance and the influences on trust.

Another future research suggestion is to study the influence of the specific cross-national distances such as cultural and geographical on initial trust. This can be achieved by making use of quantitative research. This also applies to the various partner selection criteria and initial trust. The influence of initial trust towards the specific criteria can be measured by quantitative research.

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Appendix 1 Question list interviews

- 1) What do you view as critical partner selection criteria when engaging in a Joint Venture?
- 2) Do these criteria vary according to the identity of your prospective partner and the partner's country of origin? If so why?
- 3) Would you value your partner selection criteria differently depending on the country? If so, please explain why?
- 4) How do you proceed when you are uncertain about your prospective alliance partner?
- 5) How does prior experience in a specific country outside the Netherlands influence the partner selection process in that country?