

**THE INVESTIGATION OF THE STRATEGIC DETERMINANTS OF  
PARTNER SELECTION CRITERIA IN INTERNATIONAL JOINT  
VENTURES**

Dissertation Submitted in Part Fulfillment of the Requirements for the Degree of

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## **Dissertation Declaration**

I am BADER AL-HASSAN, declare that this research is my original work and that it has never been presented to any institution or university for the award of Degree or Diploma. In addition, I have referenced correctly all literature and sources used in this work and this work is fully compliant with the Dublin Business School's academic honesty policy.

Signed: Bader Al-Hassan

Date: JAN 10,2016

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## **Chapter 1: Introduction**

### ***Background of the Study***

The globalization processes that occur in the modern world have a significant influence on business affairs. The importance of local businesses is gradually decreasing while the role of international business is growing rapidly. According to Dunning (2012), all the business entities or companies, whether large or small, are affected by global competition and global economic trends. Due to the globalization, the world is gradually becoming a global village. This tendency implies numerous strategic opportunities and threats for companies. A successful expansion to new markets may lead to the dramatic growth of the company's profits. At the same time, the erroneous planning may result in huge financial losses like in the case with Tesco when the company has declared a £6.4 billion annual loss in 2015 (Butler & Farrell 2015) In any case, it is obvious that an international business becomes one of the key definitions of the modern economy.

According to Jansson (2008) and Delios (2012), an international business is a phenomenon, which involves all the forms of private or governmental commercial transactions between or among the parties from two or more countries. The environment of the international business is doubtlessly more diverse and complex than a company's domestic environment. It contains more components and factors, which might influence any company as the level of interdependence is very high in the case of international business. Moreover, most of governments show their intention to make this level even higher. As a lot of citizens and producers are willing to engage with business entities from across the borders, governments are forced to reduce restrictions on trade and foreign investments (Potoski 2009).

A lot of specialists emphasize that joint ventures are one of the determinants of the modern international business. In general, the international joint venture is a business contract between two or more business entities from different countries (Sun & Lee 2013). This type of business agreement implies contributing entities in order to create new assets or entities. In the opinion of Hughes, Martin, Morgan and Robson (2010), joint ventures are usually created for a definite period with the aim of entering some new foreign market. However, they may be also used for acquiring expertise, increasing production scale or gaining an access to the distribution networks. In any case, joint ventures might cease to exist after the certain aims are achieved.

## ***Statement of the Problem***

The globalization processes and global economic trends reviewed above increase the importance of joint ventures. According to Acs and Terjesen (2013), Das (2011), and Ulijn and Meijer (2010), the popularity of international joint ventures is under dramatic increase. In other words, cases of companies reaching out to other companies across borders to form business alliances have become common in the 21<sup>st</sup> century. Surely, the problem of international joint ventures has received a lot of attention in the literature. However, most of the scientific works are dedicated to the problems connected with the analysis of joint ventures' structure, development and performance. At the same time, the factor of partner selection criteria is partially deprived of attention. Therefore, there is an obvious research gap in this field.

Moreover, most of studies are focused on the joint ventures created by big corporations. For example, joint ventures of Tesco in South Korea and China were analyzed in detail both in scientific literature and in media. The same statement may be applied to other big businesses like MillerCoors or Dow Corning. Simultaneously, there are not enough researches with the focus on joint ventures established by small and medium enterprises. It is another obvious research gap which seems to be especially topical considering that small and medium enterprises are crucial for most of the modern countries.

This research is supposed to overcome both the research gaps. First of all, it aims at finding the strategic determinants of partner selection criteria in joint ventures. Secondly, it will focus on small and medium enterprises as the criteria are expected to differ between big companies and medium and small enterprises. Unfortunately, the focus on medium and small enterprises creates some additional difficulties. As stated above, most of the literature sources on the topics connected with joint ventures describe the cases of big companies like Tesco or Sony Ericsson. Thus, it will be hard to find the adequate sources to support the current investigation. However, it shouldn't be a significant problem because the research implies conducting interviews. Therefore, an empiric component will be predominant in our case.

The main purpose of this study is to research the strategic determinants of partner selection criteria in international joint ventures, with a focus on small and medium enterprises.

In order to achieve the main research goal that was articulated in the previous paragraph, the following objectives should be achieved:

1. To explore the problem of partner selection criteria in international joint ventures.

2. To determine the challenges which medium enterprises are faced with during the processes of international joint ventures' establishment.
3. To identify the main criteria of the partner selection in international joint ventures formed by small and medium enterprises.
4. To generate theoretical suggestions, which are deduced in the current research, for the future use while planning international joint ventures.

### ***Research Questions***

1. What are the strategic determinants of partner selection criteria used by small and medium enterprises during the formation of international joint ventures?
2. Does the success of international joint ventures formed by small and medium enterprises depend on the determinants of partner selection criteria?
3. What are the challenges faced by small and medium enterprises in forming international joint ventures?

### ***Hypothesis***

H<sub>0</sub>: There is no relationship between the strategic determinants of partner selection criteria used by small and medium enterprises and the success of international joint ventures.

H<sub>a</sub>: There is a relationship between the strategic determinants of partner selection criteria used by small and medium enterprises and the success of international joint ventures.

### ***Justification and Significance of the Study***

As discussed above, the problem of partner selection criteria in international joint ventures is not completely deprived of attention. There are some researches aimed at finding and justifying these criteria. Nonetheless, these studies are mostly focused on big international corporations that entered new markets. Unfortunately, the conclusions of these investigations can be barely applied to the cases of small or medium enterprises because of the difference between the types of enterprises. Huge corporations have more resources and can afford spending more money on implementing marketing researches, hiring famous specialists and sometimes even lobbying their entrance to the market in the local government. At the same time, the situation is

different for the smaller enterprises. While Tesco or Sony Ericson may actually influence the external business environment, a small enterprise has less levers of influence and is forced to completely adapt to the existing conditions. In this case, it is obvious that partner selection criteria in joint ventures is supposed to be different for huge corporations and small or medium companies. This research is aimed at studying the specifics of small and medium enterprises regarding the selection of partners in joint ventures.

The research is also supposed to have an evident practical importance. As it uses a quantitative methodology and implies implementing sociological surveys for defining the strategic determinants of the selection of partners, the final recommendations may be used by the managers of small and medium companies while planning the joint ventures. Moreover, one of the research's objectives is to investigate the potential correlation between the partner selection criteria and the success of joint ventures. Thus, using practical recommendations of this investigation may lead to improved performance of a company.

At the same time, the current study may be also considered as useful from the theoretical perspective. The deficiency in adequate investigations of the partner selection criteria in international joint ventures in the case of small and medium enterprises complicates designing the studies in this field. In this case, the current study may be very useful as it might be used as a "starting point" in future research. The results of this study will contribute immensely to the general discourse about the process of the formation of international joint ventures by small and medium enterprises. The researchers can use the current methodology and the research model as an example when designing their own investigations. However, surely, this study is only a general framework that requires further studies on a deeper level including the studies based on quantitative methodology.

### ***Delimitation of the Study***

The scope of this study is limited to the research of the strategic determinants of partner selection criteria used by small and medium enterprises during their formation of international joint ventures. In this regard, the research is focused only on small and medium enterprises that have been involved in international joint venture formations. Hence, the study does not intend to involve respondents from other firms than the small and medium enterprises.

## *Assumptions of the Study*

The study is based on some ground assumptions. First of all, it assumes that the partner selection criteria in joint ventures are different in the case of big enterprises and small or medium companies. The justification of this assumption was already reviewed in the previous paragraphs. Doubtlessly, big corporations have much more financial resources for planning joint ventures and implementing necessary marketing and management investigations than small or medium companies. Considering that the process of planning and implementing joint ventures is really different for these two types of parties, it seems reasonable to suppose that partner selection criteria in joint ventures are also different for big enterprises and small or medium companies.

Another important assumption is connected with the empiric method. Unfortunately, a standard interview provides less valid results than quantitative methods. However, it was decided to choose this method in order to get a deep understanding of the processes within the organization. Considering that I will try to conduct interviews with the managers from 10 different companies, results of the research are expected to reflect the main regularities that are inherent for the modern global economy.

## *Structure of the Study*

The current thesis contains five main chapters. The first chapter is an introduction. It describes the background of the study, the statement of the problem, the purpose of the study, objectives, research questions, hypothesis, and the assumptions of the study. The second chapter provides a detailed literature review. Generally, it describes the studies on the basics of international business and joint ventures including the partner selection criteria in international joint ventures. Moreover, the literature review also analyzes the main empiric investigations based on surveys in the field of joint ventures. In sum, the chapter 2 provides a theoretical framework of the current study. The third chapter is dedicated to design of the research and justification of the interviews method. In particular, it reasons the usage of qualitative methodology and justifies the mechanisms of data collection and data analysis. It also emphasizes the limitations of the chosen research model as well as its main advantages.

The fourth part of the paper is devoted to data processing. It contains the results of the interviews and main tendencies regarding the interlocutors' responses. Although this chapter will not be focused on the discussion, it will analyze the validity of results in the light of qualitative

methodology. Finally, the fifth chapter will be entirely dedicated to the discussion of interviews' results. It will explain the main trends, analyze key regularities and discuss possible limitations and recommendations for further researches in the same field.

## **Chapter 2. Literature Review**

### ***2.1. International business***

Considering that joint ventures are an important component of the modern international business, it seems reasonable to devote some part of this literature review to the research of modern international business. The notion of an international business is usually understood as business operations, which occur between or within two or more different countries (Farmer & Richman 1966). The current stage of international business's development is characterized by four main principles (Loasby 2001). First of all, the general systems view should be considered as more important factor than the external and internal environments of some specific company. Thus, general understanding of the company as a system with the row of aims, objectives and internal processes is more important than listing factors of external or internal business environment like legislative system of relations with shareholders. Secondly, there are two main determinants of the international enterprises' organizational structure: the costs of acquiring the necessary information and the volatility of environment. Thirdly, international corporations should be linked to the entrepreneurship. Corporate entrepreneurship may be a means to enhance employees' innovative abilities and to increase corporate success by creating new ventures. Finally, the fourth principle is that an analysis of the problems of international business should be supported by psychological and social sciences.

The dominant view in the literature states that there are five branches of international business: import and export trade, the company's operation in domestic branches, comparative system of economy, comparative management, and functional business analysis. Some of the issues connected with these branches will be researched in detail in the next chapter of his literature review. In any case, according to Agmon and Glinow (1991), international business implements the transfer of different products owned by companies across the national borders, or the transfer of some parts of the companies across the national borders. The essence of the modern international business is a peculiar combination of the globalization processes that are universal and local specifics, which are inherent for the specific countries.

In the case of local specifics, the restrictions of local governments are definitely one of the crucial factors of the modern international business. Considering that different nations have different mentalities, traditions and historical conditions, it seems reasonable that governments

should go beyond traditional restrictions and implement specific measures in order to guarantee the safety of the citizens. These measures are usually described by the term “non-tariff barriers”. According to the Consumer Unity and Trust Society (1999), non-tariff barriers are any governmental measures other than the written tariffs that restrict trade flows. Even though most of non-tariff barriers are associated with the sphere of agriculture, they are also present in other industries. Dealing with non-tariff barriers is obviously one of the most significant challenges which companies are faced with while entering foreign markets (Jeannot & Hennesy 1988). For example, the efforts of the Aam Aadmi Party in India have prevented Tesco’s entering the Delhi’s market (Nelson 2014). Despite the significant amounts of money and proper planning, company’s plans on entering foreign market sometimes may be upset by unexpected non-tariff barriers.

Most experts agree that there are four types of the non-tariff barriers: voluntary restraint, import licensing, variable levies and quantitative restrictions. Quantitative restrictions are definitely more popular in the modern world than the other three measures. In most cases, this term is applicable to the situations when governments limit the amounts of some particular products that can be exported or imported during a specific period of time. The voluntary restraint is a type of non-tariff barrier, which implies country’s agreement to limit its export to another specific country during the given period of time. Import licensing is a common rule, which states that a permit to import some product is mandatory to obtain. Finally, the variable levies are a complex system that is created in order to ensure that the domestic prices of a product are not influenced by the fluctuation of prices in exporting countries (Consumer Unity and Trust Society 1999).

Dimitratos, Li, Fletcher and D’Angelo (2013) define five main approaches that are used in the literature for analyzing different processes in the international business: exporting, dynamic capabilities, emerging markets, institutional influences and internationalization strategy. Exporting approach is the most common as it was widely used by many researchers. The phenomenon of exporting is analyzed by some specialists not only in the light of economic feasibility, but also as a potential recipe for ensuring the global economic prosperity. Successful organization of products’ exporting creates additional work positions, and thereby enhances the economy of a country. Export is traditionally implemented in either direct or indirect way. The direct exporting implies a direct selling to a distributor from abroad or to the company’s own

subsidiary from abroad. At the same time, an indirect exporting is a concept, according to which a company domestically sells products to a foreign importer.

Most of the researchers who apply the exporting approach to the analysis of an international business focus on three important problems: the selection of export channels, the evaluation of export performance and the antecedents to export performance (He et al. 2013). The selection of export channels is a crucial decision that contains two components: selecting a specific distributional channel for export and determining an extent of the distributional portions (Rialp et al. 2008). Huge international corporations mostly use internalized structures for their distribution structures. However, small or medium enterprises that can't afford these structures prefer experimenting with vertical integration decisions regarding the foreign markets (Dimitratos, Li, Fletcher & D'Angelo 2013). In general, the selection of distributional channels depends on the capabilities of a specific company and should harmonize with its resources. The evaluation of export performance has received a lot of attention in the literature. However, in the opinion of Sousa (2008), this problem is simultaneously "widely researched" and "least understood". It has a lot of different empiric investigations with inconsistent results that complicate the understanding of the export performance's nature.

Experts usually consider the problem of export performance either on macro or on micro level. Scholars who study the phenomenon of export performance on the macro level use the ground international business theories and concepts. On the contrast, at the micro level, the main focus of researches is on finding a correlation between the different characteristics of a firm level (Stan & Zou 1998). In particular, there are a lot of specific investigations, which are dedicated to the problems of a connection between the company's size, entrepreneurial orientation and the variables of export performance. However, as stated above, a lot of them contradict one another. Even those investigations, which were implemented on the basis of export performance's antecedents' methodology, did not significantly succeed. An effort to explain the international competitiveness of a company through defining the determinants of export market performance requires an empiric methodology. However, the usage of different quantitative methods like one-way or two-way ANOVA has led to contractionary results in the case of different investigations. Thus, there are currently no obvious correlations between the export performance and company's size, advertising expenditure or R&D expenditure, which are supported by most of the researches. The only obvious regularity in this field that was supported by all the investigations

is that macroeconomic growth has a positive influence on the export performance (Hessels & van Stel 2011).

The approach of dynamic capabilities focuses on how companies create, maintain and position their competitive advantages (Barney 2001). That term “dynamic capabilities” is often used when it is important to emphasize the sustention of the company’s superior performance over time. Effective dynamic capabilities allow a company to create market change, partially change the environment from the resources’ perspective, improve the internal performance and increase the level of company’s flexibility (Wilden et al. 2013). However, many specialists criticize the dynamic capabilities approach because there are currently no strict definitions of the term “dynamic capability”. Its features and characteristics are defined by different researches in different ways with the help of various instruments. As a result, the literature on this problem is fragmental.

The emerging markets approach is a specific approach that is applicable to the analysis of the companies from emerging countries or the companies that consider entering markets of the emerging countries. Most of emerging countries have gone or are currently going through the process of political and economic liberalization. Accordingly, the role of government is doubtlessly crucial in this case (Hoskisson et al. 2000). Numerous non-tariff barriers implemented by these countries are often an important issue, which has a decisive impact on the development of the entire economy of the state. Most of companies in the emerging countries are of a small size and suffer an obvious deficiency in resources. Thus, emerging markets have plenty of expansion possibilities for international corporations. Besides, sometimes it is very easy to enter the market of an emerging country because its legislation system has a lot of loopholes and the labor is cheap in comparison with the domestic country.

Institutional influences paradigm is another approach, which is focused on the influence of institutional settings such as legislative system on the entrepreneurial success (Baumol et al. 2007). Moreover, it may be even admissible to assume that the emerging market approach is a derivative from the current paradigm. This paradigm describes the ways in which companies try to secure their positions by dealing with the rules and norms of the institutional environment (Bruton et al. 2010) However, it is erroneous to exclusively associate the institutional theory with some legislative loopholes and basic non-tariff barriers. This theory also analyses the significance of social and cultural factors, which are not directly connected with the

government. According to Scott (2001), we may consider three pillars of the institutional environment: normative, regulative and cognitive. The regulative pillar mostly deals with explicit regulatory processes like monitoring or rule setting. Rules, laws and sanctions are its clear indicators. The normative pillar is focused on norms and values and is morally governed. Finally, the cultural-cognitive pillar usually contains common beliefs and shared logics of action. In general, the institutional influences approach is very popular in the modern studies. It allows researchers to include social forces as peculiar motives of organizational activities. Moreover, a universality of this approach's methodology makes it very effective for analyzing the problems of international business from any perspective.

Finally, the internationalization approach is another paradigm, which was widely used by numerous scholars in their studies. According to the common definition, internationalization is "the process of increasing involvement in international markets" (Luostarinen & Welch 1988). The choice of an internationalization strategy is one of the most important and responsible actions of any company because it has a significant impact on sustainability in the marketplace. The specifics of an industry are crucial for choosing the strategy. For example, those companies which are currently in an early internationalization's stage in some mature industry may consider designing and implementing a slow and incremental strategy as this choice is supposed to be promising (Anderson 1990). In this case, a company should mostly rely on its own resources. However, the situation is changing while the company is gradually developing. Keeping a marketplace implies defending a company from the competitors' actions. Thus, an internationalization strategy should consider competitors' tactics and have a recipe for their neutralization.

The majority of investigations related to the internationalization approach are focused on analyzing the entry mode selection. According to Erramilli and Rao (1990), an entry mode is a method used by a company in order to enter an international market. There are currently 5 types of entry modes: sales offices, licensing, exports, subsidiary and joint ventures (Gallego et al. 2009). Surely, the choice of a specific entry mode depends on many factors: size of a firm, its resources, experience, local specifics, non-tariff barriers of a local government, etc. Many scholars researched the features of company's behavior on the international market in details. In particular, it is reasonable to mention the transaction-cost framework, the eclectic paradigm, and the network theory (Dimitratos, Li, Fletcher & D'Angelo 2013).

## ***2.2. Entry Modes for International Business***

The problem of entering a new foreign market is vital for every international corporation. Even huge financial resources don't guarantee a company's success. Firstly, there is a problem of mentality. The difference between nation's mentalities reasons a distinction between the modes of consumer behavior in different countries. As a result, marketing strategies, which have already proved their potency on the domestic market, may turn out to be ineffective overseas. Secondly, there are a lot of issues connected with the legislation system. It was already mentioned how Tesco's entry into the Dehli's market was inhibited by a new law initiated by the Aam Aadmi Party (Nelson 2014). Thirdly, a company is also forced to deal with numerous logistic problems. The formation of a new supply chain always requires huge financial and human resources.

In any case, it is impossible to overcome all these complexities without a detailed planning. Even though each country has unique local specifics and it is crucial to consider them while developing entry strategies, there are still several standard modes which are usually employed by companies for entering a foreign market. According to the common classification, all the marketing entry modes may be divided into three groups: exporting modes, contractual modes and investment modes (Wach 2014).

The group of exporting modes is mostly focused on the field of exchange in regard to import or export activities. The modes from this group are standard and very common in the modern international trade. When a company expands nationwide and captures a substantial part of the domestic market, it seems reasonable to start exporting the products to other countries. The most important feature of this mode is that a company doesn't manufacture goods in a new country. It only sells the domestically produced products across the border. Exporting modes often imply importing raw materials from abroad. In this case, import and export are interconnected. Traditionally, specialists distinguish four subjects of exporting modes: exporter, importer, government and transport provider.

Scholars usually analyze two main directions of exporting: aggressive and passive. Passive exporters use the mechanism of export from time to time. The managers of passive companies don't consider foreign countries as foreground sales markets. On one hand, they may implement entering a foreign market in order to sell surpluses that are hard to sell in the domestic market. On the other hand, using the passive variation of exporting entry mode might be a consequence of several orders from abroad. If a company demonstrates stable performance

indices with a rising trend, foreign importers may contact its managers themselves. In any case, passive exporting implies waiting for opportunities without implementing consistent marketing activities.

On the contrast, aggressive exporting is always driven by large-scale marketing campaigns. Unlike passive exporters, an active exporter always has a row of strictly defined objectives on the market. According to Pavord and Bogart (1975), the component of motivation is crucial for distinguishing between these two types of companies. Accordingly, it is important to take into consideration the factors of legislative system, non-tariff barriers, company's internal environment, consumer behavior and other factors which may either decrease or increase firm's motivation regarding entering a foreign market.

The forms of exporting modes depend on many factors. The requirements of a specific market and country reason the choice of an exporting form. Generally, marketers pick the form of either direct or indirect exporting. Surely, the list of exporting modes is not limited by these two types. But most of other forms are very rare. Besides, the companies that participate in the current research did not use them. However, some firms still use these peculiar-exporting modes. For example, the sphere of e-commerce, which is doubtlessly under increase, now is sometimes used as the exporting instrument. Nonetheless, it is still considered by most of marketers as an effective additional instrument that supports the main mechanisms, but can't replace them (Ronkainen & Czinkota 2007).

The instrument of direct exporting purports avoiding intermediaries. An active exporter directly contacts with consumers in a foreign market. Surely, this instrument requires huge financial resources, a detailed marketing campaign and a trained staff. The operations connected with direct exporting are usually performed in one of the four ways: a distribution network, a representative office, a foreign distributor and a foreign agent. A distribution network is a complex structure, which is created through combining exporting activities with direct investments. A representative office is a subsidiary, which is opened overseas in order to coordinate the operations on a local market. In most cases, a representative office is responsible for marketing activities. A foreign distributor is an independent subject, which is slightly connected to the domestic company. There is no coordination between a domestic country and a foreign distributor regarding all the issues like in the case with a representative office. Finally, a foreign agent functions as an exporter's representative.

Opening a representative office is probably the most popular marketing strategy out of all the direct exporting modes. Traditionally, a representative office operates as a usual salesman who deals with the foreign trade contracts. Companies usually choose one of three ways of opening a representative office: delegating their own employee to another country, hiring a local employee or cooperating with a local business partner. According to Hollensen (2007), this entering mode is very common among the modern companies. Various forms (information office, marketing office, technical office, etc.) make it very convenient for satisfying most of company's needs.

The instrument of indirect exporting adds the figure of an intermediary to the traditional list of subjects. This intermediary is always local. Therefore, a company doesn't directly interact with the consumers. To a certain degree, the intermediary may be considered as a local independent company. Parboteeah and Cullen (2010) have deduced four types of intermediaries in the indirect export: an export broker, an export management company, an export trading company and an export commission house. An export broker is responsible for bringing together a buyer and a seller. Export management companies prefer operating with specific products or in specific countries. The same description may be applied to export trading companies. However, these companies usually start exporting after they claim to a product.

Obviously, an indirect exporting is connected with fewer risks than a direct exporting. It requires less financial resources and delegates most of risk connected with local specifics to an intermediary. However, the potential benefits will be also less significant as the intermediary's commission will be substantial. The profits may be much higher if a company exploits the instrument of direct exporting. Simultaneously, it also means that the risks will be higher too. For instance, a foreign distributor may find a provider with more beneficial terms of condition. Besides, a distributor is very vulnerable for different trade barriers. In any case, using any mode from the list of direct exporting modes requires a high level of the marketers' professional competence, a detailed marketing plan and huge financial resources. Notwithstanding, it is obvious that using a distributor will be clearly a less expensive mechanism than designing a distribution network overseas.

The phenomenon of motivation is another important aspect of the difference between indirect and direct exporting modes. Indirect exporting modes always purport a high commission of the intermediary. Accordingly, his positive motivation is expected to be higher than in the

case with a regular company's employee. Intermediary's operations will be also supported by a negative motivation as the credit burden and most of other similar burdens are taken from the parent company in this case. As it turns out, a high motivation of the intermediary will be accompanied by the low financial costs. Thus, there is no wonder why a lot of companies gladly use indirect exporting modes in the modern international business.

Aside from the direct and indirect exporting modes, there are also two variations of cooperative export: export grouping and piggybacking. The mode of export grouping is a simple concept, which allows companies to use bulk buying and take advantage of the synergy effect. The strategy of piggybacking, in turn, is usually used when a company without a serious experience in exporting uses the services of another company, which has been operating, in the field of exporting for a long time. Despite the obvious advantages, the modes of cooperative export are not very popular in the modern international business. An absolute dependence on the other partner is a stumbling block for many modern companies.

The group of contractual modes is a form of cooperative relations with an obvious participation of a foreign manufacturer. The forms of contractual entering are various. In particular, specialists distinguish international subcontracting, franchising, licensing, turnkey operations, etc. Export of service is the nature of turnkey operations. This type of entering modes is mostly based on contractility and implies transferring the complete investment (Shaw and Onkwist, 2004). Companies, which intend to save money on hiring production often, use the entering strategy of international subcontracting. This mode is an effective instrument of lowering the costs of raw materials or labor. In most cases, it is admissible to claim that international subcontracting is a form of production outsourcing (Hollensen, 2007).

Even though limits between the phenomena of licensing and franchising are vague, it's still important to distinguish these two modes. Generally, international licensing is a method of business internationalization whereby a company in one country gives to a firm in another country a permit to use its trademark, technological know-how or some other valuable resource (Parboteeah & Cullen 2010). This approach is often employed by companies, which have a limited budget and tend to avoid high risks. Unlike licensing, international franchising is mostly aimed at the sphere of trade and distribution in a wide service sector. Stone and McCall (2004) emphasize that this mode is widely used by small enterprises and self-employed people.

The advantages of international franchising and international licensing are obvious. These strategies ensure a relatively low risk of the business accompanied by low costs. A high level of brand recognition guarantees an initial demand. Therefore, marketers won't need to develop a new strategy of brand positioning. Moreover, the overwhelming majority of marketing activities will be already conducted by the "parent company". Thus, managers will get an opportunity to focus on a sales segment. A lot of specific problems, which every company is faced with, will be also solved with the help of a brand recognition and brand reputation. For instance, it will be much easier to negotiate with suppliers and transport providers if the company's brand is already famous worldwide.

Unfortunately, international licensing and international franchising also have a row of evident disadvantages. Surely, most of them are related to the sphere of cooperation with the "parent company". A company that chooses one of these two modes is always limited in many spheres including the length of agreement and the permission to sell specific products. There are plenty of factors connected with the licensees, which may inhibit the existence of a company. Moreover, even though a lot of marketing activities are excluded from the company's operations, managers will still need to develop a detailed strategy with a lot of specific issues, which are crucial to consider. In this case, it is compulsory to analyze all the aspects and perspectives before signing a contract regarding the international licensing or franchising. If a local businessman or a local company is unsuccessful, it will be very hard for the company to enter this market again.

The phenomenon of assembly operations is very popular in the modern world. According to Shaw and Onkvist (2004), this mode implies cooperation between a foreign firm and a domestic firm concerning the specific assembly operations. As a rule, specialists review three types of assembly operations: repair operations, drilling operations and shimming operations. All these modes are most primarily for saving money. Considering that a cost of labor significantly varies in different countries, it seems logical to use the opportunity to conduct some simple operations in the countries where the cost of labor is relatively low.

After the exporting and contractual modes are researched, it is logical to analyze the third type of entering marketing strategies that is investment modes. Unlike the other variations, investment modes require physical presence of the company in a foreign market in the form of branches or subsidiaries. According to one of the popular classifications, these modes may exist

in the form of either greenfield investment or brownfield investment. The strategy of greenfield investment implies a constant and gradual investing that has been implementing from the start. On the other hand, brownfield investment is based on M&A (mergers and acquisitions) of some local firms.

Investment modes may be also classified into the groups of subsidiaries and foreign branches (Ronkainen & Czinkota 2007). Interestingly, there is no uniform view on the concept of subsidiary in the literature. In most cases, if one company controls the vital resources of another company or possesses a majority of its shares, this other company is called a subsidiary. If this control is absolute, then this subsidiary may be referred to as a wholly-owned subsidiary. The structures of a joint venture subsidiary purports that this control is not absolute and there is at least one other party, which also influences the subsidiary.

The main feature of a subsidiary is that it has a legal status, which is separate from the parent company. Hence, it operates in accordance with the legislation system of a local country. White and Poynter (1984) have concluded in their research that there are five main types of cooperation between the subsidiary and the parent company. Firstly, a subsidiary may be strategically independent from the parent company. In this case, its managers will develop and implement an independent marketing campaign, sign specific contracts with the local suppliers and operate as a separate company. Secondly, a subsidiary may be focused on producing. If the local specifics regarding food prices or some other local factors significantly simplify the production of some goods, a subsidiary may produce these goods for the global market. The role of a rationalized manufacturer is similar to the role of producer. However, in this case, a subsidiary will only produce some parts of products. A marketing satellite is a form of subsidiary that sells some products produced centrally in a local market. Finally, a miniature replicate implies imitating all the activities, operations and strategies of the parent company. As a result, the factor of scale is the only difference between the parent company and a miniature replicate subsidiary.

At first sight, it might seem that a wholly-owned subsidiary and a foreign branch are the synonyms. However, this impression is deceptive. Both a wholly owned subsidiary and a foreign branch have only one owner, which is the parent company. However, unlike a subsidiary, a foreign branch doesn't have any legal status, which is separate from the parent company. It is just a part of the company that is located overseas. The factor of location doesn't lead to a

separate legal status. Accordingly, a foreign branch isn't supposed to have deviations from the main course chosen by the parent company. The scope of branch's activities is usually much narrower than the scope of parent company's activities. As a rule, a foreign branch is not used as a final entering mode. It is rather a first stage of the internationalization. If it is implemented successfully, a foreign branch will be likely transformed into a subsidiary soon (Hollensen 2007).

The difference between the three types of entering modes reviewed above (exporting, investment and contractual forms) is significant. There are plenty of factors which predetermine the choice between these modes in regard to a specific company. According to the results of studies designed by Hadjidakis, Katsiolouides and Baorakis (2007), most of managers and marketers consider the following criteria: required financial resources, required professional experience of managers and marketers, factor of risk, the size of potential profit, and the number of input costs. Surely, it is also very important to take into consideration the local specifics. The negative experience of many huge corporations in entering new market has shown that it is shortsighted to automatically use the entering mode that has proved its effectiveness in one country to the case of another country. According to Heollensen (2007), a company should develop the marketing entering strategy on the basis of four gradual factors: internal environment of the company, external environment of the company in a new country, advantages and disadvantages of different entering modes, and transaction-specific factors. If all these factors are considered attentively and consistently, the chances of company's successful expansion to a new market will significantly increase.

### **2.3. The Phenomenon of International Joint Venture: Partner Selection**

#### **Criteria**

It was already stated in the previous paragraphs that joint venture is one of the most popular entry modes in the modern international business. According to C.P. Lickson (1994), it is "an agreement between parties or firms for a particular purpose or venture". This entry mode has been growing in popularity during recent years, even though there are a lot of examples of failures. In particular, it was already mentioned several unsuccessful projects initiated by Tesco in Japan and India. However, the obvious advantages of this entry mode make managers consider the mechanism of international joint venture as one of the foreground instruments of entering a new foreign market.

The notion of joint venture refers to the appearance of a new business within two or more existing companies. As a rule, each company has some unique resources which are very valuable for the other party. In particular, there are a lot of examples of joint ventures which were created by a huge international corporation and a small or medium local company. In this case, an international corporation provides financial resources and experience while a local firm simplifies the formation of supply chain, designing an effective brand positioning and dealing with governmental issues. Besides an obvious intention to expand to new foreign markets, the mechanism of joint venture also helps a company to strengthen the positions on existing markets (Elko, Reuer, Buckley & Glaister 2009)

As a rule, there are two main incentives of creating a joint venture. Firstly, it helps to save money. The combination of resources possessed by the parties allows every party to focus on specific objectives. Therefore, for instance, there is no need for a huge international corporation to create new logistic nodes, develop a supply chain and conduct some expensive marketing surveys in order to evaluate the public demand in a specific sphere. Secondly, managers and marketers from the perspective of local specifics often value the instrument of an international joint venture. If an international corporation decides to open an office or starting exporting to a new country, there are a lot of risks connected with local factors. Non-tariff barriers, governmental regulation, mentality and customers' perceptual predispositions may significantly complicate the process of entering a new market. At the same time, close cooperation with a local partner prevents most of these situations.

Traditionally, specialists distinguish two types of joint ventures: equity-based and non-equity joint ventures (Bamford, Ernst & Fubini). The concept of equity-based joint ventures implies benefiting private interests, both foreign and local. At the same time, the concept of non-equity-based joint ventures refers to the situations when parties intend to focus on other factors like technical service, brand, construction, management or franchise. As stated above, the factor of capital doesn't always play a decisive role in our case. Some huge international corporations like Tesco or Sony Ericsson surely have enough financial resources for entering any foreign market. However, the lack of local experience may be an obstacle. Accordingly, the concept of non-equity joint venture might be called for solving these problems.

Many scholars research the phenomenon of international joint venture in detail. Most research has analyzed it from the perspective of three theories: the transaction cost theory, the resource-based view of the firm and the resource dependency theory.

The transaction theory is currently the most popular theory among researchers. According to Robson et al. (2002), this theory is the principal theoretical approach to the problem of studying the phenomenon of international joint venture. It was developed in the 1980s by Williamson (1988) and has attracted a lot of supporters during the next decades. This concept is focused on the factor of saving money, which was already distinguished above as one of the key incentives of an international joint venture. In order to do so, companies usually try to optimize the processes of marketing research, enforcement costs and market microstructure. Every company is willing to find a way to reduce its costs. Therefore, an opportunity to reduce transaction costs provided through the mechanism of joint venture is enthusiastically perceived by the company's managers. While applying this theory to the choice of entry modes, it is usually believed that, in order to choose the mode of international joint venture, managers should realize that external sourcing is lower than the production cost which might be achieved through acquisition or internal development (Kogut 1988).

Researching the transaction cost theory is especially important in our case because it provides an interesting view on the problem of partner selection criteria. In concordance with Varis and Conn (2002), the choice of a partner in an international joint venture is based on two factors: saving costs and ensuring controllability. Firstly, a company is doubtlessly inclined to save transaction costs. Thus, a firm that proposes the most substantial resources is likely to be considered as a potential partner. However, there is also a crucial factor of controllability. If a partner is impossible to control, the potential advantages and even significant costs saving will be slight in comparison with the potential risks and threats. Williamson (1988), the founder of the transaction costs theory, suggests an interesting classification of uncertainties that influence the choice of partners in international joint ventures. The first uncertainty is connected with the changes in external environment. It is an objective factor, which is strongly correlated with a lot of processes both in the world economic and in the business environment of a local country. The second uncertainty refers to the ability of the second party to comply with the terms of contracts. The mechanisms of overcoming these uncertainties within the framework of the theory of transaction costs are one of the most popular fields of the modern studies of joint ventures.

Despite the obvious advantages and research opportunities of the transaction costs theory, a lot of researchers criticize it. Varis and Conn (2002) point out that the approach to partner selection criteria proposed within the framework of this theory is very limited. It is focused on saving costs while the modern international business is more about creating value than about saving costs. Moreover, this concept provides a specific attitude towards a partner, according to which restrictions and sanctions are the only way to keep a partner in line with the contract's terms. Thus, instead of discussing the ways to ensure a synergy effect, the supporters of this theory propose the ways to prevent a partner from cheating (Vuorinen 2005).

The founder of the theory acknowledged that there were several limitations of his approach (Williamson, 1985). In particular, he distinguished primitive models, complexities with measurement and positioning a human as a very unattractive subject. However, a lot of other specialists have added other factors to the list of its limitations. In the opinion of some authors, the transaction costs theory is not only a debatable concept, but also a concept, which contains a great threat to a company. If it is used unwisely, the consequences may be very damaging (Moran & Ghoshal 1996). Thus, most writers advise to use the transaction costs theory in combination with other concepts, which explain different aspects of international joint ventures.

The perspective of valuable resources, which has been already explained above, is the essence of the resource-based view of the firm. This concept analyzes the phenomenon of international joint venture as a mechanism to combine the resources of parties. Therefore, it is logical to search for a partner who possesses the most valuable resources because a valuable resource creates a competitive advantage (Wererfelt 1984). Of course, it is very important to consider several factors in this case. Firstly, managers should investigate the rareness of these resources. Although some resources possessed by a potential partner may be very valuable for a company, there might be plenty of other companies in a local market, which have the similar resources. Secondly, it is important to understand whether the resources proposed by a potential partner will be really useful for a company. Unfortunately, some resources (for instance, peculiar brand recognition) of a local firm are absolutely useless for the company, which intends to create an international joint venture. Finally, it is advised by Varis and Conn (2002) to engage in a joint venture only if the resources possessed by a new organization will be hard to copy.

Generally, the nature of the resource-based view of the firm is very simple. Even though a company may have huge financial resources and great brand positioning, it has a lot of specific

needs connected with entering new markets. According to Hitt et al. (2000), these needs are the main reason of the international joint ventures. Undoubtedly, this theory seems to provide deeper understanding of the problems of joint ventures than the transaction costs theory. According to the latter, the intention to save costs is always in priority. Consequently, all the resources are also understood in a way that they allow companies to save money. However, this rule is barely universal. Of course, we can explain most of resources with the financial arguments. But the knowledge of local specifics is definitely not connected with saving costs. If there are two alternative decisions, which imply the same amounts of spending, the knowledge of local specifics determines the choice of the options. And even though the financial component of these two options is similar, the aspect of performance might differ. Thus, as we see, the transaction costs theory isn't able to explain the importance of the knowledge of local specifics. At the same time, the resource-based view of the firm can be easily applied to this situation because knowledge of local specifics may be considered as a valuable resource, which creates a strong competitive advantage.

Finally, the resource dependency theory is the third concept that is widely used by scholars in the studies of international joint ventures. Generally, it is similar with the resource-based view of the firm. However, it is primarily aimed at finding a way to make a partner dependent on the company due to the factor of controlling critical resources (managerial experience, technology advancements, quality of service, distributional channels, equity, brand recognition, knowledge of local specifics (Gray & Yan 2001). The main thesis of this theory is that a company is just unable to simultaneously possess all the resources, which are required for a specific business environment in a specific country (Emerson 1963).

The resource dependency theory and the resource-based view of the firm are often used in the theoretical investigations and empiric studies. The overwhelming majority of them have confirmed the fact that companies tend to choose partners of international joint ventures on the basis of their resources. According to Hitt et al. (2000), huge international corporations tend to select partners with unique competencies. Moreover, they also pay a lot of attention to the fact of complementary capabilities. For example, if a company manufactures products and wants to sell them in a new foreign market, it is logical to choose a partner with developed distributional channels. Thus, the resources and capabilities of a partner should strengthen the resources and capabilities of the company. The most common examples of such international joint ventures

may be found on the Chinese market where local Chinese companies and huge Western corporations combine their resources in order to operate on a local market.

Generally, the problem of partner selection criteria in international joint ventures is well researched. There were a lot of studies aimed at determining the criteria of partner selection. While some of them were based on theoretical investigations, others used the instruments of quantitative methodology in order to find a correlation between certain selection criteria and final performance of the international joint ventures. According to A. Kottolli (2006), there are nine important criteria, which are usually used by companies in order to choose a partner for international joint venture. The size of a partner and his financial resources are two most obvious factors. Even if an international corporation is just looking for a firm with a great knowledge of local specifics, it is still desirable that this partner would be of a big size and with established distributional channels. The next group of factors refers to the ability of parties to cooperate on the basis of complementary skills and capabilities. In particular, it is required to have complementary technical skills, complementary strategies and compatible management teams.

The concept of an international joint venture implies a close cooperation between partners. Accordingly, it is important to ensure the absence of significant communication barriers between them. This factor is very complex and it implicates a lot of components in the field of organizational structure, corporative philosophy and even mentality. Of course, it is also crucial to consider operating policies of a potential partner. Finally, the last two factors are an ability to establish an adequate level of mutual interdependency and the matter of trust. Surely, the reputational factors play a decisive role here. If a firm wasn't involved in any scandals here and it maintains a positive image of the company, it may be considered as a potential partner in an international joint venture.

However, the study of A. Kottolli (2006) is not the only study dedicated to the problem of partner selection criteria in international joint ventures. The critical importance of finding a suitable partner was emphasized by many scholars (Harrigan, 1984; Blodgett, 1991). Therefore, there is no wonder that there were plenty of different empiric investigations aimed at researching this phenomenon. The one designed by Tomlinson (1970) is traditionally counted as the first empiric research, which provides an empiric data about the partner selection criteria in joint ventures. As in most of further studies, Tomlinson's study tried to tie the criteria of partner selection to the actual performance of joint ventures. The analysis of 71 international joint

ventures in Pakistan and India gave an author a possibility to claim that the choice of a partner is mostly based on prior association or relationships.

An important step forward in the current field was made by Geringer (1988). The author has found 27 criteria of partner selection on the basis of international joint ventures created by US-based companies. However, his crucial achievement is creating a classification of these factors. In the opinion of Geringer, all the criteria might be determined either as task-related or as partner-related. Obviously, the task-related factors refer to the specific objectives and resources, which are required for achieving these objectives. At the same time, partner-related factors are connected with the general characteristics of cooperation between the parties. In particular, they determine the level of effectiveness and efficiency that are inherent for this cooperation.

The concept of task-related and partner-related factors was developed by many scholars. In particular, Nielsen (2003) researched the significance of partner-related factors. In order to do so, he has defined these criteria as “criteria associating with the efficiency and effectivity of the partner” (Nielsen 2003). The similar approach was used by Robson (2002) who also conducted a study based on Geringer’s understanding of partner-related criteria. Geringer’s typology was transformed by Luo (1998) who has added the factor of financial fit of the potential partners. However, this proposal hasn’t become popular within scientists. Thus, it is traditionally considered that selection criteria are divided into partner-related and task-related factors.

An interesting approach was proposed by Glaister and Tatoglu (2007). While the overwhelming majority of other scholars implemented the studies from the foreign company’s point of view, Glaister and Tatoglu (2007) have also used the point of view of a local company. Accordingly, their list of partner selection criteria appeared to be much more detailed. Generally, most of empiric studies in the field of partner selection criteria in international joint ventures researched the correlation between these criteria and venture’s performance. Almost in all the cases, it was found that the correlation really existed. However, the levels of significance of different criteria were definitely different in dependence on a specific company, market and resources. For instance, Ferreira and Li (2008) concluded that technological commitment is a key factor for choosing a partner in international joint ventures in developing countries.

Even though the classification proposed by Geringer (1988) was very popular in the 1990’s, it may be barely considered as an axiom in the modern international business. In this paper, the criteria of partner selection will be reviewed in accordance with the different

classification. In particular, the following groups of criteria will be analyzed: foreign-partner-specific, location-specific and investment-specific.

The foreign-partner-specific criteria are very obvious. Surely, the size of a company and its experience in different aspects of international business are primary in our case. The size of a foreign company is definitely an important factor while choosing a partner for international joint ventures. If a company is of a large size, it is likely to intend to diversify and to be involved in international joint ventures. A large size also usually implies substantial financial resources, which can ensure a rapid development of a new venture. Therefore, there is no doubt regarding the importance of this factor for partner selection. However, the matter of international experience is not as obvious as the size of a firm.

Firstly, the problem of international experience is complex. Therefore, this phenomenon is usually divided into company's experience in foreign direct investment, in forming international joint ventures and in country-specific operations. According to Mitsuhashi (2002), the factor of international experience influences foreign company's choice of a local partner. Surely, it is obvious that if a company has a deficiency in some spheres of experience, it is likely to find a partner, which compensates this deficiency. However, as the empiric investigations show, the experienced companies still pay most of attention to the factor of financial resources (Lindvall 1991). On the contrary, if a company has less international experience, the financial factor is less crucial to it. A lot of foreign companies, which create joint ventures for the first time, are often trapped into the cooperation with a weak partner, which uses them in order to overcome financial problems.

Interestingly, a lot of studies have provided the unexpected results, according to which the factor of international experience plays a slight role in the process of choosing partners. For example, Nielsen (2003) has made a conclusion that the factor of international experience doesn't have any impact on partner-related criteria while it has a medium impact on the task-related criteria. An obvious statement that company's international experience is supposed to create a universal approach to the problem of partner selection was confirmed by the study of Peterson and Al-Khalifa (1999). Moreover, the authors also deduced the importance of partner-specific criteria for the companies with a solid international experience.

A lot of studies were implemented in order to find a correlation between the location factors and the process of choosing partners for international joint ventures. Actually, it is

obvious that this correlation exists considering the cultural, geographic and social factors. However, it was important to confirm its significance. In accordance with Beamish and Lane (1990), there is a strong correlation between the distance factor and the number of problems with international joint ventures. All the differences listed above lead to a row of misunderstandings and collaborative problems. However, some studies have deduced the opposite results. For instance, an investigation conducted by Buckley and Glaister (1997) has indicated that the factor of distance had a slight influence on partner-related criteria of partner selection, but it didn't have any correlation with the task-related criteria. Of course, there is also a factor of country's peculiarity that is significant for partner selection. In particular, entering the market of Belgium, France or Germany is definitely easier for a US company than entering the market of Japan or South Africa. Therefore, geographic factors may increase or decrease the significance of the knowledge of local specifics as a partner selection criterion.

It is also important to emphasize that geographical factors don't only influence the significance of the knowledge of local specifics. They may also change the importance of many ground aspects like established distributional channels, marketing experience, an ability to conduct marketing surveys, etc. The study designed by Nielsen (2003) has deduced that all these factors play the decisive role when Western companies are opening international joint ventures in Asia. At the same time, the regions of Western Europe and USA don't imply such peculiar features of local markets. However, it is still erroneous to think that these factors don't play any role whatsoever. The example of Tesco's project "Fresh & Easy" is a classic example of a failure that happened because of the ignorance regarding the features of local markets. The managers of the supermarket chain thought of US market as a similar with the UK market. However, as it turned out, the difference in customers' perceptual predispositions was significant. As a result, Tesco's project has resulted in huge financial losses (Tuttle 2013).

The third group of variables, which influence the partner selection criteria in international joint ventures, refers to the investment factors. These factors are as follows: readiness for the partnership under the terms of international joint venture, the establishment form and relatedness of the operation. Of course, the issue of establishment form is crucial while discussing the mods of Greenfield investment or partial acquisitions. As it is known, the Greenfield investment implies creating a new company while partial acquisition implies buying the shares of an existing one. Regardless the form of establishment, the choice of partner in international joint ventures is

strongly influenced by the company's intention to establish a company, which will be either related or unrelated to the existing business (Kusewitt 1985). If a company is willing to create a venture which is related to the existing business, the technological skills, capabilities and knowledge of local markets is supposed to be the main criterion of partner selection. However, there is also a possibility that company's owners and managers decide to diversify its business, so that a new company will not be related to the existing industry at all. In this case, the choice of a partner seems to be a key factor of the success of international joint venture. A potential partner should provide not only knowledge of local specifics, but also the skills that are required in all the spheres of business. The success of a venture in this case will be also dependent on the ability of a company to transfer its managerial and marketing experience from one industry to another.

However, the empiric studies illustrate the limited correlation between the investment factors and partner selection criteria. Buckley and Glaister (1977) have concluded that the investment factors play a slight role in the process of partner selection. According to them, the overwhelming majority of the companies, which intend to start international joint ventures, pay most of attention to the factor of the partner's reputation. Moreover, partner's reputation and brand recognition turned out to be even more important than partner's financial resources. Actually, this conclusion seems to be logical because most of huge international companies don't have need in additional financial resources while starting international joint ventures. On the contrast, they might look for effective ways to reduce the existing costs and to create the additional values. Therefore, it is more important for its managers to pick a reliable partner with limited financial resources than a huge local company with substantial financial resources.

### **Chapter 3. Methodology**

As stated above, this research is based on the qualitative methodology. The required data will be received through processing the results of interviews. After all the results are collected, I will analyze the significance of partner selection criteria and track the possible relationship between the specific criteria and the success of international joint ventures. Considering that this research is qualitative, no specific programs will be used for collecting and processing the data. All the operations connected with interviews will be implemented in MS Word.

### ***Research Philosophy***

The current research will be conducted in concordance with interpretivism as the research philosophy. This approach ensures the deep understanding of the research phenomena through considering the social conditioning. Of course, it was possible in our case to use the pragmatism paradigm. However, it was decided to only focus on qualitative method in order to ensure deep understanding of the phenomena under investigation. The same considerations predetermine the decision to refuse positivist research philosophy because of its requirement to choose the research objects which can't be influenced by social factors (Gooney 2014). Finally, the paradigm of realism is not effective for observing and analyzing social factors without ground preliminary assumptions. Thus, the choice of interpretivist research philosophy seems to be a logical decision in our case.

According to Saunders, Lewis and Thornhill (2012), there are three main ways of considering the research philosophy that have an impact on the research process: ontology, epistemology and axiology. The notion of ontology reflects the researcher's approach the nature of being. The role of values in a specific investigation is the basic component of axiology. Finally, a scholar's opinion on the phenomenon of knowledge, its features and acceptability, is formed within the framework of epistemology. It is doubtless that indirect realist epistemology is the position which was adopted in this research. Managers' understanding of the specific criteria, which are valued more than others, influences the selection criteria in international joint ventures.

### ***Research Approach***

Considering that it was decided to pick the interpretivist research philosophy, I will employ inductive approach in my study. The results of interviews with managers will be used in

order to study and explain the relationships between partner selection criteria and success of ventures. Deductive approach could have been employed if the current investigation had been aimed at testing the ground hypotheses. However, the hypotheses articulated in the introduction were only designed in order to distinguish the main path of a research. In addition, it is admissible to state that, in accordance with the classification put forward by Saunders, Thornhill and Lewis (2012), the current investigation may be defined as an explanatory study. Focusing on a specific problem in order to determine and explain relationships between the variables is clearly an essence of this research.

### ***Research Strategy***

It was decided to choose online interviews as the most suitable method in our case. It will allow us to collect the required amount of qualitative data in a short time. The processes of preparation and organization of interviews are expected to be very complicated. The overwhelming majority of well-known international joint ventures were established by big corporations like Tesco or Sony Eriksson. At the same time, joint ventures connected with small or medium enterprises usually don't receive enough attention. Consequently, it won't be easy to find the examples of small and medium companies, which participate in joint ventures. Moreover, it will be even harder to find respondents who participate in our research. However, despite the obvious complexities, a right methodological approach will allow us to conduct a successful research with valid results.

Considering that the number of companies is 10, it seems reasonable to communicate with managers online instead of face-to-face interaction. The mechanism of interview is a traditional method, which is widely used for collecting qualitative data. Its results are easy to explain and to apply to specific research problems. Therefore, it seems reasonable to use the interviews method in our case.

### ***Research Choice***

The analytical research aimed at explaining the factors of influence will be primary in our case. Its effectiveness is supposed to be obvious, as I will combine several sets of qualitative data during the analysis of results. The choice between qualitative and quantitative methods was one of the stumping blocks of this research. Both qualitative method (interviews) and quantitative

method (survey) have some advantages and disadvantages. In particular, using interviews with CEOs of the companies might have been effective while designing new theories in the field of partner selection criteria in international joint ventures. It would be useful for a deep understanding of the problem under investigation. However, it would clearly less effective for testing the relationships between variables. On the contrast, quantitative methodology might have been provided us with the significant coefficients for each variable. At the same time, it would be much more complicated from the perspective of a huge sample. Considering the specifics of our research, it was decided to choose the qualitative methodology. However, it is recommended to use the mixed methods for further researches in order to ensure deeper understanding of the variables explained in the current investigation.

### ***Time Horizon***

As it is known, there are usually two options regarding the choice of time horizon: cross-sectional and longitudinal. As Blumberg, Schindler and Cooper (2001) suggest, cross-sectional researches are designed for analyzing the phenomena in a specific moment. These studies “capture” the current state of variables and explain relationships between them. On the contrary, longitudinal researches are focused not on describing the current state of variables, but on explaining the changes in these variables over time.

Obviously, the current study is a bright example of a cross-sectional investigation. The research objectives are connected with only one “snapshot” of real time (Gooney, 2014). The transformation of partner selection criteria in international joint ventures during the last years is irrelevant for the current study. It is not even emphasized when each of 10 companies participate in a joint venture. Therefore, there are just no instruments of tying the year in which companies established a joint venture to the managers’ understanding of partner selection criteria.

### ***Sample***

The sample of this research consists of employees who work in chosen small or medium enterprises, which participate or used to participate in joint ventures. I have interviewed two senior marketers, three senior financial analysts, a senior sales manager and a deputy CEO. Generally, these employees are supposed to be able to define the partner selection criteria used by their companies and to evaluate the success of their joint ventures. The biggest threat in this

case is connected with irrelevant factors. The success of joint ventures is surely defined by numerous determinants besides partner selection criteria. In particular, there are a lot of issues with financial resources, non-tariff barriers, legislation system and specific features of consumer behavior. Therefore, it is very important for this research to separate the influence of partner selection criteria from the influences of other factors. In order to do so, I have tried to engage employees from all the 10 companies. However, only seven companies agreed to participate in the current research

The choice of these companies is a complicated issue. There are 4 main requirements, which a company should meet in order to be involved in the current investigation:

- It should be either a small or a medium enterprise;
- It should be a relatively well-known firm which has a good publicity in the Internet;
- It should have at least 30 employees. Otherwise, it will be impossible to collect the data from them;
- It should participate in at least one joint venture.

There are actually a lot of companies, which meet these requirements. It was decided to use the factor of public image as a foundation for choosing 10 companies for this research as this decision is supposed to ensure the validity of final results and decrease the significance of irrelevant factors. The list of “50 Best Small and Medium-Size Companies to Work For” was used in the current study as the confirmation of the enterprises’ positive public image (Tkaczyk 2013). As a result, 5 companies were chosen for participation in this research:

<b>Company</b>	<b>Size</b>	<b>Number of employees</b>
Walker & Dunlop	Medium	450
Studer Group	Small	196
Daxko	Small	241
EKS&H	Medium	430
Clif Bar	Medium	340
LeasePlan	Medium	489
DELTA Resources	Medium	275
dunnhumbyUSA	Medium	715
4imprint	Medium	522

Hagerty	Medium	534
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All these companies meet 4 requirements reviewed above. Surely, their experience in joint ventures differs. For instance, the international joint venture with a distributional company from Hon Kong didn't significantly contribute to the increase of Clif Bar's international presence. However, it is very important for our research that all the 10 companies have used the instrument of joint venture in their history. Accordingly, their employees possess and experience and knowledge which are enough for participating in the interview. After the list of companies is defined, the next step was to contact these companies and ask their managers to let their employees take part in the research. If an official letter is properly drafted and the right accents are placed, managers may agree to help us. Surely, there was a possibility that some of these companies wouldn't respond to our letter. In this case, the sample would have been reduced. At the same time, if the number of successful interviews had been less than 5, I would have added more companies from the "Top 50 companies" list to the current investigation.

### ***Data Collection***

The current methodology and interview's organization imply making the questions of the interview as simple as possible. Firstly, respondents have been asked to evaluate the significance of the specific partner selection criteria in regard to their companies. The partner selection criteria were taken from the research designed by S. Rumpunen (2011). According to the author, the main criteria are as follows:

- Size of the firm;
- Experience in foreign direct investment;
- Experience in the field of joint ventures;
- Local experience.

The variable of venture's success has been also evaluated by respondents. Surely, there is a threat that this approach may turn an objective variable of company's performance into a subjective variable of the perceived company's performance. However, there is a substantial ground to assume that this approach is not erroneous. The first four variables have been evaluated by the customers. Consequently, it is logical to let them evaluate the last variable too.

The interview has been designed in MS Word. Clearly, it is required to ensure the personal interaction with the interviewees during the process of interview. In order to do so, I

have used Skype and Viber as effective online communication services. The interview will not contain the demographic part. The current research doesn't have a research objective of finding a correlation between the respondents' demographic characteristics and their perceptions of the partner selection criteria or company's performance. At the same time, it was obvious that the distribution of demographic characteristics among the respondents would turn out to be uneven. The overwhelming majority of respondents are young or middle-aged people with a high level of education and a medium or high level of income. The only characteristic, which is evenly distributed, is gender. However, it is barely reasonable to assume that respondents' evaluation of partner selection criteria or company's performance is affected by the respondents' gender. So there is probably no need in adding questions regarding demographic characteristics to the interview.

Generally, the results of our interview have given us an opportunity to answer two important research questions. Firstly, it illustrated a clear regularity regarding the partner selection criteria in joint ventures. Secondly, it provided a general picture on the problem of a correlation between the criteria of partners' selection and the success of international joint ventures.

### ***Limitations***

The current study has several important limitations. Firstly, the focus on qualitative methods deprives the research of a clear assessment of the significance of variables. Our study has been only provided the general view on the phenomena. In order to develop the results of this research, it will be required to conduct another research based on mixed research methods. Secondly, the focus on US companies may decrease the validity of final results. There is a possibility that some regularities and relationships between variables only exist in the USA. Thus, it is desirable to choose some other countries for further investigations. Thirdly, the focus on the best companies might make our conclusions superficial because a probability exists that the best medium and small companies have peculiar tendencies regarding the criteria of partner selection in joint ventures which are not inherent for the majority of other companies. In order to ensure the validity of results, it is required to consider the cases of "regular" companies too. Finally, the fact that different companies from our list established joint ventures in different time may be also considered as a negative factor in our case. There is a certain chance that the

variables changed over time. Therefore, the choice of a cross-sectional time horizon may be another significant limitation.

## **Chapter 4. Data Analysis / Findings**

As stated above, the current research implied conducting interviews with the managers from small and medium-sized enterprises. The fact that all these companies were listed in the “50 Best Small and Medium-Size Companies to Work For” article, these interviews were expected to provide us with relevant information and substantial conclusions. It was decided to contact the companies via Internet and ask for an interview with one of the managers. Of course, a persona

of a general manager would be desirable for the investigation. However, obviously, general managers usually have very intense work schedules. Thus, it was barely reasonable to hope that CEOs of all the 10 companies would agree to participate in an interview about joint ventures. Hence, I have asked companies to connect me with any manager whose work position is related to the sphere of making decisions regarding joint ventures.

As a result, seven companies agreed to take part in the research. It was initially determined that minimum six companies should have been included in the empiric part of the study. Thus, the number of seven firms is enough. At the same time, all these companies gave me an opportunity to interview managers whose job positions were related to the field of planning and analyzing joint ventures. In particular, I have interviewed two senior marketers, three senior financial analysts, a senior sales manager and a deputy CEO. All these interviews were conducted via either Skype or Viber. Therefore, I was able to engage into a close interaction with an interviewee. Fortunately, all the interlocutors have enthusiastically perceived an idea of my interviewee and were willing to cooperate. In order to present the results of my research, it seems logical to divide these results into three parts: general understanding of international joint ventures, partner selection criteria in international joint ventures and a correlation between the specific partner selection criteria and a success of ventures.

### ***General understanding of the phenomenon of international joint ventures***

All the interviewees confirmed that a concept of international joint ventures is very important for their companies. Moreover, most of them emphasized that an importance of joint ventures is more obvious for small and medium-sized enterprises than for global international corporations. As the manager from AA pointed out, his company doesn't have enough resources to open local offices worldwide like Google and other huge software companies. Therefore, joint venture is sometimes the only possible way of expansion. He also argued that AA's planning regarding joint ventures is much more precise and detailed than planning implemented by most of huge corporations. If a medium company fails in joint venture, its bankruptcy risks significantly increase while, in the case of huge corporations like Tesco, a single unsuccessful joint venture cannot lead to the tremendous financial and reputational losses which result in bankruptcy. The interviewee gave an example of the AA's venture with BoardEffect. In particular, he told me in details how detailed and through its planning was.

Respondents from BB and CC pointed out proposed the same considerations that starting joint venture is a definitely vital decision for their firms. Allocating funds for this goal is a very risky decision for medium and small companies. Therefore, all the employees understand the significance of this stage. Generally, all the seven interviewees have made similar conclusions regarding the crucial importance of joint ventures for their companies' existence. Each interviewee supported this statement by the examples from company's history. For example, an interviewee who represented DD has paid a lot of attention to the detailed description of the deal with ARA. With the establishment of ARA Finance, company's positions in the real estate market have significantly strengthened. According to the financial analyst, a right and measured attitude towards this deal was the main reason of final success.

Aside from the considerations verbalized above, interviewees have shared their opinions on the problem of role of joint venture in the modern business. Only one of seven interviewees said that he preferred other entry modes in a new market. Six others were sure that a wise choice of a partner could make the mechanism under consideration an ideal path for a medium or small company.

### ***Partner Selection Criteria in International Joint Ventures***

Clearly, the choice of a partner is crucial while planning and implementing an international joint venture. All the people who took part in the current research supported this standpoint. However, they had different opinions regarding the choice of specific criteria. Of course, it is partially reasoned by the fact that each interviewee was inclined to analyze the case of his company, which was involved in a limited number of joint ventures. In any case, it is interesting to review the answers given by interviewees concerning the specific criteria.

As stated above, main criteria were taken from the research designed by S. Rumunen (2011). These criteria are as follows: size of the firm, experience in foreign direct investment, experience in the field of joint ventures and local experience. First of all, it is important to emphasize that none of dialogists distinguished the experience in the field of joint ventures as the main factor of partner selection. As the manager from DD stated, experience in the field of joint ventures is a desirable, but not a compulsory requirement to potential partners. Other factors are definitely much more important. However, the criterion of experience in foreign direct investment is much more important. The PR manager from EE has paid a lot of attention to this

factor. He said that, if he had been up to plan some aspects of international joint venture, he would have definitely recommended considering partner's experience in foreign direct investment as a crucial criterion of partner selection. Nevertheless, this point of view was not supported by other interviewees. For example, a respondent who represented BB argued that the matter of experience in foreign direct investment is not crucial, although it is more important than an experience in international joint ventures.

The criteria of firm's size and local experience were determined by interlocutors as the most significant factors of partner selection in international joint ventures. Five interviewees agreed that the firm's size is a crucial criterion. While planning a new venture, it is certainly important to ensure that a partner has enough resources for starting a profitable enterprise. The term "resources" is not only referred to money. On the contrary, financial resources may be sometimes the less significant factor. However, as the manager from DD emphasized, there are a lot of other resources, which should be considered. For example, firms are inclined to cooperate with partners that can propose effective distributional channels, professional staff, talented managers, etc.

Interestingly, these arguments can be also related to the factor of local experience. According to the two respondents, this criterion is more substantial than the company's size. They also gave arguments about the distributional channels and experienced staff. However, they clearly presented these arguments from the different angle. They focused not on the partner's resources, but on the partner's possibilities. If an enterprise operates on the market for a long time, it obviously gains a useful experience in advertising products, communicating with customers, cooperating with government, solving legislative issues and creating the entire system of public relations. The PR manager of EE assumed that this factor is especially momentous when the market is untypical. For example, Chinese, Japanese, Indian or Korean markets are very peculiar. Unusual components of business environment force companies to design innovative marketing campaigns. In this case, choosing a partner with solid local experience prevents company from numerous risks.

## ***Relationship between the specific partner selection criteria and a success of ventures***

Of course, researching the problem of relationship between variables is very complicated while conducting qualitative researches. If this investigation had employed the surveys method, we would have been able to apply ANOVA for tracking this correlation. At the same time, qualitative methodology of interviews method makes us entirely rely on subjective reviews of the respondents. Unfortunately, there is a possibility that their evaluations may be influenced by personal traits and specific circumstances connected with their companies, that they would show a distorted picture of the problem under investigation.

Anyway, all the respondents stated that a correlation between the specific partner selection criteria and a success of ventures really exists. The manager of BB confirmed that an erroneous choice of partners might lead to catastrophic results. However, three interviewees have emphasized that the criteria of partner selection are solely dependent on the specific cases. For example, if a company enters the Chinese market, an issue of local experience doubtlessly plays the decisive role. At the same time, as the manager of AA suggested, if a firm is considering entering a new international market, which is similar with a local market, the criterion of local experience is not as substantial. In the case of AA, the interviewee has pointed out that the US market is similar to the UK market, even though some significant differences undoubtedly take place.

Generally, insights on the correlation between partner selection criteria and a success of ventures, which were proposed by interlocutors, didn't contain any surprising thoughts. All the interviewees agreed that the choice of partners for international joint ventures should be based on the circumstances of specific cases. In the opinion of the manager of DD, it is shortsighted to claim that a certain criterion is always crucial. On the contrary, he emphasizes that even an objectively important criterion may become absolutely irrelevant if the external or internal environment changes.

Thus, interviews' results provided empiric data which may be used for researching three aspects of the problem under investigation: companies' understanding of the international joint ventures, their partner selection criteria in joint ventures and a correlation between specific criteria and ventures' success. In most cases, interviewees agreed regarding the main points. In particular, all the seven interlocutors emphasized that the instrument of joint venture is very

important for their companies and a correlation between partner selection criteria in joint ventures and ventures' success really exists. However, they had different opinions on the significance of partner selection criteria. Two interviewees thought that the factor of local experience plays the decisive role while five others paid most of attention to the variable of firm's size.

Now it is very important to study and explain interviewees' statements. While it is obvious that the fact that their companies were either small or medium-sized had made a substantial impact on employees' answers, this conclusion requires a deeper analysis. Thus, the next part of the paper will be dedicated to the research of all the parts of the interviews' results: general understanding of the phenomenon of international joint ventures, partner selection criteria in joint ventures and a correlation between these criteria and ventures' success. I will also try to consider the limitations of research and their influence on results validity.

## **Chapter 5. Discussion**

The choice of qualitative methodology has predetermined the particularity of the current research. It became easier to analyze the specific cases, in which the decisions regarding international joint ventures were made. However, it is barely reasonable to claim that this

investigation gives us enough premises to make far-reaching conclusions about the correlation between partner selection criteria and eventual success of joint ventures. Thus, it seems more logical to dedicate the biggest part of discussion to the problem of choice of partner selection criteria. However, it is still important to analyze interviewees' opinions regarding the general understanding of the phenomenon and influence of specific criteria on the ventures' performance.

The way in which interviews understand the phenomenon of international joint ventures is mostly determined by the fact that they represent small and medium enterprises. Of course, such responsible decision as starting a joint venture is substantial for a small or medium firm. It is especially significant for a small firm, because an unsuccessful experience in the field of international joint ventures may lead to bankruptcy of an enterprise. This fact was emphasized by all the respondents. Of course, this interviews' result was forecasted as the differences between the firms' sizes shape all the spheres of company's functioning. In order to analyze the peculiarity of joint ventures established by small and medium-sized enterprises, it is undoubtedly required to conduct another research, which would include interviews with the manager of very large corporations. This component would definitely increase the validity of our conclusions.

It seems reasonable to assume that the significance of international joint ventures as an entry mode is much bigger for small and medium firms than for big companies. The ground of this statement is obvious. Exporting modes, subsidiaries, sales offices, licensing and other mechanisms of expansion are unavailable for small and medium enterprises. Sales offices and subsidiaries require substantial financial resources. At the same time, the instrument of licensing requires certain brand recognition. It is barely possible that some businessman in a foreign country would be interested in cooperating with some external brand with a limited level of recognition. An instrument of licensing is mostly used by famous brands, which are recognized by customers worldwide. Thus, it is very important to realize that the mechanism of international joint venture is sometimes the only expansion option, which is available for small and medium-sized enterprises. While a huge corporation may measure advantages and disadvantages of every entering mode, in the case of a small or medium firm, considering international joint venture often means considering international expansion as well.

Doubtlessly, small and medium enterprises are inclined to pay more attention to the detailed planning of the establishment of international joint ventures. A large corporation

sometimes creates a peculiar pattern of entering new markets, which is automatically applied to every case with a limited number of adjustments. For example, a successful establishment of a venture in South Korea gave Tesco's managers a premise to think that this approach was universal. However, the negative performance indicators of Tesco's ventures in Japan and India illustrated that there are no universal mechanisms here. On the contrary, a small company usually deals with each case of international joint ventures as a unique case that requires individual approach. As a result, it is no wonder why small and medium firms maintain detailed and thorough analysis of the venture's circumstances. It is admissible to formulate a recommendation for further research concerning the focus on marketing surveys. According to the results of this investigation, there is a high possibility that small and medium enterprises pay more attention to the factor of marketing research before starting negotiations with potential partners. However, empirical quantitative data is required for making such conclusions.

According to the interviewees, the choice of partner selection criteria is strongly dependent on the specific case. However, it is still important to emphasize that interlocutors disregarded the factors of partner's foreign investment experience and partner's experience in joint ventures. This attitude seems to be logical. Firstly, small and medium companies are rarely engaged in a large number of international joint ventures. They just don't have enough resources to do so. Hence, their experience in both spheres cannot be substantial. Most of the potential partners who are considered by firms for establishing a joint venture have never participated in such projects. If a company has established numerous ventures worldwide, it probably implies that this company is not small or medium. Thus, the only situation when a small or medium-sized enterprise might take into consideration the aspect of partner's experience is when a huge corporation from abroad is negotiating with a local medium company regarding the cooperation on the basis of joint venture. Of course, in this case, it is required to analyze in detail the experience of this huge corporation both from the perspective of a joint venture and from the perspective of foreign investment.

If the situation is different and a certain small or medium company is considering the possibility of entering a new market, it is required to focus on other criteria of partner selection. As our interviewees argued, the factors of firm's size and firm's local experience play the decisive role in this process. The criterion of firm's size has an obvious importance. The significance of this variable was emphasized by five respondents. The reason of this decision is

clear. A big company's size means substantial financial resources, effective distributional channels, experienced staff, competent managers, stable relations with stakeholders, certain brand recognition and other advantages.

Doubtlessly, this criterion is crucial while planning local joint ventures. However, in the case of international joint ventures, the significance of firm's size is less obvious. The fact that the overwhelming majority of our interviewees distinguished it as the most important criterion is probably connected with the similarity between the local and foreign markets in most cases. For example, the international joint venture established by Daxco was in the USA. At the same time, an opinion prevails that the differences between UK and US markets are not very significant. If managers were sure that there are no substantial differences between the external environments of the company in a local market and in a certain foreign market, the argument about partner's local experience would be certainly irrelevant. In this case, they are probably sure that they can create new distributional channels, supply chains and marketing campaign from scratch, as these processes don't require some specific local experience. On the contrast, a big size of the partner's company promises fast establishment, rapid local expansion, stable growth of performance indices and optimistic forecasts regarding the future development of a venture. Thus, a focus on the criterion of firm's size, which was demonstrated, by most of interviewees is primarily reasoned by the fact that their companies didn't enter untypical markets which would significantly differ from the local ones.

Unfortunately, there is an evident limitation of the current research, which is connected with this consideration. If further research based on qualitative methodology is carried out in this field, it will be of great importance to include companies which have experience in establishing international joint ventures in untypical foreign markets like Indian, Chinese, Japanese, Korean, etc. There is a certain chance that this decision will decrease the importance of firm's size as a partner selection criterion in international joint ventures.

Despite the sample's limitation, two respondents still emphasized that local experience was the crucial factor for them while planning international joint ventures. They gave a lot of arguments in order to support their standpoint. In particular, as they pointed out, local experience ensures adequate relations with government, institutions of civil society, trade unions and other stakeholders. If a partner has a rich experience in a local market, it is very beneficial for a company. First of all, it simplifies the logistics component of the venture's functioning.

Established relations with suppliers, transport companies, different intermediaries and other subjects which may participate in a supply chain prevent managers from creating a huge supply chain from scratch. As a result, the financial resources can be saved. Secondly, cooperation with an experienced partner is beneficial because it provides detailed information about the local specifics. The factor of local specifics covers numerous components of business environment. Unusual local laws, non-tariff barriers, cultural features of a specific nation, religious norms, historical traditions and other unexpected variables may have a surprising impact on the new venture. However, if this venture is started in cooperation with an experienced local partner, most of these problems will probably not take place.

The criterion of local experience is also extremely helpful in marketing. Even though this argument may seem to be similar with to previous one, it is still important to emphasize that marketing activities are implemented differently in different countries. Thus, if a potential partner has a rich experience in the field of using marketing instruments, it will be doubtlessly helpful for a new venture. Finally, an experienced local partner is useful from the perspective of political environment. The instrument of lobbying is an important lever, which plays the decisive role in many countries. Therefore, if a company is considering entering a foreign market where this instrument is crucial, it is certainly reasonable to negotiate with an experienced partner. For example, in the case of India, close relations with the government are an obligatory requirement. An example of Tesco showed that a simple entrance to an Indian market in the form of a joint venture is very risky. Numerous conflicts with local government departments have significantly inhibited Tesco's expansion.

While interviewees were certain about the specific criteria, they were relatively vague regarding the correlation between criteria of partner selection and eventual success of international joint ventures. Surely, this uncertainty seems to be logical because the problem of correlation between variables is a popular research problem for the quantitative studies. At the same time, an instrument of interviews is limited in this sphere. Nevertheless, the question about respondents' opinion on this correlation was addressed to all the interviewees. Obviously, all of them confirmed that this correlation exists. However, several managers gave more precise answers. According to them, this correlation may be only considered for some typical cases. There is surely no universal criterion, which is crucial for all the companies. However, there are some recommendations concerning the choice of partner selection criteria in specific cases.

For example, if a firm plans international joint venture in a foreign market, which is similar with the local one, it is logical to concentrate on firm's size. In contrast, if the market is peculiar, the knowledge on local specifics should be taken into consideration first. According to our interviewees, criteria of partner's experience in joint ventures or in foreign direct investments are not supposed to be significant, even though the factor of experience in foreign direct investment is relatively relevant. The fact that this opinion was supported by six interviewees is probably reasoned by the small or medium size of their companies. Naturally, small and medium-sized firms are rarely engaged in international joint ventures in comparison with huge corporations. Therefore, obviously, most of small or medium companies, which consider establishing a joint venture, have been never involved in such forms of cooperation before. As a result, the issue of experience both in foreign direct investments and international joint ventures is barely crucial in their case.

While qualitative methodology provides deep understanding of the phenomena, it can't be used as a primary methodology for tracking and justifying the correlation between variables. Thus, a strong correlation between specific criteria of partner selection and venture's success, which was articulated by all the interviewees, is just an assumption now. It is required to conduct a quantitative survey with respondents represented by employees of small and medium-sized firms for supporting this argument. It might be also reasonable to include the control group of respondents represented by employees of big companies in order to make more valid conclusions. Without quantitative researches, a statement about the correlation between partner selection criteria and joint venture's success can't be justified from the scientific perspective.

Considering the results of interviewees discussed above, it seems reasonable to make a conclusion that the specific features of each company haven't significantly influenced the final results. Even though firms' experiences in joint ventures differ substantially, interviewees agreed regarding the most of points under discussion. In particular, employees who participated in the interview have confirmed a statement that the instrument of international joint ventures is very important for their companies. Besides, they also pointed out that the choice of specific partner selection criteria and venture's success exists. The only significant difference between interviewees' answers was connected with the values of specific criteria. As stated above, two interviewees thought of partner's local experience as the most important criterion while five others paid more attention to the factor of firm's size.

Thus, the validity of final results is sufficient. Even though qualitative methodology implies a small number of respondents, all seven respondents agreed regarding the main points in our case. The fact that our respondents' employers were represented by either small or medium firms has made an evident impact on their answers. Undoubtedly, these about the significance of the instrument of international joint ventures and the specific criteria of firm's size and partner's local experience are primarily reasoned by it. Hence, it is important to realize that results of this research can be only applied to the cases of small and medium-sized enterprises, but not to the cases of big international corporations.

Generally, results of the current investigation may be analyzed from the perspective of the resource-based view. At the same time, the transaction theory designed by Williamson (1988) hasn't been confirmed in this study. Surely, most of the interviewees mentioned the argument about saving money. However, this argument wasn't crucial. The joint ventures established by the companies under investigation were primarily aimed at ensuring positive outcomes like marketing shares or increased financial performance. Therefore, all the seven interviewees were mostly talking about desirable results and objectives of their firms during interviews. This tendency harmonizes with the resource-based view that considers partners' resources as a key partner selection criterion in joint ventures (Werfelt, 1984).

In order to proof this point, it is reasonable to analyze the arguments of two interviews' groups: those who support the criterion of firm's size and those who support the criterion of partner's local experience. In the case of local experience, the resource-based view is doubtlessly valid. Resources possessed by firms, which are considered as potential partners in international joint ventures, really have resources, which meet all the three requirements distinguished by Varis and Conn (2002). In particular, local supply chains or local marketing experience really are rare, useful and hard to copy. On the other hand, the same argument may be applied to the case of the firm's size criterion. Large distributional channels, significant brand recognition and other valuable resources possessed by large corporations definitely can be analyzed in line with the resource-based view. Thus, results of the current investigation have confirmed that the resource-based view is popular among the employees of small or medium enterprises while planning international joint ventures.

## **Chapter 6. Conclusions and Recommendations**

This research was dedicated to the problem of studying the partner selection criteria in international joint ventures from the perspective of small and medium-sized enterprises. The focus on small and medium-sized firms has predetermined the research path and results of this investigation. It is very important to understand the peculiarity of this study while discussing its

results. Methodology, research methods and approaches to data analysis were aimed at distinguishing the significance of international joint ventures for small and medium enterprises as an independent research problem which is not connected with the significance of international joint ventures for big corporations.

In order to ensure the achievement of research objectives, it was decided to choose interpretivism as a research philosophy. Accordingly, a focus on qualitative methodology was implied because qualitative methods are more effective for analyzing phenomena while considering social conditions. It was decided to conduct interviews with the employees of small and medium-sized enterprises in the empiric part of this dissertation. As a result, I succeeded in organizing interviewees with managers from seven firms: Walker & Dunlop, Daxko, Clif Bar, DELTA Resources, Hagerty, dunnhumbyUSA and EKS&H.

The process of interviewing respondents was aimed at achieving three important research aims. Firstly, it was important to understand how they generally perceive the phenomenon of international joint venture and its importance for their companies. Secondly, I asked them to choose the most important partner selection criteria in international joint ventures out of four proposed factors: firm's size, local experience, experience in international joint ventures and experience in foreign direct investments. All these factors were taken from the investigation designed by S. Rumpunen (2011). Thirdly, interlocutors were inquired about their opinion on a correlation between the choice of specific partner selection criteria in international joint ventures and final success of these ventures.

Generally, all the four research objectives were achieved in this paper. The problem of partner selection criteria in international joint venture was researched in details from both theoretical and empiric perspectives. I have also emphasized the challenges which small and medium enterprises are faced with during the process of international joint ventures' establishment. In particular, I have paid a lot of attention to the discussion of a statement that this instrument is the main option of entry mods for the small or medium-sized enterprises. The main criteria of the partner selection in international joint ventures formed by small and medium enterprises were studied through the interviews with managers of seven enterprises.

Interestingly, interviewees agreed regarding the most of main points. They confirmed that the instrument of international joint venture is substantial both in the modern international business and in the case of their companies. Doubtlessly, this statement is reasoned by the fact

that their firms are either small or medium. While big corporations have different options of entering new foreign markets, most of these options are unavailable for small and medium-sized enterprises. Therefore, it is admissible to claim that a mechanism of international joint venture is often the only possible entry mode for these companies. As a result, there is no wonder that respondents confirmed the significance of this instrument for their employers.

Interlocutors were also inclined to confirm that a correlation between the choice of specific partner selection criteria in international joint ventures and these ventures' success really exists. However, some of them pointed out that the choice of these criteria is strongly dependent on specific cases. The peculiarity of country's culture, religious features, nation's mentality, legislative system, advertising history and other factors of business environment play a decisive role in the process of considering different criteria of partner selection in international joint ventures. Thus, it is required to pay respect to the conditions of specific cases while choosing partners for international joint ventures.

Surely, interviewees' responses to the questions about criteria's significance are the most valuable in this research. As it turns out, the overwhelming majority of interlocutors think of firm's size as the most significance criterion of partner selection in international joint ventures. At the same time, two respondents disagreed with this choice as they considered local experience as the crucial factor. In my opinion, this difference in opinions is reasoned by the difference between the experiences in joint ventures that are inherent for the companies. Most of the interviewees represented companies, which didn't establish joint ventures in untypical foreign markets. For example, Daxco's venture with BoardEffect was established in the USA. As Daxco's manager pointed out, US market and UK market are similar. Thus, the factor of local experience was not crucial for his company while choosing a partner for this venture. The same arguments may be applied to the cases of other interviewees. Their companies didn't consider opening ventures in China, Japan, India, South Korea or some other untypical markets. Hence, they were mostly concerned about the firm's size of their potential partners.

Simultaneously, an important conclusion can be made that the factors of experience in international joint ventures and experience in foreign direct investments is not relevant for small and medium-sized enterprises while planning an international joint ventures. They are primarily focused on the criteria of firm's size and partner's local experience. It is clearly reasoned by the

factor of a small or medium size of the companies. If we had studied big corporations, the results would have probably been different.

## **Recommendations**

The current research has several significant limitations. Most of them are obviously connected with the choice of qualitative methodology. As stated above, interviews were aimed at studying three aspects of the problem under investigation: respondents' perception of the instrument of international joint ventures, their recommendations regarding the choice of specific partner selection criteria and their opinions on the matter of correlation between specific criteria of international joint ventures and eventual success of these ventures. It is doubtless that qualitative methodology has proved its effectiveness in the case of studying interviewees' perception of the instrument of international joint venture. The methodology allowed us to review their arguments and analyze them on a deep level. However, the interview method was hardly effective for evaluating the relationship between specific partner selection criteria and success of international joint ventures. Opinions of our interviewees are definitely not enough for making conclusions in this field. Thus, the main recommendation for the further studies of the same research problem is to include quantitative methods in order to track this correlation.

Besides, quantitative methodology might be also very useful from the perspective of analyzing the frequency of applicability of specific partner selection criteria. According to our investigation, small and medium-sized enterprises are inclined to put first the factors of firm's size and partner's local experience. However, this conclusion will be more valid if it is confirmed by the survey's results. In my opinion, it is obligatory to conduct a survey for the employees of small and medium-sized firms in order to evaluate the significance of each criterion. Aside from evaluating these criteria, quantitative research will allow scholars to apply ANOVA test for tracking the correlation between the specific criteria of partner selection and eventual success of international joint ventures.

Surely, this research also has other limitations. For example, focus on US and UK markets while choosing the respondents' employers might have a negative impact on the results' validity. If this problem is investigated in further researches, it is advised to include companies

from different European countries and from Asia as well. While the problem of cultural features of a foreign market was covered, the variable of specific features of a local market was not mentioned at all. At the same time, it is possible that small or medium-sized firms located in France are usually inclined to use different criteria for partner selection in international joint ventures than US and UK companies. This argument might be possibly even more valid for the Japanese and Chinese enterprises.

There is also another assumption that a choice of an online interview may have some effect on the interlocutors' openness. All the seven respondents were interviewed while they were located at the office. Perhaps, if this interview had been conducted in some neutral location with the face-to-face interaction, they would have been more outspoken regarding their work experience however, this is just an assumption as all interviewees seemed to be sincere enough and opened for discussion.

Generally, the current study has an evident scientific value. It uses qualitative methods for studying the problem of partner selection criteria in international joint ventures established by small or medium-sized enterprises. Its results may be used as a basis for further researches in the same field, both qualitative and quantitative. However, in my opinion, the results of this study shouldn't be used without the confirmation by the results of other researches. In order to supplement this investigation and make final results more valid, it is required to support this study by the quantitative research of the same research problem.

## **Personal Development**

This study was very useful for my personal development. I have improved my skills in many areas. Obviously, I have enhanced my analytical skills. Researching the problem of international joint venture was a challenging process. In order to cover the problem, I had to

analyze a lot of scientific articles, empiric researches, theoretical concepts and theories. Generally, I have used 72 sources in this paper. Doubtlessly, reviewing all these sources in line with the main research path has been contributed to my development as a researcher

However, in my opinion, the most important component of my personal development is connected with the empiric part of this paper. Conducting seven interviews with the managers of small and medium-sized enterprises was a very important and complicated research objective. Firstly, I have improved my communicational skills. It was important to convince companies' managers to participate in my research and to conduct the process of an interview professionally, so that respondents would be sincere. Secondly, the current research philosophy required a professional approach to the usage of qualitative methodology. In my previous investigations, I mostly had to deal with quantitative methods. Thus, I didn't have much of experience in the field of using qualitative methods like interviews. However, as it turned out, interviews really can be an effective instrument of gaining deep understanding of a social phenomenon. Even though it lacks the validity of surveys, it has still proved its effectiveness in the case of my research. Hence, in my opinion, the effective usage of qualitative methodology is a crucial element of my personal development due to the current research.

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