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The three faces of China: Strategic alliance partner selection in three ethnic Chinese economies

David Ahlstrom [a,*], Edward Levitas [b], Michael A. Hitt [c], M. Tina Dacin [d], Hong Zhu [e]

[a] Department of Management, The Chinese University of Hong Kong, Shatin, NT, Hong Kong
[b] Lubar School of Business, University of Wisconsin–Milwaukee, Milwaukee, WI 53211, USA
[c] Mays Business School, Texas A&M University, College Station, TX 77843, USA
[d] Queen's School of Business, Queen's University, Kingston, Ontario, Canada K7L 3N6
[e] Peking University, HSBC Business School, University Town, Nanshan District, Shenzhen 518055, China

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ABSTRACT

It is generally understood that firm strategy is linked to both internal firm resources and external, competitive industry forces. More recently, studies have suggested that firm strategy is also influenced by the formal and informal institutions of the institutional environment. Culture and commercial conventions represent important informal institutions – the norms and values shared by a group of individuals – whereas more formal institutions include the regulatory, economic, and political forces in the environment. We explore the effects of formal and informal institutions on strategic alliance partner preferences in Mainland China, Taiwan, and Hong Kong. Although the three share a broad lineage, their institutional development differs in some respects. Utilizing a policy capturing study, we explore alliance preferences of senior managers from each of the three economies to demonstrate how similarities and differences in the institutional environment can produce variation in alliance partner preferences. This paper contributes empirically by comparing alliance partner preferences in three different ethnic Chinese communities in East Asia. We add to the nascent but growing literature on institutions and strategy, with practical implications for understanding alliance partner preferences of managers in China, Taiwan, and Hong Kong, which represent major centers of strategic alliance activity.

1. Introduction

The strategic choices a firm makes are central to its successful pursuit of competitive advantage (Hoskisson, Hitt, Ireland, & Harrison, 2008). Research has shown that strategic choices are influenced not only by internal factors such as firm resources and their allocation (Barney, 1991; Bower & Gilbert, 2007) but also by the external environment (Lawrence & Lorsch, 1969; Lei & Slocum, 2014). In terms of external factors, strategy research has often favored a "task environment" view, which focuses primarily on economic variables such as environmental munificence, technological change, and competitive forces (largely centered on the industry) in terms of the influences on firm strategy (Dess & Beard, 1984; Porter, 1980). More recently however, researchers have looked beyond the task environment to the sociocultural dimensions of the external environment and the impact on strategic choices (Dacin, Hitt, & Levitas, 1997; Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004). Institutional rules, culture, and norms have generally been found to impact economic and commercial activity (DiMaggio, 1994; Johnson, Arya, & Mirchandani, 2013; North, 1990) and they too play a nontrivial role in guiding firm strategy (Bruton, Ahlstrom, & Wan, 2001; Henisz & Delios, 2002; Hitt et al., 2004; Luo, Xue, & Han, 2010). Given the substantial variation in institutional environments, there is a need to better understand how different institutional arrangements help shape firm preferences and strategic choices (Chan, Makino, & Isobe, 2010; Hitt, Dacin, Levitas, Arregle, & Borza, 2000; Peng, 2003; Wright, Filatotchev, Hoskisson, & Peng, 2005).

An increasingly important strategic decision for firms is the selection of alliance partners (Inkpen, 2001; Yan & Luo, 2001). Alliances can confer numerous benefits to an organization, such as providing resources or learning opportunities, opening up new markets, and offering links to key government officials (Ahlstrom, Bruton, & Yeh, 2008; Hitt et al., 2000; Yan & Luo, 2001). Despite these and other potential benefits (Gulati, 1998; Sampson, 2007), organizations can face numerous obstacles in forming alliances, and a substantial number of new alliances fail (Ireland, Hitt, & Vaidyanath, 2002; Reuer, 2000). Reuer (2000) adds that obtaining value from strategic alliances requires firms to select the correct partners and develop a suitable design to benefit from an alliance

* Corresponding author.
E-mail addresses: ahlstrom@baf.msmail.cuhk.edu.hk (D. Ahlstrom), levitas@uwm.edu (E. Levitas), mhitt@mays.tamu.edu (M.A. Hitt), tdacin@business.queensu.ca (M.T. Dacin), honghong2004@gmail.com (H. Zhu).

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and the complementary resources or capabilities the partner brings. Research has identified a number of specific criteria firms employ to evaluate potential alliance partners (Dacin et al., 1997; Hitt, Dacin, Tyler, & Park, 1997; Luo, 1998). These include factors such as the ability of partners to acquire needed resources and or learn key skills from each other.

Much work on partner selection in strategic alliances has been based on firms from developed economies. Alliance partner selection research commonly examined the selection decisions made by foreign entrants, often from developed economies (i.e., Geringer, 1988). Hitt et al. (2000) employed a resource based framework to examine different alliance partner selection decisions made by firms in developed and emerging economies. Shenkar and Li (1999) also studied knowledge sharing in joint ventures in China. Some recent work has examined alliance preferences of indigenous firms (e.g. Luo, 2000; Uhlenbruck, Meyer, & Hitt, 2003). Hitt et al. (2004) also used an institutional framework in examining partner selection in two major transition economies. The questions thus follow, in what way does institutional variation impact the alliance partner selection in organizations? And how does this occur within an otherwise seemingly homogeneous region, that is, a region with a relatively common lineage and culture?

To answer these questions, this research considers how institutional differences may affect managers' partner selection decisions within the context of Mainland China, Hong Kong and Taiwan, collectively referred to as Greater China (Wanandi, 1993). Firms in this region are active participants in alliances as foreign direct investment (FDI) participation is very high.[1] Past research on China has often assumed homogeneity of the institutional environment, though recent research has suggested there may be more variation than previously thought (e.g. Kwon, 2012; Schlevogt, 2001; Yang, 2007). Formal institutions (such as laws and regulations), and informal institutions (such as norms and other adaptive arrangements) influence strategic choices (e.g. Muthusamy & White, 2005; Narayanan & Fahey, 2005; Peng, 2003, 2005; Wright et al., 2005). Differences in general institutional arrangements within the Greater China region can contribute to systematically different preferences in alliance partner characteristics and capabilities.

This study utilizes a policy capturing approach to assess strategic alliance preferences of managers in the Greater China region (Hitt & Middlemist, 1979; Karren & Barringer, 2002). In doing so, this study makes several important contributions to the study and practice of alliance partner selection. First, our empirical results contribute to a more complete understanding of the character of alliance partner selection. The sample draws on nearly 200 firms from Mainland China, Hong Kong, and Taiwan. The results offer a guide to strategic choices made by firms operating in regions with some similarities along with some key differences in their institutional environments (Ahlstrom, Chen, & Yeh, 2010; Pan, 1990). It also identifies the alliance partner characteristics preferred by firms from the Greater China region, which is helpful to managers in evaluating potential alliance partners. Second, this study further identifies the variety within Greater China, suggesting that it may not be appropriate to classify the region as homogeneous (Carney, Gedajlovic, & Yang, 2009). Research from economics and economic geography (e.g. Poncet, 2005, 2006; Yang, 2006, 2007), and management (e.g. Gong, Chow, & Ahlstrom, 2011; Kwon, 2012; Li, Tan, Cai, Zhu, & Wang, 2013) also suggests there is more diversity in China and among ethnic Chinese firms than previously thought. This paper contributes further to the understanding of similarities and differences among firms in this region.

Third, our research has practical contributions by adding to the understanding of how the institutional environment in the Greater China region may condition strategic choices as firms seek to navigate the complex social and commercial realities present there (Gelbuda, Meyer, & Delios, 2008; Studwell, 2013). Executives that better understand the preferences of their potential alliance partners will have a greater chance at forming successful alliances. Finally, this study also allows us to address Jones and Khanna's (2006, p. 453) concern that "although there is widespread acknowledgment that history matters [in international business], there is still a search for how it matters." Herein, we explore how history can matter, specifically by examining how national institutions shaped by history can influence important strategic decisions, and why this matters to firms.

2. Theory

2.1. Institutions

Today it is broadly accepted that firms are affected by the broad socio-political and economic context in which they are embedded (Dacin, Ventresca, & Beal, 1999; Walter, Lechner, & Kellermanns, 2008). Institutions matter greatly in economic activity and can be collectively called a country's institutional framework, which places limits on action while also helping to guide behavior in uncertain contexts (Bruton & Ahlstrom, 2003; North, 1990). This institutional view of strategic management helps managers to better understand the external forces acting on firms and gauge their responses accordingly (Oliver, 1997; Peng, 2003). Research on how institutions affect major firm decisions responds to the notion that "if institutions are the rules of the game, organizations and their entrepreneurs are the players" (North, 1994, p. 361). In addition, institutional theorists have maintained that institutions include not only the more formal laws and regulations, judicial decisions, and enforcement of contracts, but also the less formal norms, commercial conventions, and preconscious cognitive and ideational elements that are embedded in culture and widely accepted in a society (North, 1990; Scott, 2014). Recent work on measuring institutional environments has further clarified this by showing institutional infrastructure and the political system to be important, specific components of the institutional environment (Holmes, Miller, Hitt, & Salmador, 2013).

If formal institutions prove inadequate in effectively governing transactions and protecting property rights, informal institutions will have to compensate for those formal institutional deficiencies (Peng, 2005). Informal institutions are commonly held commercial norms and cultural conventions, including the relative importance of connections (called *guanxi* in China) and their utilization to replace formal contracts, and a variety of legitimizing activities to secure the firm's position in the market (Scott, 2014; Zhang, 2013). In Mainland China for example, the private ownership of companies has been legalized only in recent years and has remained politically less favored than state ownership, requiring careful legitimacy building strategies (Ahlstrom et al., 2008). In this respect, firms in China seek protection from interference by various government entities and other powerful organizations through various strategies such as seeking financial resources that can be safeguarded from those organizations and aligning with influential actors who have connections and can offer the firm legitimacy (Ahlstrom et al., 2008; Djelic & Quack, 2003; Yang, 2002). This utilization of informal institutions in the society in the form of legitimacy-building and coping strategies represent one

[1] In the past several years, China has also significantly increased its outward FDI – more than tenfold by some accounts (Ding, 2009) – further adding to the importance of understanding alliance preferences and institutional factors (Luo et al., 2010).