Journal of International Business Studies (2009) 40, 779–801

www.jibs.net

International joint venture partner selection: The role of the host-country legal environment

Jean-Paul Roy[1] and
Christine Oliver[2]

[1]Queen's School of Business, Queen's University, Kingston, Ontario, Canada; [2]Schulich School of Business, York University, Toronto, Ontario, Canada

Correspondence:
J-P Roy, Queen's School of Business, Queen's University, Kingston, Ontario, Canada K7L 3N6.
Tel: +1 613 533 6402;
Fax: +1 613 533 2325;
E-mail: jroy@business.queensu.ca

Received: 18 September 2006
Revised: 28 February 2008
Accepted: 16 April 2008
Online publication date: 5 March 2009

Abstract

This study attempts to enhance our understanding of how a host country's legal environment influences international joint venture (IJV) partner selection criteria. Empirical results based on survey data collected on 169 IJVs revealed that host-country rule of law perceptions negatively influence appropriation and coordination cost concerns, which positively influence partner-related criteria. Furthermore, these concerns mediate the relationship between perceptions of host-country rule of law and partner-related criteria.
Journal of International Business Studies (2009) **40,** 779–801.
doi:10.1057/jibs.2008.110

Keywords: inter-organizational relationships; institutional theory; survey method; legal environment; partner selection; partnering concerns

INTRODUCTION

International joint ventures (IJVs) have emerged as a compelling strategic option for multinational enterprises (MNEs). Defined in this study as collaborative linkages between two legally independent firms headquartered in different countries, these cross-national collaborations have become "a powerful force shaping firms' global strategies" (Park & Ungson, 1997: 279). Scholars (e.g., Child & Faulkner, 1998) and practitioners (e.g., Harbison & Pekar, 1998) have argued that by pooling expertise and resources, IJVs can solve intractable problems in ways that confrontation or competition cannot. Thus it is not surprising that IJV growth in frequency of use, magnitude, and geographical dispersion has increased exponentially since the 1970s (Garcia-Canal, 1996).

Central to the IJV formation process is the quest for a suitable partner (Blodgett, 1991; Parkhe, 1993). Partner selection is an important strategic choice for firms entering foreign markets. Recognition of this fact has inspired an area of research that focuses specifically on partner selection criteria, which encompass those attributes that a firm desires and seeks out in a potential partner (Geringer, 1988). IJV partner selection criteria determine an IJV's mix of skills, knowledge, and resources, its operating policies and procedures, its vulnerability to indigenous conditions, structures, and institutional changes, and its overall competitive viability (Beamish, 1987). Scholars (e.g., Kumar, 1995) have argued that perceptions of the executives responsible for establishing an IJV are critical determinants of the partner selection criteria utilized when forming an IJV. Researchers (e.g., Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004) have also suggested that the host country's institutional environment – and specifically the legal aspect of the institutional environment – should not be ignored when studying IJV partner selection. However, the question that remains unanswered is: How does the host-country legal environment influence IJV partner selection criteria?

This study contributes to the literature by developing and empirically testing a conceptual model that attempts to answer this question. In doing so, this study builds upon earlier research that demonstrated that perceptions are critically important in the study of IJV partner selection (Geringer, 1988; Kumar, 1995), by moving beyond archival data to measure executives' perceptions of the host-country legal environment. Furthermore, this study extends the recent surge in scholarly attention directed towards institutional theory in the international business arena (e.g., Björkman, Fey, & Park 2007; Hillman & Wan, 2005; Husted & Allen, 2006; Meyer & Peng, 2005) by assessing the impact of macro-level national institutions (i.e., host-country legal institutions) on the micro decisions of partner selection.

LITERATURE REVIEW

Institutional theory asserts that institutions define what is socially or legally appropriate in institutional settings, and consequently affect decision-makers' perceptions and decisions (Meyer & Rowan, 1977; Scott, 2001). These institutions, which include the regulatory structures, governmental agencies, laws, courts, and professions (Oliver, 1991), have been found to be a particularly important driver of strategic choices (Brouthers, Brouthers, & Nakos, 1998; Delios & Henisz, 2003; Peng, 2002, 2003). For example, institutional pressures explain organizational foundings and failures (Baum & Oliver, 1996), organizational conformity (Glynn & Abzug, 2002), sustainable competitive advantage (Oliver, 1997, 2000), organizational change (Greenwood & Hinings, 1996), and why firms develop inter-organizational relationships (Dacin, Oliver, & Roy, 2007). The application of the institutional model to the strategies of MNEs has garnered much recent attention and demonstrated the power of the host-country institutional environment in shaping how MNEs behave. MNEs' entry mode strategy has been identified as a particularly critical element in international expansion that is significantly influenced by powerful host-country institutions (Gaba, Pan, & Ungson, 2002; Pan, Li, & Tse, 1999). For example, Brouthers (2002) illustrated that firms that select their entry mode based on the institutional context perform better than firms that make other mode choices. Makino, Isobe, and Chan (2004) found that host-country national contextual factors influence firm behavior and economic performance, and Lu (2002) found that the institutional model adds significant explanatory power over and above the predictions of the transaction cost model to choice of entry mode.

Of the various institutions that exist within the host-country institutional environment, rule of law and control of corruption appear to be particularly important elements in influencing the decisions and behaviors of MNEs. Rule of law is "the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence" (Kaufmann, Kraay, & Mastruzzi, 2006: 4). Rule of law in the host country defines and protects corporate activity, constructs and constitutes the grounds of organizational action, and ensures stability and order in the society that hosts the IJV. A lack of adequate legal protection increases uncertainty with respect to property rights and legitimate returns (Delios & Henisz, 2000), and restricts the means of legal recourse for victims of opportunistic conduct.

Control of corruption, on the other hand, is defined as "the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests" (Kaufmann et al., 2006: 4). Control of corruption in the host country lessens the average firm's likelihood of encountering corruption in its normal interactions with state officials in the society that hosts the IJV. Like Kaufmann et al. (2006) and others, we recognize and treat rule of law and control of corruption as distinct concepts of host-country legal environments. While not wholly unrelated, the former pertains to predictability and protection of the firm's interests, while the latter relates to the cost of doing business. (The high degree of discriminant validity exhibited in this study between the two also supports their conceptual distinctiveness as constructs.)

Globerman and Shapiro (2003) found that American MNEs were less likely to enter countries characterized by weak rule of law and control of corruption than those with strong rule of law and control of corruption. Li and Filer (2007) illustrated that when investing in countries where laws are opaque and ineffective, investors have a greater tendency to choose direct investment rather than portfolio investment. Yiu and Makino (2002) found that MNEs entering a host country that had protection deficiencies or legal risk mitigated such threats by entering into an IJV with local partners. Tse, Pan, and Au (1997) found that American firms entering China preferred to enter special economic zones and coastal cities where laws and policies were explicitly specified. Furthermore, several studies have shown that weak control of corruption has extensive negative effects on foreign direct investment (Habib & Zurawicki, 2002; Zhao, Kim, & Du, 2003), which distorts international trade and investment flow (Glynn, Kobrin, & Nairn, 1997). Recently, Hitt et al. (2004) argued that the differences they discovered in the partner selection criteria preferences between Chinese and Russian firms were, at least in part, reflective of the different legal environments in China and Russia.

Clearly, research to date has demonstrated that the institutional context of the host country remains central to understanding the decisions and behaviors of MNEs. In particular, it is strikingly apparent that MNEs are influenced by the rule of law and control of corruption that exist in the host country's institutional environment, and must adapt their strategies accordingly. This body of research provides the impetus for suspecting that host-country rule of law and control of corruption also influence IJV partner selection criteria.

CONCEPTUAL MODEL AND HYPOTHESES

To explain how host-country rule of law and control of corruption may influence IJV partner selection criteria, we have developed a novel conceptual model and hypotheses. Each of the model's components and relationships are illustrated in Figure 1 and discussed below.

Host-Country Legal Environment Perceptions and Partnering Concerns

The principle of the rule of law is intended to be a safeguard against arbitrary rulings in individual cases, and determines the probability that those who commit crimes will be apprehended (Becker, 1968). As Oliver (1991) noted, self-interested agents make strategic choices within an institutional context of rules, surveillance, and threat of sanction. Self-interested firms respond not only to the incentives and penalties enunciated by law "on the books," but also to the real-world gaps provided by ambiguous statutes and manipulable regulatory agencies. For example, insufficient and inadequate enforcement of existing laws is fundamentally responsible for the persisting deficiency in the protection of intellectual property rights in many countries (Ostergard, 2000). Institutional environments lacking rule of law are also characterized by considerable ambiguity over property rights and the protection of private firms (Peerenboom, 2001). This was demonstrated by Luo (2007) who found that perception of law unenforceability in a host country increases the incidence of opportunistic behavior by both foreign and local partners.

Gulati and Singh (1998) noted that executives have varying appropriation concerns when establishing a partnership with another firm. In the context of IJVs, appropriation concerns refer to concerns about being able to capture a fair share of the rents from the IJV in which the MNE is engaged (Gulati & Singh, 1998). These concerns are the product of the perceived potential that the partner will engage in opportunistic behavior, which is

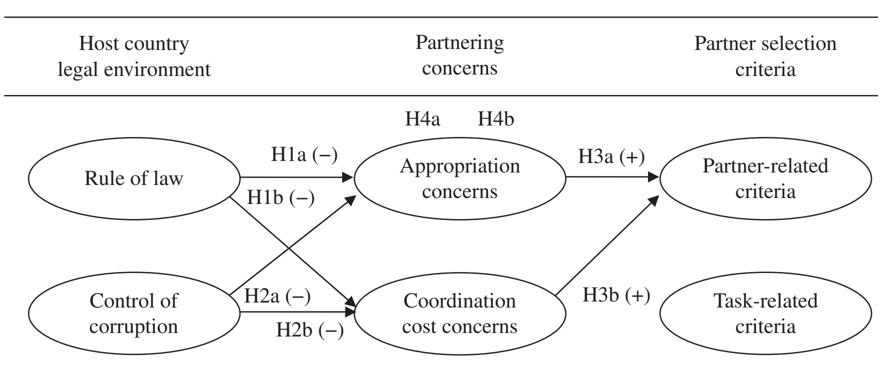

Figure 1 Conceptual model.

composed of deceit-oriented behavior that violates the implicit or explicit promises about one's appropriate or required role behaviors (John, 1984). Appropriation concerns can vary with the specific circumstances of an IJV at its inception, and derive from difficulties associated with specifying property rights and monitoring and enforcing the IJV agreement. Opportunism flourishes under conditions of weak rule of law (Parkhe, 1993), because reliable and consistent mechanisms for safeguarding the terms and expectations of economic relationships are perceived to be lacking. Thus, it is reasonable to expect that the stronger the perceived host-country rule of law is, the lower will be the likelihood that partners will have appropriation concerns. Therefore, we predict:

Hypothesis 1a: Perceived host-country rule of law will negatively influence appropriation concerns.

In addition to appropriation concerns, Gulati and Singh (1998) observed that executives have varying coordination cost concerns when establishing partnerships. These concerns, which derive from anticipated interdependence and the logistics of coordinating activities, can create considerable uncertainty at the outset of a venture. Various scholars have long recognized the importance of interdependence in determining the costs of coordination (Pfeffer & Salancik, 1978), noting that as interdependence increases, so too do coordination costs in the form of higher information-processing costs (Galbraith, 1973), added pressure for rapid responses, and greater conflict (Emery & Trist, 1965), which ultimately lead to a decline in performance (Pondy, 1970). Institutional systems characterized by weak rule of law are, by definition, ambiguous, contested, and riddled with loopholes (Scholz, 1984). Such environments create additional challenges in managing dealings with various government organizations and determining who has authority over a given matter (Peng & Heath, 1996). Faced with greater challenges to comprehend the abstract and cumbersome legal system and a greater need to monitor their partner, given the potential for moral hazard (Eisenhardt, 1989), MNEs entering host countries characterized by weak rule of law have a greater need to closely coordinate their activities with a partner. Therefore, we predict:

Hypothesis 1b: Perceived host-country rule of law will negatively influence coordination cost concerns.

Corruption is behavior that seeks economic or social network advantages (Brass, Butterfield, & Skaggs, 1998) or inappropriate transaction cost reductions (Husted, 1994). Firms are more likely to encounter corruption in their normal interactions with state officials when control of corruption is weak in an institutional environment (Rodriguez, Uhlenbruck, & Eden, 2005). In institutional environments characterized by weak control of corruption, government officials and other local parties tend to use their influence arbitrarily for personal gain (Boisot & Child, 1988). For example, Peng and Luo (2000) found that in an institutional environment characterized by weak control of corruption the property of foreign entrants was often expropriated by public officials if the entrant failed to bribe the host-country officials adequately. In other words, weak control of corruption threatens a firm's ability to capture a fair share of the rents from its operations in a host country. Thus, we propose that a host country's capacity to control corruption will reduce appropriation concerns.

Hypothesis 2a: Perceived host-country control of corruption will negatively influence appropriation concerns.

The challenges that MNEs face upon entering foreign countries often reflect their efforts to understand and adapt to local corruption. Shleifer and Vishny (1993), in suggesting that corruption is a tax on economic activity that is more costly than legal taxes, highlight how real firm resources are wasted by engaging in corrupt activities and seeking to avoid detection. Corruption costs firms directly by causing them to engage in unproductive behavior, such as investing in channels of influence through lobbying, direct vote solicitations, and influence peddling. Furthermore, the need to keep the transactions secret directs resources to hard-to-detect activities, with no regard for economic consequences. To successfully navigate environments characterized by weak control of corruption an MNE must closely coordinate its activities with its partner (Fukuyama, 1995). By the same token, host-country legal environments characterized by strong control of corruption will reduce a firm's coordination cost concerns.

Hypothesis 2b: Perceived host-country control of corruption will negatively influence coordination cost concerns.

Partnering Concerns and IJV Partner Selection Criteria

Geringer (1988, 1991) made a seminal contribution to the literature with his twofold typology of partner selection criteria. He suggested that despite the almost unlimited range of alternative criteria that might exist, it is possible to distinguish between "task-related" and "partner-related" criteria. Task-related selection criteria are associated with the strategic resources and operational skills that a venture requires for its competitive success, and are concerned with an achievement of strategic fit between partners. These criteria emphasize the resources and capabilities that the focal firm seeks in a partner in order to compete effectively. (See Appendix A for a summary of partner selection criteria categorizations across previous studies.) A thorough review of the extant partner selection literature revealed that task-related selection criteria include:

- the ability to satisfy host government requirements (e.g., for investment, subsidy, credit, or tax avoidance);
- connections to government or non-government organizations (e.g., other firms, trade organizations, etc.);
- regulatory permits, licenses, or patents;
- facilities (location and quality of production, R&D or office facilities);
- managerial (e.g., HR, leadership) and/or labor (e.g., technical, service) skills; and
- raw materials/natural resources, products, services, and/or technology (e.g., quality, cost, diversity).

In contrast, partner-related selection criteria are more cooperation-related with a focus on how partnering firms can work together effectively. These criteria require that the choice of the "right" partner be based on a consideration of how the chosen partner will best fit with the focal firm. A review of the literature revealed that partner-related selection criteria include:

- transparency of the firm and/or ethical values/beliefs;
- reputation;
- goals, objectives, aspirations, or synergy potential;
- commitment, seriousness and/or enthusiasm for the partnership;
- favorable past association with the focal firm or mutual acquaintances;
- successful partnering record with other firms;
- firm size;
- market share or industry position;
- financial capabilities (assets, ability to raise financing); and
- trustworthiness.

Given what we know about appropriation and coordination cost concerns and differences in partner selection criteria, we suggest that these two partnering concerns influence foreign entrants' partner- and task-related criteria differently. Gulati and Singh (1998) argued that appropriation concerns increase the need to better monitor the partnership and align incentives with partnership goals, and that coordination cost concerns raise the need for better inter-organizational communication and decision-making. Scholars have demonstrated that the selection of a cooperative partner, along with other factors, such as contractual completeness (Luo, 2002a), parent control structure (Barden, Steensma, & Lyles, 2005), relational embeddedness (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004), and partnering skills (Buckley, Glaister, & Husan, 2002) serve to effectively meet both these sets of needs. Cooperation facilitates the effective and efficient coordination of activities between IJV partners (Doz, 1996; Tallman & Shenkar, 1994). Several theorists (e.g., Aulakh, Kotabe, & Sahay, 1996; Gulati, 1995) also contend that cooperation provides the flexibility to cope with the inevitable uncertainties of a long-term exchange, and that firms that select trustworthy, committed, and transparent partners are more likely to appropriate their fair share of the rents from an international partnership.

When the context surrounding the IJV creates concerns about the capability to communicate with the partner and to appropriate an equitable share of economic returns from the relationship, we propose that firms will be more likely to choose partners based on partner-related criteria (e.g., trustworthiness, commitment, transparency) than task-related criteria (e.g., facilities, raw materials). This is because the potential for opportunism and increased coordination costs are more likely to be mitigated by the trustworthiness of a partner's character and the cooperative orientation of the partner's relational skills than by the partner's physical assets. In arguing that this is the case, it is therefore expected that the use of partner-related criteria in selecting an IJV partner will be greater, the greater are the appropriation and coordination cost concerns inherent to the relationship. Overall, therefore, appropriation and coordination cost concerns will play a significant role in determining partner-related criteria but will not be expected to exert a significant influence on task-related criteria. Indeed, as Figure 1 shows, we suggest that, unlike partner-related criteria, the relationships between appropriation and coordination cost concerns and task-related criteria will be non-significant. Therefore, we predict:

Hypothesis 3a: Appropriation concerns will exert a positive influence on partner-related criteria, and no significant influence on task-related criteria.

Hypothesis 3b: Coordination cost concerns will exert a positive influence on partner-related criteria, and no significant influence on task-related criteria.

Central to our model of IJV partner selection is the premise that partnering concerns mediate the relationship between IJV partners' beliefs about their host country's institutional environment and the influence of these beliefs on the criteria that IJV participants use to select their joint venture partners. Specifically we suggest that the host-country institutional environment is filtered through an actor's own concerns about what factors might jeopardize or threaten new relationships. Previous work has supported the argument that alliance formation decisions are filtered through partners' perceptions of their environment (Dickson & Weaver, 1997), and that the risks inherent in managing internationalization play an important role in shaping partners' concerns about IJVs (Shrader, Oviatt, & McDougall, 2000). This argument is also consistent with research on MNEs that has shown that perceived corruption in host-country environments affects firms' cooperative propensities (Luo, 2006). Thus, we argue that choice of partner is a direct function not of the host-country legal environment, but of the selecting partners' perceptions of their legal environment in the context of those concerns most salient to the selecting partner. That is:

Hypothesis 4a: Partnering concerns (appropriation and coordination cost concerns) will mediate the relationship between perceived host-country rule of law and partner-related criteria.

Hypothesis 4b: Partnering concerns (appropriation and coordination cost concerns) will mediate the relationship between perceived host-country control of corruption and partner-related criteria.

METHODOLOGY

Sample and Procedure

A survey, which was based on a combination of existing and newly developed measures, was pretested among 11 corporate executives involved in IJVs and other experts in the field. Modifications were made based on participant feedback. The sample comprised Canadian MNEs, and the key informants were senior executives at the MNEs who were responsible for establishing an IJV for their firm. The Asia Pacific Foundation of Canada, Canada China Business Council, and Toronto Stock Exchange membership listings were used to identify 600 qualified MNEs and key informants. Each identified firm was contacted by phone to obtain the mailing or e-mail address for the key informant.

A survey was either mailed or administered via a structured interview setting to each of the informants. Reminder postcards were sent after 2 weeks, and follow-up surveys were sent after 4 weeks to those informants who were mailed the survey, as suggested by Dillman (1978). We received usable surveys from 169 senior executives (34 CEOs, 25 presidents, 61 vice presidents, 15 directors, 30 general managers, and 4 controllers, economists or engineers), yielding a response rate of 28.2%. These responses represent 110 equity-based and 59 non-equity-based IJVs in 43 different countries. Appendix B presents the breakdown of the host countries represented in the sample. The firms had a mean size of 3191 employees and had on average 15.8 years of international experience at the time the partner was selected. Fifty-seven percent of the firms were publicly traded and 43% were privately held.

Non-response bias was examined, following the procedure suggested by Armstrong and Overton (1977). For respondents who were *mailed* a survey package, the responses of later respondents (executives who responded later than 2 weeks from mailing, N=63, 57.3%) were compared with responses of earlier respondents (executives who responded within 2 weeks, N=47, 42.7%) for all items using independent-samples t-tests. No significant difference (at the 0.05 level) was found between the early responses and the late responses across any of the control or model variables. Therefore, it was assumed that this study did not suffer from non-response bias.

Measures: Model Variables

Perceived host-country legal environment. A five-item scale measuring perceived host-country rule of law was adopted from the Contracts and Law Subindex of the *Global Competitiveness Report*, published annually by the World Economic Forum, and the Rules and Regulations Subindex of the *World Business Environment Survey*, published annually by the World Bank. A perceptual set of measures was used to be consistent with the study's focus on the mediating effect of executives' perceived concerns about forming an IJV. To measure host-country control of corruption a three-item scale was adopted from the Bureaucratic Red Tape Subindex of the *World Business Environment Survey*. The instructions for both scales read, "Please tell us about your impressions of the business and legal environment in the host country within your industry at the time your firm was selecting its partner." The response scale for both measures ranged from 1 (strongly disagree) to 5 (strongly agree). The items of the two scales are presented in Table 1, which also outlines the results of an exploratory factor analysis (EFA) that was conducted to test the semantic commonality of the scales' items. As illustrated in Table 1, all eight of the scale items loaded heavily on two factors, and Cronbach's alphas for the perceived host-country rule of law scale and the perceived host-country control of corruption scale were 0.83 and 0.84, respectively. Thus, the score for each scale was measured by the average of responses to the items that constituted each respective factor.

Partnering concerns. To measure appropriation and coordination cost concerns we constructed two three-item scales by reflecting upon the literature and the explicit definitions of these constructs offered by Gulati and Singh (1998). The response scale for both measures ranged from 1 (strongly disagree) to 5 (strongly agree). The items of the two scales are presented in Table 1, which also outlines the results of an EFA that was conducted to test the semantic commonality of the scales' items. As illustrated in Table 1, the six items associated with each factor loaded heavily on two factors. Cronbach's alphas were 0.85 for the appropriation concerns scale and 0.88 for the coordination cost concerns scale. Thus, the score for each scale was measured by the average of responses to the items that constituted each respective factor.

Partner selection criteria. Partner selection criteria were measured using 17 items: 10 partner-related and seven task-related partner selection criteria. To ensure comprehensiveness, these criteria were derived from a review of prior literature (see Table 2), including items developed by Al-Khalifa and Peterson (1999), Arino, Abramov, Skorobogatykh, Rykounina, and Vila (1997), Geringer (1988), Glaister (1996), Glaister and Buckley (1997), Nielsen (2003), and Tatoglu and Glaister (2000). For each of the criteria, respondents were asked to indicate how important it was in their firm's partner selection decision, using a response scale that ranged from 1 (not at all important) to 3 (extremely important). Given the potential for overlapping perspectives, an attempt was made to identify a smaller number of distinct, non-overlapping partner selection criteria for the sample data by means of an EFA. The initial analysis revealed that one criterion ("experience in/knowledge of the local market and/or culture") loaded on more than one factor. Thus, the one cross-loaded item was removed, and the factor analysis was run again with the remaining 16 items. As illustrated in Table 2, the semantic commonality of the remaining 16 items associated with each factor was clear, with all of the items loading heavily on single factors. Furthermore, the Cronbach's alphas for each of the six factors were acceptable. Thus, the score for each factor or criteria category was measured by the average of responses to the items that constituted each respective factor.

The partner-related criteria clearly loaded on factors that relate to the character (factor 1), market power (factor 3), partnering intent (factor 5), and partnering ability (factor 6) of the partner. Character refers to the inherent complex of attributes that determine a partner's moral and ethical actions and reactions, and was measured by the trustworthiness, transparency, ethical values and beliefs, and reputation of the partner. Market power, which relates to the partner's prominence and viability, was measured by the partner's size, market share, industry position, and financial capabilities. Partnering intent is reflected in the partner's goals, objectives, and aspirations, as well as their commitment, seriousness, and enthusiasm for the partnership. Partnering ability refers to a

Table 1 Factor loadings (varimax rotation) of host-country legal environment and partnering concerns scale items[a]

Variables	*Factor 1 rule of law*	*Factor 2 coordination cost concerns*	*Factor 3 appropriation concerns*	*Factor 4 control of corruption*
Justice was not fairly administered in the society.[b] (LAW-1)	**0.82**	−0.20	−0.01	0.06
Patent/copyright protection was not adequately enforced.[b] (LAW-2)	**0.83**	−0.13	−0.06	0.05
The judiciary was independent from political influences of government members, citizens or firms. (LAW-3)	**0.78**	−0.17	−0.15	0.04
In general, information on laws and regulations affecting my firm was easy to obtain. (LAW-4)	**0.72**	−0.14	−0.20	0.02
In general, interpretations on laws and regulations affecting my firm were consistent and predictable. (LAW-5)	**0.61**	0.04	−0.32	0.14
My firm was concerned that partnering in the host country would result in				
costly inter-partner coordination activities. (CC-1)	−0.19	**0.88**	0.17	0.03
inter-partner coordination activities that consume lots of time. (CC-2)	−0.20	**0.87**	0.10	−0.07
difficulty in coordination activities with a partner. (CC-3)	−0.13	**0.85**	0.23	−0.09
the theft of its proprietary technology or intellectual property. (AC-1)	−0.15	0.06	**0.87**	0.01
inadequate compensation for the transfer of technology, skills or intellectual property to a partner. (AC-2)	−0.17	0.21	**0.86**	−0.03
the inability to capture its fair share of the partnership's profits. (AC-3)	−0.20	0.24	**0.78**	−0.10
It was common for firms in my line of business in the host country to have to pay some irregular "additional payments" to get things done.[b] (COC-1)	0.11	−0.10	−0.04	**0.91**
If a government agent acted against the rules I could usually go to another official or to his/her supervisor to get the correct treatment without recourse to unofficial payments. (COC-2)	0.05	−0.16	−0.03	**0.87**
Even if a firm had to make an "additional payment" it always had fear that it would be asked for more (e.g., by another official).[b] (COC-3)	0.05	0.13	−0.04	**0.81**
Eigenvalue	4.81	2.15	1.71	1.51
% of variance explained	34.36	15.39	12.21	10.79
Alpha	0.84	0.88	0.85	0.83

[a]Bold type indicates the factor to which scale items best factored.
[b]Item is reverse-coded.

partner's skills in developing and maintaining a quality relationship with another firm, and was measured by the partner's partnering record with other firms and past association with the focal firm.

The task-related criteria were distinguished by their focus on the political ties (factor 2) and factors of production (factor 4) of the partner. Political ties encompass a partner's connections to government

Table 2 Factor loadings (varimax rotation) of partner selection criteria items[a]

Variables	*Factor 1 Character*	*Factor 2 Political ties*	*Factor 3 Market power*	*Factor 4 Factors of production*	*Factor 5 Partnering intent*	*Factor 6 Partnering ability*
Trustworthiness (PSC-1)	**0.89**	0.05	−0.05	−0.06	0.12	0.11
Transparency of the firm and/or ethical values/ beliefs (PSC-2)	**0.87**	0.07	−0.05	−0.09	0.11	0.10
Reputation (local, industry, and/or international) (PSC-3)	**0.74**	0.04	0.22	−0.11	0.32	0.07
Ability to satisfy host government requirements (e.g., for investment, subsidy, credit, or tax avoidance) (PSC-4)	−0.03	**0.87**	0.05	−0.06	0.04	0.09
Connections to government or non-government organizations (e.g., other firms, trade organizations, etc.) (PSC-5)	−0.02	**0.81**	0.13	−0.08	0.13	0.01
Regulatory permits, licenses, or patents (PSC-6)	0.23	**0.79**	−0.12	0.09	−0.06	0.06
Firm size (PSC-7)	0.09	0.00	**0.82**	−0.03	−0.03	0.05
Market share or industry position (PSC-8)	0.09	0.08	**0.81**	0.01	−0.08	0.14
Financial capabilities (assets, ability to raise financing) (PSC-9)	−0.14	−0.02	**0.69**	0.12	0.15	0.03
Facilities (location and quality of production, R&D, or office facilities) (PSC-10)	−0.06	−0.01	0.10	**0.84**	0.01	0.07
Managerial (e.g., HR, leadership) and/or labor (e.g., technical, service) skills (PSC-11)	−0.08	−0.13	0.07	**0.76**	0.16	−0.05
Raw materials/natural resources, products, services, and/or technology (e.g., quality, cost, diversity) (PSC-12)	−0.07	0.07	−0.07	**0.75**	−0.13	−0.10
Goals, objectives, aspirations, or synergy potential (PSC-13)	0.17	0.03	−0.05	0.06	**0.86**	0.17
Commitment, seriousness, and/or enthusiasm for the partnership (PSC-14)	0.28	0.09	0.07	−0.01	**0.84**	0.03
Favorable past association with your firm or mutual acquaintances (PSC-15)	0.13	−0.01	0.07	−0.04	0.07	**0.86**
Successful partnering record with other firms (PSC-16)	0.10	0.15	0.14	−0.04	0.11	**0.81**
Eigenvalue	3.43	2.12	1.93	1.76	1.16	1.08
% of variance explained	21.41	13.23	12.08	11.00	7.23	6.75
Alpha	0.84	0.77	0.69	0.70	0.77	0.65

[a]Bold type indicates the factor to which partner selection criteria best factored.
"Experience in/knowledge of the local market and/or culture" cross-loaded in the initial analysis and was removed.

and non-government organizations, ability to satisfy host government requirements, and possession of regulatory permits, licenses or patents. Factors of production included the partner's facilities, raw materials, natural resources, and technology, as well as managerial and labor skills.

Measures: Control Variables

Industry. High-technology and non-technology industries differ in terms of technical capacity, skill intensity, and capital requirements (Ratnayake, 1993), all of which may influence an executive's concerns and a firm's behaviors. Furthermore, the technological characteristics of industries have also been found to affect the cooperative orientation of firms within the industry (Hagedoorn & Narula, 1996). Thus, IJV industry type was controlled with a dummy variable (1 if technology industry, 0 if a non-technology industry).

Firm size. Researchers (e.g., Dacin, Hitt, & Levitas, 1997) have noted that firm size may influence partner selection criteria, given that it can affect an MNE's market power and in turn its ability to dominate an IJV partner. Thus, focal firm size was controlled for by calculating it as the natural logarithm of the total number of firm employees. This measure was used, given that the firm's total number of employees is often highly correlated with firm's total sales and total capital (Contractor & Kundu, 1998), and avoids accuracy concerns in translating currency values.

Firm international experience. International experience helps a firm overcome obstacles present in a new market and influence entry mode behavior (Erramilli, Agarwal, & Dev, 2002). Firms lacking international experience face difficulties in overcoming internal uncertainty, monitoring operations, and instituting appropriate organizational controls (Anderson & Gatignon, 1986). Thus, firm international experience was controlled for in this study by calculating it as the natural logarithm of the total number of years of experience doing business outside the home country prior to the establishment of the IJV. Firm experience was logged, given that an additional year of experience is greater for lower levels of experience than for higher levels of experience (Epple, Argote, & Devadas, 1991). Furthermore, prior to logging the experience variables, one year was added to these sums to avoid the indeterminacy of logging zero experience.

Firm ownership. Public and private firms have been found to differ in their permeability to market forces (both capital and labor), adoption of corporate strategy, and utilization of resources (e.g., Besanko, Dranove, & Shanley, 1996). Thus, firm ownership was controlled with a dummy variable (1 if publicly traded, 0 if privately held).

IJV size. The size of an IJV has implications for the extent to which parent firms will commit to venture operations (Beamish & Banks, 1987) and maintain organizational control over venture activities (Geringer & Hebert, 1989). Thus, IJV size was controlled by calculating it as the natural logarithm of the total number of IJV employees.

IJV type. The type of IJV (equity vs non-equity) may affect the underlying rationale for IJV formation and partner selection criteria (Luo, 2002b). Thus, IJV type was controlled with a dummy variable (1 if equity-based, 0 if otherwise, i.e., contractual).

Executive cultural breadth. Research has long recognized that factors related to the executive respondent may influence MNE strategies, behaviors, and performance. Such factors are particularly relevant in this study, given that the respondents' perceptions, concerns and beliefs are of central concern. In recognition of Al-Khalifa and Peterson's (1999) finding that cultural breadth of the executive influences partner selection criteria, respondent cultural breadth was controlled by the number of foreign languages of which the respondent had working knowledge.

ANALYSIS AND RESULTS

The normality of all the variables was checked using skewness, kurtosis, and outlier analyses, which indicated that no transformations were required, given that all of their skewness and kurtosis numbers fell between 1.96 and -1.96, which corresponds to a 0.05 error level (Hair, Anderson, Tatham, & Black, 1998). Harman's one-factor test (Podsakoff & Organ, 1986) was used to assess the potential for common method variance. The results indicated that a single factor did not emerge, nor did one general factor account for the majority of covariance: thus the existence of common method variance was ruled out. The descriptive statistics and correlations for the variables in this study are presented in Table 3.

Given the nature of the model, the presence of second-order factors, and the benefits of testing

Table 3 Descriptive statistics and correlations

Variables	*Mean*	*s.d.*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*	*15*	*16*
1. Rule of law	2.98	0.93																
2. Control of corruption	3.15	1.09	0.17*															
3. Appropriation concerns	2.59	1.20	−0.40**	−0.11														
4. Coordination cost concerns	2.86	1.14	−0.38**	−0.12	0.40**													
5. Partnering intent criteria	2.45	0.59	−0.20*	0.08	0.28**	0.11												
6. Character criteria	2.40	0.62	−0.21**	0.16*	0.22**	0.28**	0.42**											
7. Partnering ability criteria	1.93	0.66	−0.17*	−0.16*	0.06	0.19*	0.23**	0.26**										
8. Market power criteria	2.11	0.59	0.09	0.01	−0.02	−0.03	0.05	0.04	0.19*									
9. Political ties criteria	2.10	0.66	−0.21**	−0.04	0.07	0.21**	0.11	0.14†	0.15†	0.04								
10. Factors of production criteria	1.95	0.62	0.14†	−0.07	−0.10	−0.12	0.02	−0.18*	−0.09	0.06	−0.05							
11. Industry[a]	0.26	0.44	−0.01	0.06	0.29**	−0.04	0.20**	0.11	0.02	0.01	−0.07	0.02						
12. Firm size[b]	5.42	2.45	0.07	0.22**	−0.01	0.04	−0.05	0.04	0.01	0.02	0.08	0.15†	−0.20**					
13. Firm international experience[b]	2.11	1.25	−0.02	0.07	0.04	0.13†	0.04	0.17*	−0.10	−0.07	−0.08	−0.02	0.27**	0.46**				
14. Firm ownership[c]	0.43	0.50	−0.12	−0.20**	0.11	0.03	0.07	−0.10	−0.02	0.05	0.02	−0.04	0.14	−0.35**	−0.18*			
15. IJV type[d]	0.65	0.48	0.00	0.10	−0.16*	−0.09	0.08	−0.04	0.13	0.08	0.15*	0.09	−0.19*	−0.19*	−0.05	−0.11		
16. IJV size[b]	4.67	1.76	−0.02	0.12	−0.00	0.15†	0.09	0.09	0.07	−0.04	−0.01	0.06	−0.49**	0.33**	0.33**	−0.36**	0.17*	
17. Executive cultural breadth	1.00	1.14	0.01	0.01	−0.03	−0.07	0.12	0.13†	−0.01	−0.00	0.01	0.02	−0.10	−0.09	−0.08	−0.05	−0.07	0.06

Significance level: †$p<0.10$; *$p<0.05$; **$p<0.01$; ***$p<0.001$ (two-tailed).
N=143–169.
[a]Dummy variable (0=non-technology; 1=technology).
[b]Logarithm.
[c]Dummy variable (0=publicly traded; 1=privately held).
[d]Dummy variable (0=equity; 1=non-equity).

multiple mediation effects in a single model, structural equation modeling (SEM) was used to test the hypotheses. More specifically, maximum likelihood estimation was used to generate estimates for the model in MPLUS version 4.21.

Measurement Model

In addition to the EFA results above, we confirmed the factor structure of the latent variables with a confirmatory factor analysis (CFA) (see Table 4). The CFA had acceptable fit indices: χ^2=141.90 (p-value=0.002 at 97 degrees of freedom), CFI= 0.94. The RMSEA was also within the acceptable region of less than 0.08 (a value of 0.05 with a 90% confidence interval of 0.03 and 0.07). Although the fit indices were acceptable, we identified two problems in the second-order factors. First, the market power factor did not load on partner-related criteria. Second, the factors of production factor did not load on task-related criteria. Hence we dropped these factors from the model. The lack of significance for market power was not altogether surprising, as this measure is arguably least consistent of the measures with conceptions of partner-related selection criteria. While we might expect firm size, market position, or financial capabilities as dimensions of the market power factor to relate to a firm's ability to implement a cooperative strategic orientation toward its partner, market power is more indirectly related to the emphasis among partner-related selection criteria on cooperation and the ability to work effectively together. The factors of production factor may have failed to load on task-related criteria if partners perceived that strategic success was dependent mainly on political factors rather than partner facilities, raw materials, and technology. It may be that the ability

Table 4 Confirmatory factor analysis

	Estimate	*s.e.*	*CR*[a]	β[b]
Second-order factors				
Partner-related criteria				
Partnering intent	1.00	0.00	0.00	0.62
Character	1.52	0.40	3.77	0.82***
Partnering ability	0.65	0.24	2.76	0.38**
Market power	0.12	0.18	0.66	0.07
Task-related criteria				
Political ties	1.00	0.00	0.00	0.58
Factors of production	−0.20	0.34	−0.60	−0.13
First-order factors				
Partnering intent criteria				
PSC-14	1.00	0.00	0.00	0.86
PSC-13	0.95	0.16	5.86	0.74***
Character criteria				
PSC-1	1.00	0.00	0.00	0.87
PSC-2	1.05	0.09	11.95	0.81***
PSC-3	0.79	0.08	9.81	0.71***
Partnering ability criteria				
PSC-15	1.00	0.00	0.00	0.73
PSC-16	0.98	0.33	2.77	0.65**
Market power criteria				
PSC-7	1.00	0.00	0.00	0.73
PSC-8	1.03	0.25	4.75	0.73***
PSC-9	0.71	0.15	4.66	0.49***
Political ties criteria				
PSC-4	1.00	0.00	0.00	0.82
PSC-6	0.86	0.12	7.18	0.69***
PSC-5	0.79	0.11	7.56	0.69***
Factors of production criteria				
PSC-10	1.00	0.00	0.00	0.78
PSC-12	0.71	0.14	5.03	0.54***
PSC-11	0.82	0.16	5.08	0.67***

Table 4 *Continued*

	Estimate	*s.e.*	*CR*[a]	β[b]
Rule of law				
LAW-1	1.00	0.00	0.00	0.74
LAW-2	0.74	0.11	6.86	0.56***
LAW-3	0.91	0.11	8.34	0.70***
LAW-4	1.02	0.12	8.86	0.77***
LAW-5	1.07	0.12	9.01	0.79***
Control of corruption				
COC-1	1.00	0.00	0.00	0.93
COC-2	0.57	0.07	8.66	0.64***
COC-3	0.84	0.08	10.30	0.83***
Appropriation concerns				
AC-1	1.00	0.00	0.00	0.80
AC-2	0.96	0.09	10.95	0.84***
AC-3	0.95	0.09	10.10	0.80***
Coordination cost concerns				
CC-1	1.00	0.00	0.00	0.81
CC-2	1.09	0.09	12.76	0.90***
CC-3	0.96	0.08	11.86	0.83***

Significance level: $^{\dagger}p<0.10$; $*p<0.05$; $**p<0.01$; $***p<0.001$ (two-tailed).
[a]Critical ratio (equivalent to *t*-statistic).
[b]Standardized coefficients.

to satisfy host government requirements, for example, is a more important task-related criterion in international than domestic joint ventures.

Structural Model

After confirming factor structures, we ran the full model, the results of which are presented in Table 5 and illustrated in Figure 2. The structural model had the following fit indices: χ^2=531.20, p-value=0.000, at d.f.=361; CFI=0.89; RMSEA=0.06, 90% CI=[0.05,0.07]).

Table 5 Structural model results

	Estimate	*s.e.*	*CR*[a]	β[b]
Appropriation concerns				
Rule of law	−0.60	0.12	−4.91	−0.49***
Control of corruption	−0.09	0.08	−1.17	−0.10
Control variables				
Industry	0.92	0.22	4.21	0.35***
Firm size	0.09	0.05	1.84	0.19†
Executive cultural breadth	−0.01	0.08	−0.07	−0.01
Firm international experience	0.04	0.08	0.46	0.04
Firm ownership	0.03	0.20	0.15	0.01*
IJV type	−0.47	0.21	−2.24	−0.18
IJV size	−0.03	0.06	−0.51	−0.05
Coordination cost concerns				
Rule of law	−0.56	0.12	−4.71	−0.48***
Control of corruption	−0.05	0.08	−0.64	−0.06
Control variables				
Industry	−0.18	0.21	−0.87	−0.07
Firm size	0.02	0.05	0.36	0.04
Executive cultural breadth	−0.05	0.08	−0.62	−0.05
Firm international experience	0.06	0.08	0.71	0.07
Firm ownership	0.09	0.19	0.45	0.04
IJV type	−0.22	0.21	−1.08	−0.09
IJV size	0.07	0.06	1.12	0.11
Partner-related criteria				
Rule of law	−0.03	0.06	−0.48	−0.07
Control of corruption	0.09	0.03	2.81	0.32**
Appropriation concerns	0.14	0.05	2.88	0.46**
Coordination cost concerns	0.10	0.04	2.28	0.30*
Control variables				
Industry	0.09	0.09	1.02	0.11
Firm size	−0.03	0.02	−1.80	−0.23
Executive cultural breadth	0.06	0.03	1.91	0.19†
Firm international experience	0.09	0.03	2.77	0.34**
Firm ownership	−0.13	0.08	−1.69	−0.18†
IJV type	0.29	0.09	3.17	0.37**
IJV size	−0.01	0.02	−0.25	−0.03

Table 5 *Continued*

	Estimate	*s.e.*	*CR*[a]	β[b]
Task-related criteria				
Rule of law	−0.09	0.10	−0.89	−0.13
Control of corruption	−0.03	0.05	−0.62	−0.06
Appropriation concerns	−0.01	0.08	−0.10	−0.01
Coordination cost concerns	0.09	0.07	1.27	0.15
Control variables				
Industry	−0.19	0.16	−1.23	−0.13
Firm size	0.03	0.03	0.95	0.12
Executive cultural breadth	0.05	0.05	0.85	0.08
Firm international experience	−0.07	0.06	−1.20	−0.13
Firm ownership	0.12	0.13	0.96	0.10
IJV type	0.23	0.14	1.63	0.17
IJV size	−0.01	0.04	−0.26	−0.03

Significance level: †p<0.10; *p<0.05; **p<0.01; *** p<0.001 (two-tailed).
[a]Critical ratio (equivalent to *t*-statistic).
[b]Standardized coefficients.

Hypotheses 1a and 1b, which predicted that perceived host-country rule of law is negatively related to appropriation (β=−0.49, p<0.001) and coordination cost concerns (β=−0.49, p<0.001), respectively, were strongly supported. However, contrary to expectations, a statistically significant relationship was not found between perceived host-country control of corruption and appropriation concerns (β=−0.10, n.s.) nor coordination cost concerns (β=−0.06, n.s.). Thus, Hypotheses 2a and 2b were not supported. As for partner selection criteria outcomes, study results demonstrate that both appropriation (β=0.46, p<0.01) and coordination cost concerns (β=0.30, p<0.05) are significantly positively related to partner-related selection criteria. Furthermore, the results demonstrate that neither appropriation (β=−0.01, n.s.) nor coordination cost (β=0.15, n.s.) concerns relate significantly to task-related criteria. Thus, Hypotheses 3a and 3b were supported. The results also support the mediating influence that both partnering concerns have on the linkage between perceived host-country rule of law and partner-related criteria, which provides support for Hypothesis 4a. The results support full mediation effects of both appropriation and coordination cost concerns, given that there is no significant relationship between host-country rule of law and partner-related criteria in the model. Lastly, Hypothesis 4b, which predicted that partnering concerns will mediate the relationship between perceived

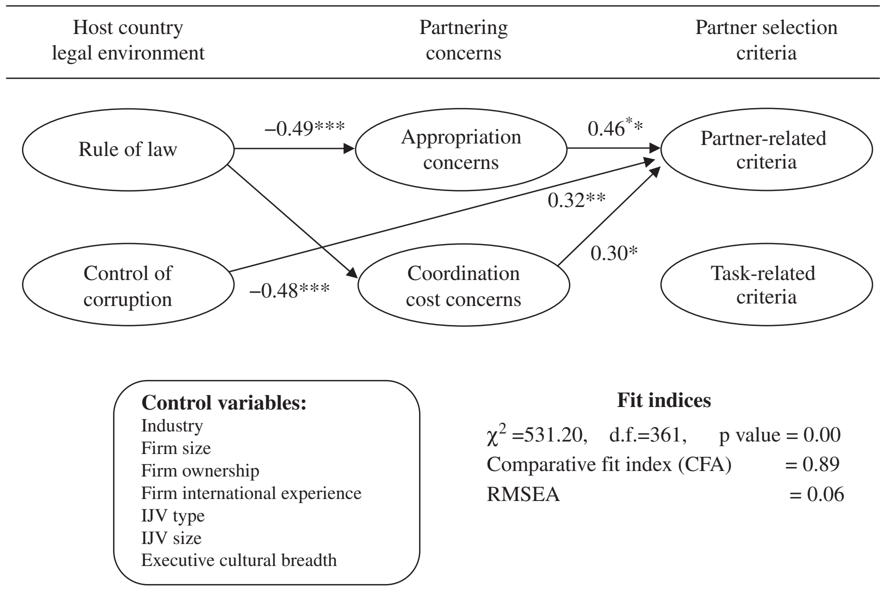

Figure 2 Structural model of the study's empirical findings. Significance level: *$p<0.05$; **$p<0.01$; ***$p<0.001$ (two-tailed). Structural coefficients are reported.

host-country control of corruption and partner-related criteria, was not supported by the results.

Post-hoc Analysis

Given that the EFA presented in Table 2 demonstrated that partner-related criteria may be further distinguished based on the extent to which they relate to the character, partnering intent, partnering ability and market power of the partner, and task-related criteria may be further distinguished based on the political ties and factors of production possessed by the partner, we further tested the model to check the hypothesized effects on these first-order factors. Such a check is particularly important, given that these unique constructs may not be influenced by the same partnering concerns, and such a check will provide a more detailed investigation of the characteristics of the distinct categories that constitute partner- and task-related criteria types.

Six hierarchical regressions were run using each of the six partner selection criteria categories identified above (i.e., character, partnering intent, partnering ability, market power, political ties, and factors of production) as the dependent variables. The two factors dropped in the CFA – market power and factors of production – were included in the analysis, given that we would not violate the assumption of an underlying second-order factor by using these factors as dependent variables in a set of regressions. We preferred regressions over SEM for *post-hoc* analysis given that the number of parameters to be extracted would increase significantly, making it impossible to run an SEM analysis without additional constraints. In each of the regressions, appropriation and coordination cost concerns were simultaneously entered as independent variables, and industry, firm size, firm ownership, firm international experience, IJV type, IJV size, and executive cultural breadth were entered as control variables. The results of these regressions are reported in Table 6.

The results demonstrate that appropriation concerns ($\beta=0.19$, $p<0.05$) and coordination cost concerns ($\beta=0.27$, $p<0.01$) positively influenced character criteria (see Model 1). Appropriation concerns ($\beta=0.35$, $p<0.001$) but not coordination cost concerns positively influenced partnering intent criteria (see Model 2), whereas coordination cost concerns ($\beta=0.23$, $p<0.05$) but not appropriation concerns positively influenced partnering ability criteria (see Model 3). Appropriation concerns did not affect market power, political ties, nor factors of production criteria (see Models 4 through 6, respectively). Lastly, coordination cost concerns also did not affect market power, political ties, nor factors of production criteria (see Models 4 through 6, respectively). It is important to note that these results are entirely congruent with those of the SEM analysis, and the two factors that were dropped in

Table 6 Main effects of partnering concerns on partner selection criteria

	Partner-related criteria				*Task-related criteria*	
	Character	*Partnering intent*	*Partnering ability*	*Market power*	*Political ties*	*Factors of production*
	Model 1	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6*
Step 1: Control variables						
Industry	0.14	0.23	−0.05	−0.04	−0.12	0.05
Firm size	−0.05	−0.08	0.03	0.09	0.10	0.19†
Firm ownership	−0.13	0.04	0.01	−0.01	0.12	0.04
Firm international experience	0.30**	0.20*	−0.08	−0.10	−0.12	−0.07
IJV type	0.09	0.26**	0.26**	0.12	0.14	0.10
IJV size	−0.05	0.05	0.05	−0.03	−0.01	−0.03
Executive cultural breadth	0.17†	0.09	−0.04	−0.07	0.07	0.05
R^2	0.11*	0.13*	0.09	0.04	0.06	0.04
Step 2: Independent variables						
Appropriation concerns	0.19*	0.35***	0.07	−0.02	0.04	−0.02
Coordination cost concerns	0.27**	−0.01	0.23*	−0.01	0.18†	−0.11
ΔR^2	0.13***	0.10**	0.07*	0.00	0.04†	0.01
ΔF	10.51***	7.91**	4.63*	0.02	2.37†	0.86
Adjusted R^2	0.18***	0.17**	0.09*	−0.03	0.03†	−0.02
Overall F	4.33***	3.98***	2.41*	0.55	1.40	0.74

Significance level: †$p<0.10$; *$p<0.05$; **$p<0.01$; ***$p<0.001$ (two-tailed).
Standardized coefficients are reported.

the CFA (market power and factors of production) were not significant in these tests.

Given that appropriation concerns positively influenced the character and partnering intent partner-related criteria factors, whereas coordination cost concerns positively influenced the character and partnering ability partner-related criteria factors, regressions were run to check the mediating influence that both partnering concerns have on these first-order factors. The results of these regressions are reported in Table 7.

As indicated in Table 7, appropriation concerns had a "perfect mediation"[1] in the relationship between perceived host-country rule of law and character criteria. Described in causal terms, perceived host-country rule of law negatively influenced both appropriation concerns (β=−0.41, $p<0.001$) (Model 7) and character criteria (β=−0.26, $p<0.01$) (Model 9). When host-country rule of law and appropriation concerns were employed simultaneously to predict character criteria (Model 10), appropriation concerns significantly predicted character criteria (β=0.27, $p<0.01$), whereas the relationship between perceived host-country rule of law and character criteria was no longer statistically significant (β=−0.15, n.s.).

Appropriation concerns also perfectly mediated the relationship between perceived host-country rule of law and partnering intent criteria. Described in causal terms, host-country rule of law negatively influenced both appropriation concerns (β=−0.41, $p<0.001$) (Model 7) and partnering intent criteria (β=−0.23, $p<0.01$) (Model 12). When host-country rule of law and appropriation concerns were employed simultaneously to predict partnering intent criteria (Model 13), appropriation concerns significantly predicted partnering intent criteria (β=0.34, $p<0.01$), whereas the relationship between host-country rule of law and partnering intent criteria was no longer statistically significant (β=−0.09, n.s.).

Like appropriation concerns, coordination cost concerns were found to perfectly mediate the relationship between perceived host-country rule of law and character criteria. Described in causal terms, perceived host-country rule of law negatively influenced both coordination cost concerns (β=−0.41, $p<0.001$) (Model 8) and character criteria (β=−0.26, $p<0.01$) (Model 9). When perceived host-country rule of law and coordination cost concerns were employed simultaneously to predict character criteria (Model 11), coordination

Table 7 Mediating effects of partnering concerns in the relationship between perceived host-country rule of law and partner-related criteria

Predictors	*Partnering concerns*		*Partner-related criteria*						
	Appropriation concerns	*Coordination cost concerns*	*Character*			*Partnering intent*		*Partnering ability*	
	Model 7	*Model 8*	*Model 9*	*Model 10*	*Model 11*	*Model 12*	*Model 13*	*Model 14*	*Model 15*
Step 1: Control variables									
Industry	$0.36^{\dagger}$	0.07	0.14	0.14	0.14	0.24**	0.24**	−0.01	−0.01
Firm size	0.15	0.01	−0.12	−0.12	−0.12	−0.12	−0.12	0.05	0.05
Firm ownership	0.07	0.11	−0.11	−0.11	−0.11	0.04	0.04	−0.05	−0.05
Firm international experience	0.06	0.08	0.33**	0.33**	0.33**	0.22*	0.22*	−0.08	−0.08
IJV type	$-0.15^{\dagger}$	−0.07	0.07	0.07	0.07	0.24**	0.24**	0.25**	0.25**
IJV size	−0.01	0.15	−0.03	−0.03	−0.03	0.08	0.08	0.07	0.07
Executive cultural breadth	0.00	−0.03	0.15	0.15	0.15	0.08	0.08	−0.06	−0.06
Control of corruption	$-0.16^{\dagger}$	−0.11	0.18*	0.18*	0.18*	0.07	0.07	−0.22*	−0.22*
R^2	0.19**	0.06	0.15*	0.15*	0.15*	0.14*	0.14*	0.13*	0.13*
Step 2: Independent variables									
Rule of law	−0.41***	−0.41***	−0.26**	−0.15	−0.13	−0.23**	−0.09	$-0.16^{\dagger}$	−0.08
Appropriation concerns				0.27**			0.34**		
Coordination cost concerns					0.30**				0.21*
ΔR^2	0.16***	0.16***	0.06**	0.11***	0.13***	0.05**	0.13***	$0.03^{\dagger}$	0.06*
ΔF	29.42***	24.50***	9.52**	8.76***	11.17***	7.42**	10.13***	$3.56^{\dagger}$	4.39*
Adjusted R^2	0.30***	0.16***	0.15**	0.20***	0.22***	0.13**	0.21***	$0.09^{\dagger}$	0.12*
Overall F	7.13***	3.82***	3.60**	4.16***	4.72***	3.15**	4.31***	2.34*	2.71**

Significance level: $^{\dagger}p<0.10$; $*p<0.05$; $**p<0.01$; $***p<0.001$ (two-tailed).
Standardized coefficients are reported.

cost concerns significantly predicted character criteria (β=0.30, $p<0.01$), whereas the relationship between perceived host-country rule of law and character criteria was no longer statistically significant (β=−0.13, n.s.).

Coordination cost concerns also perfectly mediated the relationship between perceived host-country rule of law and partnering ability criteria. Described in causal terms, perceived host-country rule of law negatively influenced both coordination cost concerns (β=−0.41, $p<0.001$) (Model 8) and partnering ability criteria (β=−0.16, $p<0.10$) (Model 14). When host-country rule of law and coordination cost concerns were employed simultaneously to predict partnering ability criteria (Model 15), coordination cost concerns significantly predicted partnering ability criteria (β=0.21, $p<0.05$), whereas the relationship between perceived host-country rule of law and partnering ability criteria was no longer statistically significant (β=−0.08, n.s.).

Taken together, the results of the *post-hoc* analysis both reaffirm the findings of the SEM analysis and demonstrate that character, partnering intent, and partnering ability partner-related criteria are not all influenced by the same partnering concerns. The results also revealed that appropriation and coordination cost concerns both perfectly mediated the relationship between perceived host-country rule of law and character partner-related criteria. Furthermore, appropriation concerns perfectly mediated the relationship between perceived host-country rule of law and partnering intent partner-related criteria, while coordination cost concerns perfectly mediated the relationship between perceived host-country rule of law and partnering ability partner-related criteria. These empirical findings are presented in Figure 3.

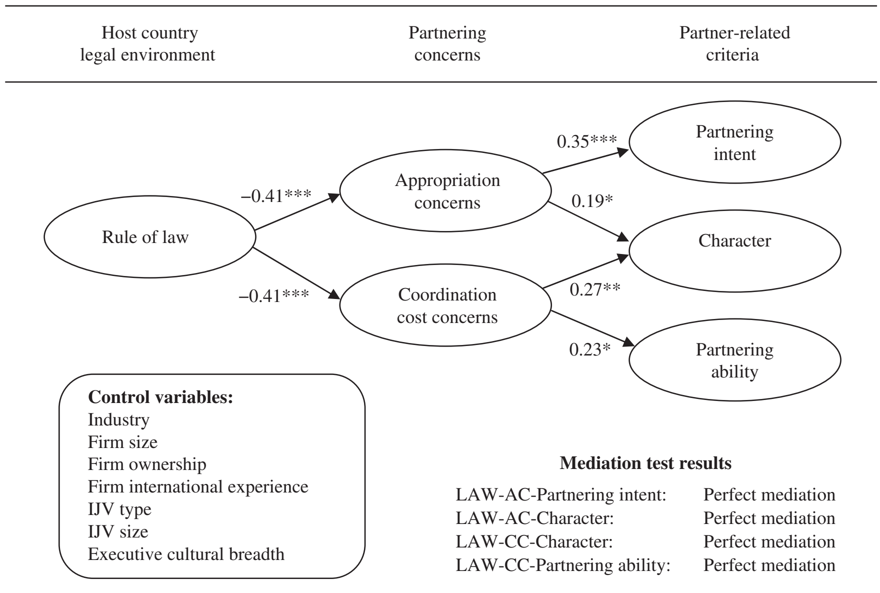

Figure 3 Model of the study's *post-hoc* analyses findings (hierarchical regression results). Significance level: *$p<0.05$; **$p<0.01$; ***$p<0.001$ (two-tailed). Standardized coefficients are reported.

DISCUSSION

Building on the important work of past researchers (Buckley et al., 2002; Delios & Henisz, 2003; Glaister & Buckley, 1997; Hitt et al., 2004), this paper is the first to develop and empirically test a model of IJV partner selection that accounts for both partnering concerns and the legal environment within which partnerships are established. The central finding of this study is that the legal aspect of the institutional environment of the IJV's host country is indeed an extremely important factor in determining partner selection and the particular criteria that partners bring to bear on the decision to establish an international alliance. More specifically, this study found that executives' concerns regarding their firm's ability to capture rents generated by their IJV activities (i.e., appropriation concerns) and the future costs of interacting with their partner (i.e., coordination cost concerns) were augmented by perceptions that the host country's institutional environment would fail to provide an adequate safeguard against arbitrary rulings in individual cases, and that this environment would not serve to effectively apprehend and punish those who commit crimes. These results are highly consistent with researchers who emphasize the importance of a partnership's institutional context in determining partner selection decisions and strategy (Brouthers & Brouthers, 2001; Delios & Henisz, 2003). These findings therefore suggest that future research needs to consider carefully the executives' attitudes of IJV partners toward the legal aspect of the institutional context within which the IJV will be established when examining the strategic plans of firms anticipating international expansion.

The results of this study also support and extend Gulati and Singh's (1998) argument that executives, when establishing a partnership, have (a) appropriation concerns, which originate from perceived contracting obstacles and pervasive behavioral uncertainty, and (b) coordination cost concerns, which are derived from the anticipated interdependence with another firm. This research not only demonstrated the validity of these concerns, but also showed that while differentiating between these two types of concerns is crucial, both types of concerns exert influence on partner-related criteria. Therefore, this research is the first to demonstrate empirically the differential influence of these concerns on IJV partner choice.

The present study provides significant support for the importance of partnering skills in choosing IJV partners (Buckley et al., 2002) and the value of the conceptual distinction between task- and partner-related criteria in evaluating IJV formation processes (Glaister & Buckley, 1997). This study also contributes to the literature that has argued that partnering concerns influence strategic decisions and behaviors, by demonstrating that appropriation concerns positively influence character and partnering intent criteria, while coordination cost concerns positively influence character and partnering ability criteria. Gulati and Singh (1998) argued that appropriation concerns raise the need to better monitor the partnership and align incentives with partnership goals, whereas coordination cost concerns raise the need for better inter-partner communication and decision-making. The influence of appropriation concerns on partnering intent criteria may be explained by the fact that an MNE will increase its chances of selecting an IJV partner with similar goals, and enhance its ability, and lessen its need, to monitor a partner when the commitment, seriousness and goals of a potential partner (i.e., partnering intent) are emphasized. The influence of coordination cost concerns on partnering ability criteria may be explained by the fact that firms with a proven capability to partner successfully are more likely able to engage effectively in inter-partner communication and decision-making activities. Lastly, the influence of appropriation and coordination cost concerns on character-based criteria, such as the trustworthiness and transparency of the partner, highlights not only the importance of this partner-related criteria category in the selection decision, but also its usefulness as a tool for addressing partnering concerns. Honest and open partners are more likely to cooperate with one another, discuss behavioral problems (Buckley et al., 2002; Doz, 1996), spur transparency (Rubin & Brown, 1975), and appreciate each other's business strategy, organizational strength, and management style (Tallman & Shenkar, 1994). Thus, by partnering with a firm of good character, an MNE will reduce the need for inter-partner monitoring, enhance the likelihood that incentives are aligned with partnership goals, and stimulate inter-partner communication and decision-making.

Beyond the above-mentioned contributions, this study makes three additional advances that enhance our understanding of IJV partner selection. First, it has demonstrated that partner-related criteria may be further distinguished based on the extent to which they relate to the character, partnering intent, and partnering ability of the partner. While the character, partnering intent, and partnering ability of the partner all serve to determine the effectiveness of cooperation between the partners, they appear to be unique constructs that may be affected by different antecedents. Second, this study has shown that task-related criteria may be further distinguished based on the political ties possessed by the partner. Third, while providing support for the notion raised by past researchers (e.g., Geringer, 1988) that partner-related criteria may be driven by subjective factors that stimulate uncertainty and considerations related to the nature of the relationship between the partners, this study has demonstrated that it is such subjectively based factors – that is, host-country rule of law perceptions – that drive partner-related criteria. Taken together, these findings demonstrate the need to move beyond the broad partner- and task-related criteria types that currently exist in the literature, and explore the characteristics of the distinct categories that constitute each of these two types.

In carrying out this study, one limitation was its reliance on a single key informant for each case, which created some potential for informant bias. However, the informants in this study occupied key roles (e.g., CEOs) that made them the most knowledgeable about the issues being researched, which helps to mitigate any informant bias threats and increases the validity of the measures (Campbell, 1955). Another limitation is that survey measures are susceptible to retrospective bias (Fischoff & Beyth, 1975). However, research suggests that retrospective reports may be an accurate and effective technique for management research (Golden, 1992), especially research that samples educated senior management on corporate strategies (Huber & Power, 1985).

Surprisingly, perceptions related to the abuse of public office for private gain in the host country (perceived host-country control of corruption) did not raise appropriation or coordination cost concerns. It may be that the reason for this lack of influence rests in the perceived and actual boundaries of influence of this institutional factor. Corruption tends to impede economic development, distort international trade, and hinder investment flow (Glynn et al., 1997). While corruption pervasiveness may stimulate the expropriation of foreign entrants' property if public officials are not bribed (Peng & Luo, 2000), it may not provide risks or benefits that can be avoided or exploited, respectively, through cooperation with the partner. Rather, these risks and benefits may occur through relationships that are beyond the boundaries of the partnership (e.g., relationships with government officials and lobbying groups). Furthermore, unlike weak rule of law, weak control of corruption does not provide a partner with the same level of explicit latitude to behave opportunistically and escape punishment.

In the process of answering Powell's (1996: 297) call to tackle "the harder and more interesting issues of how they [institutions] matter, under what circumstances, to what extent, and in what ways," this study provides a number of implications for managers and trade organizations. These parties would benefit from an understanding that the nature of host-country rule of law is fundamental to a firm's partner selection decision, and influences this decision via partnering concerns. By being cognizant of the fact that IJV partner selection criteria are, at least in part, driven by their specific partnering concerns, managers responsible for selecting their firm's partner will be in a better position to evaluate their own selection decision. The study's results also suggest that managers should take care when establishing an IJV to involve those executives who have an accurate understanding of the host-country legal environment or to train these executives appropriately to eliminate misperceptions. Trade organizations in countries characterized by weak rule of law may also stimulate foreign investment and the establishment of IJVs in their country by promoting the character, partnering intent, and partnering ability attributes of their member companies to potential foreign investors.

This study is offered as a point of departure for future research that might help develop and nurture a better understanding of IJV partner selection. Firms are exposed to a multitude of institutional pressures, and thus future research could move beyond host-country rule of law and control of corruption and examine the influence of other host-country institutional pressures (e.g., political stability) on IJV partner selection. Future research could also move beyond partner selection and examine how the legal environment affects other IJV partnering activities, such as partnering processes (e.g., the number of potential partners considered), design (e.g., the type of IJV), and IJV control (e.g., ownership stake). Building on the unexpected finding in this study that perceived host-country control of corruption did not influence partnering concerns, future research could investigate whether ties with parties outside the partnership (i.e., social ties to government officials) mitigate the influence of host-country control of corruption perceptions on partnering concerns. In addition, this study demonstrated that environmental, firm, inter-partner and executive level factors combine to influence IJV partner selection, which suggests that a fruitful avenue for future IJV research is further integration of factors across different levels of analysis in analyzing the causes of IJV partner choices.

Given the increasing predominance of IJVs across institutional contexts that vary in the quality of their rule of law and control of corruption, the need to understand how such contexts affect partnering activities is only likely to increase in the years ahead. If cooperation is to become part of the strategic repertoire of organizations and not just an operational convenience, then managers, strategists and policymakers must understand the key factors influencing the establishment of IJVs, and develop more sensitivity to the institutional context of IJV formation.

ACKNOWLEDGEMENTS

York University and Memorial University in Canada provided financial support for the study. We are grateful to the participating executives who gave so generously of their time, and the Asia Pacific Foundation of Canada and the Canada China Business Council for their assistance with helping identify the participants in this study. We also thank Yesim Ozalp for her excellent assistance, and the *JIBS* editor Professor Lee Radebaugh and the anonymous reviewers for their invaluable insights.

NOTES

[1]See Baron and Kenny (1986: 1177) for a detailed discussion of the criteria required for perfect mediation.

REFERENCES

Al-Khalifa, A. K., & Peterson, S. E. 1999. The partner selection process in international joint ventures. *European Journal of Marketing*, 33(11/12): 1064–1081.

Anderson, E., & Gatignon, H. 1986. Models of foreign entry: A transaction cost analysis and propositions. *Journal of International Business Studies*, 17(3): 1–25.

Arino, A., Abramov, M., Skorobogatykh, I., Rykounina, I., & Vila, J. 1997. Partner selection and trust building in West European-Russian joint ventures. *International Studies of Management and Organization*, 27(1): 19–37.
Armstrong, J. S., & Overton, T. S. 1977. Estimating nonresponse bias in mail surveys. *Journal of Marketing Research*, 14(3): 396–402.
Aulakh, P. S., Kotabe, M., & Sahay, A. 1996. Trust and performance in cross-border marketing partnerships: A behavioral approach. *Journal of International Business Studies*, 27(5): 1005–1032.
Barden, J. Q., Steensma, H. K., & Lyles, M. A. 2005. The influence of parent control structure on parent conflict in Vietnamese international joint ventures: An organizational justice-based contingency approach. *Journal of International Business Studies*, 36(2): 156–174.
Baron, R. M., & Kenny, D. A. 1986. The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology*, 51(6): 1173–1182.
Baum, J. A. C., & Oliver, C. 1996. Toward an institutional ecology of organizational founding. *Academy of Management Journal*, 39(5): 1378–1427.
Beamish, P. W. 1987. Joint ventures in LDCs: Partner selection and performance. *Management International Review*, 27(1): 23–37.
Beamish, P. W., & Banks, J. C. 1987. Equity joint ventures and the theory of the multinational enterprise. *Journal of International Business Studies*, 18(2): 1–16.
Becker, G. S. 1968. Crime and punishment: An economic approach. *Journal of Political Economy*, 76(2): 169–217.
Besanko, D., Dranove, D., & Shanley, M. 1996. *Economics of strategy*. New York: Wiley.
Björkman, I., Fey, C. F., & Park, H. J. 2007. Institutional theory and MNC subsidiary HRM practices: Evidence from a three-country study. *Journal of International Business Studies*, 38(3): 430–446.
Blodgett, L. L. 1991. Partner contributions as predictors of equity share in international joint ventures. *Journal of International Business Studies*, 22(1): 63–78.
Boisot, M., & Child, J. 1988. The iron law of fiefs: Bureaucratic failure and the problem of governance in the Chinese economic reforms. *Administrative Science Quarterly*, 33(4): 507–527.
Brass, D. J., Butterfield, K. D., & Skaggs, B. C. 1998. Relationships and unethical behavior: A social network perspective. *Academy of Management Review*, 23(1): 14–31.
Brouthers, K. D. 2002. Institutional, cultural and transaction cost influences on entry mode choice and performance. *Journal of International Business Studies*, 33(2): 203–222.
Brouthers, K. D., & Brouthers, L. E. 2001. Explaining the national cultural distance paradox. *Journal of International Business Studies*, 32(1): 177–189.
Brouthers, K. D., Brouthers, L. E., & Nakos, G. 1998. Entering central and eastern Europe: Risks and cultural barriers. *Thunderbird International Business Review*, 40(5): 485–504.
Buckley, P. J., Glaister, K. W., & Husan, R. 2002. International joint ventures: Partnering skills and cross-cultural issues. *Long Range Planning*, 35(2): 113–134.
Campbell, D. T. 1955. The informant in quantitative research. *American Journal of Sociology*, 60(4): 339–342.
Child, J., & Faulkner, D. 1998. *Strategies of cooperation: Managing alliances, networks, and joint ventures*. New York: Oxford University Press.
Contractor, F. J., & Kundu, S. K. 1998. Modal choice in a world of alliances: Analyzing organizational forms in the international hotel sector. *Journal of International Business Studies*, 29(2): 325–357.
Dacin, M. T., Hitt, M. A., & Levitas, E. 1997. Selecting partners for successful international alliances: Examination of US and Korean firms. *Journal of World Business*, 32(1): 3–16.
Dacin, M. T., Oliver, C., & Roy, J.-P. 2007. The legitimacy of strategic alliances: An institutional perspective. *Strategic Management Journal*, 28(2): 169–187.
Delios, A., & Henisz, W. J. 2000. Japanese firms' investment strategies in emerging economies. *Academy of Management Journal*, 43(3): 305–323.
Delios, A., & Henisz, W. J. 2003. Political hazards, experience, and sequential entry strategies: The international expansion of Japanese firms, 1980–1998. *Strategic Management Journal*, 24(11): 1153–1164.
Dhanaraj, C., Lyles, M. A., Steensma, H. K., & Tihanyi, L. 2004. Managing tacit and explicit knowledge transfer in IJVs: The role of relational embeddedness and the impact on performance. *Journal of International Business Studies*, 35(5): 428–442.
Dickson, P. H., & Weaver, K. M. 1997. Environmental determinants and individual-level moderators of alliance use. *Academy of Management Journal*, 40(2): 404–425.
Dillman, D. 1978. *Mail and telephone surveys*. New York: Wiley & Sons.
Doz, Y. L. 1996. The evolution of cooperation in strategic alliances: Initial conditions or learning processes? *Strategic Management Journal*, 17(special issue): 55–83.
Eisenhardt, K. M. 1989. Agency theory: An assessment and review. *Academy of Management Review*, 14(1): 57–74.
Emery, F., & Trist, E. 1965. The causal texture of organisational environments. *Human Relations*, 18(1): 21–32.
Epple, D., Argote, L., & Devadas, R. 1991. Organizational learning curves: A method for investigating intra-plant transfer of knowledge acquired through learning by doing. *Organization Science*, 2(1): 58–70.
Erramilli, M. K., Agarwal, S., & Dev, C. S. 2002. Choice between non-equity entry modes: An organizational capability perspective. *Journal of International Business Studies*, 33(2): 223–242.
Fischoff, B., & Beyth, R. 1975. I knew it would happen: Remembered probabilities of once-future things. *Organizational Behaviour and Human Performance*, 13(1): 1–16.
Fukuyama, F. 1995. *Trust: The social virtues and the creation of prosperity*. New York: Free Press.
Gaba, V., Pan, Y., & Ungson, G. R. 2002. Timing of entry in international market: An empirical study of US Fortune 500 firms in China. *Journal of International Business Studies*, 33(1): 39–55.
Galbraith, J. 1973. *Designing complex organizations*. Reading, MA: Addison-Wesley.
Garcia-Canal, E. 1996. Contractual form in domestic and international strategic alliances. *Organization Studies*, 17(5): 773–794.
Geringer, J. M. 1988. *Joint venture partner selection: Strategies for developed countries*. Westport, CT: Quorum Books.
Geringer, J. M. 1991. Strategic determinants of partner selection criteria in international joint ventures. *Journal of International Business Studies*, 22(1): 41–63.
Geringer, J. M., & Hebert, L. 1989. Control and performance of international joint ventures. *Journal of International Business Studies*, 20(2): 235–255.
Glaister, K. W. 1996. UK–Western European strategic alliances: Motives and selection criteria. *Journal of Euromarketing*, 5(4): 5–35.
Glaister, K. W., & Buckley, P. J. 1997. Task-related and partner-related selection criteria in UK international joint ventures. *British Journal of Management*, 8(3): 199–222.
Globerman, S., & Shapiro, D. M. 2003. Governance infrastructure and US foreign direct investment. *Journal of International Business Studies*, 34(1): 19–39.
Glynn, M. A., & Abzug, R. 2002. Institutionalizing identity: Symbolic isomorphism and organizational names. *Academy of Management Journal*, 45(1): 267–280.
Glynn, P., Kobrin, S. J., & Nairn, M. 1997. Globalization of corruption. In K. A. Elliott (Ed.), *Corruption and the global economy*: 7–28. Washington, DC: Institute for International Economics.

Golden, B. R. 1992. The past is the past – Or is it? The use of retrospective accounts as indicators of past strategy. *Academy of Management Journal*, 35(4): 848–860.
Greenwood, R., & Hinings, C. R. 1996. Understanding radical organizational change: Bringing together the old and the new institutionalism. *Academy of Management Review*, 21(4): 1022–1054.
Gulati, R. 1995. Social structure and alliance formation patterns: A longitudinal analysis. *Administrative Science Quarterly*, 40(4): 619–652.
Gulati, R., & Singh, H. 1998. The architecture of cooperation: Managing coordination costs and appropriation concerns in strategic alliances. *Administrative Science Quarterly*, 43(4): 781–814.
Habib, M., & Zurawicki, L. 2002. Corruption and foreign direct investment. *Journal of International Business Studies*, 33(2): 291–308.
Hagedoorn, J., & Narula, R. 1996. Choosing organizational modes of strategic technology partnering: International and sectoral differences. *Journal of International Business Studies*, 27(2): 265–284.
Hair, J. F., Anderson, R. E., Tatham, R. L., & Black, W. C. 1998. *Multivariate data analysis*, (5th ed.). New York: Macmillan.
Harbison, J. R., & Pekar, P. 1998. *Smart alliances*. San Francisco: Jossey-Bass.
Hillman, A. J., & Wan, W. P. 2005. The determinants of MNE subsidiaries' political strategies: Evidence of institutional duality. *Journal of International Business Studies*, 36(3): 322–340.
Hitt, M. A., Ahlstrom, D., Dacin, M. T., Levitas, E., & Svobodina, L. 2004. The institutional effects on strategic alliance partner selection in transition economies: China vs Russia. *Organization Science*, 15(2): 173–185.
Huber, G. P., & Power, D. J. 1985. Retrospective reports of strategic-level managers: Guidelines for increasing their accuracy. *Strategic Management Journal*, 6(2): 171–180.
Husted, B. W. 1994. Honor among thieves: A transaction-cost interpretation of corruption in Third World countries. *Business Ethics Quarterly*, 4(1): 17–27.
Husted, B. W., & Allen, D. B. 2006. Corporate social responsibility in the multinational enterprise: Strategic and institutional approaches. *Journal of International Business Studies*, 37(6): 838–849.
John, G. 1984. An empirical investigation of some antecedents of opportunism in a marketing channel. *Journal of Marketing Research*, 21(3): 278–289.
Kaufmann, D., Kraay, A., & Mastruzzi, M. 2006. *Governance matters V: Aggregate and individual governance indicators for 1996–2005*, World Bank Policy Research Working Paper No. 4012, World Bank, Washington, DC.
Kumar, B. N. 1995. Partner-selection-criteria and success of technology transfer: A model based on learning theory applied to the case of Indo-German technical collaborations. *Management International Review*, 35(special issue): 65–79.
Li, S., & Filer, L. 2007. The effects of the governance environment on the choice of investment mode and the strategic implications. *Journal of World Business*, 42(1): 80–98.
Lu, J. W. 2002. Intra- and inter-organizational imitative behavior: Institutional influences on Japanese firms' entry mode choice. *Journal of International Business Studies*, 33(1): 19–37.
Luo, Y. 2002a. Stimulating exchange in international joint ventures: An attachment-based view. *Journal of International Business Studies*, 33(1): 169–181.
Luo, Y. 2002b. Partnering with foreign businesses: Perspectives from Chinese firms. *Journal of Business Research*, 55(6): 481–493.
Luo, Y. 2006. Political behavior, social responsibility, and perceived corruption: A structuration perspective. *Journal of International Business Studies*, 37(6): 747–766.
Luo, Y. 2007. Are joint venture partners more opportunistic in a more volatile environment? *Strategic Management Journal*, 28(1): 39–60.
Makino, S., Isobe, T., & Chan, C. M. 2004. Does country matter? *Strategic Management Journal*, 25(10): 1027–1043.
Meyer, J. W., & Rowan, B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 83(2): 340–363.
Meyer, K. E., & Peng, M. W. 2005. Probing theoretically into Central and Eastern Europe: Transactions, resources, and institutions. *Journal of International Business Studies*, 36(6): 600–621.
Nielsen, B. B. 2003. An empirical investigation of the drivers of international strategic alliance formation. *European Management Journal*, 21(3): 301–322.
Oliver, C. 1991. Strategic responses to institutional processes. *Academy of Management Review*, 16(1): 145–180.
Oliver, C. 1997. Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, 18(9): 697–713.
Oliver, C. 2000. Competitive advantage: Cause for optimism. *Advances in Strategic Management*, 17: 291–299.
Ostergard, R. 2000. The measurement of intellectual property rights protection. *Journal of International Business Studies*, 31(2): 349–360.
Pan, Y., Li, S., & Tse, D. K. 1999. The impact of order and mode of market entry on profitability and market share. *Journal of International Business Studies*, 30(1): 81–104.
Park, S. H., & Ungson, G. R. 1997. The effect of national culture, organizational complementarity, and economic motivation on joint venture dissolution. *Academy of Management Journal*, 40(2): 279–307.
Parkhe, A. 1993. Strategic alliance structuring: A game theoretic and transaction cost examination of interfirm cooperation. *Academy of Management Journal*, 36(4): 794–829.
Peerenboom, R. 2001. Seek truth from facts: An empirical study of enforcement of arbitral awards in the PRC. *The American Journal of Comparative Law*, 49(2): 249–327.
Peng, M. W. 2002. Towards an institution-based view of business strategy. *Asia Pacific Journal of Management*, 19(2/3): 251–267.
Peng, M. W. 2003. Institutional transitions and strategic choices. *Academy of Management Review*, 28(2): 275–296.
Peng, M. W., & Heath, P. S. 1996. The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice. *Academy of Management Review*, 21(2): 492–528.
Peng, M. W., & Luo, Y. 2000. Managerial ties and firm performance in a transition economy: The nature of a micro-macro link. *Academy of Management Journal*, 43(3): 486–501.
Pfeffer, J., & Salancik, G. R. 1978. *The external control of organizations*. New York: Harper & Row.
Podsakoff, P. M., & Organ, D. 1986. Self-reports in organizational research: Problems and prospects. *Journal of Management*, 12(4): 531–545.
Pondy, L. R. 1970. Toward a theory of internal resource allocation. In M. N. Zald (Ed.), *Power in organizations*: 270–311. Nashville, TN: Vanderbilt University Press.
Powell, W. W. 1996. Commentary on the nature of institutional embeddedness. *Advances in Strategic Management*, 13: 293–300.
Ratnayake, R. 1993. Factors affecting inter-industry variation of foreign ownership of manufacturing industry. *Applied Economics*, 25(5): 653–675.
Rodriguez, P., Uhlenbruck, K., & Eden, L. 2005. Government corruption and the entry strategies of multinationals. *Academy of Management Review*, 30(2): 383–396.
Rubin, J. Z., & Brown, B. R. 1975. *The social psychology of bargaining and negotiation*. New York: Academic Press.
Scholz, J. T. 1984. Cooperation, deterrence, and the ecology of regulatory enforcement. *Law Society Review*, 18(2): 179–224.
Scott, W. R. 2001. *Institutions and organizations*. Thousand Oaks, CA: Sage.
Shleifer, A., & Vishny, R. 1993. Corruption. *Quarterly Journal of Economics*, 108(3): 599–617.
Shrader, R. C., Oviatt, B. M., & McDougall, P. P. 2000. How new ventures exploit trade-offs among international risk

factors: Lessons for the accelerated internationalization of the 21st century. *Academy of Management Journal*, 43(6): 1227–1247.
Tallman, S. B., & Shenkar, O. 1994. A managerial decision model of international cooperative venture formation. *Journal of International Business Studies*, 25(1): 91–113.
Tatoglu, E., & Glaister, K. W. 2000. Strategic motives and partner selection criteria in international joint ventures in Turkey: Perspectives of Western firms and Turkish firms. *Journal of Global Marketing*, 13(3): 53–92.
Tse, D. K., Pan, Y., & Au, K. 1997. How MNCs choose entry modes and form alliances: The China experience. *Journal of International Business Studies*, 28(4): 779–805.
Yiu, D., & Makino, S. 2002. The choice between joint venture and wholly owned subsidiary: An institutional perspective. *Organization Science*, 13(6): 667–683.
Zhao, J. H., Kim, S. H., & Du, J. 2003. The impact of corruption and transparency on foreign direct investment: An empirical analysis. *Management International Review*, 43(1): 41–62.

APPENDIX A

See Table A1.

Table A1 Partner selection criteria categorizations across past studies

Partner selection criteria	*Empirical studies*					
	Geringer (1988)	*Glaister (1996)*	*Arino et al. (1997)*	*Glaister and Buckley (1997)*	*Tatoglu and Glaister (2000)*	*Nielsen (2003)*
Task-related criteria						
Ability to satisfy host government requirements	T					
Regulatory permits, licenses, or patents	T	T		T	T	T
Connections to government or non-government organizations	T	T	T	T	T	T
Raw materials/natural resources, products, services, and/or technology		T		T	T	T/P
Facilities		T		T	T	T
Managerial and/or labor skills	T	T/P		T/P	T/P	T
Experience in/knowledge of the local market and/or culture		T	T	T	T/P	T
Partner-related criteria						
Trustworthiness		P	P	P	P	P
Transparency of the firm and/or ethical value/beliefs	P		P			
Reputation	T	P	P	P	P	P
Firm size	P	P		P	P	P
Market share/industry position	P		P			
Financial capabilities	T	P		P	P	P
Goals, objectives, aspirations, or synergy potential	P	P	P	P	P	P
Commitment, seriousness and/or enthusiasm for the partnership	P		P			
Successful partnering records with other firms					P	
Favorable past association with the MNE or mutual acquaintances	P	P		P	P	P

T=task-related criteria; P=partner-related criteria; T/P=treated as both task- and partner-related criteria.
Al-Khalifa and Peterson (1999) categorized the factors as task-related (i.e., "marketing and technical competence") or partner-related (i.e., "local reputation and contacts", "managerial competence", and "personal compatibility"). rather than the individual criteria.

APPENDIX B

See Table B1.

Table B1 Breakdown of the host countries represented in the sample

Host country	*Number of IJVs*	*Host country*	*Number of IJVs*
Argentina	1	Nigeria	2
Australia	1	Oman	1
Barbados	1	Peru	2
Brazil	1	Philippines	4
Cambodia	1	Portugal	1
Canada	3	Romania	2
Chile	4	Russia	3
China	27	Saudi Arabia	1
Cuba	1	Singapore	6
El Salvador	1	South Africa	4
France	1	South Korea	3
Guyana	1	Spain	1
Hong Kong	1	Sudan	2
India	6	Switzerland	1
Indonesia	5	Thailand	23
Ireland	1	Turkey	1
Japan	34	United Kingdom	2
Kazakhstan	2	United States	8
Libya	1	Venezuela	1
Mali	2	Vietnam	1
Mexico	1	Yemen	2
Mongolia	2		

ABOUT THE AUTHORS

Jean-Paul Roy is an Assistant Professor of International Business at the Queen's School of Business at Queen's University. Born in Canada, he is a Canadian citizen. He received his doctorate in administrative studies from the Schulich School of Business at York University, Toronto. His main research interests include international strategic alliances, partner selection, and social networking. He can be reached at jroy@business.queensu.ca.

Christine Oliver is the Henry J. Knowles Chair of Organizational Strategy in the Schulich School of Business at York University, Toronto. Born in Canada, she is a Canadian citizen. She received her doctorate in management studies from the Rotman School of Management. Her main research interests are interorganizational relations, institutional processes, and research questions that address the interface between institutional theory and strategy. She can be reached at coliver@schulich.yorku.ca.

Accepted by Lee Radebaugh, Departmental Editor, 16 April 2008. This paper has been with the authors for two revisions.