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ABSTRACT

This paper attempts to bridge a major gap in the joint venture research literature by presenting a simple, yet robust model of the process by which firms select joint venture partners. The model should enhance understanding not only of this particular process, but of the larger domain of strategic alliances and interfirm collaboration in general.

A MODEL OF THE JOINT VENTURE PARTNER SELECTION PROCESS

Joint ventures (JVs) have long been recognized as a viable option for enhancing the attainment of many strategic objectives, and lately they appear to be enjoying a resurgence of interest. Yet, many JVs have been characterized by some degree of disappointment for one or more of the participating parties. Despite the potential benefits of JVs, the gains often do not seem to be fully realized by the partners. Often, suboptimal performance is attributed, fully or in part, to perceived deficiencies of the partner(s). The implication is that more effective partner selection may offer potential strategic benefits by helping to avoid or reduce these perceived shortcomings.

As might be expected, joint ventures have been the subject of a large and ever-expanding volume of scholarly research. However, despite a relatively extensive literature on JVs, there is very little published information on one specific facet of this topic--the process by which organizations select JV partners. Yet, by helping determine what resources will be available to the JV, the choice of a specific partner may critically impact the ability of partners to effectively implement JV strategy, thereby potentially influencing the venture's performance, the competitive position of the partners, and ultimately, the structure and performance within and between industries. Therefore, it seems imperative that the relevant stakeholders, including potential partners, existing and potential competitors, suppliers, customers, and public policy makers, *inter alia*, attempt to develop an understanding of the mechanism by which joint venture

partners are selected, including identification of key variables which may influence this process and the anticipated effects such variables may produce.

The purpose of this paper is to help bridge a gap in the research literature by presenting a model of the process by which firms select JV partners. Effective development and refinement of such a model should yield not only greater understandng of this process in particular, but also significant insights into the entire phenomenon of JVs and strategic alliances in general. Development of the model was facilitated by data collected in interviews with over 100 senior executives with intimate involvement in the selection of partners for over 250 joint ventures. These data were supplemented with analysis of published case studies and other research examining JVs.

After defining the concept of a joint venture, the literature examining the process of JV partner selection will be reviewed. The paper will then discuss the principal components of the partner selection process (PSP) model and provide an overview of the process' functioning. The paper concludes with a discussion of several conclusions regarding the model.

DEFINITION OF JOINT VENTURE

Prior studies have employed the concept of a "joint venture" in numerous ways, ranging from a very narrowly defined scope to very broad characterizations incorporating virtually any form of interfirm (and sometimes intrafirm) collaboration. This paper will borrow from Geringer (1986:3) in defining a joint venture as "a discrete entity created by two or more legally distinct organizations (the partners), each of which contributes less than 100

percent of its assets and actively participates, beyond a mere investment role, in the JV's decision making."

LITERATURE REVIEW

Joint Venture Partner Selection Process

At present, there is no well-developed conceptual framework outlining the process by which JV partners are selected. In general, partner selection has received relatively slight attention in prior studies of joint ventures. In many cases, there is either a total absence of reference to the issue, or it is accorded only one or a few sentences. Even when mentioned, the choice of a partner is typically treated as a given. A number of studies addressed one or, in limited instances, a few issues central to the partner selection decision, including motivations for JV formation, partner selection criteria, or negotiation strategies. However, prior studies did not engage in concerted efforts to link these issues in a processual manner. The author was unable to identify a single which explicitly discussed a process-based model of JV partner selection, particularly a model which incorporated the notion of potential feedback loops and the dynamic, contingency-based decision environment in which such a model might be appropriate.

Strategy and the Decision to Form a Joint Venture

It has been maintained that the fundamental orientation of managers is toward the acquisition of sufficient resources to permit strategic objectives to be obtained (Yuchtman & Seashore, 1967). It has also been asserted that organizational decision making tends to be very rational (Edwards, 1961; Weber, 1947), or at least intendedly rational (March & Simon, 1958; Thompson,

1967; Weick, 1979). In addition, the JV form of organization is commonly acknowledged to entail additional costs attributable to the need for shared decision making and the coordination of partners (Aiken & Hage, 1968; Berg & Friedman, 1980; Gullander, 1976; Harrigan, 1984b; Young & Bradford, 1977). Therefore, although nonrational factors may influence the decision making process (Cohen, March & Olsen, 1972; Miles & Snow, 1978), it is assumed that an organization typically will consider formation of a JV only if the additional benefits are perceived to outweigh the anticipated additional costs of utilizing the JV option (Aiken & Hage, 1968; Beamish, 1984). Numerous studies have suggested that these additional benefits will accrue from the selection of partners which can supply complementary skills or capabilities that are expected to help the organization attain its strategic objectives (Adler & Hlavacek, 1976; Aiken & Hage, 1968; Berg, Duncan & Friedman, 1982; Business International, 1964; Connolly, 1984; Franko, 1972; Geringer, 1986; Gullander, 1976; Harrigan, 1984a, 1984c; Killing, 1982; Nishikawa, 1983). Prospective partners can complement an organization on a variety of different dimensions, and the relative importance of a particular dimension will typically vary with each JV. Therefore, the notion of merely seeking "a partner with complementary capabilities" provides relatively little guidance regarding the specific capabilities that an organization expects or desires a potential partner to provide, or the tradeoffs a firm is likely to make between alternative complementary skills or resources (Geringer, 1986). As a result, it is asserted that the principal objective of the JV partner selection process is to identify and evaluate one or more prospective partners which appear to offer some potential for enhancing the organization's competitive position vis-a-vis the competitive environment of the proposed JV.

COMPONENTS OF THE PARTNER SELECTION PROCESS

The partner selection process may be conceptualized as consisting of several different components, or subprocesses. Beginning at the point an organization decides to consider involvement in a particular project or series of projects, the remaining subprocesses are as follows:

1. **Consider a JV as an Investment Option**--The decision to consider a joint venture form of organization as an option for investment in a particular project or series of projects. Other investment options, such as a wholly-owned venture or licensing, may also be under simultaneous consideration as a means of attaining organizational objectives for the particular project(s).

2. **Development of Decision Criteria**--The development and refinement of decision criteria to employ when evaluating and selecting the prospective partner organization(s). The degree of explicitness and thoroughness employed in the development of these criteria may vary immensely between organizations or between different investments of a single organization. Nevertheless, the existence of such criteria is, by definition, a prerequisite for the selection decision.

3. **Identification of Prospective Partners**--The generation of a list of one or more prospective partner organizations which appear to satisfy the prerequisites established by the decision criteria.

4. **Evaluation of Prospective Partner(s)**--The evaluation of each prospective partner organization for suitability as a partner in the collaborative project.

5. **Decision Regarding Prospects' Qualifications**--The decision regarding which, if any, prospective partner organization(s) to seek to establish a joint venture with.

6. **Negotiations to Form a Joint Venture**--The attempt to reach a mutually acceptable agreement with the selected partner organization(s) to establish a joint venture.

7. **Final Decision Regarding Joint Venture Option**--The final decision regarding whether or not to utilize a joint venture form of organization for a particular project or series of projects. There are two avenues by which this subprocess may progress, as follows:

7a. Rejection of the Joint Venture Option--The decision to discontinue efforts to utilize the joint venture form of investment as a means of pursuing organizational objectives for a particular project or series of projects.

7b. Formation of the Joint Venture--The decision to approve the negotiated agreement and thereby pursue a particular project or series of projects through formal establishment of a joint venture with the partner organization(s).

Although each of these component subprocesses evidences conceptual uniqueness and they have been presented in the order in which they typically progress, in practice the subprocesses may not necessarily be discrete and sequential steps. Overlaps can, and often do, occur. For example, it is not uncommon for decision criteria to continue to be revised and refined as the subprocesses of identification or evaluation of prospective partners is simultaneously progressing. However, the potential for non-linear progression

through the subprocesses does not invalidate the model. On the contrary, analysis of prior joint ventures and responses of practitioners reinforces the practical and conceptual usefulness of a distinction between the above subprocesses. The potential for non-linear progression is acknowledged and accounted for through the incorporation of feedback loops, as will be discussed below.

FUNCTIONING OF PARTNER SELECTION PROCESS--AN OVERVIEW

Figure 1 illustrates the PSP in a very simplified flow chart form, incorporating the 8 principal subprocesses outlined in the section above. This figure highlights the processual nature of partner selection, including the potential for feedback loops to occur at various stages during the process. To clarify the model for the reader, it may be useful to describe the PSP in its most elementary form, as well as under several situations which introduce additional complexity through the use of feedback loops. Several hypothetical processes are outlined below.

==========Insert Figure 1 about here==========

Simplified form: No feedback loops

The functioning of the PSP model in its most elementary form occurs when no feedback loops are present. In this instance, when an organization considering involvement in a project (Subprocess 0) decides to consider a JV as an investment option, the process would evolve in a linear manner, progressing from Subprocess 1 through Subprocesses 2, 3, 4, 5, and 6. At that point, the simplest case would entail either complete rejection of the JV

option and termination of the PSP (labelled 7a in Figure 1), or else formation of a JV with a prospective partner (labelled 7b).

Additional complexity: Feedback loops

The PSP model can, and in practice typically does, demonstrate greater complexity than the simplified version presented above. Feedback loops can occur at several junctures, introducing additional complexity to the process. For instance, after initial efforts to generate a list of prospective partners (Subprocess 3), the firm may not be satisfied with the results obtained. If the initial criteria employed were perceived as too strict (e.g., an insufficient number of prospective partners was generated) or as not strict enough (e.g., too many prospective partners were identified to permit evaluations to be adequately conducted within the constraints of available resources), the firm may return to Subprocess 2 to modify the selection criteria before continuing on with the PSP. Another possible deviation from the simplified case presented above would arise if, after completing Subprocess 3, the firm decided against continuing on to the evaluation stage or returing to Subprocess 2, and instead chose to completely reject the notion of a JV (labelled 7a).

Feedback loops could also occur after completion of Subprocess 5. At this point, instead of attempting to progress to Subprocess 6, a firm may decide to return to Subprocess 2 (e.g., changes in environmental conditions might have made previously developed criteria seem inadequate), to Subprocess 3 (e.g., changes in environmental circumstances might not have altered the relevance of the firm's selection criteria, but may have rendered the outcome of Subprocess 3 inadequate. For example, deregulation might expand the population of prospective partners), or to rejection of the notion of a JV

(labelled 7a). The feedback loop from Subprocess 5 to Subprocess 3 could also result if the firm was pursuing a sequential, "satisficing" approach to the generation and evaluation of prospective partners (e.g., see Lindblom, 1959; Quinn, 1980) rather than a single comprehensive generation of prospective partners followed by their evaluation *in toto* (e.g., see Andrews, 1971).

The final set of prospective feedback loops emanate from Subprocess 6. In these cases, after an unsuccessful attempt to entice a prospective partner organization into formation of a JV, the firm may not choose to reject the notion of a JV outright. Instead, the firm may either return to Subprocess2 (e.g., to modify the selection criteria employed, and thus the set of prospective partners), return to Subprocess 3 (e.g., to generate a new list of prospective partners or, in the case of the sequential selection method mentioned in the previous paragraph, to identify the next prospective partner organizations).

CONCLUSIONS

As discussed earlier, the literature on the joint venture partner selection process has been noticeably sparse. For this reason, an objective of this paper has been to outline the essential components necessary for the construction of a model of the PSP, as well as the anticipated relationships which may be observed among these components. The resulting model is admittedly rather primitive, due to the limited data available from prior studies and the difficulty accessing a sample of sufficient breadth and depth. Despite its primitive form, however, the PSP model is expected to have several applications for researchers and practitioners involved with JVs. In addition, it is expected that the model will have some degree of applicability

for research in the larger domain of strategic alliances and interfirm collaboration in general.

As presented, the PSP model is simple, yet quite robust. Based on and supported by empirical data obtained from practitioners intimately involved in joint venture partner selection, it is a dynamic model which allows for contingency-based decisions and feedback. It is consistent with two of the dominant decision making schema in the strategic management literature: both the rational comprehensive (Andrews, 1971) and the incrementalist (Lindblom, 1959; Quinn, 1980) models of strategic decision making. The model also examines partner selection within the context of the established strategic management literature, emphasizing rationality as a means of formulating and implementing strategies. Yet, although the model is consistent with the premise of rationality, it does not demand the assumption that the entire process is rational or uninfluenced by nonrational factors. Furthermore, although its most elementary form suggests a readily comprehensible linear sequential decision making model, it is believed that the feedback loops constitute a subject focus as intrinsically interesting, if not more so, than the linear stages themselves.

However, it should be emphasized that the model of the PSP discussed in this paper, although developed after analysis of selected case studies and numerous interviews with practitioners, has not been subjected to rigorous empirical testing. It has been developed and is presented to enhance researchers' abilities to conceptualize the PSP and its potential complexities, and to suggest avenues for future research. Undoubtedly, this model is susceptible to considerable refinement, particularly regarding the individual subprocesses, as well as the relationships between subprocesses and

the overall outcomes which are obtained. Nevertheless, the model offers several possible contributions for researchers examining the topic of interfirm collaboration in general, and joint ventures in particular. Particularly in light of extremely limited prior conceptual or empirical efforts to examine the joint venture partner selection process, this model provides a base from which further research efforts may be conducted.

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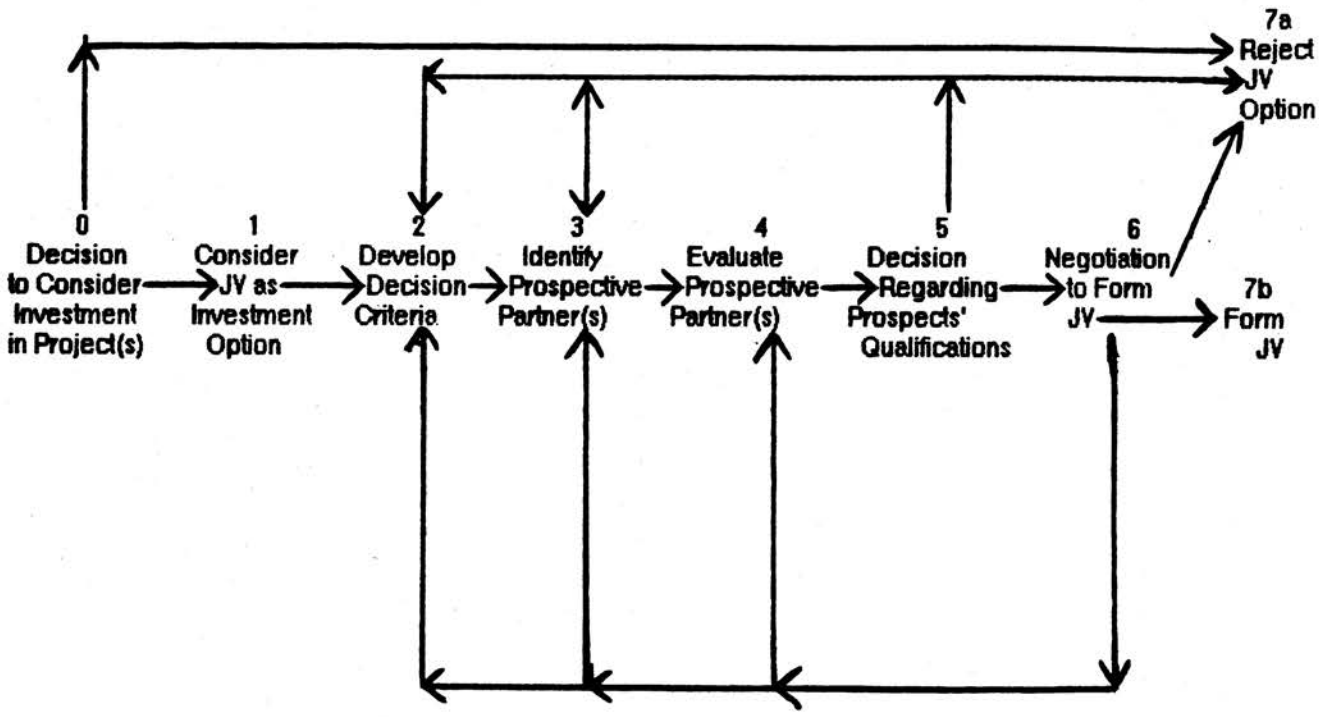
FIGURE 1

MODEL OF JOINT VENTURE PARTNER SELECTION PROCESS



|---------- The Partner Selection Process ----------|

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