

# **Success Factors for Managing International Joint Ventures in Saudi Arabia**

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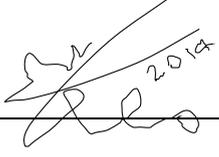
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## Declaration of Authorship

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Date: 23/09/2014

## Abstract

This thesis examines the strategic motivation for international strategic alliance (ISA) formation and partner selection criteria, and the factors influencing knowledge acquisitions and performance, in a sample of 134 Saudi ISAs using questionnaire data obtained from Saudi partners. The highest-ranked strategic motives of the Saudi firms are to enable diversification of products or services, establish presence in the market, and enable faster entry to the market. Market entry and establishing business successfully in Saudi were the top foreign firms' motives. Furthermore, the study's findings show that the task-related selection criteria are determined by the strategic motives for ISA formation than are the partner-related selection criteria. Knowledge acquisition by Saudi partners is negatively related to the extent to which the knowledge of foreign partners is tacit, and is positively related to the extent to which there is a higher level of communication between partners. Interestingly, expatriate number working in Saudi ISA partners and the levels of trust between top managers of Saudi firms and foreign partners are found to have no impact on knowledge acquisition. The study also examines the effects of trust dimensions (trust, distrust, and competence trust) on the performance of ISAs within the Saudi context. The results show that personal and competence trust influence performance positively, while distrust has a negative influence. It was found that trust dimensions plays significant mediating and moderating role. This study finds that cultural distance has a positive effect on ISA performance, contrary to the general assumption of negative effect. Cultural distance reflects positively on learning, hence on performance. Understanding of a partner's culture shows a positive relationship with ISA performance. It also explains the relationship between cultural understanding communication, and performance. It shows that communication mediates the relationship between cultural understanding and performance.

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## List of Abbreviations

<i>Terminology</i>	<i>Abbreviation</i>
Equity Joint Ventures	EJVs
Exploratory Factor Analysis	EFA
Gulf Cooperation Council	GCC
ISAs	ISAs
Joint Ventures	JVs
Multinational Enterprises	MNEs
Non-equity Joint Ventures	NEJVs
Research and Development	R&D
Resource-based View of the Firm	RBV
Saudi Arabia General Investment Authority	SAGIA
Strategic Alliances	SAs
Transaction Cost Theory	TCT
Variance Inflation Factors	VIFs
Wholly Owned Subsidiary	WOS

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## Dedication

*To whom I hold dearly in my heart*

# Chapter One: Introduction to the Study

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## 1.1. Introduction

The pace and the cost of technological developments have created an uncertain environment for firms. Intense global competition has placed a lot of pressure on firms to acquire new skills, and to be more innovative, efficient, and flexible. The pressure is higher in technology-dependent industries. This has forced managers to think of ways to cope with these developments, in order to strengthen and sustain their competitive advantage (Young and Wierseman, 1999; Inkpen, 1998). Firms in some cases lack the internal flow of new knowledge needed in this environment (Park, 2011). Therefore, firms seek to acquire it externally as a quick way to get hold of these capabilities (Hamel, 1991; Lane, Salk and Lyles, 2001; Lyles and Salk, 1996). There are different modes and choices which firms can adopt to acquire those capabilities. These include equity joint ventures (EJV), and non-equity (contractual) alliances (NEA) (Glaister and Buckley, 1996). A firm seeking to launch a business outside of its local market will try to choose the best mode with which to enter an international market (Young and Wierseman, 1999).

This, of course, is not the only reason why strategic alliances (SAs) are playing a more noticeable part in the modern economy. Firms form or seek ISAs for a variety of other motives; including, risk sharing, product rationalization, economies of scale and scope, diversifying risk, overcoming entry barriers, transfer of complementary technology and exchange of patents, shaping competition, conforming to host government policy, facilitating international expansion, establishing vertical linkages, and overcoming “xenophobic” reactions when entering foreign markets (Luo and Park, 2004; Sirmon and Lane, 2004; Hennart, 1988; Glaister and Buckley, 1996; Napier, 1989). Moreover, it provides an opportunity to a firm that wants to expand in a lucrative yet unfamiliar business. The alliance will provide the firm with an opportunity to enter this business with a more experienced partner. This will subsequently lower the set-up cost and the chances of failure (Glaister and Buckley, 1996). Furthermore, through SAs, partner firms can be quicker and more efficient in learning new skills and technologies and developing new products or services than could either firm alone (Beamish and Lupton, 2009; Luo and Park, 2004; Sirmon and Lane, 2004; Damanpour, et al., 2012). All these

reasons and facts have pushed firms to what Roy and Oliver (2009) have described as a “compelling strategic option” to form international joint ventures (IJVs).

Many theories have emerged which attempt to explain and analyse the expansion strategies of firms and the formation of strategic alliances. Examples of such theories: transaction costs economics, competitive strategy, resource dependence, organizational learning, social exchange, political economy, and the resource-based view of the firm (Tsang, 1998).

Nielsen and Gudergan (2012) have defined SAs as follows: “a strategic alliance involves two or more legally distinct organizations (parents), each of which actively participates, beyond a mere investment role, in the decision-making activities of the joint venture (JV).” For a SA to be considered international, “at least one partner is headquartered outside the venture’s country of operation or the venture has significant levels of operation in more than one country” (Nielsen and Gudergan, 2012). It does not matter whether the form is equity or non-equity “contractual” (Silva, Bradley and Sousa, 2012).

Internationalisation offers firms opportunities that may not exist in the local market. Combining experiences and resources in ISAs can help overcome obstinate problems that cannot be solved by confrontations or competitions (Roy and Oliver, 2009). Hence, they have grown exceptionally and steadily in terms of frequency and magnitude since the 1970s (Beamish and Lupton, 2009; Das and Teng, 1998; Park, 2011; Damanpour, et al., 2012; Roy and Oliver, 2009). For emerging economies, ISAs are very important, with a contribution of more than 60% of foreign direct investment (FDI) in the last few decades (Damanpour, et al., 2012). However, with opportunities, risks and challenges exist (Sirmon and Lane, 2004; Park and Ungson, 1997); whether during the formation or post-formation phases (Damanpour, et al., 2012).

SAs are a source of expansion for many companies. Nevertheless, they present many managerial challenges due to their complicated nature (Tsang, 1998). Despite the increasing number of alliances, many are still failing to meet their partners’ expectations (Gill and Butler, 2003). High SA failure rates have been deliberated over in the literature for over three decades (Bleeke and Ernst, 1991; Pak, Ra and Park, 2009; Silva, et al., 2012), and are still unsolved. This problem is more apparent in international alliances due to, for example, lack of trust (Das and Teng, 1998; Ring and Van de Ven,

1994), opportunism (Das, 2005), poor organizational integration (Gulati and Singh, 1998), strategic incompatibility (Ariño and de la Torre, 1998), or cultural distance (Brown et al., 1989; Lane and Beamish, 1990).

International alliances entail different partner objectives, and cultural backgrounds, which creates difficulties for firms in achieving the required level of coordination (Das and Kumar, 2010).

The popularity of SAs has encouraged many researchers to investigate the factors that lead to their success or failure. A review of the literature has revealed some of these factors; SA motives (e.g. Das and Teng, 2000; Kaplan, et al., 2001), environment (e.g. Young-Ybarra and Wiersema, 1999), asset specificity and perception of opportunistic behaviour (e.g. Judge and Dooley, 2006; Parkhe, 1993; Young-Ybarra and Wiersema, 1999), partner selection (e.g. Robson, 2002), interdependence between alliance partners (e.g. Mohr and Spekman, 1994), trust, commitment and communication between supply chain partners (e.g. Das and Teng, 1998; Kwon and Suh, 2005; Mohr and Spekman, 1994), and culture (e.g. Beugelsdijk, et al., 2006; Sambasivan and Yen, 2010).

The successes of ISAs have been the centre of much debate in the literature. Some academics have argued that one success factor is a firm's possession of alliance capabilities (Adnan and Khanna, 2000). As result of the increasing importance of SAs to firms' strategies, many authors believe that alliances capabilities are now seen as a source of competitive advantage (Dyer and Singh, 1998; Gulati, 1998; Ireland, Hitt and Vaidyanath, 2002; Schreiner, Kale and Corsten, 2009). This has resulted in a push towards more research on the area of alliance capabilities (Schreiner, et al., 2009).

Despite the wealth of articles addressing the management of ISAs, there are still calls for more research. Brouthers (2013) have called for further research to improve our understanding of "...what works, where, and why". The objective is to provide "empirically backed recommendations" that will allow managers to effectively manage their international business (Brouthers, 2013). It is a call joined by Damanpour, et al. (2012); as well as Beamish and Lupton (2009), who affirmed the need to better understand the reasons behind alliances' success and failure. Furthermore, they have urged researchers to focus on the issue of post-formation management, and expansion from the formation phase. They argue that continuous sharing of resources, capabilities and knowledge is important for ISAs to be successful.

In the rest of this chapter, we will talk about the research aims, objectives and questions. After that, we will explain the structure of thesis, and provide brief descriptions of each chapter.

## **1.2. Research Aims, Objectives and Questions**

The previous section has summarized some of the gaps in ISAs literature. Saudi firm motivations and their partner selection criteria are largely unknown, aside from speculations in various articles. Whilst the motivations of firms from developed countries have been extensively studied in the literature, the perspectives of firms from developing countries have been largely neglected (although there has been a limited emergence of articles looking into this area). The findings of these studies cannot be generalized, given the different economical and geopolitical reality of these countries. The roles of cultural factors have been controversial topic in the literature, with mixed results. This study takes a step towards understanding the causality between cultural factors and learning and performance in general. It provides some of the information needed to understand performance determinants. There is a lack of knowledge regarding the state of ISAs in Saudi Arabia in terms of their management, performance, obstacles, and success factors. A country with over three thousand ISAs and which is part of the G20 are in a serious need for empirical studies. The local context is of extreme importance in international business research; MacDuffie (2011) argues that it is best to provide country-specific as well as general hypotheses where the data allows for testing both types.

Sekaran (2006) defines a research problem as "any situation where a gap exists between the actual and desired state" (p. 112). In this case, there is certainly a gap which needs to be filled. Saudi Arabia is not merely an unexplored context; it represents a place and a region dominated by strong culture and tribal codes. The data from this study represents a valuable addition to the literature in terms of understanding the influence of some cultural elements on the performance of ISAs. Furthermore, it will be an opportunity to understand how Saudi firms failed over 40 years to reduce their reliance on foreign technical competencies; Saudi firms are still heavily dependent on their foreign partners. This research aims to identify some of the causes for this apparent failure. Moreover, the area represents a unique economic context; that of a wealthy developing economy.

There are many possible reasons for the dearth of research into ISA management and management in general in Saudi Arabia. There is a lack of research culture and weak output from the country's universities. This has created a poor research foundation and lack of data regarding any existing field. Saudi's position and its aspiration to be a developed economy cannot be achieved without a research culture and rigorous analysis of existing problems surrounding the country. The study aims to contribute to bridging the existing gaps and provide a better understanding of ISA management in Saudi Arabia. The primary data will provide a foundation for future research and a stepping-stone towards enriching international business research in general, and Saudi Arabia in particular.

The thesis has two main aims. The first is to understand Saudi firms' motivations and selection criteria. The second is to understand the factors affecting the management of ISAs. The following research questions were the primary guide for this research. The study aims were to answer the following questions:

- Question 1: What are the main motivations for engaging in ISAs in Saudi Arabia?
- Question 2: On what basis do firms select their partners? How far are their decisions influenced by their motivations?
- Question 3: What are the factors affecting learning within ISAs?
- Question 4: How far do cultural factors affect the performance of ISAs?

The first empirical chapter (Chapter 4) addresses Questions 1 and 2. The second empirical chapter (Chapter 5) addresses Question 2. Finally, the third and fourth empirical chapters (Chapters 6 and 7) address Question 4.

The first empirical chapter complement the existing research on ISA motivation and selection criteria. It offers an extension to the existing knowledge by arguing that the motivation of Saudi firms will be different from those identified in the literature. The first empirical chapter in this thesis contributes to the ISA motivation and selection criteria literature by illustrating that the motivation of Saudi Arabian firms is different from the motivations of the emerging market firms identified in previous studies. Consequently, the chapter investigates the ISA motivation and selection criteria of Saudi firms.

Many scholars have urged researchers to look into the perspectives of emerging market firms, a call that was answered by Dong and Glaister (2006). However, we argue that not all emerging markets share the same motives and selection criteria. Despite this, we acknowledge that firms from developed economies do share similar motives, but that local firms will have different motives, due to the various micro and macro “institutional” factors. The results have supported our hypothesis, which adds new knowledge to the literature on wealthy developing economies.

The Saudi pursuit for knowledge and complementary resources, which is considered one of their main motivations in establishing an ISA, illustrates that knowledge acquisition is an important factor for the success of an ISA. Therefore, in the second empirical chapter, we attempt to identify some of the factors affecting knowledge acquisition from the Saudi firms’ perspective. Since no previous studies have looked into the factors affecting knowledge acquisition in Saudi Arabia, linking some of the Saudi specific factors to the rate of knowledge acquisition will provide valuable information for researchers and practitioners.

There are many factors that affect the transfer of knowledge in an ISA. These factors include absorptive capacity (Lane, Salk, and Lyles, 2001; Mowery et al., 1996), learning capacity (Simonin, 2004), equity arrangements (Mowery et al., 1996), organizational characteristics (Lyles and Salk, 1996; Pak and Park, 2004) and knowledge traits, such as ambiguity (Simonin, 2004), tacitness (Dhanaraj et al., 2004), and stickiness (Jensen and Szulanski, 2004; Pak et al., 2014).

This study analysed four factors (tacitness, level of communication, trust, and number of expatriates) that could influence knowledge acquisition. These four factors are not all inclusive, but they do lay a basic foundation for extensive future studies that focus on the factors that influence knowledge acquisition.

This chapter aims to answer the third research question. Consequently, the factors that affect knowledge acquisition from the Saudi partner perspective were identified. The results of this chapter are of great importance, as they highlight the part that tacit knowledge and communication play in improving knowledge acquisition. Although the results from the trust and expatriate numbers were rather surprising, this information enabled us to reach important conclusions that are of great importance to practitioners and policy-makers to improve the capacity of the country to acquire knowledge.

Trust is an important factor in international interorganizational relationships; it is influenced by the home country of both partners (Ertug et al., 2013). Previous studies have classified trust as a single construct. This study, however, has classified trust into three constructs: personal trust, distrust, and competence trust. As such, the role of each dimension on the performance of ISAs is tested. In addition, the moderation and mediation role of each one of the dimensions is also tested.

The results offer a significant contribution to the current body of literature in terms of furthering our understanding of the role of trust (and other mediators) on ISA performance. The analyses included looking into how precisely each construct effects performance and how other factors might moderate or mediate the relationship.

The fourth empirical chapter looks into the role of culture in a country heavily pinned to its cultural heritage. More specifically, culture is looked at from a different perspective, as cultural distance has, in this context, a positive influence on ISA performance.

Cultural distance, as a source of ISA success, has recently received some support. Malik and Zaho (2013) found that cultural distance in learning alliances (high-technology sector) contributes positively to the duration of the alliance. We argue that cultural distance has a positive effect on knowledge acquisition. The learning that takes place in the ISA enhances the alliance performance (Pak et al., 2014). Hence, we have attempted to explain the role of cultural distance, since the literature is full of conflicting results. In addition, we illustrated when and where the cultural distance has a positive effect.

A number of scholars have suggested a causal relationship between cultural understanding and ISA performance. However, little or no empirical evidence have been provided, especially in the Saudi Arabian (developing countries) context. As such, the findings in this study establish the causal relationship between cultural understanding and ISA performance. We hope that this information can motivate managers to invest more in cultural understanding training.

### **1.3. Originality and Contributions of the Thesis**

This study is exploratory in nature; the literature described the factors in this thesis as key factors in affecting ISA performance. However, as of yet, few studies have offered a clear framework for the conditions where these factors have an effect on the ISA in terms of performance and knowledge acquisition. Furthermore, no studies have

attempted to explore the successful factors of ISAs management in the Saudi Arabian context, and the gulf countries, in general.

The motivation of this study is a need for a better understanding of the management of ISAs. The primary focus of the study is the investigation of the motivation of ISAs in the Saudi Arabian context. This includes a better understanding of some of the variables affecting knowledge acquisition and a better understanding of how soft factors can affect ISA performance. There is a lack of research which integrates these factors. Hence, this study employs the perceptual measures for these variables, of which there is a current gap in the literature. As such, we attempt to fill these gaps by collecting data directly from the directors of firms involved in the ISAs.

This study focuses on several variables, among them, communication has been highlighted by researchers as affecting ISA performance. Communication is an integral part of culture; the way in which business organisations communicate, both internally and externally, is a culturally defined process.

This research is the first investigative study to explore the role of soft factors on the performance of ISAs within the Middle East.

This study will attempt to contribute to a better understanding of ISAs in Saudi Arabia by the introduction of rare data. In this study, we do not claim that one factor alone affects the performance of ISAs. Decades of ISA research have proven that a pot of factors form a force that affects the performance in a certain direction. As such, in this study, we identified these factors, hypothesised their relationship with each other and with their performance in the Saudi Arabian context. In a way, we call for looking at each context differently and take the institutional factors into account, as the same factor could react differently in different contexts.

The intentions of this study are not to develop a new theoretical perspective of ISA management and performance, but rather to work within the context of the existing theoretical views. Chapter 4 builds upon existing literature; it examines similar hypotheses, but with an extension to a different dataset.

Drawing on theoretical rationales for ISA, this study engages in empirical research in Saudi Arabian firms engaged in ISAs. It attempts to further our understanding of ISAs based on the differently characterized developing economy context. This study makes the following contributions to the theoretical debate by extending the current knowledge

and theories into new and unexplored context. The study offers an integrative framework of trust and culture as the antecedent factors in ISAs performance. These factors have been previously investigated, however, they need to be viewed and conceptualized as an integrative framework, not as a separate phenomena. One of the study contributions is to provide structure as to when these factors can affect ISA performance.

Our other literature contribution is providing the empirical results of ISAs in a developing economy with unique institutional and economic characteristics. Previous research has focused on developed economies; however, the current research primarily focused on China and the Far East. It rarely, if ever, looked at the Middle East, and the gulf countries, in particular.

This study provides some empirical findings based on the Saudi Arabian context. The empirical findings illustrate that some of the western theories might not be applicable to every context. The findings of this study are important in relation to providing useful insights into an established and growing ISA in a wealth emerging economy context.

The focus of the study is on culture, trust, and communications between ISA partners and the performance of ISAs. The study builds upon the existing literature by examining new data and providing new empirical insights. The data was collected by means of an e-mail questionnaire.

What distinguishes this study from others is that it examines the perspectives of the respondent firms on how "soft" variables influence ISA motivation, selection criteria, knowledge acquisitions, and performance.

A major contribution of this study has been the identification of the areas not previously explored. There are new variables that have been suggested as affecting ISA performance. These are the three trust construct variables: personal trust, distrust, and competence trust.

This study has also contributed to a better understanding of ISA performance by focusing on the soft variables suggested in the literature as having an influence on ISA performance (e.g. culture, trust, and communication). The literature has looked at these variables previously, but has not investigated the relationship between these variables and how they react with each other in relation to ISA performance.

Trust in alliance has received increasing attention in the literature. However, little systematic research has been done in the ISA context. Hence, trust "remains an under-theorized, under-researched, and therefore, poorly understood phenomenon" (Child, 2001, p. 274). In this study, we provide a framework of trust dimensions and how these dimensions react with other variables and with each other in relation to ISA performance. The objective of this study is to further our understanding of ISA trust and provide more empirical evidence.

On a final note, the study substantially contributes information to scholars and practitioners interested in an ISA performance antidote in developing economies; this is particularly for the case of Saudi Arabia. The difficulty and the lack of the research concerning this area means that this data is rare. Despite the data being rare, in this study, we achieved the research objectives.

The thesis faced many obstacles in order to collect the necessary data to conduct this study. There were no currently available databases to withdraw data from. Hence, I built a database from scratch following the "the literature counting method".

By explaining and experiencing the difficulties, this will aid researchers in future studies on Saudi Arabia and help them to avoid some of the associated difficulties faced by this particular researcher. The suggestion for future studies can be of great help for researchers interested in doing their studies in Saudi Arabia in the context of an ISA.

In the next and last section of this chapter, we explain the structure of the thesis in more detail. We also explain the function of each subsequent chapter.

#### **1.4. Structure of Thesis**

The thesis consists of eight chapters. The first chapter starts with background information highlighting the research problems and gaps that motivated the study. Furthermore, it discusses the aims and objectives of the study and its research questions, and demonstrates how the study progresses beyond previous research in various ways. The chapter ends by explaining the thesis structure.

As the main purpose of this research is not to develop new theories, it was thus important to conduct an extensive review of ISA literature. Chapter 2 therefore presents a comprehensive literature review of ISA research, and an overview of the Saudi context. The chapter consists of five sections. The first section starts by defining

selected internationalization theories, transaction cost economies, the resource-based view, and organizational learning and its applicability in ISAs. The second section reviews the role of culture in strategic alliances. The third section discusses learning determinants in strategic alliances, and the relationship between learning and ISAs. The fourth section is an overview of ISA performance and performance measurement. The last section provides the background to the Saudi demographic, economic, political, and social culture, which can affect the success of ISAs.

Chapter 3 discusses research methodology and the methods employed. The chapter explains in detail the research design, research strategies, sampling procedures, data collection, and data analysis. It makes a detailed consideration of the use of surveys and the rationale for using the survey method in this study. These are discussed with a focus on the issue of data quality, reliability, and validity.

Chapters 4, 5, 6 and 7 are the core of the thesis, and contain the empirical findings of the study. Inevitably, they are long and detailed, and each chapter provides a combination of theoretical review and methodological evaluations of the ISA concept, followed by hypotheses development. The second part of each of the two chapters begins by explaining the variables, instruments, and statistical analysis employed. Finally, the empirical results are presented, and are followed by an evaluation of the study's results in relation to the research problem and objectives. The study's limitations and implications are considered, and recommendations are made for future studies.

Chapter 4 investigates partner selection criteria in ISA formation. The study differentiates between task-related and partner-related selection criteria. The findings from this study give a rare insight to the thinking, motivation, and partner selection criteria of Saudi firms. This chapter answers the first and second research questions of this study: (1) What are the main motivations for engaging in ISAs in Saudi Arabia? (2) On what basis do firms select their partners? How far are their decisions influenced by their motivations?

Chapter 5 examines the effect of several factors on knowledge acquisition. It first considers the role of knowledge tacitness, numbers of expatriate, levels of communication, and personal trust on knowledge acquisitions. This chapter primarily

answer the third research question: (3) What are the factors affecting learning within ISAs?

Chapter 6 examines the effects of three trust dimensions (personal trust, distrust, and competence trust) on performance. The study has responded to calls from researchers for an in-depth study on trust. By breaking the concept of trust into different dimensions and testing them, the study has made a valuable contribution to the existing literature. This chapter partially answers the fourth research question: (4) How far do cultural factors affect the performance of ISAs?

Chapter 7 investigates the effects of culture on ISA performance. It tests the influence of factors like cultural understanding and communication on ISA performance. This chapter, along with Chapter 6, contributes to answering the fourth research question (4) How far do cultural factors affect the performance of ISAs?

Chapter 8 concludes the thesis. It begins by summarizing the study's findings and contributions, and reflects on the study's contribution to ISA research and practice.

The following chapter provides a review of the primary theoretical perspective on ISA formation transaction cost economies, the resource-based view, and organizational learning. Then, it reviews the role of culture in strategic alliances, and discusses the learning determinants in strategic alliances, as well as the relationship between learning and ISAs. This is followed by a discussion on ISA performance and performance measurements. The chapter concludes by providing a detailed review of the study context. The review is both general and theoretical in nature; note that other key areas of the literature are reviewed more thoroughly in Chapters 4 to 7.

# Chapter Two: Literature review

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## 2.1. Introduction

This chapter is divided into five sections. The first section 2.1 looks into the theoretical perspectives on ISAs (ISAs) formation. The second section 2.2 reviews the literature and the theories on culture and cultural differences in ISAs. The third section 2.3 will review some classic literature on organisational learning. Furthermore, it explains some organisational learning concepts like absorptive capacity, explicit and tacit knowledge. The fourth section 2.4 is a review of some of the classic literature on measures of performance in ISAs. Classic measurement such as objective or subjective measures of performance is examined in detail. The last section 2.5 is background information about this study context Saudi Arabia. It includes details information about its' economy, business environment, institution, and culture.

## 2.2. Theories of Strategic Alliances Formation

### 2.2.1. Introduction

ISAs have gained increasing popularity across all sectors, especially in 'knowledge intensive' industries, in recent years (Chen and Chen, 2003). Firms have found that SAs could provide them with the "flexible and less binding relationships" that are needed in an uncertain environment. At the same time, it will allow them to respond to competitive changes and pursue new technological development, products, and markets to create desired synergy by combining resources and spread out fixed cost (Young and Wierseman, 1999; Ohmae, 1989; Chen and Chen, 2003).

Previously firms engaged in SAs only to access new markets, especially in countries where they have strict laws against foreign investment. At present with the changes in market conditions, it can be noticed that firms seek to form alliances, even with their direct rivals (Glaister and Buckley, 1996). The major American firms, including IBM, GM, General Electric, have set up many agreements with their international and local rivals (Hennart, 1988).

External diversification (through acquisitions and SAs) is an important tool for managers to add up to their existing know-how and knowledge, widening their economy

of scale, growth, and spreading risk. It helps them to achieve their desires to "bridge" the distance between their current knowledge and the one they aspire (Pennings, et al., 1994; Parkhe, 1991; Hamel, 1991). Furthermore, collaboration between firms provides an opportunity for organizations to improve their position through internalizing the skills of the other partner (Hamel, 1991).

This section will discuss the theories of ISAs formation. It will start by discussing transaction cost theory; secondly, it will discuss the resources based view; lastly, we will discuss the organizational learning theory, before we conclude the section.

### **2.2.2. Transaction Cost Theory**

In transaction cost theory (TCT), the economic transaction is the focus of the analysis. Glaister (1996) described a transaction as an exchange of goods and services between two parties. Oxley (1997) claimed that the transaction analysis is "aligned with governance structures".

Williamson (1975, 1985), who first proposed the theory to explain transaction costs, divided transaction costs to ex ante and ex post costs. Ex ante refer to "the costs of drafting, negotiating, and safeguarding an agreement" (1985: p. 20). While ex post costs include "(1) the maladaptation costs incurred when transaction drifts out of alignment; (2) the haggling costs incurred if bilateral efforts are made to correct ex post misalignments; (3) the setup and running costs associated with the governance structures (often not the courts) to which disputes are referred; and (4) the bonding costs of effecting secure commitments" (Williamson, 1985: p. 21).

The key question in the TCT is, what is economically more valuable to undertake market or hierarchy (internally within the firm)! The answer depends on the cost of the transaction; if the cost of the transaction via the market is higher, then it is more economically valuable for the firms to 'internalize' the transaction within the firm (Glaister, 1996).

There are factors that lead to market failure and force firms to resort to more hierarchical mode of organizations. These include institutional factors, like economic uncertainties, and human factors like bounded rationality and opportunism (Williamson, 1975; Glaister, 1996).

### 2.2.2.1. Transaction Cost Rationale for Strategic Alliances

The basic concept of TCT of SAs is to minimize the transaction cost and production cost under certain circumstances by regarding the SAs as a kind of organization form (Chen and Chen, 2003; Das and Teng, 2000; Hennart, 1988). The TCT has been used to determine the best cross border entry mode strategy based on economical reasoning (Williamson, 1985). The firms usually have a choice between wholly owned subsidiaries (hierarchy), joint ventures (hybrid mode), and licensing (market transaction) (Glaister and Buckley, 1996).

The presence of inefficiencies in the intermediate markets encourages the formation of JVs, because they can be used as a device to bypass market inefficiencies (Glaister, 1996). Furthermore, the TCT emphasises on the use of alliance as a means to reduce costs, especially transaction costs related to technology transfer, and the costs of extending vertical links (Glaister and Buckley, 1996; Hennart, 1988; Glaister, 1996). It tends to focus on explaining the structures of organization, and how it can be structured more efficiently in governing the economic activities of the organization, whether through contractual or equity share agreements (Chen and Chen, 2003).

The favourite form of governance according to TCT perspective is the form that enables the firm to save more, whether that is an acquisition, JV, greenfield, or any other form of alliances (Chen and Chen, 2003).

The choice between JVs, acquisition or wholly owned subsidiary (WOS), is down what is economically more valuable. WOS were thought to be superior to JVs because it allows the firm to maximize the returns, without the need to share it. However, Hennart (1988) argues that setting up a WOS to replicate a particular asset is more expensive than sharing use of the asset at low or zero marginal costs. Beamish and Banks (1987) argued that despite transaction costs associated with enforcing agreement, well-executed JVs can provide a better solution. JVs when established in 'a spirit of mutual trust and commitment', can easily overcome the conditions causing market failure (Glaister, 1996). The other option is a full take-over. However, this option is less efficient in comparison with SAs, especially when the wanted assets cannot be separated from the unwanted ones. This will force the acquirer to enter unwanted fields, and cause managerial problems as a result of the sudden expansion (Glaister, 1996).

Hennart (1988: p. 34) argues that there are four cases when forming JVs is better. The first case in which JV represents superior solution is when the required products or knowledge is easier to acquire from the JV comparing to the market. The second situation is when firms enter a new market. Firms entering a market for the first time lack local market knowledge, which increases the transaction cost. Thirdly, when the local firms control resources, especially natural resource, JVs represent an optimal solution. Lastly, particular resources, e.g. know-how, infer high transaction cost. In this case, by combining firms' complementary resources, JVs can help firms overcome the uncertainties surrendering these resources.

#### **2.2.2.2. Behaviour Uncertainty**

There are some risks when two companies engage in an alliance involving particular assets, especially for the firm who contributes such an asset. The risk spur from partner firm acting in an opportunistically and seeking its own interests (Chen and Chen, 2003). According to TCT, it is assumed that SAs partners will behave in an opportunistic way (Young and Wiersema, 1999).

The need for a SA increases when relying on independent suppliers involves excessive transaction cost (Hennart, 1988). Therefore, firms engage in a contractual relation, in the form of a SA, to protect itself from the supplier's price control. SAs limit the opportunistic behaviour of the other partner, because it aligns the incentives of both parties (Hennart, 1988).

Furthermore, there are risks associated with inter-firm alliances that involve technology transfer. It is obvious when the nature of technology and related knowledge 'know-how' is difficult to be specified in contracts. Thus, making the prescribed activities difficult to monitor; hence increasing the chances of one partners acting opportunistically. These hazards are magnified due to 'tacit knowledge' weak property rights. Thus, firms have developed a strategy in forming SA to govern the cooperative efforts in creating or exploiting technologies (Oxley, 1997). This explains why SAs, rather than technology transfer through licensing, are the favourite mode of transaction when transaction costs are high.

Additionally, according to the TCT, one of the motives to form SAs is to create "hostages". Hostages, according to the TCT, are types of safeguards to curb the opportunistic behaviour of partners (Young and Wiersema, 1999). Creating a hostage

mode will facilitate “ex ante screening of targets and ex post enforcement of contracts” (Chen and Hennart, 2004).

Organizations that form several SAs with partners create what is called “mutual hostages” arrangements. This means that the failure of one alliance may threaten the strength of the others; therefore, this arrangement will strengthen and protect the stability of the focal SAs (Young and Wiersema, 1999).

#### **2.2.2.3. Technological Uncertainty Efficiency of Acquiring ‘Tacit’ Knowledge**

There are two types of functional alliances: technological and marketing alliances. The technological alliances involve cooperation in upstream value chain activities, for example R&D, engineering and manufacturing. It, also, involves production and knowledge sharing (Das, Sen and Sengupta, 1998).

The technological uncertainty has risen due to the pace of innovation in technology. A new technology can challenge any technological development project taken by an organization. As a result, the firms have taken measures before engaging in any technology dependent projects that carry high uncertainty. These projects raise the transaction costs. Thus, alliances tend to be chosen as more hierarchical form of governances (Chen and Chen, 2003).

Some type of knowledge cannot be written down and difficult to codify. These types of knowledge is firm specific asset (i.e. those cannot be acquired separately), like marketing or production know-how (Hennart, 1988); hence, it cannot be patented. This kind of knowledge is called 'tacit knowledge', it represented by the firm's experience in manufacturing and marketing products, the knowledge of local customers, markets, and policies. This kind of knowledge cannot be embodied in designs, specifications, and drawings. Instead, it is embodied in the individual and can only be exchanged through "intimate human contact" (Glaister, 1996). Therefore, the exchange of patents in this type of knowledge will not yield any results, unless it's accompanied by personnel transfer (Hennart, 1988; Glaister, 1996).

The cost of transferring know-how and tacit knowledge is high, and when it comes to tacit knowledge it is almost impossible for both parties to know or assess the value of knowledge transfer. The buyers do not know what they are buying, and the sellers do

not know how much it will cost them to affect the transfer. Many human and technical problems will arise after the contract is signed.

The sellers after being paid have a little incentive to provide continuous support, and the buyers may misrepresent its needs or capacity to absorb the knowledge.

Therefore, common ownership, such as SAs as a form of hierarchical coordination will be the best choice to effectively, and efficiently transfer the knowledge (Glaister, 1996, Hennart, 1988). It provides parties with fewer incentives to cheat. Both parties are now rewarded by their obedience to managerial directives, not by amount of information transferred (Glaister, 1996).

There is an extra motive for technology dependent start-ups and young firms to form SAs. Since, they have no track records, it is difficult and costly to get the fund needed for their risky ventures, for example, R&Ds (Hennart, 1988). Small R&D dependent firms engage in SAs with a larger firm to finance projects they cannot fund internally or through capital market (Hennart, 1988). Thus, SA is more efficient and less costly methods for funding their risky projects.

#### **2.2.2.4. Complementary Resources Reduce Costs**

Combining resources and the possibility to realize synergy by pooling their complementary resources have been considered as a driver for the formation of many SAs (Das, et al., 1998; Chen and Chen, 2003). When the resources of both partners complement each other, it reduces the risk of exploitation. Their interdependency to each other resources will make their partnership work better and reduce the rivalry risk. Therefore, the partnership can work with a minimum level of control and costs (Chen and Chen, 2003).

In order for a producer to lower their transaction cost when entering a new market, they tend to enter an agreement with a local distributor. They have the physical capital and local market knowledge, which will lower the cost of setting up distribution channels from the scratch (Hennart, 1988).

### **2.2.3. A Resource Based View of Strategic Alliances**

The resources of a firm play a significant role in laying down the foundation of the firm's strategy (Glaister, 1996). The resources and capabilities of the firm, as the primary source of profit, are the firm's strength. They use them to implement strategies that improve its efficiency and effectiveness (Barney, 1991; Grant, 1991). There are direct links between resources and profitability, which increases the importance of strategically managing these resources (Grant, 1991). This happens through economizing the use of resources by maximizing its productivity, especially tangible resources; or/and employing existing assets in more profitable use, which will generate substantial returns (Grant, 1991).

Firms' resources consist of its all asset of physical, human, and organizational capital resources, which include, for example, knowledge, organizational structure, experience, connections, copy rights, culture ...etc. (Barney, 1991; Tsang, 1998).

Creating capabilities requires coordination between people and people and other resources; the mere assembly of a set of resources will not create a capability (Glaister, 1996; Grant, 1991).

Resource based view (RBV) aims to analyse and explain the reasons behind SAs formation (Lubatkin, 1983). According to the theory, firms engage in SAs to find valuable resources they lack, and gain or preserve control over certain resources (Chen and Chen, 2003). It argues that the motives for forming alliances are to create value by pooling the resources of the firms (Chen and Chen, 2003).

#### **2.2.3.1. Resource Based Rational of Strategic Alliances**

Das, et al. (1998) suggested that firms forming alliances to access innovative technology usually have limited options. Thus, they are more dependent on the alliances. Some scholars Eisenhardt and Schoonhoven (1996), and Das and Teng (2000) have found that these form of alliances are likely to occur when both partners in need for resources "vulnerable strategic position". Or else, when they are in socially strong position, and possess valuable resources and intent to share and utilize it. Scholars have recognized that no firm can create all resources needed in order to grow and prosper. It has become more important for the firms to collaborate with other firms that hold complementary resources in order to develop, and even survive. Combining resources is

a valuable tool for organizations to exploit new business opportunities (Dussauge, Garrette and Mitchell, 2000).

Economic reasons are not the only rationale for SAs. Other rationale is to create value from pooling the resources together to have access to valuable resources that cannot or expensive to be obtained through market exchange (Das and Teng, 2000).

The characteristics of the resources, such as imperfect mobility, limitability, and substitutability, play a vital role in alliance formation (Das and Teng, 2000). According to the organizational learning, JVs are a vehicle for firms to “learn or seek to retain their capabilities”. Knowledge cannot be diffused easily across firms. It is more costly to acquire it through licensing and it is not always successful. This is because ‘tacit knowledge’ is an organization embodied. Thus, SAs in the form of EJVs are the best way to transfer this kind of resources (Kogut, 1988).

#### **2.2.3.2. Creating Synergy**

The resources based view emphasizes on the process of maximizing the value of the firm through pooling and utilizing valuable resources. A firm in possession of valuable resources, not possessed by competitors, will have a competitive advantage if they engage in value creation strategy (Das and Teng, 2000).

Firms engage in SAs to have an opportunity to combine their resources. The combined resources have the potential to create synergy and create valuable, unique, and difficult to imitate resources. These resources will improve the firm performance and create competitive advantage. Moreover, it will provide opportunities for the firm to enhance their learning experience and develop new capabilities, which will help the firm to sustain its competitive advantage for a longer period (Harrison, et al., 2001).

#### **2.2.3.3. Sustain Competitive Advantage and Developing Resource Base**

The essence of strategy formation, according to resource-based view, is to set strategies that efficiently use the firm's resources and capabilities. Moreover, for the firm to sustain its competitive advantage and remain competitive, it should focus its strategy on developing the firm's resource base, not only on utilizing the existing resources (Glaister, 1996).

According to the resource-based view of organizational strategy; strategies primary task is not restricted to maximize rents using existing resources. But, also, developing the firm resource by “filling the gaps” and upgrading its capabilities to sustain the firm’s competitive advantages. Such ‘upgrading’ requires a clear strategic direction on how to develop the capabilities that form the base of the firm’s competitive advantages.

It might be necessary for the firms to acquire external complementary resources to improve its competitive advantage for the future (Grant, 1991).

RBV view of sustained competitive advantage explains that firms cannot obtain the necessary resources from open markets; but rather from a firm that already controls it. The reason is these resources are "rare, imperfectly imitable, and non-substitutable" (Glaister and Buckley, 1996).

Barney (1991) argues that RBV is based on two different assumptions: resources heterogeneity and immobility. They are both related to the concept of sustained competitive advantage. According to Barney (1991: p. 206), “A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when there other firms are unable to duplicate the benefit of this strategy”.

The returns from the firm’s resources and capabilities depend on its ability to sustain its competitive advantage (Grant, 1991). A firm's strategy can create competitive advantage if current or potential competitors do not implement the same. These competitive advantages can be sustained only if a competitor cannot replicate them (Barney, 1991). "Firms sustain competitive advantage by constantly improving and upgrading the source of advantage" (Glaister and Buckley, 1996). This is linked to the heterogeneity and immobility of the resources.

Many companies may possess valuable resources; though, valuable resources alone cannot be sources of competitive advantage. Valuable resources along with other attributes, like rarity, inimitability, and non-substitutability can then be qualified as a source of competitive advantage or sustain competitive advantage (Barney, 1991; Grant, 1991; Glaister and Buckley, 1996). SAs are formed to create new capabilities. The existing resources of the two firms separately could be insufficient to produce the needed new capabilities. Therefore, firms combine their resources and, through the synergistic process, they develop the required capabilities (Glaister and Buckley, 1996).

#### **2.2.3.4. Expansion and Diversification of Resource Usage and Creating Rent**

The companies undertake greater risk if they try by themselves to diversify into another business. They will face greater difficulty, which includes set up cost, lack of managerial experiences, and many technical problems. Therefore, forming strategic alliances with more experience firms in other industries is much easier and safer. Firms' combined resources are more likely to create synergy compared if going solo. The same logic applies if the company wants to expand internationally in the same industry for bigger market share. It is faster and safer to utilize the existing resources internationally through SAs. In both cases if the firm decided to rely on itself, it will lose the efficiency required to utilize fully the potential of its 'unique' resources (Tsang, 1998; Markides and Williamson, 1996; Mahoney and Pandian, 1992).

In finance, it is suggested that risks can be minimized by diversifying the assets portfolio. This is common in businesses that require constant innovation, like pharmaceutical and technology dependent industries, who aim to diversify their resource usage. The rising cost of R&D and the speed of technology development have encouraged firms to spread their fixed cost over bigger market base (Ohmae, 1989). For example, the cost of R&D for pharmaceutical companies is high, and there is no guarantee that the outcome product can be commercially viable or that they are the first to introduce it. Therefore, many companies tend to have SAs with other companies to spread the cost and risk. In addition, it is notable that the same trend has taken place in technology dependent industries. A company like IBM has struck many partnership deals with many companies, including direct competitors (Tsang, 1998).

Rents can be defined as 'the generation of above-normal rates of return' (Mahoney and Pandian, 1992). Maximizing rents is one of the main targets of RBV to strategy formation (Grant, 1991). It is well known that firms try to increase their long-term profits, and try to react to every opportunity present. Therefore, firms try to put their idle resources into use; especially scarce resources, for instance, new technology, lands, locational advantages, patents and copyrights (Mahoney and Pandian, 1992; Lubatkin, 1983). More so when supply cannot meet the demand. Some resources have the ability to provide at least one productive service simultaneously, and due to the constant changes in technology, it is very important for the firms to squeeze as much benefit as possible within a short time. Therefore, firms always try to expand the usage of these resources and generate rents (Tsang, 1998).

Rents can be generated from the ability of an individual resource or a combination of resource that together create a scarce resource; even if individually are not scarce resources (Tsang, 1998).

#### **2.2.4. Organizational Learning**

The intensive global competition has increased the importance of timely acquisitions of crucial skills. Collaboration between firms provides an opportunity for organizations to improve their strategic positions through internalizing the skills of the other partner (Hamel, 1991). In the last few decades, inter-organizational learning among other motives has become an important motive for creating ISAs. In ISA the two firms forming the alliance seeks to learn from each other, as learning becomes essential for surviving (Lane, et al., 2001). Firms engage in these alliances to create economic value and acquire knowledge via socializing, internalization, or combining different kinds of explicit and tacit knowledge to create new knowledge to enhance their competencies (Kumar and Nti, 1998; Makhija and Ganesh, 1997; Lyles and Salk, 1996).

Scholars have defined organizational learning as the successful restructuring ‘by individuals’ of organizational problems and understanding of growing insights. This coupled with the aim to improve actions through better knowledge and understanding (Fiol and Lyles, 1985; Makhija and Ganesh, 1997; Parkhe, 1991). Hayward (2002) defines organizational learning as a process in which firm engage in action, draws some conclusion, and finally uses these insights to guide future experience.

Knowledge is associated with human action. Individuals create knowledge, while organizations build the platform for individuals to create knowledge (Lyles and Salk, 1996). However, it should be noted that organizational learning is not primarily the cumulative result of individual learning. Organizations learn from history that defines their routine, and includes culture, rules, procedures, norms, strategies, and conventions. It also includes frameworks, paradigms, codes, and beliefs. Routines are transmitted through different means, including SAs, M&A, socializations, and imitations (Levitt and March, 1998; Fiol and Lyles, 1985).

Organizations have adopted different methods to gain and increase their knowledge, such as learning from experience, learning by observing other companies, and grafting (Huber, 1991; Levitt and March, 1998). Grafting can be done in small scale by

acquiring individuals, or large scale by acquiring a whole company. A clear example is when General Motors acquired Ross Perot's corporation, EDS. The motive behind the acquisitions was to attain EDC expertise in information systems (Huber, 1991).

The next sections will focus on how learning, from the perspective of organizational learning theory, can shape up firms' expansion strategies.

#### **2.2.4.1. Organizational Learning and Expansion Strategies**

The firms in standard microeconomic theory are characterized by a "production function or production set". These functions are considered implicit because the knowledge can be articulated and written in a symbolic form "book blueprints"; and therefore they can be replicated or eliminated with more ease (Glaister and Buckley, 1996).

On the other hand, some of the intangible resources of an organization, such as style, values, traditions, and leadership, are in whole part of organizational routines. This 'tacit' knowledge makes the firm's capabilities difficult to articulate (Grant, 1991).

Many authors and scholars have considered organizational theory as a primary motive for the formation of SAs (Kogut, 1988; Hamel, 1991; Glaister and Buckley, 1996).

Considering the market failure when it comes to knowledge transfer because of the difficulty and ambiguity of knowledge transaction, SAs are considered as an excellent tool to acquire 'tacit' knowledge (Glaister and Buckley, 1996).

Individual knowledge (in form of know-how and skills) are tacit knowledge, and cannot be articulated. Kogut (1988) argues that among the methods of transferring tacit knowledge, such as licensing, JVs are the best; the reason in not due market failure or high transaction cost, as transaction cost theory explains, but because simply the target knowledge are organizational embodied. Therefore, it is the best way, or it could be the only way to transfer 'tacit' knowledge perfectly (Glaister and Buckley, 1996)

Kogut (1988) argues that firms may opt to form JVs even if the cost of supply agreement is less; the reason according to Kogut is that the firm wants to learn from the partner superior production technique and exploit the capability in the future.

According to organizational learning, firms engage in SAs if both firms have the desire to learn from each other know-how. Alternatively, a firm seek to benefit from the other

firm's knowledge and cost advantage, while maintaining the firm capabilities (Glaister and Buckley, 1996).

Some scholars argued that organizational learning could have a direct effect on a firm's decision to transfer technology abroad; as after the firm learns about a certain technology, it is most likely that the firm will leverage that knowledge across border (Martin and Salomon, 2003). International growth requires replication of the firm's exciting knowledge in different locations and, at the same time, creating and accumulating knowledge (Martin and Salomon, 2003).

Diversification is an important tool for the managers to add up to their exciting know-how and knowledge, widening their economy of scale, growth, and spreading risk. It helps them to achieve their desires to "bridge" the distance between their current knowledge and the one they aspire (Pennings, et al., 1994; Huber, 1991).

#### **2.2.4.2. Enhancing Future Performance**

The organizational learning theory claims that previous experience plays a vital role in the success of a relationship; especially if it is combined with high levels of training provided by the current parent. Prior experience helps the firms to gain the skills needed to engage successfully in a relationship (Hayward, 2002; Lane, et al., 2001). One of the success factors according to Pennings, et al., (1994) and Makhija and Ganesh (1997) is firms' diversification experience; the greater the experience, the greater the chances that the expansion will succeed.

The ISAs can help create the desired inter-firm diversity, which is needed for future strategic alliances. Each partner will try to "learn through the alliance", and access the skills and technology they lacked at the beginning of the alliances (Parkhe, 1991). Although, learning from previous experience is not associated just with 'quantity', rather with the quality of the experience (Hayward, 2002).

#### **2.2.5. Conclusion**

Firm resources play a vital role in forming SAs. However, despite the 'obvious' importance of resources, the conventional theories on SAs have a different view. Those theories have focused on the organization structural elements, such as "market imperfection" or "control mechanism" which are both connected to transaction cost

theory. The market imperfection stresses that it is not efficient to obtain the desired resource from the market, in comparison to other form of resource sharing schemes, while “control mechanism” shows the best way to allocate and own resource is within the firm (Chen and Chen, 2003).

In general, there are four main objectives for establishing SAs, which are; first, achieving economy of scale and diversifying risks. Second, overcoming new markets entry barriers. Third, using the alliance as device to pool or exchange complementary resources. Finally, avoiding the nationalistic reaction that sometimes triggered when a multinational firm enters a developing country’s local market (Hennart, 1988).

There are some differences between the resource-based view and transaction cost theory. The main assumption of the ‘resource based’ theory is that the firm can maximize its long-term profit through using and better utilizing its resources (Tsang, 1998). In contrast, transaction theory focuses on trying to reduce the production and transactions costs (Tsang, 1998). However, it can be noted from the prior literature that the discussed theories have some overlapping reasons explaining the firms’ motives for engaging in strategic alliances. Besides the motive for acquiring knowledge and learning, other motive is improving the organizational performance in general (Lyles and Salk, 1996).

The corner stone of resource-based view to strategy formulation is to understand the relationship between resources, capabilities, competitive advantage, and profitability. Also, understanding the mechanism of which competitive advantage can be sustained through exploiting the existing resources (Grant, 1991).

## **2.3. Culture in Strategic Alliance Context**

### **2.3.1. Introduction**

This section will first explicate the meaning of culture, and cultural differences at national, organizational, and occupational level. The second part will talk about the effect of cultural differences on ISAs. The final part will focus on the issue of managing cultural differences in ISAs.

### 2.3.2. Culture

Culture affects all aspects of life; it influences how people and group interact with each other (Very, et al., 1998). The way people greet, eat, feel, etc... . Culture is learned from one's social environment. People from different cultures have different symbols, heroes, rituals, and values form each other; and each of them carries a different meaning from one culture to another (Hofstede, 1991). These differences have resulted in the failure of many relationships (business, or any), because partners have failed to interrupt or understand each other thinking (Hofstede, 1991).

Hofstede (1984) defined culture as “collective programming of the mind which distinguishes the members of one human group from another”. Culture includes knowledge, belief, art, moral, law, custom, and habits of a particular group (Buno, Bowditch and Lewis, 1985).

Culture is the personality of a community or a group. When we talk about culture, we usually refer to societies or “nations”, ethnic or regional group. However, the same is applied to other collective groups, like organizations, or even family (Hofstede, 1984).

Cultural differences vary in distance between each other; some cultures are more distant than others (Barkema, et al., 1996). Cultural differences are not just between nations, but also among groups within nations (Hofstede, 1991).

It is a complicated task to work around partners’ differences; various collaborations have failed because partners have found it difficult to work together (Sirmon and Lane, 2004).

The rest of this chapter will discuss in details the different cultures (national, organizational, and occupational) and its effect on organizations.

#### 2.3.2.1. National Culture

There is no agreed upon definition of national culture. Porter and Samovar (1994: p. 11) described national culture as “...ubiquitous, multidimensional, complex, and all pervasive”.

Das and Kumar (2010) argued that culture conceptually consist of two dimensions: cognitive and behavioural. The first dimension focuses on “...the meaning that the different situations hold for actors”, while the later focuses more on “interactional patterns extant in a particular culture” (Das, and Kumar, 2010: p. 24). They argued that

all culture definitions contain an element of these two dimensions, although they might contain different aspects of culture. National culture is the set of shared norms, values, beliefs, and priorities in the nation or country. It is guidelines for the individuals of a society, not necessary strictly followed by everyone, on how things should be done, and what is and not acceptable (Sirmon and Lane, 2004).

It is acquired early in life through socializing with family and friends, and schools (Sirmon and Lane, 2004). It is very powerful, and has an impact on people perception, values and believes.

National culture forms the employee understanding of the work, their approach to it, expectations, and preferences (Newman and Nollen, 1996). Some studies have found out that that there are noticeable differences in the behaviour of employees from different cultures working for the same multinational company (Alder, 1983; Hofstede, 1980). In fact, differences in national culture are the reason behind 50% of the differences in values, and beliefs among managers, despite working in multinational companies (Hofstede, 1991). Laurent (1993) has argued that every manager has his own management theory that guides his behaviour in the organization. These theories have been affected by their national culture, which determined their ideology. Studies show that national culture affects the behaviour of the managers and the JVs performance (Park and Ungson, 1997). Moreover, there are indications that differences in national culture will lead to differences in the organizational culture (Sirmon and Lane, 2004).

Hofstede (1984) argues that national cultures differ on five main dimensions; Power distance, Uncertainty avoidance, Individualism, Masculinity, and long-term orientation.

Power distance is how different societies behave and find solutions for inequalities. The level of the distance in power between boss and subordinate will vary between organizations depending on their national culture (Hofstede, 1984).

The second dimension of national culture is uncertainty avoidance. Uncertainty about the future varies between different nations. Every culture copes with uncertainty through the use of technology, law, and religion (Hofstede, 1984).

The third of national culture dimensions is individualism. The level of individualism/collectivism in a society will have an effect on the organization and on the way its member act and work with each other (Very, et al., 1998; Hofstede, 1984).

Schwartz and Rubel (2005) argue that there are gender differences in value priorities, and these differences vary cross cultures. Men tend to emphasis on self-enhancement values and achievement. While women, on the other hand, focus more in ‘transcendence’ values. Furthermore, there are differences between males and females work goals (Hofstede, 1984).

Hofstede's fifth dimension is long-term orientation or (Confucian dynamism); it measures the “extent to which people have future oriented perspective rather than focusing on the present” (Barkema and Vermeulen, 1997).

#### **2.3.2.2. Organizational culture**

Every successful organization has some uniqueness in their strategy. It includes organization structure, management systems, and its employee; this is known as “style” or “culture”. Every firm has, especially the well run, different culture of business management, which involves different ways of making decisions, relation with superiors, and hiring processes (Schwartz and Davis, 1981; Nahavandi and Malezadeh, 1988). Organizational culture has been cited as the reasons for the success of many companies, and as the glue that holds the organization together (Nahavandi and Malezadeh, 1988; Schweiger and Goulet, 2005).

Schweiger, et al., (1987) described the organizational culture as “The unwritten rules are combined with the written to generate a culture in the eyes of the employee”. It is a shared belief and values of the senior managers regarding the business approach and management practice (Weber, Shenkar and Raveh, 1996), and the beliefs and expectations shared by the organization’s members. It is known to be very difficult to change (Schwartz and Davis, 1981).

Organization has both subjective and objective cultures. Subjective culture is the organization members' shared beliefs, and expectations. It includes the “managerial culture”, which refers to the leadership style, decision making, and problem solving process (Buno, et al., 1985).

Objective organizational culture refers to the materialistic assets and artefacts; e.g. equipment, and facilities (e.g. restroom areas, coffee room) (Buno, et al., 1985).

However, subjective culture is ‘unique’ because every organization culture is being shaped by the shared history and experience of its employee; while objective

organizational culture can be similar across organizations (Buno, et al., 1985; Schweiger and Goulet, 2005).

The members of an organization do not sometimes recognize the power and the influence of their organizational culture have on them. The reason is that the firm's culture is 'embodied' in their culture. However, when two distant cultures are forced to combine during a JV, or M&A, the organizational culture differences can be clearly seen (Buno, et al., 1985).

Although national culture influences organizational culture, not all the organization within certain societies shares the same culture. Even within the organization, there are many subcultures, across different occupations and personalities (Very, et al., 1998; Nahavandi and Malezadeh, 1988).

Changing organization culture can take place by changing "staff, reward systems, mission, strategies, and products" (Schweiger, et al., 1987). Organizations have different approaches to human resource management in term of "job grading, training, performance appraisal, and career development" (Mirvis and Marks, 1992).

It is been argued that organizational culture and national culture are different with separate constructs in attitudes and behaviour. National culture represents 'deeper layer of consciousness' and is harder to change comparing to organizational culture. In addition, it creates greater difficulty to integrate different organizations successfully (Stahl and Voigt, 2008).

### **2.3.2.3. Occupational Culture**

Occupational culture exists when "group of people who are employed in a functionally similar occupation share a set of norms, values and beliefs related to the occupation" (Sirmon and Lane, 2004: p. 311). It develops through socialization between the individuals during their occupational training and education. This, with experience, develops to convention on how their profession should be carried (Sirmon and Lane, 2004).

Some scholars Trice and Beyer (1993: p. 178) cited in (Sirmon and Lane, 2004), have argued that professional culture is the most highly organized subculture in organization. The source of professional culture usually starts form the education and training system. The culture is developed away from the organizations and the members can develop it

before joining any organization. Thus, it dismisses the claim that occupational culture is a subculture of the organizational culture (Sirmon and Lane, 2004).

Professional or occupational culture is considered as another type of culture that can affect ISA; however, it received less attention from scholars in comparison with organizational culture (Sirmon and Lane, 2004).

Some studies have suggested that, in the long run, it might be easier to accommodate intra-industries cultural differences than inter-industry differences; professional differences still present problems hard to overcome (Buno, et al., 1985).

There is a parallel relationship between national culture and organizational culture, and between organizational culture and professional culture. The differences in national culture increase the differences between the partners' organizational culture; and the differences in organizational culture increase the differences between the partners' employees' professional culture (Sirmon and Lane, 2004).

### **2.3.3. Culture Impact on ISAs**

Most of the culture conflicts that take place in many JVs are down to two reasons; the incompatibility of national culture, and the incompatibility of organizational culture (Brown, et al., 1989).

Combining two cultures is not an easy mission either for the managers, or for the employees. It causes what known in the literature as “acculturative stress”, which is a stress felt by member of one culture when they are told that they have to interact with another culture and learn their way (Nahavandi and Malekzadeh, 1988; Very, et al., 1998). The stress increases if the differences between the two cultures are vast. The acculturative stress triggers “cultural clashes”, and form a barrier to implement strategic changes. It is also been linked to “lower commitment and cooperation of the acquired employees, increased turnover among acquired executives, and lower financial success” (Very, et al., 1998; Badrtalei and Bates, 2007).

Cultural differences can create barriers to the success of any joint collaboration between two distant cultures. It hinders the flow of information, and creates communications difficulties; that will make the transfer of management practices and technologies very costly. Moreover, it increases the transactions costs by adding the cost of monitoring and controlling the action of the partner, or those as result of employee resistance to

change (Brouthers and Bamossy, 2006; Anderson and Gatingnon, 1986; Chakrabarti, et al., 2009; Park and Ungson, 1997).

### **2.3.3.1. National Culture**

National culture differences result in a lack of shared norms and values in ISAs. Therefore, it, as some authors argue, disturbs the learning and collaboration, hinder the advancement of the relationship between partners, and stop the firms form integrating effectively (Sirmon and Lane, 2004; Lam, 1997). Cultural distance will most likely increase the role conflict and increase role ambiguity. The conflict occurs as a result of managers or employees receiving contradicting messages, different expectations due to the differences in culture (Shenkar and Zeira, 1992).

Some cultural backgrounds are more difficult to combine than others are; and some differences are easier to overcome than others are. Language is recognized as one of the most common and important predicaments to overcome, along with differences in work ethics, management practice, and customer orientation (Brouthers and Bamossy, 2006).

Differences in power distance, masculinity, and individualism (has an effect on individuals personality) can be easily overcome (Barkema and Vermeulen, 1997). While differences in uncertainty avoidance and long-term orientation (which affects the strategic planning) may have a negative impact on the success of the JVs. The differences will generate great disagreement in the strategic planning of the firm and may cause tension and conflicts (Barkema and Vermeulen, 1997).

### **2.3.3.2. Organizational Culture**

Pothukuchi, et al. (2002) claim that "...the presumed negative effect from partner dissimilarity on IJV performance originates more from differences in organizational culture than from differences in national culture". Differences in organizational culture have a devastating effect, especially when related to the primary value creating activities (Sirmon and Lane, 2004).

Social identity theories suggest that member of organization are bias to each other, and hold negative views about the 'new' group. They tend to team up against the 'others' (Stahl and Voigt, 2008). Moreover, this feeling of distance and rivalry will increase if the firm management adopts an attitude of superiority towards the employee of the other

firm. These problems will have negative effects on the sociocultural integration (Stahl and Voigt, 2008).

Weber, et al., (1996) found that differences in organizational cultures between firms decrease the cooperation between the top management, and increase the negative attitudes. On the other hand, similarities of organizational culture have the opposite effect. It increases partners learning, and effectiveness of the integration (Sirmon and Lane, 2004).

The differences in organizational culture can lead to challenges, and limit the realization of synergies. Moreover, it was found that it is responsible for creating split between the members of partner firms top management team by creating “polarization, negative evaluations of counterparts, anxiety, and ethnocentrism” (Schweiger and Goulet, 2005).

#### **2.3.3.3. Occupational culture**

Differences in professional culture are the most difficult to overcome, and it is more difficult when it is related to the value creating activities. These difficulties are because individuals from different occupational cultures do not share the basic knowledge and lack the experience of communicating with ‘outsider’. As a result, it creates another obstacle in the way to achieve effective cooperation between two different cultures (Sirmon and Lane, 2004).

#### **2.3.3.4. The positive impact of culture on ISAs**

Most of the literatures have suggested that cultural differences create barriers and prevent the firm from achieving synergy. However, the counter view argues that cultural differences can become a source for "value creation and learning", create synergies, and a source of competitive advantage (Stahl and Voigt, 2008; Chakrabarti, et al., 2009).

Culture has always been blamed for the failure of many partnerships. The fact that the cultures of two organizations are different does not automatically trigger conflict. Cultural distance does not mean ‘incongruence’; congruence can be achieved between distant cultures by achieving complementary, not similarity (Weber, et al., 1996). In fact, it appears that the compatibility of organizational culture is more important than the similarity of national culture (Brown, et al., 1989).

Some studies have argued about the possibility to gain from cultural differences. It can be, from the resource-based perspective, a source of competitive advantage for the firm.

From the organizational learning perspective, cultural distance can spur innovation and learning by helping “break rigidities”. It opens new windows of opportunities for structure development and learning (Chakrabarti, et al., 2009; Stahl and Voigt, 2008). Furthermore, it gives the firm access to unique capabilities that are embodied in another organization culture (Stahl and Voigt, 2008). For example, there are potential gains from combining partners from masculine and feminine cultures; it combines one partner with aggressive attitudes and focus into achievements and performance with another partner with a focus on relation building (Barkema and Vermeulen, 1997).

Chakrabarti, et al., (2009) argue that cultural distance between two parties comes from “the distrust arising from unfamiliarity”. However, unfamiliarity may not be a negative thing. The unfamiliarity and culture distance will promote better due diligence, screening, evaluation, higher communication and corporation, and higher standard of “expected synergies” (Sirmon and Lane, 2004).

#### **2.3.4. Managing Cultural Differences**

One of the reasons individuals of the target organization have chosen to work with the organization is due to the shared value; which creates hard to break "psychological bond" (Very, et al., 1998). Therefore, the buyer intention to change the structure of the firm will be faced by strong resistance. The degree of the resistance will depend on the strength of the ‘bond’ between the individuals and the culture (Very, et al., 1998).

In order for the ‘marriage’ between organizations to work, they need to be culturally compatible; being compatible does not mean being similar (Cartwright and Cooper, 1993). The firms must integrate effectively in order to share and leverage their complementary resources, which includes tangible and intangible assets (Sirmon and Lane, 2004). Firm need to develop a well plan executed integration process to achieve the desired synergies. The plan should aim to reduce the “inter-organizational and intercultural friction” and develop a sense of shared identity and positive attitudes towards the new venture. Furthermore, it should replace the previously shared experience by new shared beliefs. Additionally, develop new identities and values based on the best of all members of which will ‘glue’ the members of partner firms’ together (Buno, et al., 1985; Alder, 1983; Stahl and Voigt, 2008; Barkema, et. al., 1996).

Managers should understand “No single management practice is superior to another with respect to performance outcome” (Newman and Nollen, 1996: p. 755). Across national culture, there are different managerial practices, attitudes, values, behaviours, and efficacy. For example, ‘pay for performance’ schemes are very popular and widely accepted in the Anglo Saxons countries (US and UK); however, it does not receive the same enthusiasm in the rest of the world (Newman and Nollen, 1996). Therefore, some policies and practices should be adopted to suit the local culture; what works in a certain culture or setting does not necessary works with the same effectiveness in another culture (Hofstede, 1980). Managers must have professional and managerial skills, personal and social skills, and cross-cultural and international skills, which will reduce the tensions and possible conflicts (Alder, 1983; Dong and Glaister, 2009).

Although, the general perception that people will oppose any change, the literature suggests that the majority of people will accept and welcome the change if they understand the need for it. Employee needs the feeling of belongings in order to reduce their tension and uncertainties (Buno, et al., 1985; Alder, 1983).

The potential problems can be overcome when faced early and discussed openly. Moreover, these communications will increase top managers’ commitment and productivity (Badrtalei and Bates, 2007; Mirvis and Marks, 1992; Nahavandi and Malezadeh, 1988).

One way firm can anticipate clashes and develop strategies is by assessing the culture of the partner firm. This can be done by asking the individuals of the partner firm about their culture. Then, the executives can develop a culture profile of their partner that will help them to identify the areas of possible cultural clashes. Knowing that in advance can help managers develop a strategy to minimize the risks of cultural clashes (Schweiger, et al., 1987; Hofstede, 1991; Dong and Glaister, 2009).

Selection criteria are very important, not all the employees have the ability to adopt and adjust to different cultures. Firms can offer its' employees Cross-cultural training (CCT) to develop the manager confidence, and “self-interaction skills” (Black and Mendenhall, 1990; Dong and Glaister, 2009; Mendenhall, et al., 1987). Senior management play an important role in shaping the organization culture; they create the values and transmit it to the other members (Weber, et al., 1996). Studies have showed that employees’ behaviour is influenced by the behaviour of their top management. This shows that

changing top management behaviour will facilitate the change across the organization; change should start from up to bottom (Schwartz and Davis, 1981).

The root of most of the cultural conflicts is traced to the lack of knowledge and understanding of each partner values, cultures, and concerns (Schweiger and Goulet, 2005). Introducing the employee to the practices adopted by the other partners, can help to reduce the gap and create a shared culture; which in return will help to achieve synergies (Schweiger and Goulet, 2005; Brouthers and Bamossy, 2006; Brown, et al., 1989).

Arrogance (managerial, cultural, and interpersonal) is one of the reasons behind triggering cultural clashes. This involves changing or altering practices adopted by the partner firm which means a lot to them and symbolise their organization. These inconsiderate acts may turn things to a matter of pride and initiate resistance instead of cooperation (Jemison and Sitkin, 1986; Badrtalei and Bates, 2007). The employee learning and awareness of their culture first, and then developing empathy and understanding of the other culture will bridge cultural differences between the two organizations more efficiently (Schweiger and Goulet, 2005).

### **2.3.5. Conclusion**

Scholars disagreement on whether cultural differences is a good or bad and the contradicting conclusions might be an indication that it is a managerial issue not an absolute fact (Sirmon and Lane, 2004).

Some scholars have argued that the ability of national culture to disturb alliance's performance has been overstated. Most studies have failed to prove the influence of organizational culture differences; which is more embodied to the organization practice, comparing to national culture (Sirmon and Lane, 2004). It has been argued that organizations can learn about culture differences, and turn them to their favour (David and Singh 1993, cited in Schweiger and Goulet, 2005).

The effect of cultural differences on synergy's realization can go in two opposing ways. It depends on the degree of the cultural differences and relatedness. First, it can negatively hinder the integration process; second, it can give the firm access to valuable and unique resources, and capabilities embodied in other organization culture (Stahl and Voigt, 2008).

There is ‘psychological’ attachment from the employee towards their organizational culture, and the risks of losing it create some tension (Schweiger, et al., 1987). However, findings suggest that well planned, and good communication reduces the negative feelings and increase satisfactions, especially among the employee who have good attitudes (Napier, 1989).

## **2.4. Learning in ISAs**

### **2.4.1. Introduction**

Scholars have recognized that no organization can create all resources needed to grow and prosper. It has become more important for firms to collaborate with other firms that hold complementary resources to develop and even survive. Combining resources is a valuable tool for organizations to exploit new business opportunities (Dussauge, et al., 2000).

Inter-organization learning in SAs can be achieved in two ways: either by transferring the ‘existing’ knowledge from one organization to another; or, creating new knowledge by pooling the existing knowledge of both firms (Larsson, et al., 1998). The condition for learning to take place is that both partners must be transparent (Larsson, et. al., 1998). There are factors that affect learning levels; e.g. knowledge nature, ISA performance and timing of the experience (Hayward, 2002).

Furthermore, there are different factors affects the learning outcome in SAs. For example, the partners’ characteristics, intent, receptivity, and transparency, affect their learning rate. Other factors, includes the partner prior experience, cultural factors, and attention to human resource management (Hamel, 1991; Makhija and Ganesh, 1997).

Cultural (national, organizational) factors are very powerful, and have an effect on people's perception, values and believe (Sirmon and Lane, 2004). Studies have showed that national culture is the reason behind 50% of the differences in values, and beliefs among managers, despite them working for multinational companies (Hofstede, 1991).

The differences between partners are not something easy to work around and should not be underestimated. Numbers of international collaborations have failed because partners have found it difficult to work together (Sirmon and Lane, 2004).

This section will first discuss learning in ISAs. After that, it is going to talk about the culture influence on the learning process, and knowledge transfer. The section will conclude by assessing the effect of these factors on performance.

#### **2.4.2. Learning and Performance Relation**

Firms' resources consist of all its' assets, knowledge, organizational structure, experience, connections ...etc. (Tsang, 1998). Barney (1991) has categorized the company resources into three categories: physical capital resources, human capital resources, and organization capital resources. The physical resources include tangible assets, like lands, equipment, and goods. In addition, it includes intangible assets, e.g. copyrights, and patents. The human resources include skills, relationships, education, training, and staff experience. Finally, organizational resources, which includes cooperate culture, rules, organizational structure and procedures, and it's' relationship with other organizations. These resources combined represent the firm capabilities (Tsang, 1998).

There are direct links between resources and firm's profitability. Thus, it increases the importance of strategically managing these resources. This can be done either, through economizing the use of resources by maximizing its productivity, especially tangible resources; or/and employing existing assets in more profitable use, which will yield substantial returns (Grant, 1991). Knowledge acquisition is linked to firm performance, 'new knowledge' give's firms basis to sustain its' competitive advantage (Inkpen, 1998).

ISAs performance improves every time knowledge absorbed from the foreign partner (Lyles and Salk, 1996). Learning and internalizing the foreign partner skills and capabilities can create competitive advantage for the firm (Lane, et al., 2001).

The knowledge learned (based on trust and the absorptive capacity), will influence the alliance performance. This shows that learning in alliance is a major indicator to the success of the partnership. The acquired knowledge from an ISA contributes positively to the building of the firm capabilities, which enhance the performance of the firm (Dhanaraj et al., 2004).

### **2.4.3. Learning ISAs**

Inkpen (1998), argue that learning in alliances is very difficult, and creating a successful learning environment is more complex. Learning between organizations in SAs can effect alliance longevity (Parkhe, 1991), and the knowledge gained through learning reflect positively on the alliance performance (Lane, et al., 2001).

There are four constructs in the literature related to organizational learning; knowledge acquisitions, information distribution, information interpretation, and organizational memory. The one most related to SAs is knowledge acquisitions. The knowledge can be acquired through various methods; e.g. learning from experience, learning by observing other organizations, and grafting (Huber, 1991).

According to the resource-based theory, firms engage in SAs to access valuable resources they lack, and gain or preserve control over certain resources. It is a vehicle for firms to "...learn or seek to retain their capabilities" (Kogut, 1988; Lane, et. al., 2001; Chen and Chen, 2003; Lubatkin, 1983). SAs give the firm a chance to learn different ways of doing things. This will strengthen the firm's knowledge base, and improves the technological capabilities, increase productivity, and encourage innovation (Barkema and Vermeulen, 1998; Kumar and Nti, 1998; Makhija and Ganesh, 1997; Lyles and Salk, 1996).

#### **2.4.3.1. Knowledge Type and its effect**

There are different kinds of knowledge; most notable are explicit and tacit. It is acquired from ISAs via socializing, internalization, or combining different kind of explicit knowledge to create new knowledge (Lyles and Salk, 1996).

The rest of this section will start by providing detailed descriptions of tacit and explicit knowledge. Then, it will talk about absorptive capacity role; and how it affects learning.

##### **2.4.3.1.1. Tacit and Explicit knowledge**

Tacit knowledge is represented by the firm's experience in manufacturing and marketing products, knowledge of local customer, market, and policies. This knowledge cannot be codified in designs, specifications, and drawings. Instead, it is embodied in the individuals and can only be exchanged through "intimate human contact" (Glaister, 1996; Kogut, 1988). On the other hand, explicit knowledge is "the simple knowledge";

it can be codified and can be easily transferred in written format, like the quantifiable technology and product development (Dhanaraj, et al., 2004; Bhagat, et al., 2002).

The process of transferring tacit knowledge, which can be called the "complex knowledge", is complicated. It gets more complex when there are cultural differences involved. Tacit knowledge has a certain ambiguity; it is embedded within "individuals' cognitive processes", or rooted in the routines of organization culture (Bhagat, et al., 2002). Hence, that made it difficult to learn and absorb; and, more costly to transfer (Kogut and Zander, 2003). Lam (1997) in her study of a collaborative venture between a British and a Japanese firm, have found that knowledge that socially embodied, 'tacit', along with the organizational system have an impediment effect on a JV. It negatively affects the transfer of knowledge, and technology across culture. Tacit knowledge is transferred by closely and directory monitoring the 'knower' doing what they do best, interacting with them, and analysing their actions (Dhanaraj, et al., 2004).

SAs are considered as an excellent tool to acquire 'tacit' knowledge; taking into account the market failure when it comes to transferring ambiguous knowledge (Glaister, 1996). However, there are conditions for a successful learning from SAs. Some of them are the possession of absorptive capacity, and most importantly the intent to learn. Firms must be eager to learn from the alliance, the absence of the intent to learn 'in form of arrogance' will negatively affect the outcome (Mowery, et al., 1996).

#### *2.4.3.1.2. Absorptive capacity*

Engaging in SAs is not sufficient for firms to learn and acquire new knowledge. They need some necessary skills to learn from the alliance. These skills are what known as the "absorptive capacity" of the firms (Simonin, 2004; Kim and Inkpen, 2005; Cohen and Levinthal, 1990). Absorptive capacity is "a firm ability to value, assimilates, and utilizes new external knowledge" (Lane and Lubatkin, 1998).

Absorptive capacity had been described variously in the literature. Simonin (2004) has described the absorptive capacity as "learning capacity" of the firm; while Hamel (1990) has defined the partners capacity to learn from each other as "receptivity". Zahra and George (2002) argue that absorptive capacity has four dimensions; acquisitions, assimilation, transformation, and exploitation.

Absorptive capacity is not the process of knowledge transfer; it is the firm employees' ability to utilise the learning and the knowledge transferred into useful output. The lack of absorptive capacity is “the most important impediment of knowledge transfer” (Minbaeva, et al., 2003). Transferring partner firm capabilities does not mean a successful exploitation of these capabilities. In order to reach the desired outcome, firm must possess the absorptive capacity that allows them to put the acquired capabilities into use (Mowery, et al., 1996). The existence of an absorptive capacity will improve the learning between partners, and contribute positively to the transfer of capabilities (Lane, et al., 2001). The level of absorptive capacity affects the amount of knowledge transferred (Minbaeva, et al., 2003; Dhanaraj, et al., 2004).

Prior experiences and the previously accumulated knowledge play an important role in improving the absorptive capacity of individuals and organizations, it helps them assimilate and use the new knowledge (Cohen and Levinthal, 1990). Prior experience and knowledge facilitate the learning of new knowledge, but that does not mean that without prior experience learning will not take place (Cohen and Levinthal, 1990).

Individual absorptive capacity influences the organization absorptive capacity. Nevertheless, the organization absorptive capacity is not the sum of the individuals' absorptive capacity (Cohen and Levinthal, 1990).

#### **2.4.3.2. Effect of Culture Differences on Learning and Performance**

There are different kind of culture that affects learning between partners in ISAs: national, organizational, occupational, and small group cultures (Levinson and Asahi, 1995).

Cultural differences affect sociocultural integration, synergy realization, and shareholder value in two ‘opposing’ way, depending on the degree of the cultural differences and relatedness (Stahl and Voigt, 2008).

In the coming section, we are going to talk first about the impeding effect of culture on learning in ISAs; and how in return that can affect the performance of the alliance. Then, we will discuss the counter arguments, which claim that cultural difference had an enriching effect on learning and performance.

#### *2.4.3.2.1. The Impeding effect on Performance*

A large proportion of ISAs suffered from performance problems that lead them to fail. Cultural factors have been considered as the main factor behind the poor performance behind many of them (Pothukuchi, et al., 2002). Cultural differences have a strong effect on alliances; integration costs have been inflated substantially due to the mismatch between organizations (Kogut and Singh, 1988; Very, et al., 1998; Barkema and Vermeulen, 1997).

Parkhe (1991, 1993) argues that national cultural differences will negatively affect the performance and the success of the alliance, especially their ability to benefit from 'knowledge spillover'. National cultures differences can hinder the advancement of the relationship between partners. The lack of shared norms and values reduces the communication between partners (Sirmon and Lane, 2004).

Cultural distance has been regarded as "hindrance" factor to the performance of the ISAs (Shenkar, 2001). It creates distinctive "psychological environment", which influence the performance negatively (Pothukuchi, et al., 2002).

Brown, et al., (1989) argue that cultural compatibility will positively affect the performance of the ISA. Although, some scholars, e.g. Fey and Beamish (2000), found that cultural distance has no effect on the performance of ISAs.

Other problem that emerges because of cultural differences is performance measurement. Every culture has its own way of assessing the performance that sometimes completely differ from the other culture. Japanese, for example, do not look for an immediate result and look always for long-term performance. The American, on the other hand, values immediate results more, and it is their main indicator to whether the partnership is a success or not (Pothukuchi, et al., 2002).

##### *2.4.3.2.1.1. Learning*

When firms cooperate with each other in SAs, difficulties arise due the differences in corporate and national culture. It hinders the decision making process, and firms' effort of promoting social integration (Tsang, 1998; Zahra and George, 2002). Absorptive capacity is not enough for the firms to acquire the required knowledge; they need first to overcome the social barriers (Dhanaraj, et al., 2004). Cultural distance can weaken the absorptive capacity of the organization (Bjorkman, et al., 2007).

Sirmon and Lane (2004) argue that the organizational culture similarities will positively contribute to the learning between partners, employee satisfaction and interactions, and communication. The Shared values and systems, and mutual trust play a vital role in facilitating learning and knowledge transfer between organizations. Trust leads to shared understanding, which in return facilitate access to resources and promote cooperation between the different parties (Dhanaraj, et al., 2004).

Therefore, researchers argue that firms are better able to acquire and learn new skills from the alliance if they have competence base similar to the one they are looking for. It means similar “operational priorities”, and compatible values and norms (Lane, et al., 2001). Thus, alliances between competing firms are more likely to favour inter-firm learning; because competing firms have a lot in common in the way they both operates (Dussauge, et al., 2000). Furthermore, similarities will enable the ‘student’ to learn ‘absorb’ more, increase inter-partners learning, and the effectiveness of the integration (Lane et al., 2001; Sirmon and Lane, 2004).

Cultural conflict and misunderstanding between partners will reduce the trust. This in return will limit information sharing, raise the cost, and have a negative effect on the learning outcome between partners (Lane, et al., 2001; Doney, et al., 1998; Parke and Ungson, 1997). Therefore, some predicted cultural differences have an impeding effect on learning, or at least decrease the positive outcome (Sirmon and Lane, 2004).

Differences in culture create ‘uncertainty’; it inflates the cost of negotiation and complicates the transfer of firm’s specific management practices and technologies (Pothukuchi, et al., 2002). Furthermore, it hinders the learning of tacit knowledge especially, which requires trust, interaction, and exchanging of ideas. It, also, increases the negative attitude and slows down the integration process because trust is replaced with suspicions (Dhanaraj, et al., 2004; Kedia and Bhagat, 1988; Weber, et al., 1996).

Transparency is an essential condition for learning to take place; especially if the required knowledge is tacit “sticky”, and socially embedded. Cultural differences may restrict any effort from firms to be transparent. Differences in language, customs, and tradition will hinder the communication between partners, and can turn the well-codified knowledge hard to get (Larsson, et al., 1998; Simonin, 1999). As the cultural distance between partners’ increases, so does the knowledge ambiguity; which in return has an impeding effect on the transfer of knowledge (Simonin, 1999).

Another issue that might disrupt any attempt for collaboration between firms is the lack of motivation to collaborate. Some organizational culture does not encourage or support learning and critical thinking. It encourages the act of taking more and giving less. They develop a reward systems based on this culture. Therefore, members of this kind of organizations are not motivated to ‘give’ in such collaboration (Larsson, et al., 1998; Simonin, 2004).

#### **2.4.3.2.2. The enriching effect on performance and learning**

Most of the literature argued that cultural differences create obstacles and hinder performance. However, the counter view argues that cultural differences can become a source for value creation, learning, and achieving synergies. The differences can be a source of competitive advantage, because it gives the firm access to unique capabilities that are embodied in another organization culture (Stahl and Voigt, 2008; Vermeulen and Barkema, 2001; Morosini, Shane and Singh, 1998). The differences may alert managers about the difficulties they might encounter. As a result, it will push partners to collaborate and communicate better with each other’s, which in return will contribute positively to the performance of the alliance (Sirmon and Lane, 2004).

According to the study of Chakrabarti, et al., (2009) acquisition that involves culturally disparate companies perform better in the long run; regardless to the fact that ‘announcement affect’ reaction shows otherwise. Morosini, et al., (1998) claimed and proved in their study that the greater national culture distances, the greater post-acquisitions performance. Their rational is, differences will give firms the opportunity to access set of routines and repertoires different from the one they were used to. This in return, will enhance the ‘combined performance in the long run.

Firms’ managerial ‘practice’ is usually a developed routine from the history of the organization. The majority of these routines are not ‘unique’ and can be easily imitable. Therefore, they cannot be a source of sustainable competitive advantage (Morosini, et al., 1998). Although, these studies focused on M&A, their findings can be linked to ISAs; since both involve collaboration between two or more different culture.

From the organizational learning perspective, partnership between culturally different companies can spur innovation and learning by helping to break rigid routines (Chakrabarti, et al., 2009; Vermeulen and Barkema, 2001). Some national cultures have a tradition of doing things in a certain way; collaborating with firms from different

culture may encourage the firm to learn new ‘ways’ of doing things (Morosini, et al., 1998). Dealing with different culture gives the firm knowledge and experience on dealing with different cultures. This experience will enhance the performance of future ISAs (Barkema et al., 1996).

Moreover, exposing both companies set of rigid routines can improve their performance. However, all these assumptions have not been supported empirically (Chakrabarti, et al., 2009).

Reus and Lamont (2009) argued that cultural differences are not directly associated with positive performance in acquisitions. It provides a platform to learn, and the firm should have the necessary capabilities to explore these opportunities.

Finally, many scholars agreed that the literature lacks large-scale data that test the relation and the effect of cultural differences on the ISAs performance.

#### **2.4.4. Conclusion**

Successful learning in ISAs does not take place by only transferring the knowledge, technology, or practice from one organization to another. It can only be called a success if the firm manages to exploit it and put it into use. The firms should create an environment of ‘give and take’ in order for the learning to take place; contractual obligations will not help firms to learn from each other (Dhanaraj, et al., 2004).

The firm's ‘paradigm’ is excellent in creating shared view and values among the organization members, and it is a useful tool for keeping the company coherent. However, one of the reasons that hinder the learning is when firms are being held hostage to their routines and culture. They feel comfortable and secured; hence, they lose their desire to learn as it means change; a frightening idea to some people (Simonin, 2004). In order for the firm to learn new routines, technology, procedures, and strategies, they must break out of their old culture, routine, and procedures (Barkema and Vermeulen, 1998).

Some scholars have argued that the ability of a national culture to disturb alliance's performance has been overstated. Most studies have failed to prove the effect of organizational culture differences, which is more embodied to the organization practice than national culture (Sirmon and Lane, 2004).

The differences itself does not have a hindering effect on the learning between partners; it is the nature of the culture that either facilitate or hinder the learning. If the nature of the culture encourages and embrace change, then it will be a facilitating factor. Conversely, it will has hindering effect if the nature of culture is ‘close’ and look to their current culture as a ‘core’ value of the organization and cannot be change (Levinson and Asahi, 1995).

The fact the scholars have disagreed on whether cultural differences ‘good’ or ‘evil’, might indicate that it is a managerial issue more than an absolute fact (Sirmon and Lane, 2004). It is a two sword edge, if it handled well, organization can get positive results; but, if it handled bad the effect can be shattering (Reus and Lamont, 2009).

## **2.5. Strategic Alliance Performance Measurement**

### **2.5.1. Introduction**

There are many difficulties associated with the study of alliances performance. In the literature, there is no consensus on the appropriate measurement “...the lack of consensus around a typology of collaborative agreements, diversity in firms' strategic intents in pursuing alliances, and the lack of objective performance data” (Zollo, et al., 2002), or IJVs performance definition (Geringer and Hebert, 1991).

Gulati (1998) acknowledged that it is very complicated to recognize the factors affecting the performance of alliances. He argues that performance is one of the most ‘exciting’ and unexplored areas in the SAs studies. The performance of ISAs has received less attention due to different obstacles facing the researchers when measuring the performance of alliances. These barriers include ‘logistical challenges’ in collecting the necessary detail data for this type of research (Gulati, 1998). Moreover, the ambiguity of performance measurement makes it difficult for researchers to study alliances; it also make it more difficult for firms to learn from alliances (Zollo, et al., 2002).

Using ‘wrong’ or inaccurate tools to measure SA performance is very vital for its survival; it might lead to premature termination of SAs, or making decisions not for the interest of the SAs (Anderson, 1990).

ISAs have always encountered performance problems. The performance has been defined in different ways, and the estimation of unsatisfactory performance has ranged from 37% to 70% (Geringer and Hebert, 1991).

This section will start by highlighting firms' objectives for engaging in ISAs. Then, it will discuss in details the alliances performances and the different approaches used to assess the performance. After that, it will discuss the relation and the possible cultural influence on performance measurement. Finally, we present the different arguments about the limitation of some of the assessment methods used to measure the performance, followed by a conclusion.

### **2.5.2. ISAs Performance Measurement**

Arino (2003: p. 68) defined SAs performance as “the degree of accomplishment of partners' goals, be these common or private, initial or emergent”. Yan and Beamish (2004) defined performance of JVs as the venture managers' satisfaction about the overall performance.

Common goals are the goals shared by both partners in SAs. However, every partner has specific goals of their own, which is called ‘private’ goals. Both the shared or private goals can change over time and be called ‘emergent’ goals, which are different from the ‘initial’ goals (Arino, 2003).

There is no universal approach to measure the performance of SAs (Lunnan and Haugland, 2008). There are many difficulties in measuring a SA. It is not as clear as some might think. The intention of some of these ventures is, as we stated earlier, can be to enter market, block a competitor, or open new opportunities. The question is how can we measure these objectives accurately!

Many firms fall in the trap of measuring the performance of SAs the same way they measure any of their ‘internal’ divisions. Anderson (1990) called for using different measurement indicators than the one used for measuring divisions.

SAs require patient, and it is rare to see a venture generating some profits in the first two years of its creation. Some ventures need years before positive returns on investments can be seen (Anderson, 1990).

There is an ongoing discussion on the issue of whether the performance of the SA should be measured separately from the parents. Other issue is how to measure the

performance of a risky JV, where no positive results to be expected at early stage. Finally, some ventures objectives are direct monetary returns, especially in SAs that intend in exploiting new technology (Anderson, 1990).

Measurement of alliances will vary according to the objectives. Each method is used in a particular context, and it depends on the alliance goals (Artisien and Buckley, 1985; Arino, 2003).

There are different methods used to evaluate the performance of SAs. Lunnan and Haugland (2008) have divided measurement methods into financial, operational, and effectiveness. On the other hand, Geringer and Hebert (1991) have classified the approaches into subjective, like the financial indicators, profitability, growth, and cost position; and objective, such as the survival of the JVs, its duration, and stability.

Financial measures are common methods and used when there is an “explicit” financial goal that includes profitability, growth, and cost position (Geringer and Hebert, 1991; Arino, 2003). Operational measures are based on stability measures, e.g. longevity, survival, and contract stability are used when the focus is on key operation factors fundamental in generating financial returns (Geringer and Hebert, 1991; Yan and Zeng, 1999; Arino, 2003). The most common, and probably the most popular method is the organizational effectiveness. It measures the firm SA performance satisfaction, and looks to the degree the SA managed to fulfil the alliance initial goals (Geringer and Hebert, 1991; Parkhe, 1993b; Arino, 2003).

In this section, we will discuss the subjective and objective performance measurement in details.

#### **2.5.2.1. Objective Measurement**

Economic data are widely adopted to measure the performance of SAs; it is mostly “output-oriented” and aims to evaluate the ‘value’ of the partners. Therefore, evaluations are based on financial indicators, such as free cash flow, return on investment, net yearly profit, increase in shareholders’ value, or ‘and’ productivity (Buchel and Thuy, 2001).

There are different financial indicators used to evaluate the financial performance of firms or units. For example, sales growth, net income growth, return on investment

(ROI), return on asset (ROA), and return on sales (ROS) (Venkatraman and Ramanujam, 1986; Yan and Beamish, 2004; Morosini, et al., 1998).

The parent firms can generate financial returns from SAs in many ways, not just from dividends. However, it is not usually “incorporated” when calculating the financial performance of the SA. It includes “supply contracts, management fees, technology licensing fees, royalties, and transfer pricing” (Geringer and Hebert, 1991).

Some scholars have measured the performance by measuring the reaction of the parents firms share prices to the announcement of the alliance formation (Reuer, 2000). Stock market reaction is a common method used by some managers to measure the performance of M&A, or SA, especially to measure short-term performance. Some researchers argue that relying on publicly published data may help researchers to reach a ‘meaningful comparison’ between short-term and long-term strategic goals. They measure the long-term performance of firms by monitoring the changes in market share, sales, intrinsic profitability, and relative profitability (Capron, 1999). However, in the case of SAs there is more need to obtain some primary data to reach a meaningful conclusion about the performance of the venture (Koh and Venkatraman, 1991; Lunnan and Haugland, 2008).

Other way to measure the performance is using profitability as an indicator. Profitability is the most used performance measure and the most quoted in the literature as well (Artisien and Buckley, 1985). However, Anderson (1990) thinks that profitability ‘alone’ is a poor measurement tool. Lecraw (1983) in his study of the transactional corporation’s performance, have used seven variables to measure the profitability. These are market concentration, the firm’s market share, growth, ownership complexity, R&D and advertising intensity, import penetration and tariff rate, and capital intensity. Woodcock, et al., (1994) assessed the performance through a combination of financial measurement and subjective assessment to avoid irregularity of using different accounting approaches

Operation measurements are linked to the duration, longevity, termination, and stability of the alliances (Lunnan and Haugland, 2008). Geringer and Hebert (1991) think that survival, as an ‘objective’ measure, is the most suitable to measure the success of a SA in the absence of survey data. Barkema, et al. (1996), and Harrigan’s (1988) in their studies of the success factors of JVs have considered longevity and stability as the best

indicator to the success of the JV and a sign of positive performance. There is a positive relation observed between longevity and financial performance (Geringer and Hebert, 1991; Barkema et al., 1996; Barkema, et al., 1997).

Moreover, Parkhe (1993) found that the “durability” of the alliance is positively related to profitability, and in return to performance. It is a key indication to the SA success and effectiveness; it is a reflection to the SA stability.

There are other “output-oriented” factors than economic approaches, which are more long-term oriented and strategic in nature. The criteria used to measure the performance is company size, product-market combinations, market share, and ‘or’ the competitive position of the firm. A strategic approach focuses in core competencies, like safeguarding specific recourses, access new technologies, increasing the company’s competitive strength, and unique know-how (Buchel and Thuy, 2001). Boateng and Glaister (2002) have assessed the SA performance based on rating number of different factors that include mix of “traditional business and human resources performance measures”. These factors were sales level, market share, profitability, share price, labour productivity, extent of technology transfer and overall performance of the SA.

#### **2.5.2.2. Subjective Measurement**

Subjective measures are common method to assess the performance of ISAs. Some of the qualitative methods are used by directly asking the directors of the parent firms about their opinion of the performance of the alliance. In order to reach more accurate conclusion, the answer of this question should be collected from more than one respondent (Geringer and Hebert, 1991).

Datta (1991) measured the performance of an acquisition in his studies using five performance criteria, ROI, EPS, stock price, cash flow, and sales growth. These variables were measured by asking respondents, using five Point Likert-type scales, to evaluate the performance of acquisition and whether it achieved its prior expectation. Each one of these variables was given a different weight depending on its perceived importance.

Yan and Gray (1994) relied on partners’ perception to the extent the venture had achieved the ‘initial’ objectives, and long-term goals. Zollo, et al., (2002) used different indicators to measure the alliances performance in high-tech industries “biotechnology”.

The indicators were the respondents' satisfaction about the accumulated knowledge, their indication of the extent new opportunities were created, and finally their satisfaction about achieving the alliance objective.

There are other approaches that do not focus on the output criteria, but rather on the process within the SA. It assesses the company's "internal transformation" (Buchel and Thuy, 2001). Indicators of that are development of trust, commitment, transparency, clear responsibility, the ability to deal with conflict, and continued survival (Buchel and Thuy, 2001).

Effectiveness is the most commonly used measurement to evaluate the performance of alliances. It looks into the fulfilment of strategic goals, both initial and emergent (Lunnan and Haugland, 2008). It assesses the level of goals fulfilment, and their satisfaction of overall performance (Arino, 2003; Parkhe, 1993b).

Killing (1983) have used the management assessment of performance, along with the 'liquidation' and 'reorganization' as a sign of failure.

Learning could be an assessment tool; it combines both output-oriented and process approach. It takes into consideration knowledge acquisitions and the attainment of learning goals; conversely, it takes into account the learning process. The acquisitions of technological know-how, market know-how, or management know-how are assessment used to measure learning (Buchel and Thuy, 2001).

Firms usually use a combination of mixed methods, looking into growth, profit, high return, consist avoidance of losing, improvement in operating results, and stable management. This "package" approach uses a mix of financial factors and non-financial (stable management); although most of the factors are results oriented. However, it can be considered as subjective and focus on long-term performance (Anderson, 1990).

To measure the performance of IJVs in their study, Gong et al., (2005) asked the CEO of the IJVS about their evaluation of the performance. They used the following criteria, using a five points Likert scale: "(1) sales level, (2) market share, (3) profitability, (4) cost leadership, (5) management of the venture, (6) technology development, (7) product design, (8) quality management, (9) labour productivity, (10) marketing, (11) distribution, (12) customer service, (13) reputation, and (14) attainment of parent involvement".

### **2.5.3. Culture and the Performance**

As in many firm's operation, performance evaluation is not immune to the influence of national culture (Geringer and Hebert, 1991). Firms from a similar culture will mostly have similar performance evaluation. Differences in culture are likely to lead to difference in objectives and evaluation measurements (Geringer and Hebert, 1991).

Cultural distance has been regarded as “hindrance” to SAs performance (Shenkar, 2001). Parkhe (1991, 1993), argues that national cultural differences will negatively affect the performance and the success of the alliance, especially their ability to benefit from ‘knowledge spill-over’.

Other problem that emerges because of cultural differences is performance measurement. Every culture has its own way of assessing the performance that sometimes completely differ from the other culture. Japanese and many European firms, for example, do not look for an immediate result and are more ‘strategic’; they look always for long term, less financially focus approach to assess the performance. On the other hand, the American firms tend to use financial criteria, and value more the immediate result, and it is the main indicator to wither the operation is a success or not (Bleeke and Ernst, 1991; Pothukuchi, et al., 2002).

### **2.5.4. Limitation and Problems Facing Performance Measurement**

The variation between different SAs performance measures can create a mixed outcome. In implementing a particular measure, a SA may look as a success, while applying a different measure can show the SA as a failure (Geringer and Hebert, 1989). This shows the importance of implementing a standard measure for each alliance, drawn from their objectives.

One of the problems in measuring the performance of SAs is the conflict of interest between the venture and the parent(s). There is an argument going in whether the venture should act for the best interest of the ‘parent’ or the venture best interest; because some actions or projects might proof useful for the parents but not profitable for the venture (Anderson, 1990).

Many factors make the mission of measuring the performance of SAs a difficult one. The first is the different corporate context; a cooperative JV involves different partners where each of them has different interest, different technological capabilities, and

different management style. These differences complicate the mission, because it is difficult to have an assessment tool that takes into account all these differences (Yan and Gray, 1994; Buchel and Thuy, 2001). The second barrier derived from the unclear objectives of partners; they have objectives but usually not clearly defined (Buchel and Thuy, 2001). Lastly, there are uncertainties surrounding SAs operation in developing countries; especially, regarding technologies, markets, and products (Buchel and Thuy, 2001; Yan and Gray, 1994).

Some financial indicators, especially stock market reaction, have a limitation. It is a reflection to the parent firms' performance, not the alliance or the JVs (Lunnan and Haugland, 2008).

Some scholars have argued against the use of stability as a performance measure. As Yan and Zeng (1999) argue that stability and performance are different. Alliances in some cases, they argue, are terminated 'prematurely' because it achieved its initial goals, and there is no point of continuing the relationship. Hence, in this case it is a sign of success. On the hand, longevity might be a sign of poor performance, especially when the 'exit barrier' is high (Gulati, 1998; Parkhe, 1991; Pearce, 1997).

Without knowledge of the initial alliance goals, longevity is not valid performance measure (Arino, 2003). The same argument can be extended to other methods, ownership, contractual changes, and survival. With no knowledge of the initial goals, these measures 'alone' cannot reflect the actual SA performance (Arino, 2003).

To avoid the limitation of subjective measure or the objective measure, some scholars used mixed methods of subjective and objective measurement in attempt to have an accurate assessment of the ventures (Yan and Beamish, 2004). Bleeke and Ernst (1991) have used a mixed approach to assess the success of the alliance. They looked if the objectives, e.g. market share, new products development...etc., of both partners were met, and if they recovered their financial cost of capital before calling the alliance a success.

Some have suggested the use of cash flow analysis (DCF); however, Anderson (1990) argued that it is an inadequate tool to use, especially for risky and uncertain projects. DCF overlooks some 'strategic concerns', such as technological changes.

In general, Anderson (1990) argues that financial indicators might not be reliable and does not convey the ‘real’ progress towards the long-term goals of the venture, especially if the venture goals are not financial in nature.

### **2.5.5. Conclusion**

In some cases, even the use of subjective and objective measures combined can fail to reflect the SA accomplishment of short or long-term objectives. There are some goals, like developing new technologies and entering new markets, when subjective or objective measurement fails to fully capture the performance of the venture and wither it met its goals, especially if it is used to measure short-term objectives (Geringer and Hebert, 1991). Sometimes the SAs succeed in accomplishing its objectives (access to new market, develop new technologies), but the parents fails to capitalize, or later found that it is not as profitable as they thought. In this case, the alliance should be considered a success because it met its objectives.

From the previous discussions, we can notice that organizational effectiveness measures are the most “comprehensive” (Arino, 2003). It can reflect all firms' goals, financial and non-financial.

The venture interests ‘some times’ is different from the parent(s) interests, and in this case the venture should be assessed separately. There is always the possibility of a conflict of interest between the venture and one of the parents. Therefore, to avoid the risk of alienating partners’, SAs should not be assessed as a division (Anderson, 1990).

Judging the performance of the SA should not be based on short-term ‘profits’. SAs are far more complex than divisions because the different objectives and stakeholders, which raises the possibility of interest conflict. Many studies have showed that short-term ROI indicators do not reflect the performance of the SA, even if the ROI in the short term is positive (Anderson, 1990).

Measuring the financial return only is not sufficient to measure the performance of a SA; it covers only one “dimension” of the performance. There is a necessity to use qualitative measures to evaluate the SA performance adequately (Geringer and Hebert, 1991).

Alliance's objectives and assessment methods should be explained in details before the alliances starts, so firms can measure the performance correctly. Objectives should be

the centre of assessment, and the measurement should focus on whether the objectives have been met or not. Financial indicators should be ignored; unless the objectives of the alliances or the venture are generating profit, increasing sales...etc.

Transparency regarding the objectives will help the parents firms when setting up the alliance. Then, the alliance can be managed in a way that serves both partners objectives. This will reduce the tension costs and the fear of opportunistic behaviour, and limit the overlapping of tasks that might take place later.

In chapter 6 and 7, we will extend the discussion, and talk more critically about ISAs performance measurement in relation to our study.

## **2.6. Saudi Context**

### **2.6.1. Introduction and Background Information**

The Kingdom of Saudi Arabia comprises about 80% of the Arabian Peninsula; the rest is shared between Yemen, Oman, Emirates, Qatar, Bahrain, and Kuwait. Saudi Arabia is the largest among the Gulf countries with a size of 2,149,690 km<sup>2</sup> (870,000 m<sup>2</sup>), almost double the size of the UK, France, and Spain combined (CDSI, 2012). Saudi Arabia is bordered on the west by the Red Sea, on the south by Yemen and Oman, on the east by the Arabian Gulf, Bahrain, Qatar and Emirates, and on the north by Kuwait, Iraq, and Jordan. It has a population of 29 million, of which over 9 million are foreigners. The population is growing by 2.21% per year (CDSI, 2012).

Saudi Arabia is the birthplace of Islam, and is the home of the two holy mosques in Mecca and Medina. The Saudi state was founded in 1932, after 30 years in civil war, attempting to unify the Arabian Peninsula. The kingdom is an absolute monarchy, and the King is the prime minister. The king rules by issuing royal decrees. Saudi Arabia has The Basic Law, the closest to a written constitution, which highlights the relationship and the responsibility of the King.

Saudi Arabia is considered according to the International Monetary Fund as a developing economy (IMF, 2012). Despite this fact, the Saudi economy is the largest in the Middle East (USSABC, 2008). Saudi Arabia has the world's largest oil reserve, and a wealth of gas and minerals. The oil reserves, 25% of the world's proven oil reserves, place the country in the map of world economy as an important player.

Education has been key in Saudi Arabia with the number of universities in Saudi Arabia jumping from 7 in 2005 to 34 in 2013. This is not surprising as Saudi Arabia is the world's 7<sup>th</sup> largest spender in Education (SAGIA, 2012).

This section will start with an overview of the social and cultural background of Saudi Arabia, and then discuss in more detail the economy of Saudi Arabia. Finally, it will consider the effect of culture and social background on business and management in Saudi Arabia.

### **2.6.2. The Social and Cultural Aspects of Saudi Arabia**

Generally, there is a lack of cultural studies in the Arab world and in Saudi Arabia specifically (Al-Rasheedi, 2012). However, there is a highly agreed upon view of Saudi society; it is highly personalized and kinship, friendship, and regionalism significantly affect individual actions and behaviour (Ali, 2009).

According to Hickson and Pugh (1995), four powers have influenced Arab values. These are foreign power, the western quest for oil, Bedouins/tribal traditions, and Islam (Robertson, et al., 2013). The Bedouins and tribal heritage have a strong influence on the people of Saudi Arabia, with codes of loyalty and honour that date back to pre-Islam (Hickson and Pugh, 1995; Al-Rasheedi, 2012). This has created a strong patriarchal, top-down authoritative structure, referred to as “Bedo-aucracy” or “Sheikocracy” (Kassem and Habib, 1989; Robertson, et al., 2001).

Saudi society is considered a convergent one, and such societies try to preserve their culture from outside influences (Al-Khatib, et al., 2004). Saudi has a homogenous and collective society with a loyalty and commitment to the group, whether family or works (Al-Anazi and Rodrigues, 2003; Ali, 1993; Ali, et al., 1997). There is more emphasis on the role of the group and less on the individual's role, obedience to seniors, and the importance of connections and networks (Kassem and Habib, 1989). Saudi has never been colonized and this makes Saudis conscious and vigilant in relation to any outside influence (Robertson, et al., 2001). A person's word is as good as written commitment in the Saudi culture; trust and honour are key pillars of Islamic culture (Mababaya, 2002; Rice, 2003).

Saudi society places a strong emphasis on the role of relationships (Farh et al., 1998). This is something akin to the concept of *Quanxi* in the eastern context. The role of

relationships has a strong effect on organizational culture in a way not comprehended by Western organizations (Farh, et al., 1998).

Hofstede (1980) has not singled out the culture of Saudi Arabia; rather it was largely studied as part of the wider Arabic context (Noer, et al., 2007). The study included seven Arabian countries. The group scored highly in power distance and uncertainty avoidance, and low in individualism and masculinity (Robertson, et al., 2013). In the latest study by Hofstede and Minkov (2010), a new dimension, “long term orientation”, has been added; Saudi has a low score in this dimension (Cassell and Blake, 2012).

What does this mean? People who score highly in power distance (80 in the case of Saudi) are showing “deep divisions of wealth and power, limited interaction and movement between social classes” (Al-Khatib, et al., 2004), and are hardworking and obedient (Rawwas, 2001). Scoring highly (68) on uncertainty avoidance means “rules and procedures are designed to limit uncertainty and intolerance for abnormal ideas and behaviours” (Al-Khatib, et al., 2004). Scoring low on individualism indicates “tight social frameworks, loyalty to family, friends, and the organization”. Finally, Saudi scored an average score on masculinity (50). This means, “Competition and performance are somewhat valued” (Al-Khatib, et al., 2004).

A study by Ronen and Shenkar (1985) which looked into the culture in Middle East, Saudi Arabia was also grouped with a cluster of six Arabic countries where the researchers found similar cultural traditions (Robertson, et al., 2013). There is no single study that has investigated the Saudi culture alone.

There is a conflict in Saudi Arabia between the modernisation movement and conservative powers that for decades have affected the development of the country (Al-Ajmi, 2003).

Despite the resistance from a fraction of the society, modern technology and the contact with the West has successfully managed to deeply and continuously influence Saudi traditional culture (Elmusa, 1997; Idris, 2007). Modern technology, especially the internet, has had a large influence on opening the gates to the outside world (Teitelbaum, 2002).

The Saudi government, through sets of rules and legislation, in order to preserve the Saudi culture from foreign influence, has limited the interaction of low skilled foreign workers with the locals (Glasze, 2006). Highly and medium skilled expatriates reside

mostly in closed compounds, creating social living similar to that which they experience in their home countries. This limits their interactions with the locals (Glasze, 2006). This might explain why a country with a large foreign presence is not considered as multicultural society.

Saudi Arabia is an Islam dominated country, which strongly influences the cultural aspects and traditions. Saudi is the birthplace of Islam and has the two holy custodians in Mecca and Medina, which is a destination of millions of Muslims each year. Thus, Saudi has the assumed responsibility of religious leadership for Muslims, which in return has resulted in imposing strict control over social and moral values in strict adherence to Islamic teachings (Robertson et al., 2013; Hickson and Pugh, 1995).

No one can underestimate the influence of religion on a country's culture (Hickson and Pugh, 1995; Hofstede, 2001; Rice, 2003). It is evident in Saudi Arabia where Islamic teaching is apparent in many social aspects (Alanazi and Rodrigues, 2003; Mababaya, 2002; Rice, 2003). Thus, as the birthplace of Islam, religion's relevance in the lives of the people of Saudi Arabia is greater than in any other Islamic nation (Hickson and Pugh, 1995; Mababaya, 2002; Robertson, et al., 2001). This, as some authors (Ali, 1990; Mababaya, 2002; Al-Rasheedi and Rice, 2003) argue, has influenced the business dealings and management of organizations in Saudi Arabia.

### **2.6.3. Saudi's Economy and Business Climate**

Saudi Arabia's economy is the largest in the area, and it is a G20 country holding a 25% share of total Arab GDP (Al-Filali and Gallarotti, 2013). It has a GDP of 727.307 billion dollars and GDP per capita of 25.084 thousand dollars (IMF, 2012). Saudi Arabia is growing at a rate of 5.13% per year. The continuous demands on oil have made it possible for the kingdom to finance various development programs (Kassem, 1989). However, there is huge dependency of the Saudi economy on the world economy; the Saudi economy is classified as a "one-crop economy", although there are serious attempts to change this fact and break the link between the Saudi economy's fate and the fluctuation of the oil market (Abu-Musa, 2006; Al-Filali and Gallarotti, 2013). The private sector contribution to GDP is around 57.57% (CDSI, 2012). Alnatheer and Nelson (2009) have pointed out that the goal of the economic plan is to reduce dependency on the oil sector and encourage the private sector to take a more prominent role in the economy. The Saudi government, for its part, is trying to improve the

business environment to achieve prosperity, and to raise the productivity of all sectors. The Saudi government's spending plays an important role in driving the economy and this role is not likely to decline any time soon (Ali, 2009).

Saudi has been trying for years to diversify its economies from oil dependencies, by launching industrialization projects, adapting modern technologies, and fostering and supporting high intensive industries, and finally by increasing the role of the private sector and ensuring less reliance on the government as the sole driver of the economy (Schliephake, 1995; Al-Filali and Gallarotti, 2013). In the 1970s, different plans were adopted to diversify the economy, including moving into transforming iron ore into steel and hydrocarbons into petrochemicals (Auty, 1988). The establishment of two industrial cities, Jubail and Yanbu, to support petrochemical and oil-intensive heavy industries was not enough to diversify the economy (Al-Filali and Gallarotti, 2013). In addition, Saudis have focused on improving the financial sector and transforming it into a developed asset that finances economic activity in Saudi Arabia (Samargandi, et al., 2013). Now Saudi is pursuing a new strategy focusing its effort on replacing natural resources with the knowledge economy (Alshumaimri, et al., 2012; Samargandi, et al., 2013; Shin, et al., 2012b). The accession into world trade in 2005 has opened the country's economy, and as result the country's laws and regulations have begun to conform to international standards (Idris, 2007). This has given the legislator an opportunity to liberalise and reform the Saudi economy (Arab Law Quarterly, 2001; Merdah and Sadi, 2011). Saudi has come a long way in improving its market state; Saudi was ranked 11<sup>th</sup> for ease of doing business according to the Doing Business 2011 report (Cassel and Blake, 2012). However, as a developing country, Saudi Arabia has faced considerable challenges in adapting to the new economic policies (Marar, 2004).

There is a pressing problem facing the Saudi government, as is the case in many countries, of youth unemployment. Saudi unemployment has reached 12.10% (CDSI, 2012), with the rate being higher for youth aged 20-24 (Al-Filali and Gallarotti, 2013). The demographic trends in Saudi Arabia could magnify current problems; 80% of the population is under 30, and 60% is under 20. This is pushing the government to accelerate the building and the establishment of educational institutions and universities and to keep or increase the current growth rate (Al-hazmi, 2010; Al-Filali and Gallarotti, 2013). Since the 1970s, the Saudi economy has been relying heavily on foreign work force (Ali, 2009). Currently public organizations are employing 70% of

the Saudi workforce (Al-Yahya, 2009), while 80% of the private sector workforces are comprised of foreign workers (Fanack.com, 2013). The dependency of the private sector on foreign labour has hindered the development of a local skilled workforce, as Saudis could not compete with foreign workers, whether on skills or salaries (Al-Kibsi, et al., 2007). This has resulted in Saudi Arabia facing a shortage of skilled local human capital in many advanced technologies (Abu-Musa, 2006; Curry and Kadash, 2002; Idris, 2007).

Therefore, the Saudi government has vigorously engaged into a process called “Saudization” a job localization program (Sadi and Al-Buraey, 2009). The aim of the program is to reduce the country’s dependency on expatriate and replace them with local citizen to reduce an unemployment rates (Sadi and Al-Buraey, 2009). Foreign firms started to feel the heat, and the Saudi government have introduced new tough quotas for the number of Saudis employees (Williams, 2009). This means firms in private sector will have to hire and train a Saudi staff or risk facing penalty; which is something not common in Saudi Arabia (Williams, 2009).

These facts have slowed Saudi Arabia in its attempt to make the transition to a knowledge economy (Al-Filali and Gallarotti, 2013). Saudi Arabia has a good information-technology infrastructure, ranked as 21<sup>st</sup> in the world (World Bank, 2012); it has the largest and fastest growth in the Middle East (Alghamdi, et al., 2012). However, it needs to improve its human capital to complement the development in the infrastructure.

The Saudi economy is undeveloped in some parts, as it is lacking professional analysis and financial databases, which are essential components for the healthy business environment (Al-Razzen and Karbhari, 2004). Furthermore, despite attempts to present the firms as professionally managed, most family firms are still led by family and founders’ ideologies and strategic decisions (Robertson, et al., 2013).

Saudi businessmen and the private sector are facing some obstacles that are causing concern, including lack of financial facilities, lack of skills, dependency on a foreign workforce, bureaucracy, poor procedures and legal policies, and lack of information (Looney, 1991; Merdah and Sadi, 2011).

Moreover, the still-developing information technology capabilities make the Saudi market immature compared to more developed markets (Alnatheer and Nelson, 2009).

It is imperative for foreign firms to take account of the culture of Saudi Arabia when operating. Things like prayer times, days of rests, and fasting are important times in the normal Saudi calendar (Cassell and Blake, 2012).

Saudi Arabia is considered as an attractive place to invest for many international firms; it allows them to access a new market with good spending power, and to access raw materials such as crude oil and natural gas. There are also tax benefits, tax holidays for firms and no income tax for individuals (Al-Rasheedi, 2012). Saudi Arabia is equipped with a developed infrastructure with ports, airports and roads accompanied by considerably lower labour costs (Al-Rasheedi, 2012).

The economy in Saudi Arabia has a very large scope for growth with potential for increasing demand in all sorts of services (Al-Rasheedi, 2012). The economy is the largest in the Middle East (SAGIA, 2013).

Saudi family firms are now entering a new phase, forming ISAs and internationalising in an attempt to utilise their competitive advantage (Williams, 2009; Jasimuddin, 2001). The liberalization of the Saudi market, which made it easy for foreign firms to enter the Saudi market, has pushed Saudi firms to change (Al-Rasheedi, 2012). In SAs, the technical capabilities and competencies of foreign partner are coupled with local knowledge and the connections of the local partner to give the ISA a competitive advantage (Al-Rasheedi, 2012). Although some firms choose to licence their technology to the Saudi partner or collaborate through other forms, SA is still the preferred method for both parties (Williams, 2009).

Foreign firms have favoured ISAs to enter the Saudi market, due to various reasons. William (2009) and Mababaya (2002) have cited indirect government sanctions as a reason. The government is favouring the formation of joint ventures, as they allows local firms to interact and become directly involved with the work of foreign firms (Williams, 2009). The government does not force foreign firms to form JVs, but encourages them by offering incentives to IJVs with Saudi partners. For foreign firms entering into SAs with Saudi partners, it offers tax-holidays, interest-free loans, and foreign firms have a stronger chance of winning government contracts if they are part of a JV (Mababaya, 2002). Of course, no one can neglect the fact that differences of Saudi society culture and tradition and local firms, along with their strong local networks, will help foreign firms to overcome any difficulties (Al-Rasheedi, 2012).

Many businesses operating in Saudi Arabia or wishing to operate have their doubts about the effectiveness of the Saudi legal system. Saudi Arabia is controlled by two legal systems; one is based on Islamic teachings, and the others is based on secularized laws (Kwong and Levitt, 2009; Marar, 2004). This duality of legal systems is apparent in financial sectors where there is a need to adapt the system to current market economies and at the same time face the challenge of adhering to Islamic teachings (Marar, 2004).

The legal system in Saudi has been a centre of the fight between traditionalist and modern movements (Al-Jarbou, 2007). Thus, it is common to see some regulating bodies having their own laws and dispute committees that rule differently from the law practised in Saudi courts (Wapler, 2001; Marar, 2004). The regulating body for foreign investment is the Saudi Arabian General Investment Authority (SAGIA) (SAGIA, 2013).

#### **2.6.4. Culture and Business Management in Saudi**

Several authors (Ali, 1995; Assad, 2002; Rice, 2004) have highlighted the influence of traditional Islamic, tribal, and family values on the management culture of Saudi Arabia. Loyalty and obedience are of paramount importance in the Gulf, and children are taught these values from a young age. The importance of the group welfare and its harmony in society has been reflected in how business is conducted in the Gulf (Al-Khatib, et al., 2004). The influence and importance of trust in the Gulf is not restricted to social relations; it extends to organizational and transactional relations as well (Shane, et al., 1995). Thus, personal reputation and image, which includes trust, sincerity, and worthiness, is important (Ali, 2009).

The culture in Saudi Arabia has been cited as a hindrance to the improvement and adaptation of new technology. Alnatheer and Nelson (2009) have reported that national culture in Saudi Arabia has been an obstacle in the adaptation of information security practices.

Idris (2007) has discussed the cultural barriers that stand in the way of improving organizational performance in Saudi Arabia. First, collective thinking is affecting business dealings, as it dictates relationships. In addition, Idris advocates the studies that show that organizations' performance in developing countries, like Saudi Arabia, cannot improve if not accompanied with changes in culture. The culture is the main

challenge facing Saudi organizations transforming their local employees into competitive advantage.

The importance of kinship over business has been cited as a hindrance in managing in Saudi Arabia. It made the organizations less rule-bound, decisions were not based on merits, and nepotism had greater effect on business and management (Al-Aiban and Pearce, 1993).

Saudi is lacking a managerial skilled workforce and management know-how (Yavas, 1998; Merdah and Sadi, 2011). The predominant style of leadership and decision-making in Saudi Arabia is consultative; although the use of participative leadership has increased and there is a change of attitude towards more participative leadership (Al-Yahya, 2009). Some of the managerial problems in Saudi have been attributed to the presence of “tribal mentality” which hinders the development of institutionalism, initiatives, and professionalism (Ali, 2009).

Another interesting social factor affecting the business dealings in Saudi is accountability; mistakes are attributed to fate and accountability is weak (Bhuiyan et al., 2001). This can take us to Walker et al. (2003), who analysed the role of “fatalism, or the belief that ultimate control lies in the hand of God” in Saudi culture and its existence in the workplace. It is used as a way to justify things going wrong or being delayed, and blaming fate instead being accountable to their actions. Tuncalp (1988) has pointed to the fact that Saudis attribute their misfortune to fate due to their deep sense of fatalism.

The Saudi has preferences to managerial jobs; this is because labour jobs are not looked at favourably among the people (Cassell and Blake, 2012; Idris, 2007). Saudis are motivated by status and positions (Idris, 2007). This has resulted in a large shortage of technical and labour workforce and has increased reliance on foreign workers (Idris, 2007).

Saudi, as a country with high power distance, is accordingly making decisions autocratically and paternalistically (Cassell and Blake, 2012). The Saudi score on masculinity is reflected in hiring and firing practices. It is rare to witness a termination of a contract due to poor performance (Idris, 2007).

That being said, some authors claim that countries in the Middle East, despite sharing Arabic and Islamic identity, are different when it comes to their managerial practices. For example, Ali and Al-Shakhis (1989) have found that Saudi managers, compared to

Iraqis, are less egalitarian, individualistic, and less humanistic. Moreover, Robertson, et al. (2001) points out that despite the collectivist nature of Middle Eastern countries, Saudis come out slightly more individualistic in the workplace than other countries. They also add that Saudis' work beliefs are unique and independent of the beliefs of Kuwaitis and Omanis, despite them sharing many attributes with them.

Robertson, et al. (2001), also thinks that Saudi managers are more resistant to outside influences compared to other Islamic cultures. However, despite the influence of the traditional culture, Ali (1995) has a different opinion; he thinks that Saudi culture is participative, egalitarian, and sensitive to others' beliefs. He adds that Saudi management culture has been "polluted" by outside, foreign, influences.

Ali (2009) points out that the rising middle class business people are showing levels of sophistication and objectivism. They make their judgments based on facts and hard figures more than on emotion and subjective inclination (Ali, 2009).

There are notable differences between west and east, and managers from multinational companies should take note of these differences. According to Al-Khatib, et al. (2004) individuals from Eastern cultures show higher level of opportunism comparing to individuals from Western cultures. Moreover, the typical Western separation between personal and professional holds no ground in Saudi Arabia (Ali, 2009).

There is a Saudi reliance on and infatuation with Western management literature and understanding, especially American (Al-Rasheedi, 2012). Arabians are in general fascinated by the American way of conducting business (Ali, 2009). Most of the management books and theories taught at universities are foreign material (Idris, 2007). Furthermore, private organizations, which are driven by efficiency and profits, are more flexible and willing to change (Al-Aiban and Pearce, 1993). Despite that, Saudi business and management education is recent, and is thus not completely influenced by modern management (Bhuiyan, et al., 2001). It has been argued that management and leadership are influenced by accumulated traditions and values (Idris, 2007). This fact has created a blend between traditional culture and modern techniques of management, which has made Saudi Arabia unique (Abu-Musa, 2006).

The advice in the literature for international managers to reduce transaction costs when operating in the Gulf, according to Al-Khatib, et al. (2004), is to build a trustworthy relationship with their respective business partners. Saudi businessmen tend to take their

time before doing business with someone. This is because of the value of trust and relationship; businessmen prefer to build some sort of relationship and mutual trust before starting a business (Harris, et al, 2004; Niblock and Malik, 2007).

In this chapter, we reviewed the main theoretical perspectives regarding the formation of ISAs; we also reviewed the literature regarding learning, culture, and performance of ISAs. The chapter concluded by providing detail overview of the study (Saudi) context. The third chapter sets out the research methods employed to collect the data for undertaking the empirical analysis.

# Chapter Three: Methodology

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## 3.1. Introduction

Business research is categorised into applied research and fundamental research (Sekaran, 2006). The aim of applied research is to investigate a specific problem experienced in a company or sector, while fundamental research provides a more general overview. It aims to generate knowledge and understanding about certain phenomena being experienced in a certain settings.

The way research is conducted and the research instrument utilized is dependent on the research goals (“objectives”) and questions. The research might also be influenced by the researcher’s philosophical stance. This study examines ISA formation motives and success factors of the management of ISAs in Saudi Arabia, from the perspective of Saudi partner.

Despite the global interest in investing in the Saudi market, there is a huge shortage of academic studies relating to ISAs in the Saudi context. The country has received little management research attention, even in comparison with other Middle Eastern countries (Dedoussis, 2004; Noer, et al., 2007; Alnatheer and Nelson, 2009). This has resulted in a shortage of data concerning many business and management areas (Alnatheer and Nelson, 2009; Al-Yahya, 2009; Al-ajmi, 2003; Al-Khatib, et al., 2004), including studies on organizational performance and the effects of culture on business in Saudi Arabia (Idris, 2007). However, these apparent difficulties are what make Saudi Arabia a unique place to conduct this research, which will fill the identified research gap and enrich the existing body of literature.

The absence of similar studies made it difficult for the researcher to recognise the scale of research difficulties, especially those related to the data collection phase, which will be considered in further details later in this chapter.

The aims of this chapter are to:

- Explain the research strategy and methodologies used.
- Identify the research instruments used.

This chapter begin with a brief description of the research questions, and the research hypotheses. The chapter will then give a detailed explanation of the research method of

this study; followed by explaining the process of research design, with emphasis on questionnaire development, sample selection, and distribution methods. Finally, we conclude this chapter by explaining the statistical analysis tools that have been used in this study.

### **3.2. Research Questions and Research Hypothesis**

Any research study starts by identifying a problem statement and then defining the relationship between the investigated variables in a logical manner (please see section 1.2 to view the research questions). After that, a process of hypothesis development and testing begins. To check whether the hypothesis can stand under logical reasoning, data is collected from a proper sample and used for testing (Sekaran, 2006). It should be noted that the process of formulating a hypothesis provides the researcher with a clear framework when collecting, analysing, and interpreting the data. Consequently, the hypothesis contains a possible solution to the research problem, and is then either verified or rejected after the data is gathered and analysed (Sarantakos, 1998).

There are no conditions regarding what form the hypothesis should take, except that it should not be in the form of a question. The hypothesis can be formulated in descriptive or rational form. In the first case, it describes events, while in the second it establishes relationships between variables. In addition, a hypothesis can be formulated in directional, non-directional or null form. A directional hypothesis, which refers to the relationship between variables, can be generally positive or negative. It is positive if the cause and effect are in the same direction, and negative if the cause and effect are in opposite directions (Trochim, 2000).

Non-directional hypotheses claim a relationship or differences, but unlike directional hypotheses, they have no direction. Thus, the research may not state whether the relation is positive or negative (Sekaran, 2006). A summary table of the research hypotheses can be viewed at the conclusion chapter, section 8.4.

There are certain criteria that hypotheses should meet, although methodologists disagree on whether all these criteria should be met or whether only a few of them are necessary. The criteria that hypotheses should demonstrate are as follows:

- Empirically testable.
- Clear, specific and precise.

- Statements should not be contradictory.
- Describe variables or establish a relationship between variables.
- Describe one issue only (Sarantakos, 1998).

The next two sections will explain the research method of this study; then it will explain the process of designing the research.

### **3.3. Research Design**

Research design is the process and plan that guides the research into collecting the necessary data to test the hypothesis. Research design aims to ensure the best possible answers for the research questions. It is a strategy that includes data collection, sampling methods, and empirical data analysis techniques, while taking into the account resource limitations, time frame, and other external factors.

Research studies vary according to purpose; they can be exploratory, hypothesis testing, or both. Few research studies have been conducted which look into the issues of strategic motives, learning, trust, and culture holistically as success factors in the management of ISAs, especially in the Saudi context.

An extensive review of the literature was conducted to identify the success factors. After that, hypotheses were developed that predicted the firms' motivation and selection criteria which to be addressed in chapter 4, learning which to be addressed in chapter 5, and the effect of trust, communication and cultural factors on performance which to be addressed in chapters 6 and 7. This study has undertaken a statistical quantitative approach to test them.

One of the most important steps when conducting research is to identify the unit of analysis. That is the body (subject) in the study. The unit of analysis can be individuals, organizations, artefacts, or social phenomena. The researchers determine the units they intend to analyse in their studies depending on the research questions and the level at which research results are to be generalised (Judd, Smith and Kidder, 1991). In this research, the units of analysis are the managers and executives of Saudi firms. Given the nature of the information being sought, the sample unit should have had some first-hand experience in managing or negotiating ISAs in Saudi Arabia. More details about sampling are included in section 3.3.2.

Studies can be cross-sectional or longitudinal. A cross-sectional study takes place at a single point in time, while a longitudinal study takes place over time. In longitudinal studies, the unit of analysis is measured at least twice over time. This study has taken a cross-sectional approach; the survey stage of this research was carried out in Saudi Arabia between January and May 2012. The researcher interference in this study was minimal.

In the coming section we will discuss in the research method, sampling, questionnaire design, pilot study, the use of web survey, and the response rate and data characteristics.

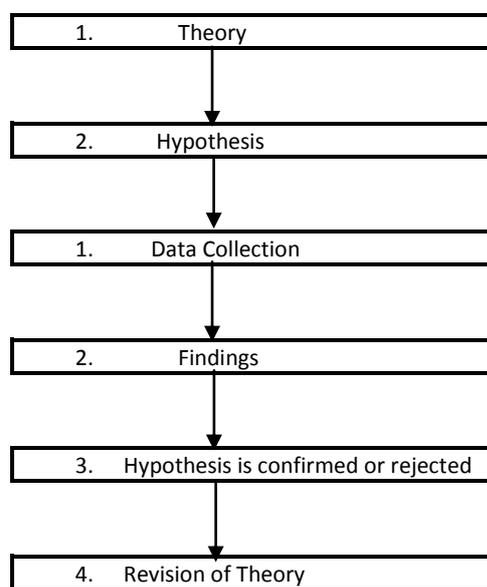
### **3.3.1. Data Collection Method**

This section, through the following discussion, justifies the selection of this study method and why it is seen as the most appropriate for this research. This study adopts a questionnaire survey method; epistemologically, it is post-positivist research, which focuses on explaining causal relationship among variables through construction of quantifiable measures; it uses statistical technique to test or verify theories (Muijs, 2011). Post-positivist methodology and methods are thus relevant to this study, which aims to develop instruments to assess and identify success factors in the management of ISAs.

The nature of the phenomena under investigation justifies the use of such methods. The complexity of the research area with various independent and dependent variables has pushed the researcher in this direction. The reason for having a large number of variables is that there is an issue of data availability in Saudi Arabia; no conclusions can be drawn from the existing data. The absence of any research on the management of ISAs in Saudi Arabia has motivated the researcher to try to uncover some of the factors and build a reliable research model that investigates the phenomena fairly. There are no public data on ISA management to draw any conclusions or gain any information about the state of ISA management. This deductive research allowed the researcher to formulate assumptions and new theories based on existing knowledge and on observation. In this type of research (deductive) the researcher starts from a particular problem in the real world, and then after consulting the literature and intellectual resources formulates a solution to solve the existing problem.

One of the key issues in research is the methodology employed by the researcher: does it answer the question of the research, and is it suitable for theory development or theory testing? This research is deductive in nature, with its hypotheses validated by an empirical survey. As Ragin (1989) points out, quantitative approach is well suited to “testing hypotheses, identifying general patterns, and making predictions”. Many researchers agree that quantitative research is well suited with hypothesis testing (Muijs, 2011).

To deduce a hypothesis, it must be subject to empirical scrutiny. The process of deduction is:



Source: Saunders, et al. (2009)

Other reason for using quantitative approach is the ability to generalise from a sample to the population (Moser and Kalton, 2001). It allows the researcher to develop generalizations that contribute to theory, which in turn enable the researcher to predict, understand, and explain certain phenomena. Unlike qualitative design where the relatively low sample numbers may lead to arguing that findings are unrepresentative of the population.

### 3.3.2. Sample Design

The use of sampling to obtain precise information is an efficient technique and is widely used. It is encouraged in the literature as an alternative to surveying the entire population. Some authors, such as Churchill (1979), argue that sampling can be more

accurate due to the potential for non-sampling error associated with a complete census (Yu and Cooper, 1983).

It is almost impossible to survey a whole population due to problems of time, cost, and accessibility. That is why sampling is a good solution for researchers; smaller and more manageable samples can be representative of an entire population (Saunders, et al., 2009). However, the difficulty is how to sample and under what bases, and determining whether a sample is representative of a whole population.

The study employed the following selection criteria to respondents: the target population of this research is the Saudi firm engaged in ISAs, whether in form of equity or non-equity. Given the nature of the information being sought, the sample unit should have had some first-hand experience of managing or negotiating ISAs in Saudi Arabia (for example, CEO, VP, GM, or PM). There are no data available regarding the precise size of the survey population; the estimated number of units varied considerably between government agencies and other publications. Empirical studies have always faced a number of limitations and challenges, especially in emerging markets and in Saudi in particular (Robertson, et al., 2013). Furthermore, ISAs data are known to be difficult to obtain (Silva, et al., 2012). Unlike M&A, firms are not obliged to report them. Firms might build a partnership without recording it officially.

In this study, the researcher had the predicament of the unavailability of any list that can serve as sampling frames; hence drawing random samples. To overcome this problem, the researcher collected the primary data by adopting what is known as “literature counting method” (Hagedoorn and Narula, 1996; Silva, et al., 2012). This method is widely used and accepted in the ISAs literature (Johnson, et al., 1996; Miotti and Sachwald, 2003; Silva, et al., 2012). In this method, the information is gathered through the use of multiple resources; for example, journal articles, specialized books, journal, newspaper, guide books, and business and trade press (Hagedoorn and Narula, 1996: p. 270). The literature counting method is the only way to develop a large-scale database of alliance activities in this context (Silva, et al., 2012). Hence, we have used the literature counting method in this study; the sample was drawn from many sources. In early 2011, several agencies were contacted in an attempt to obtain the contact information of potential respondents. The Ministry of Commerce, Saudi Investment Authority (SAGIA), Chambers of Commerce, a Directory of Multinational Companies in Saudi Arabia 2010, and the Commerce attachés of many foreign embassies in Saudi

Arabia were all approached to obtain the number of ISAs and their contact information. However, not all of them possessed the data sought.

First, the Ministry of Commerce was contacted several times, but no response was received. Therefore, a personal visit was made. Their answer was that they did not possess such a list. The researcher asked a friend with a personal connection to people from the Ministry, but no list was available. Then the Saudi Investment Authority (SAGIA) was contacted, and an email was sent asking them about the list, but no response was received. Thus, a personal visit was made, and the researcher was asked to follow the procedure and put the request in writing, to be approved by the manager. Several visits were made, but the request was not fulfilled. A family friend of the researcher was then asked to arrange a meeting with the manager, where the list was finally obtained. However, the list was unorganized, with many companies appearing repeatedly. The information was limited to the name of the company in Arabic, and their telephone and fax numbers. It should be noted that only the companies who used SAGIA services would be registered in their lists. Thus, any companies that did not enter the Saudi market through SAGIA would not be listed, which means their list would not be representative of the whole population. Therefore, other agencies, including the Chambers of Commerce for different Saudi cities, were contacted. A list of foreign companies operating in Saudi Arabia was also obtained. However, there was no indication as to whether the companies were wholly owned subsidiaries or ISAs. Thus, the researcher had to refer to the public domain to find out whether these companies had any form of Joint Venture. When in doubt, the companies were included in the sample. In addition, the Multinational Companies in Saudi Arabia 2010 directory was used. This directory was useful, although not always relevant. It included embassies, airlines operating in Saudi, and offices of large multinationals. The researcher also contacted the commerce attachés of many foreign embassies in order to get hold of any available lists. No response was received from the majority of the commerce offices, with the exception of the Spanish embassy. Therefore, contact numbers of executives were extracted from the public domain by conducting individual searches. Eventually, a database of 600 ISAs was successfully built. The database included the names of the companies and the executives' names and contact details. To reduce sampling error, the researcher employed a random sampling technique, as this can estimate the population with acceptable precision (Dillman, et al., 2009).

To reduce sampling error, the sample of 600 ISAs out of around 3300 ISAs in the Kingdom was built randomly. The sample represents around 18% of the whole population, which is considered representative of the whole population. A completed sample of 3% of the whole population would be suitable for the researcher to generalize the findings with confidence (Dillman, et al., 2009). It can be said with confidence that the sample in this research exceeds 3% of the whole population; as a best estimate, the number of international strategic alliances in Saudi Arabia is around 3300. Responses were checked to ensure the elimination of any bias, such as "centre bias" where a respondent chooses the middle response (Neutral) for all the questions in the survey.

### **3.3.3. Questionnaire Design**

The development of the questionnaire was guided by the literature review, consultation with experts, and a pilot test. It has adopted previously tested measures from earlier studies and tested them in new contexts. It has thus already passed tests of validity and reliability. A self-administered instrument, delivered via the internet to the target sample, used in this survey. The target population are internet and email-dependent when conducting business (Idris, 2007). The questionnaire was structured in six sections: 1) general information; 2) formation and motivation; 3) learning; 4) culture; 5) trust; 6) performance.

The author was aware of the issue of low response rates associated with mail (email) surveys. In addition, from personal experience, knowledge of our local culture and conversations with fellow academics and colleagues it was clear that response rates will be even lower in Saudi Arabia. Many researchers have to endure great difficulties when collecting data from multinational companies in Saudi Arabia, with many questionnaires unanswered, unopened, or rejected due to confidentiality (Viola, 1982; Mababaya, 2002). Viola (1982) and Mababaya (2002) in their theses managed to get only 45 completed responses despite all their efforts to increase response rates. Therefore, an extensive review of the literature was conducted in order to increase response rates and to anticipate a low response rate.

Hence, after careful review of literature we have identified five factors as the most effective for increasing response rates in surveys. These are sponsorship, saliency, follow-ups, personalization, and incentives (Paxons, 1992; Fan and Yan, 2010).

First, providing information about the survey to potential respondents and indicating how the result will be used and how it might benefit them is a good way to encourage participants (Dillman, et al., 2009; Paxons, 1992; Anseel, et al., 2010; Fan and Yan, 2010). In this research, the researcher ensured that the cover letter contained enough information about the survey topics, and the importance of the respondent's contribution would be to the body of literature. Moreover, it gave respondents the chance to ask any questions, and they were provided with the researcher's contact information in case they needed any clarification or had questions. Furthermore, the respondents were given promises of anonymity, which generally encourage more participants. The researcher received some emails, phone calls, and requests to call back from respondents asking about the area of the research.

The quality of questionnaire presentation can also affect the response rate. The questionnaire was designed as a conversation, in a way that follows a logical order. This means grouping related questions that cover similar topics together, rather than jumping from one topic to another which gives the questionnaire a professional look. The questionnaire has included rating (ordinal) scales for most of the questions. In some questions, It gave the respondents the chance to formulate their responses.

In addition, during the questionnaire construction careful attention was made in planning the first question(s), especially in web surveys. The first question might determine whether the participant responds to the survey or not. Thus, we made sure not place long, boring, complicated, or embarrassing questions at the beginning (Dillman, et al., 2009). A quality of the first question is that it should be easy to read and respond to, and should encourage the respondents to continue. Hence, during the pilot study the participants were asked about their opinion regarding the first questions, which we will discuss in later this section (3.3.4).

The other factor affecting response rates is the questionnaire design and layout. Presentation and visual display are important factors and encourage higher response rates (Yu and Cooper, 1983; Dillman, et al., 2009; Fan and Yan, 2010). Thus, we established a consistency in the visual presentation of questions, especially when it comes to fonts, font size, spacing, and alignments.

It was important to build a simple but professional covering letter and questionnaire with clear and easy-to-follow instructions on how to complete the survey and return it.

The questionnaire and covering letter (both headed with the university logo) were translated into Arabic. It should be noted that academic or government sponsored surveys have higher response rates than commercial ones (Fan and Yan, 2010). The initial English language version of the questionnaire was subjected to a back translation process. It was first translated into Arabic, and then an Arabic bilingual professional translator blind translated it back into English. The translation and back translation process continued until the Arabic and English language versions substantially agreed with each other. Both versions of the questionnaire draft were successfully pretested for instrument validity.

The email covering letter was sent in Arabic and English. The two covering letters were designed to stand in parallel, giving the respondents the option to choose the language they felt more comfortable with (please see appendix A). The potential respondents were given the chance to either fill in the questionnaire online or download it if they preferred. The questionnaire was not attached to the initial email invitation, in order to avoid triggering security filters. The printed copies of the questionnaire were prepared in a booklet template, giving them a professional look and making them look “shorter”. Detailed instructions were given in each section on the nature of the questions and how to apply the scale to respond to the questions.

It is important to make it rewarding for respondents to participate. People are often overwhelmed by survey requests, and it thus becomes more important for the researcher to distinguish his/her survey from the rest and highlight the potential benefits of responding to the survey. Social exchange posits, “People’s voluntary actions are motivated by the return these actions are expected to, and often do, bring from others. People engage in a social exchange with others when the perceived rewards outweigh the expected cost” (Dillman, et al., 2009). Tangible rewards were discussed a lot in the literature in an attempt to increase response rates (Yu and Cooper, 1983; Dillman, et al., 2009; Anseel, et al., 2010). However, due to the status of respondents, this technique might be ineffective and might be offensive to the respondents, as putting a monetary value to their time would be offensive if it is small sum, or might entail a big financial burden on the researcher if it is large sum. Such an incentive was replaced by explaining the importance of their contribution to the body of research and promising them a summary of the results and the chance to discuss it with them, which proved to be effective as the number who requested a copy of the study was large.

Furthermore, showing positive regard seems to have a positive effect on response rate. Making people feel positively regarded by other people makes them feel rewarded and encourages them to participate (Dillman, et al., 2009). In an attempt to show appreciation to encourage more responses, the cover letter should be full of appreciative and humble words (Dillman, et al., 2009). This can also take different forms; providing different options to respond is one. In this research, participants were given many options to fill in the questionnaire and return it in the most convenient way possible. This showed respect and professionalism. Providing different options to complete the survey in both Arabic and English language should encourage potential respondents to participate. The literature noticed the positive effect that personalized contact has on mail survey response rates, either in the form of advance notice or personalized cover letters (Yu and Cooper, 1983). Personalization is needed more in the Saudi context and especially when using email-surveys. With the number of emails each ordinary person receives every day in their inbox, the invitation to participate in the survey should not appear as random; personalization creates increased response rates, whether participating or declining.

Nonetheless, it has been argued that though personalization increases the response rate, it can decrease the response quality. This is because a personalized contact may compromise response anonymity. Therefore, in attempts to overcome the anonymity issue, this research gave the respondents a link to a web survey where it was possible to fill in the questionnaire anonymously. Alternatively, they could complete the PDF template and then resend it in an automated process that would leave no trace as to who filled in the survey.

#### **3.3.4. Pilot Study**

Piloting and testing the research design prior to major research gives the researcher the opportunity to assess potential difficulties (Babbie, 1998; Fowler, 1993). Pre-testing gives, the researcher the opportunity to assess the adequacy of the research design (instruments, data collection plan, methodological procedure) in generating the results sought from the population in question. Using pre-tested and tried instrument certainly reduces the amount of testing and piloting needed. There is no standard procedure on designing the pilot test; it is a matter of judgment.

There is an agreement between scholars (Babbie, 1998) that in order to enhance the quality of data gathered, and to have reliable and valid data, it is essential to test and pilot the questionnaire. The process can reduce measurement error, which is a result of answering the questions inaccurately because of misunderstanding the questions. There are several aspects to test in the pilot test, including the choice of vocabulary, sentence structure, wording, and clarity of instructions on how to answer. All these could be causes of confusion and potential problems. The question(s) could be invalid if a question is answered differently among respondents, or interpreted in the same way by the respondents but not in the way the researcher intended (Oksenberg, et al., 1991). Fowler (1993) noted that one of the best ways to test a questionnaire is by administering it personally to a selected group, and engaging them in discussion. The test group in this study were asked to comment on whether they thought there were relevant questions that were not included, and what their expectations were. The covering letter was included as well, and they were asked to provide feedback on the presentation, clarity, wording, length, and instructions. The test group included 5 academics and 10 practitioners.

The questionnaire in this study was bilingual, it was important to test it and ensure that the same question was understood the same way in both versions. To confirm the accuracy of translation, the questionnaire was back translated, and bilingual academics and practitioners checked the two versions to verify that they conveyed the same meaning. The pilot test confirmed that the questions were easily understood and the right length. It was given to bilingual friends of the researcher who had high levels of English proficiency, and they were asked to comment on wording and understanding.

To establish face validity, the questionnaire was pilot tested on selected members of the academic staff from King Saud University and practitioners from various industries (pharmaceutical, law, services, manufacturing, public institutions, and trade). During the pilot test, the participants were asked to comment on the design, style, and presentation. To avoid measurement errors, participants were asked to comment on their understanding of each question and to highlight any vague or ambiguous questions. Wording is of paramount importance; vague, biased, or complex sentences are all causes of low survey completion rates (Paxons, 1992; Anseel, et al., 2010). To confirm the accuracy of the translation, bilingual academics and practitioners checked the two

versions to verify that they conveyed the same meaning. The pilot test confirmed that the questions were easily understood and the right length.

Academics at King Saud University were visited and asked about their feedback and the quality of the questionnaire, as well as about what aspects might affect the quality of data or the response rate, based on their experience of conducting research in similar settings. In addition, comments and feedback were sought on the quality of the presentation, structure, layout, and testing the online version along with the printed one, and the PDF template. The respondents were given draft questionnaires; those in distant locations were sent questionnaires via email, while nearer respondents were handed their questionnaires. The respondents read the questions and were asked whether they understood them and whether they were easy or difficult to understand and follow. They were also asked about the length of the survey, and for their thoughts on the selection of answers in cases of closed questions, i.e. whether they were able to find their answer among the options. Feedback was excellent, and much praise on the style and structure was received. The feedback from the academics did not contribute much to the development of the questionnaire. They sent positive remarks and praise words, but with no constructive feedback on how to improve it. The practitioners, on the other hand, showed more enthusiasm and willingness to engage in discussion and asking questions. A VP of a well-known company have sent the following message “In general, I thought the questionnaire was straight to the point; excellent questions, and all points that I have thought of while reading it I found that you were going to ask the question in my mind on a later stage”.

After this process, and based on the suggestion from the respondents, improvements were made when it comes to wording and answer options. In addition, there were some amendments to the layout, the order of the questions, and some of the wording. The changes have included clarification of the word “tacit”. Practitioners found it difficult to understand, and it was thus explained more clearly. The question on employee numbers was changed after a law firm top executive noted that the options of 1 to 99 were not representative of the industry. In response to this, respondents were given more options. The final change was related to the order of the personal questions. A number of participants suggested moving personal questions to the end of the survey, as respondents might be deterred by answering about themselves rather than the ISA at the start of the survey.

The relevant literature states that questionnaire length and response rates are uncorrelated (Yu and Cooper, 1983). However, during the pilot test, a number of respondents stressed the importance of not sending out too long of a questionnaire. This was taken into account, as questionnaire length is an issue and could be off-putting, especially as the respondents were all “busy” executives. Convenience would certainly encourage more responses (Dillman, et al., 2009). Surveys that take less than 30 minutes to complete have higher response rates (Paxons, 1992; Anseel, et al., 2010). Hence, we calculated how long in the survey would take for the average respondent to complete the survey. On average, it takes the respondents 24 minutes to fill out the questionnaire. The amount of time was deemed to be acceptable by the literature and the practitioner who participated in the pilot test.

### **3.3.5. Web Surveys**

Researchers have been using different methods from mail and telephone, and the past 15 years have seen a surge of new mode web-based surveys (Couper, et al., 2001; Fan and Yan, 2010). Web-based surveys have several advantages: short transmitting time, lower cost, different design options, and finally very easy data entry. However, web-based surveys are facing some challenges that may lead to biased results, a low response rate, and exclusion of those who have no internet access. Manfreda, et al. (2008) have conducted a study of 45 research studies, comparing the differences between web-surveys and other survey methods in term of response rates, and have found that web surveys have an 11% lower response rate on average compared to other surveys.

The web-survey literature is becoming increasingly rich with web-based survey becoming very popular and common. Internet-based technology solutions are evolving rapidly; communities are becoming technology dependent and infrastructure is improving by the day. This makes many articles or books discussing web-based surveys published 10 years (or even 5 years) ago outdated and not relevant to today’s reality. Some of the problems and limitations of using web-surveys in the 2000s are not relevant or present at this time due to higher technology adaptations and improved infrastructure.

The web-based survey has a powerful tool, which is the availability of many designs to choose from, in contrast to the limitations associated with mail surveys. The possibility of guiding respondents, the inclusion of rich visual and audio stimuli, and motivating

the respondents to complete the survey are all-powerful features if utilized properly (Couper, et al., 2001).

The biggest problem of web surveys has always been survey error. That part of the population with internet access is not representative of the whole population (Schonlau, et al., 2009; Couper, 2000). However, the population in this study all have an internet access and are technology literate. The use of technology is now the vital for conducting business, more so when it involves cross border partnerships. This means reducing the survey error (bias error) to a bare minimum.

The literature has suggested many solutions to increase response rates in web-surveys; the majority of them are identical with the “classic” survey literature and have been discussed earlier in this chapter. Thus, in this section we are focusing only on what is related to web-surveys. Many researchers have included “progress indicators” in their web surveys. The rationale was that respondents are more likely to complete the survey if they know how much time is remaining. Previous research has shown that progress indicators do not increase completion rates; they might actually harm them, but in some situation it might increase them. Yan, et al., (2011) have concluded that questionnaire length and respondents’ expectations, based on the invitation, are the main determinants. Progress has a good effect only on short tasks that are below the respondents’ expectations.

It is important to note the relevance of the technical reliability of the web-survey software. The software should be able to support all browsers, and should have a reputation of not breaking down or failing to load. All these factors might lead the respondents not to complete the survey (Fan and Yan, 2010).

Galesic and Bosnjak (2009) answered the question on web-based questionnaires length. They found, unsurprisingly, that the stated length of the survey correlates negatively with initial participation and completion. Moreover, long questionnaires might affect the quality of the responses at the end of the questionnaire, leading to more uniform answers (Galesic and Bosnjak, 2009).

### **3.3.6. Response Rate and Data Characteristics**

There is a general lack of interest and unresponsiveness in Saudi towards participation in questionnaires and research-related activity (Merdah and Sadi, 2011; Elmusa, 1997;

Robertson, et al., 2001). Some of the reasons for the low response rate in Saudi Arabia are considered to be: managers treat surveys as low priority due to their busy schedules; company information is treated as confidential; there are perceived to be no direct benefits from participating; and there is a cultural sensitivity towards cooperating with strangers. In light of this, the researcher employed several methods to overcome some of these constraints and increase the response rate. Previous research has suggested that employing more than one method for collecting survey data is acceptable and usually increases the response rate (Cobanoglu, et al., 2001; Dillman, et al., 2009). Thus, the questionnaire was distributed via email, fax, and foot-in-the-door. Furthermore, to encourage respondents to participate and provide accurate responses, they were guaranteed anonymity (Adler and Graham, 1989). Personal assurances of confidentiality were found to increase participation rates (Idris, 2007). In addition, participants were promised a summary report of the result findings if requested. Non-respondents were followed up with two reminders (via email and telephones) to reduce the coverage error. Timings were taken into consideration, avoiding start of the week and the end of the week, and the two weeks before the quarterly results for the company were publicly listed. In addition, non-respondents were followed up with reminder emails to reduce the coverage error.

In total, 650 questionnaires were delivered; 190 were returned, but 56 had excessive missing data and were excluded. The final data set has only 134 usable questionnaires. Forty participants declined participation for some of the reasons cited above (confidentiality, not having the time, or declination with no reasons). The overall response rate was 20.6%, a rate which is considered to be excellent, considering the context. The number of people who opened the survey was large (295), and was twice the number of those who actually completed it (134). This variation between people who opened the survey and those who completed it could be due to a lack of available time amongst management personnel, or due to the questionnaire not being relevant to some of the companies.

**Table 3.1 Participants Statistics**

Sent	650
Viewed	295
Started	190
Dropouts	56
Completed	134
Response rate	20.6%

Of the 134 respondents, 98 (73.2%) were senior executives (presidents, CEOs, general managers, and deputy general managers) and 13 (9.6%) were functional heads (e.g., finance, HR managers). Twenty-three (17.2%) opted not to answer this question. The sample was composed of 84 (62.67%) equity IJVs and 50 (37.3%) non-equity IJVs (contractual or cooperative alliances). The mean of the alliance age was 13.59 years (S.D. 13.215 years); however, the median was 8.00 years.

**Table 3.2 Sample Characteristics**

		No.	%
<b>Foreign partner Location</b>	<b>North American</b>	38	28.5%
	<b>European</b>	48	35.7%
	<b>Asian</b>	16	11.9%
	<b>Arab</b>	16	11.9%
	<b>Other</b>	16	11.9%
<b>Alliance Form</b>	<b>Equity</b>	84	62.7%
	<b>Non-Equity</b>	50	37.3%
<b>Equity share</b>	<b>Equal 50%</b>	30	36.1%
	<b>&gt; 75%</b>	9	10.8%
	<b>&lt; 49%</b>	22	26.5%
	<b>51 to 74%</b>	22	26.5%
<b>Respondent's Job titles</b>	<b>Senior Executives</b>	98	73.2%
	<b>Functional Heads</b>	13	9.6%
	<b>No Answer Given</b>	23	17.2%
<b>Ownership</b>	<b>Publicly Listed Company (PLC)</b>	28	20.9%
	<b>Family Business</b>	44	32.8%
	<b>Government Owned Cooperation</b>	4	3.0%
	<b>Others</b>	58	43.1%
<b>Industry of Alliance</b>	<b>Manufacturing</b>	55	41%
	<b>Tertiary</b>	79	59%
<b>Alliance Age</b>	<b>Mean = 13.59 years (S.D. 13.215 years); Median 8.00 years.</b>		

A careful design and good planning are essential to avoid research errors. In this survey there were attempts to avoid non-sampling error at every stage. During data base building, the researcher contacted all the relevant agencies, government bodies and relevant publications to ensure a good estimate of the population size and obtain their contact information.

The task of minimising, or eliminating non-response bias is a vital task in research, and no effort should be spared to avoid it (Richmond, 1964). The result of unit non-response error is due to the failure of the sample unit to return the questionnaire. To overcome this error, the researcher focused on reducing the non-response rate and tried to increase the response rate using the method above (Jain, Pinson and Ratchford, 1982). Finally, to avoid measurement error, participants in the pilot study were asked to comment on what they understood from each question and to highlight any vague or ambiguous questions.

**Table 3.3 Industry Sector of Saudi partner, foreign partner, and EJV**

Industry Sector	Saudi partner		Foreign partner		JV	
	N	%	N	%	N	%
Food/Drink Manufacturing	6	4.5%	6	4.5%	6	7.1%
Metals and Minerals processing	7	5.2%	8	6.0%	6	7.1%
Power and Water	12	9.0%	12	9.0%	4	4.8%
Construction	11	8.2%	13	9.7%	5	6.0%
Petrochemicals	18	13.4%	18	13.4%	15	17.9%
Pharmaceutical (Life Science)	4	3.0%	3	2.2%	0	0%
ICT	4	3.0%	4	3.0%	0	0%
Telecommunication	2	1.5%	1	0.7%	2	2.4%
Health	5	3.7%	5	3.7%	3	3.6%
Automobiles/Aerospace	1	0.7%	2	1.5%	1	1.2%
Education	5	3.7%	3	2.2%	2	2.4%
Logistics	3	2.2%	4	3.0%	4	4.8%
Distribution	5	3.7%	3	2.2%	1	1.2%
Financial Services	5	3.7%	4	3.0%	3	3.6%
Other Manufacturing	21	15.7%	21	15.7%	18	21.4%
Other Services	19	14.2%	20	14.9%	9	10.7%
Other	6	4.4%	6	5.2%	5	6.0%
<b>Total</b>	<b>134</b>	<b>100%</b>	<b>134</b>	<b>100%</b>	<b>84</b>	<b>100%</b>

### 3.4. Measurement Quality

Measurement is the process of recording the observations that are collected for the research (Trochim, 2000). In social science, measurement is the process of linking concepts to empirical issues in an organized plan (Carmines and Zeller, 1979; Riley,

1963). Measurements of the variables are an essential part of the research; without the proper measurement, the researcher cannot test the research hypothesis (Sekaran, 2006). Measurement, properly designed, should be able to obtain and establish the relationship between the empirical indicators (the responses) and the concepts.

Development of research measures can take place either through basic research, or through adopting previously tested measures from previous studies and testing them in new contexts (Brislin, 1986). There are many advantages from using instruments that have passed tests of validity and reliability. Alongside the obvious advantages of saving time and cost, using existing instruments allow comparisons between existing studies with a shared set of concepts and operational definitions (Brislin, 1986).

In this study, the researcher has relied heavily on already developed and tested instruments from previous studies. The question scales were designed on a five-point Likert-type. Likert is the most widely used and popular rating scale in survey questions; it was developed by the psychologist Renis Likert (Bertram, 20067; Givon and Shapira, 1984). There is healthy disagreement in the literature regarding the optimal number of scale points in surveys, whether 2, 5, 7, or 9 (Bertram, 2007; Givon and Shapira, 1984; Lyberg, et al., 2012). Cox III (1980) believes that there is no optimal number that can be generalized to all circumstances. However, the five-point Likert scale is the most common and most popular (Bertram, 2007; Givon and Shapira, 1984). Lyberg, et al. (2012) believe, after an extensive review of the literature, that a scale of 5 to 7 points is the optimal length. Scales of this length demonstrate more reliability and validity than shorter or longer scales (Lyberg, et al., 2012; Givon and Shapira, 1984). Infosurv, a leading market research firm, conducted a study in 2006 asking leading market researchers about their preferences between different scales. They concluded that the majority of modern researchers prefer the five-point scale when conducting survey research (Infosurv, 2013).

It is important to note in the construction of a scale how to label it. The most popular approach among researchers is to label the endpoints only which is the one used in this study. This method has two advantages: first, numeric values are more precise and less ambiguous (linguistically) than verbal labels. Second, it is easier for the respondents to hold in their memories, and thus requires less cognitive demand than verbal scales (Lyberg, et al., 2012).

The Likert scale in this questionnaire involves a series of statements or questions related to the perception or attitude in question, whereby the respondent is required to indicate their degree of agreement or disagreement with each of the statements (Kinnear and Taylor, 1987). Detailed instructions were given in each section on the nature of the questions and how to apply the scale to respond to the questions.

There are not many research studies about international business and ISAs in Saudi Arabia. Relying solely on the western literature on ISA management (considering the differences in the economic, political, and cultural nature between Saudi Arabia and other western countries) would not have been sufficient. Morgan (1878 cited in Elder, 1976) has placed societies into technologically related stages, he argued that societies generate predictable changes in its economic, familial, and political institutions when they move from one stage to the next. Thus, Taylor (1903: in Elder, 1976) has suggested that some sort of cross-national comparison could be possible between societies at the same evolutionary stage. Thus, the researcher extensively reviewed previous studies on Chinese ISAs. This is to some extent relevant to the Saudi context, as China was and is sharing similar economic, business, and political conditions. Furthermore, Chinese culture, like Saudi culture, places emphasis on trust, collectivism and mutual respect (Hofstede, 1991). Chinese and Saudi scores in power distance, individualism, and masculinity are very close to each other (Hofstede, 1991). There were studies that discussed trust, for example, as a key variable in the success of ISAs, as in this study (Chen and Boggs, 1998; Worm and Frankenstein, 2000; Ng, et al., 2007).

There is no agreement in the literature on measuring SAs performance. Researchers have used different methods, both subjective and objective. Subjective measures have been used extensively in the literature. Barkema, et al. (1996) list a large number of studies that have used subjective measures to measure JV performance. Detailed justification to the use of performance measures is outlined in the third and fourth empirical chapters.

### **3.4.1. Validity and Reliability**

Validity simply asks whether we are measuring what we want to measure; whether the indicator developed to gauge a concept really measures that concept. This is not as simple as it may seem, especially with some concepts like attitude or feelings, which

cannot be measured as directly as age, for example. These concepts that cannot be measured directly are called “latent variables”. Thus, the instrument used to measure these concepts has to be accurate. This makes validity an important aspect when designing the survey instrument; the survey would be worthless if the researcher fails to measure what he/she intends to measure (Muijs, 2011). Content validity refers to whether or not the questions in the questionnaire successfully measure the latent concepts the researcher is trying to measure. The content validity of the research was established through an extensive review of the literature to find out about the instrument and the questions used to measure the concept the researcher wanted to measure. The content validity was also measured by establishing face validity, asking whether questionnaire items measured the concept in the question. This was established during the pilot test by asking the respondents whether the instrument looked valid to them. Asking experts in the field and getting them to comment on the instrument is also a good way of establishing face and content validity (Muijs, 2011; Bryman, 2004).

Reliability refers to the consistency of a measure of a concept; it is one of the determinants of the quality of the research measurement instruments. It is a key concept in statistical measurement. Whenever we measure something, there is an element of error called the measurement error (Muijs, 2011; Bryman, 2004). There are many ways to make instruments more reliable. In this study, the researchers ensured that the quality of the questions was high (i.e. they are clear and unambiguous) during the pilot testing sessions. In addition, topics were measured with more than one item, so that other items can cancel out any errors that may occur for a single item. In general, more items means higher reliability (Muijs, 2011).

Furthermore, in this study, the instrument reliability was established by using the Cronbach’s alpha coefficient. The test is based on internal consistency, which refers to how homogenous the items are, and whether the respondents’ scores for an indicator will be related to the scores for other indicators (Muijs, 2011; Bryman, 2004). It is one of the most used reliability measures (Bryman and Cramer, 2011). The items with a low correlation with other items in their scale are deleted. After that, we calculated the Cronbach’s alpha, with a value of 0.50 to 0.60; these values are acceptable in the early stages of research (Nunnally, 1978).

### 3.5. Statistical Analysis

It is important for quantitative research to be done based on standard statistical procedures. Trochim and Donnelly (2008) have suggested that before testing the hypothesis and testing the relationship, researchers should perform data preparation (which involves cleaning and organising the data for analysis). This section will start by explaining the process of data preparation, then explaining the statistical analysis tools and the rationale behind using them.

#### 3.5.1. Data Preparation

This research has gone through several data preparation stages. The first stage was checking the accuracy of the data; as soon each questionnaire was received, it was screened for accuracy. The screening process involved checking whether all important questions were answered and whether the questionnaire had been completed, as well as checking for any errors that might make the response invalid. As a result, 56 questionnaires out of 190 were eliminated, as they were incomplete and unusable. This left 134 questionnaires for the analysis. The second stage was entering the questionnaire answers into the database. The web survey was administered using “Qualtrics”;<sup>1</sup> respondents who opted to answer the survey using the web survey automatically had their answers stored on the system, which at the end could be transferred easily to SPSS data file. However, not all questionnaires were answered in English; 74 of the returned surveys were answered in Arabic. The Arabic questionnaires went to a separate file from the English ones. Thus, both versions had to be merged into one data file after checking and arranging the answers of the Arabic questionnaires to be compatible with the English versions. Furthermore, not all the surveys were returned using the Qualtrics web-link. Five respondents preferred to use the PDF template; their answers were subsequently entered manually into the SPSS data file. To avoid entry errors, the data were double checked using the following method. Each questionnaire was numbered before it was entered into the database. After merging all the data into one file, the data were compared and crosschecked against the original questionnaire, using the unique number of each questionnaire to ensure they were entered correctly. This procedure significantly reduces entry errors. The benefit of using a sophisticated program like Qualtrics for data collection is that it makes transforming data into variables an easy

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<sup>1</sup> Private research software company which enable users to build online surveys and collect data.

process; with a click of a button, the raw data can be transformed into variables ready for analysis on either Excel or SPSS depending on the researcher preference. The researcher used SPSS for this research. The data were analysed using factor analysis, paired sample t-tests, independent sample t-tests, correlations, and multiple regression.

### **3.5.1.1. Factor analysis**

Factor analysis is a “statistical method for the compression of information, economic description of the data” with the goal of creating and investigating concepts, models and ideas (Kaplunovsky, 2007). It has several uses, including item analysis, scale development, and theory testing (Field, 2009). It allows the researcher to analyse the data “independent of their physical nature” (Kaplunovsky, 2007).

Factor analysis has its own principles different from those of statistics. Exploratory factor analysis might be used when there is no prior theory or uses; thus, it may generate hypotheses (Kaplunovsky, 2007). Factor analysis is generally used for two purposes: explanation and data reduction (Field, 2009; Floyd and Widaman, 1995). For the first, it is used, as Floyd and Widaman (1995) explain, “to identify the underlying dimensions of a domain of functioning, as assessed by a particular measuring instrument”. Thus, it is used to identify different dimensions within an instrument. It is called exploratory because the investigator has no prior expectation about the subscale, because it is not based on a theory or previous research. The second use of data reduction is where the goal is to combine sets of measured variables into summary indices. The purpose is to reduce a large set of variables into smaller sets that achieve “maximal variability and reliability” (Floyd and Widaman, 1995). There are many studies that have used factor analysis for data reduction in social science, which will be considered in later chapters. In a simplified way, it reduces the number of variables by grouping variables with similar characteristics together to form a group (factor) which is used for further analysis. Data reduction is achieved using principal component analysis. Factor analysis works by performing correlation matrixes and creating major pieces (factors), underlying causes, which have variables that correlate highly with each other. It allows the researcher to explain the maximum amount of common variance with a small number of constructs (Field, 2009).

There is disagreement between researchers on what sample size is required for principal component analysis. The general role is that the ratio of subjects-to-variables should be

4:1 or 5:1, and the more participants the better. There are other conditions; Gorsuch (1997) has stated that the sample size is preferred to be at least 200. However, Streiner (1998) has suggested different solutions; for a sample less than 100 there should be 10 participants per variable, while for a sample with more than 100 there should be 5 participants per variable. However, Guadagnoli and Velicer (1988) challenged these calculations. They argue that there are no theoretical or empirical bases to support the recommended participant-to-variable ratio.

### **3.5.1.2. T-tests**

The t-test is a statistical method to indicate the differences in mean score between two groups (Trochim, 2006). There are two kinds of t-tests, and their use depends on whether the independent variable is manipulated using the same participant or a different one. The two tests are:

- 1) Independent t-test, which “is used when there are two experimental conditions and different participants were assigned to each condition”.
- 2) Dependent t-test, which “is used when there are two experimental conditions and the same participants took part in both conditions of the experiment” (Field, 2009).

The paired sample t-test is used to compare two sets of data to determine if the mean differences are “significant” between the observed paired or not (Zar, 1999). T-tests work by calculating the differences between each pair, and then calculating the mean and standard errors of these differences. It then divides the mean by standard error of the mean to get the test statistics (Field, 2009). In this study, we used both kind of t-test in the first and fourth empirical chapter.

### **3.5.1.3. Correlation**

Correlation shows the association strength and direction of particular variables (Pallant, 2007). It looks to whether changes in one variable are met with similar changes in other variable (Field, 2009). Muijs (2004) explains Spearman’s rho correlation, which is used in this study. He explains it as follow: “Pearson’s r calculates the correlation in part by looking at the deviance (difference) between the individual cases and the mean for the variable as a whole”. This test is better suited to test the correlation between two continuous variables.

#### 3.5.1.4. Multi-regression

The study questions have attempts to investigate the factors that affect successful management of ISAs from the Saudi partner's perspective. Hence, this research is examining the causal relationship between different ISAs variables.

Multiple regressions is one of the most effective techniques used to examine the cause-effect relationship between a dependent variable and several independent variables (Park, 2011). The linear regression is statistical modelling to test a relationship between a dependent variable and one (simple linear regression), or more than one (multiple linear regression) independent (or explanatory) variables (Cook and Weisberg, 1982). According to Hair, et al. (1995: p.20), "multiple regression analysis is a statistical technique that can be used to analyse the relationship between a single dependent (criterion) variable and several independent (predictor) variables. The objective of multiple regression analysis is to use the several independent variables whose values are known to predict the single dependent value the researcher wishes to know".

The regression investigates the causal relationship between the variables to explain a certain management, business, or economic phenomenon that poses many risks and difficulties (Yule, 1897; Cook and Weisberg, 1982). Regression is used to estimate the relationship between the variables; it mainly focuses on the relationship between the dependent and one or more independent variables. It is widely used for prediction and forecasting, and understanding and exploring the relationship between the dependent and independent variables (Field, 2009). It quantifies the relationship between the dependent and independent variables, and identifies how close and well determined the relationship is (Ramcharan, 2006).

Regression analysis helps the researcher to analyse the data objectively and systematically. Compared to objective analysis of the data, decisions based on regression results are less biased, more consistent, and more fully explained (Armstrong, 2011). The researcher has to accept the results of the data, and discuss and explain the results as best as he can. The researcher cannot test the effect of one variation at a time (Yule, 1897; Cook and Weisberg, 1982).

The researcher asked respondents to subjectively assess some of the dependent and independent variables. This may represent the possibility of common method bias (Park, 2011). In order to detect the presence of this bias, the literature has suggested using one-factor analysis (Hramen's single-factor test) (Podsakoff, et al., 2003). If "one single

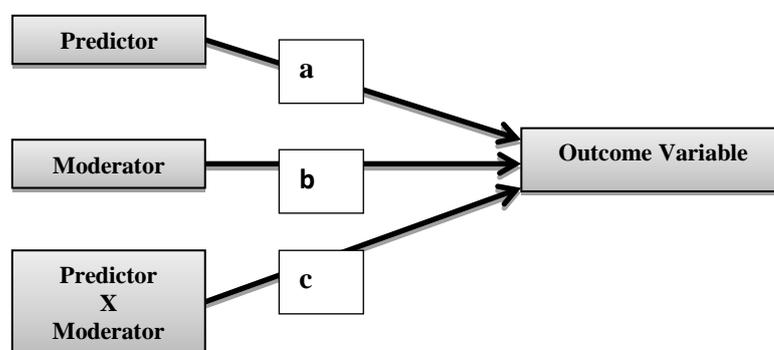
factor emerges from the factor analysis” or “one general factor will account for the majority of covariance”, this will mean that such a bias exists (Park, 2011).

### 3.5.1.5. Moderation

A moderator is a variable (e.g. gender, level of performance, ownership) that affects the relation between an independent (predictor) and a dependent variable. It affects the direction or/and strength of the relationship (Baron and Kenny, 1986).

The moderator variable within the framework changes the causal relationship between the predictor and the outcome variables.

**Figure 3.1: Moderator Model**



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Baron and Kenny(1986)

### 3.5.1.6. Mediation

First, we must establish the difference between the function of the third variables in mediation and moderation. Baron and Kenny (1986: pp. 1173) had better explained it:

*“(a) the moderator function of third variables, which partitions a focal independent variable into subgroups that establish its domains of maximal effectiveness in regard to a given dependent variable, and (b) the mediator function of a third variable, which represents the generative mechanism through which the focal independent variable is able to influence the dependent variable of interest.”*

Miller, et al. (2007: p. 295) explained mediation in strategic management as follow “Mediating effects allow strategic management researchers to understand “black box” processes underlying complex relationships whereby the effect of an independent variable is transmitted to a dependent variable through a third variable.”

The mediation takes place when a third variable, the mediator, allows an independent variable to influence an outcome (dependent) variable (Miller, et al., 2007; Baron and Kenny, 1986). The effect of the predictor on the dependent through the mediating variables is called the mediating effect; and it can be full or partial mediation (Miller, et al., 2007). It is full mediation when the predictor influence the outcome only through the mediating variable; and partial when only a portion effect of predictor on the outcome is mediated by the third variable, which suggested that the predictor has both direct and indirect effect (Miller, et al., 2007).

**Figure 3.2: Mediation Model**

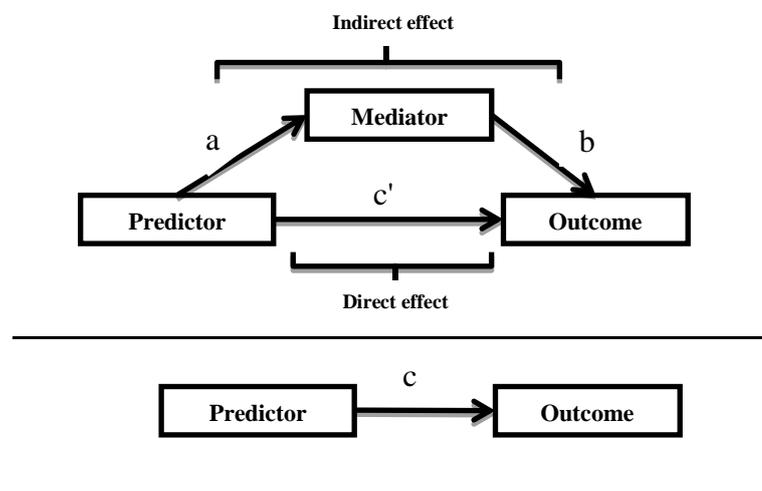


Figure: Illustration of a Model with the Mediating Variable ( $c'$  Represents the Relationship between Predictor and Outcome Variables with the Mediating Variable in the Model) and without the Mediating Variable ( $c$  Represents the Relationship between Predictor and Outcome Variables) Miller, et al. (2007).

The mediation can be tested using different approaches; the most common is the causal steps developed by (Baron and Kenny, 1986; and Judd and Kenny, 1981). This approach is illustrated in figure 3.2. The four steps are as follow:

1. Path  $c$ : the predictor must influence the outcome variable.
2. Path  $a$ : the predictor must influence the alleged mediator.
3. Path  $b$ : the mediator must influence the outcome variable while controlling for the predictor variable.
4. Path  $c'$ : the mediator must reduce the previously significant relationship between the predictor and outcome (Baron and Kenny, 1986: Miller, et al., 2007).

The other two approaches are the difference in coefficients, and the product of coefficient.

Many scholars have argued about possible limitation of the first approach, and they suggested the use of some approaches such as the Sobel's first-order solution, the Goodman unbiased solution, and the Freedman and Schatzkin method to test the significance of mediation effect.

### **3.6. Summary**

This chapter discusses the research methodology of this study. It explains the methods used to collect the primary data necessary for the study.

The objective of this study are; first, to investigate the motivational factors, and partner selection criteria of the Saudi and foreign partner from the Saudi firm perspective. The second objective is look into the success factor influencing the learning, and ISA performance. The study took an extensive analysis to the sociological dimension (i.e. culture, trust, understandability, communication). The study is deductive in nature, and questionnaire surveys were distributed directly to local Saudi firms.

The analysis of primary data is presented in Chapters four to seven. Each chapter includes background literature, definition, and operationalization of variables, and the study research hypotheses.

# Chapter Four: Strategic Motives of ISAs: Saudi Firms' Perspective

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## 4.1. Introduction

Research about ISAs motivation and selection criteria have been a major interest for researchers in this area. Nonetheless, the focus has been always on the perspective of the foreign partner, mostly western or developed economy (Arino, et. al, 1997; Geringer, 1989; Glaister and Buckley, 1997). There was a noticeable negligence to the prospective of the local partner (Hitt, et. al, 2004; Luo, 2002c; Yan and Gray, 1994). It gets clearer when we look at the ISA research in developing countries, as they are treated as passive partners (Shenkar and Li, 1996; 1997). Dong and Glaister (2006) have noticed this gap, and suggested that motivation for ISA formation can be completely different between local firms and their foreign partner (Dacin, et. al., 1997; Demirbag, et al., 1995; Tallman and Shenkar, 1990; Yan and Gray, 1994).

Hence, some attempts have been made to look into the perspective of local partners from developing economies; nonetheless, it focused mainly in China (Hitt, et al., 2004; Luo, 2002c; Dong and Glaister, 2006). None has looked into the perspective of Middle Eastern economies, especially gulf countries.

Hitt, et al., (2004) have noticed the lack of studies and knowledge on how firms in transition economies choose their alliance partners. It has been argued that strategic motivation of foreign and local partner are remarkably different. Hitt, et al. (2004) and Luo (2002) have encouraged researchers to enrich the body of the literature with the perspective of local partners. This study offers a small contribution to the body of literature. Strategic motives and partner selection criteria are generally studied separately in the literature, rather than linked systematically to examine the interrelationship between the two. There are very few studies that looked into the impact of strategic motivation on firm's selection criteria (Dong and Glaister, 2006).

There are many benefits from forming SAs. These benefits include; risk sharing, product rationalization, economies of scale and scope, diversifying risk, overcoming entry barriers, transfer of complementary technology, exchange of patents, shaping competition, conforming to host government policy, facilitating international expansion,

establishing vertical linkages and overcoming the “xenophobic” reactions when entering foreign market (Hennart, 1988; Glaister and Buckley, 1996; Napier, 1989).

Previously, firms engaged in SAs only to have market access, especially in countries where they have strict laws to control foreign investment. At present with the changes in market conditions, it can be noticed that firms seek to form alliances, even with their direct rivals (Glaister and Buckley, 1996). Learning has become an important motive for their formation and essential for their survival (Hamel, 1991; Kogut, 1988; Parkhe, 1991; Lane, et al., 2001). It is an effective tool to cope with the intense competition and rapid technological changes, in addition to the concern of market failure in transferring organizationally embodied knowledge (Kogut, 1988; Makhija and Ganesh, 1997; Lane and Lubatkin, 1998).

The Saudi market potential is not only substantial but also unique in many ways; it has 25% of world’s oil reserves. Furthermore, it is characterized by a powerful and willing domestic consumer group consisting of Saudi nationals (20 million), a large expatriate workforce (9 million), religious pilgrims (2-3 million), and other Gulf Cooperation Council residents (4 million). In addition, to a number of satellite markets, it’s at the heart of the Middle East/North Africa (MENA) region’s 400 million-strong population collectively serve as extended markets for Saudi goods and services. The unique characteristics of the Saudi business and economic environment make it an interesting place for examination.

This study aims to explore and identify the strategic motivations of Saudi firms for ISA formation, and compare them with those of the foreign partner from the Saudi perspective. In addition, it will identify the partner selection criteria from the viewpoint of the Saudi firm. Finally, examines the relationship between partner selection criteria and the strategic motivation. The chapter findings will help us to answer the first and second research questions of the thesis: (1) “What are the main motivations for engaging in ISAs in Saudi Arabia?” and (2) “On what basis do firms select their partners; how much are their decisions influenced by their motivations?”

The findings in this study contribute to the current body of literature. More specifically, issues from an emerging economy firms’ perspective are investigated; previous studies have neglected this information. It is especially looking into the Saudi Arabian context where a study of this scale does not exist. The Saudi Arabian economy’s unique

characteristics have created different demands, and hence, different motivations. Thus, we argue that not all emerging markets share the same motives and selection criteria. While we acknowledge that firms from a developed economy share similar motives, we argue that local firms will have different motives, due to different micro and macro “institutional” factors. The results of this study offer an extension to the existing knowledge by arguing that the motivation of Saudi firms will be different from the emerging economy firms identified in the literature.

## **4.2. Literature Review and Hypothesis Development**

### **4.2.1. Motivation**

Why do firms form strategic alliances? SAs have gained increasing popularity across all sectors. Firms have found that it provides them with “flexible and less binding relationships” that is needed in an uncertain environment. At the same time, it will allow them to respond to competitions, and pursue new technological development, products, and markets. It will give them a chance to create desired synergy by combining resources, and spread out the fixed costs (Young and Wiersema, 1999; Ohmae, 1989; Chen and Chen, 2003; Eisenhardt and Schoonhoven, 1996).

Researchers has attempted to explain the rational of engaging in SAs and presented many theories to explain firms’ motives. The literature is mostly dominated by three theories: transaction cost theory, resource based theory and organizational learning (Brouthers, 2002). Please refer to the first chapter (section 2.2) for more details regarding the theories, its history, rational and links to ISAs.

The basic concept of transaction cost theory of SAs is to minimize the transaction and product cost under certain circumstances; alliances are used as a device to bypass market inefficiencies (Chen and Chen, 2003; Das and Teng, 2000; Hennart, 1988; Glaister, 1996). Furthermore, it promote the use of alliance as a means to reduce transaction costs related to technology transfer, and the costs of extending vertical links (Glaister and Buckley, 1996; Hennart, 1988).

Firm, according to the resource based theory, engage in alliances to find valuable resources they lack, gain, or preserve control over certain resources (Chen and Chen, 2003). It argues that the motives for forming alliances are to create value by pooling the

resources of the firms and exploit new business opportunities (Das et al., 1998; Chen and Chen, 2003; Dussauge, et al., 2000).

In the last few decades, inter-organizational learning has become an important motive, as learning becomes essential for surviving. Firms forming alliance seeks to learn from each other, and bypass the market failure when it comes to transfer knowledge, especially tacit (Lane, et al., 2001; Glaister, 1996). Firms seek to enhance their competencies, and engage in alliances to create economic value and acquire knowledge via socializing, internalization, or combining different kinds of explicit and tacit knowledge to create new knowledge (Kumar and Nti, 1998; Makhija and Ganesh, 1997; Lyles and Salk, 1996). The target knowledge is organizational embodied; thus, it is the best way, or it could be the only way to properly transfer 'tacit' knowledge (Glaister, 1996; Kogut, 1988).

The lack of domestic investments in some of the developed economies, have made going abroad rewarding for multinational companies, and SAs have become an important internationalisation mean (Prak, et al., 1986; Lewis 1990). SAs for multinational have high importance when targeting Arabian market due to cultural unfamiliarity and political constraints. The local partner knowledge and connection becomes essential in less developed countries (O'Reilly 1988; Beamish 1985; Yavaş, Eroğlu and Eroğlu, 1994; Ali, 2009). Firms exercise caution when they decide to invest in an international market (i.e., culturally similar countries with stable economic, social and political conditions). In these countries firms tend to enter with a wholly owned mode to maximise their profits (Erramilli and Rao, 1993; Kim and Hwang, 1992). However, when investment risks increases, then firms tend to favour forming an ISA with a local partner to reduce their resource commitment and risk exposure (Beamish and Banks, 1987; Brouthers, 2002). Natural resources dependent foreign firms have extra motivation to form ISAs with a local firm to gain access to the natural resources they hold (Hennart, 1988). Glaister and Buckley (1996) have identified alliances as a mean to access new markets, and enabling faster entry.

Glaister and Wang, (1993) broadly identifies seven (possibly overlapping) objectives can be achieved through SAs:

- (1) Risk reduction;
- (2) Economies of scale and/or rationalization;

- (3) Technology exchange;
- (4) Co-opting or blocking competition;
- (5) Overcoming government-mandated trade or investment barriers;
- (6) Facilitating initial international expansion of inexperienced firms; and
- (7) Vertical quasi-integration advantages of linking the complementary contributions of the parties in a "value chain".

As stated previously no study has attempted to look into the motivation of local partner perspective in Middle East. Tatoglu (2000) and Al-Khalifa and Peterson (1999) have looked into the motives of establishing IJVs in Turkey and Bahrain respectively, but from the perspective of foreign partner.

In the past several decades, the GCC countries have relied on natural resources (oil and gas) based production and export. They are now attempting to diversify and learning how to compete with firms in knowledge-intensive industries (Rice, 2003). The role of the government, Saudi including, in the economy is large and is not expected to decline. It takes different forms, and the government plays an active role in forming ISAs (Ali, 2009). Saudi as a developing country is unique in its business conditions and resources. Saudi government is pursuing a policy to increase the role of private sector in the modernization of the kingdom. Saudi Arabia local firms lack technical know-how and cannot cope with the size of the Saudi contract market. This has motivated international firms to come to the Kingdom to compensate the deficit (Moon, 1986; Yavaş, et. al, 1994). Less developing companies embrace ISAs enthusiastically, because it allows them access to capital, advanced technology, know-how, marketing and management skills (Connolly, 1984; Yavaş, et. al., 1994). The Saudi government is no different in this sense and have actively promotes the formation of ISAs (Yavaş, et. al., 1994).

However, unlike many developing nations, Saudi companies when seeking to form an ISA with multinational, they do not seek capital. These firms have cash, some from established business families, and are after partners' technology and know-how (Ali, 2009: p. 222). Considering the nature of entry conditions into the Saudi market, the lack of entrepreneurial connections and macro-political and strategic backup can be a hurdle to foreign firms targeting lucrative government contracts. Firms have realised the significance of local intermediaries, whether required by law or not, for business operations in the Kingdom (Moon, 1986).

The huge revenues from Oil have created a different economical mechanism from the rest of emerging economies. It is a characteristic the Saudi economy share with some member of the Gulf countries (Kuwait, Qatar, and UAE). The huge government spending on infrastructure projects, health, education, transportation, and power have created a demand on particular expertise and skills not available in the Saudi market. Therefore, it has created a different set of motives for the Saudi firms from other emerging economies.

Besides the above reasons, the Saudi government pursue a policy of Saudization (policy of replacing jobs held by foreigner with Saudi citizens), which encouraged foreign firms to form ISAs with local firms to avoid restriction (Moon, 1986; Al-Rasheedi, 2012).

Following the argument, we propose the following hypotheses:

**H1.** *From the perspective of Saudi partners, the importance of the strategic motives for ISA formation in Saudi Arabia will differ significantly between Saudi partners and foreign partners.*

**H1b.** *From the perspective of Saudi partners, foreign firms' main motives would be market access and partner local knowledge respectively.*

**H1c.** *From the perspective of Saudi partners, local Saudi firms' main motives would be access to complementary technology.*

## **4.2.2. Partner selection criteria**

### **4.2.2.1. Task related**

The choice of the “right” partner has been discussed extensively in the literature and was linked with satisfactory performance and success. Looking for complementary capabilities have been the focal reason in the literature to engage in SAs; nevertheless, “how to achieve it” has varied between the different texts. According to resources based perspective, in SAs partners are chosen to access resources and knowledge that will enhance the focal firm’s capabilities (Hitt, et al., 2000). Institutional factors have been a major reason for firms to engage in ISAs, especially from the perspective of transition economies (Hitt, et al., 2004).

Geringer (1991) has reviewed the previous literature regarding partner selection criteria and have classified them to; task related and partner related criteria. Task related is the

operational skills and resources that firm requires (the complementary capabilities) for its competitive success; while partner related are associated with the efficiency and effectiveness of the partner and the ability to work with a partner. Geringer (1991) task-related criteria included patents, technical know-how, financial resources, experienced managerial personnel, access to marketing and distribution systems, knowledge of the market conditions, knowledge of the environment, and political influence. Partner-related criteria included reputation, potential to maintain a continuing and stable relationship, position within the industry, professionalism, trust, honesty and seriousness, fit (size), the degree of favourable past association between the partners, and enthusiasm for the project (Arino, et. al., 1997).

Hitt, et al., (2000) have distinguished between firms from emerging and developed markets in partner selection criteria. Large firms from developed economy want to leverage their resources, and they seek a partner with local market knowledge and access to distribution channels and major buyers to achieve that (Tatoglu, 2000; Hitt, et al., 2000; Glaister and Buckley, 1997). Hennart, et al., (1999) have claimed that IJVs are used as “Trojan Horse” to enter a country. Hamel (1991) points out those IJVs have two roles: allow partner to create and appropriate value.

Killing (1983) and Beamish (1985) have ranked the major reasons for creating an ISA in developing countries as follow; the need for another partner's skills and attributes or assets, and government legislation. However, this is not always the case. Lee and Beamish (1995) found that, for most of Korean firms, the main motivators were the need for partner’s knowledge to expand in their local market, and utilization of cheap labour. Having local partner carries many advantages when the risk in a country is high and familiarity is low. Local partner would reduce entry risks and resource commitment (Arino, et. al., 1997).

On the other hand, developing economies firms emphasise financial assets, technical capabilities, intangible assets, specialized and complementary skills, and willingness to share expertise. They, also, seek to develop their capabilities by trying to acquire tangible and intangible resources from their partner to be able to compete domestically or globally (Hitt, et. al., 2000; Berry, 2010). Hitt, et al., (2004) argue that firms from emerging economies need to choose a partner with complementary resources to succeed. However, in so many occasions firms have failed in selecting the right partner.

Studies on partner selection criteria in emerging economies have been weak (Hitt, et al., 2004). Although, in the last decade, some studies have emerged, it mainly focused on the Chinese context (e.g. Shenkar and Li, 1999; Glaister and Dong 2006). Studies that looked into Middle East or GCC are rare. There was a study by Al-Khalifa, and Peterson (1999), which looked into the motivation and selection criteria of ISAs in Bahrain. However, it looked only into the perspective of the foreign partner.

Previous studies (Hitt, et al., 2000; Newman, 2000; Hitt, et al., 2004) have showed that not all the firms from emerging markets have the same motives and differ in their partner selection criteria. These differences are due to different needs, institutional factors. The economical states of emerging countries markets are different, and they are not all equal. Therefore, we cannot generalize the findings from previous studies to the Saudi context, which is a context with different culture, and institutional reality.

SAs are a valuable means for firms in emerging markets to access partner's assets and resources (Hitt, et al. 2000; Zahra, et al. 2000). Some assets, sophisticated technological knowledge, are available for firms from transition economies only through alliances, and they need it to compete globally (Zahra et al. 2000; Oliver, 1997; Luo, 1999). Thus, engaging in SAs is about gaining access to these sets of resources and technology. Technological capabilities are not the only target for emerging market firms; managerial and marketing knowledge is under their radar too (Hitt, et al., 2004). Firms by working closely with the alliance partner allow their manager to learn efficiently the "tacit components of their capabilities" (Lane and Lubatkin, 1998).

#### **4.2.2.2. Partner selection**

Partner selection criteria are an important strategic choice for any firm entering a foreign market (Roy and Oliver, 2009). It is the main determinant of the ISA mix of resources and skills (Beamish, 1987). Institutional environment, legality in particular, has also been suggested as ISA partner selection criteria (Hitt, et al., 2004). Many studies have addressed the issue of partner selection criteria. They have highlighted the importance of particular skills and characteristics when selecting a partner. Glaister and Wang (1993) have listed some of these attributes; past association, partner's ability to negotiate with the host government, relatedness of business, trust between top management, financial status/resources of partner, established marketing and distribution system, reputation, and complementary resources (Glaister and Buckley,

1997). Other researchers have suggested some indirect measures of fit in alliances, such as relatedness, size, nationality, ISA experience, and consensus of operational policies (e.g. Inkpen and Currall, 2004; Globerman and Nielsen, 2007; Yan and Duan, 2003; Roy and Oliver, 2009).

It was also noted that partner selection criteria change depending on motives. Pak and Park (2005) have noticed that Japanese firms choose the location based on their strategic motives. They have chosen Far East and China when their goals are to exploit assets, and chose West and US when their motives are augmenting their global competitiveness. Glaister and Wang (1993) investigated the motives of British firms' in China. They were; gain faster entry to the market, facilitate international expansion, access to knowledge of the local market and local culture, links with major buyers and to distribution channels. They were qualities that would be difficult for British firms to gain by operating alone. Tatoglu (2000) investigated western IJVs in Turkey, his findings reaffirmed the belief that IJVs of western firms in emerging economy is a vehicle to enter a new market faster and reduce any potential risks.

Some authors (Shenkar and Li, 1999; Connolly, 1984; Hitt, et al., 2000) have used the complementary perspective to support their argument. They argued that firms seek capabilities that “complement their own knowledge base”. Every company has a set of capabilities and firms, whether from a developed or emerging economy, try to find the “ideal” partner to complement their capability to build or leverage their resources.

Partner's knowledge of a local market, trust between top management teams, reputation of partner and partner's ability to negotiate were the most important partner-related criteria of western IJVs in Turkey (Tatoglu, 2000).

Firms from emerging economies enjoy, usually, lower labour and management cost, lower inputs cost, and local market knowledge. However, they lack, generally, capital, up to date technology, management, and marketing skills that firms from developed economy possesses (Connolly, 1984).

Some intangible assets play an important role in alliance partner selection. Firms can form alliances to improve their reputation and legitimacy (Hitt, et al., 2004; Dollinger, et al., 1997). Collaborating with a foreign firm with a strong positive reputation provide the local firm the legitimacy and prestige in the market, which could be a success factor (Ahlstrom and Bruton, 2001; Shan and Hamilton, 1991; Beamish, 1988; Hitt, et al.,

2004). Thus, executives from emerging market firms are likely to value the reputation of the partner strongly (Hitt, et al., 2000).

Hitt, et al., (2000) argue that the motive of firms from emerging markets is to have access to capital. This is due to their less developed financial markets, weak institutions, and economic instability, which make access to capital costly. However, this is not always the case across all emerging economies. Firms from natural resource rich countries, like the gulf countries, have no cash strains. Hence, not all emerging economies firms would be motivated by access to capital, despite some suffer from less developed financial markets.

Other authors have argued that firms from emerging markets would base their selection on partner technological capabilities and expertise. Especially on competencies they are lacking, which would make them more competitive (Hitt, et al., 2000).

Most of the studies that addressed the issue of partner selection criteria have looked into it from the perspective of the foreign partner, and seldom from those of local partner. This has started to change with more studies looking into the perspective of the local partners, Chinese especially (Luo, 2002; Dong and Glaister, 2006).

**H2a.** *From the perspective of Saudi partners, the Saudi firms' task-related selection criteria will be determined by the strategic motives for ISA formation.*

**H2b.** *From the perspective of Saudi partners, the Saudi firms' partner-related selection criteria will be determined by the strategic motives for ISA formation.*

**H3.** *From the perspective of Saudi partners, the Saudi firms' task-related selection criteria will be determined more strongly by the strategic motives for ISA formation than will the Saudi firms' partner-related selection criteria.*

## **4.3. Methodology**

### **4.3.1. Measures**

The questions measured the Saudi firm managers' perceptions of the strategic motives, task-related and partner-related selection criteria relative importance at the time of alliance formation. Responses were assessed using five points Likert-type scales, i.e. 1 "not important" to 5 "very important". The instruments have been used in previous

studies (Dong and Glaister, 2006; Glaister and Buckley, 1996; Geringer, 1991; Glaister, and Wang, 1993). The questions relating to strategic motives are listed in Table 4.3; task and partner related selection criteria in Table 4.4. The instruments appropriateness was also tested during the pilot study. The study explored the perspective of the local “Saudi” partner. Ideally, the researcher would have included representatives of both parent firms as well as the ISA, but the limited resources, access restrictions, absence of a database, and the size and nature of the study precluded such an approach. Many ISAs studies have relied on data from one of the partner’s perspectives.

### 4.3.2. Variables

**Dependent variables:** exploratory factor analysis (EFA) was utilized in attempts to produce a set distinct non-overlapping task-related selection criteria and partner-related selection criteria; it follows the path of previous studies (Geringer, 1988; Glaister, 1996, 1997; Dong and Glaister, 2006). After the initial test, the variable partner-related selection criterion (Relatedness of partner’s business) was removed as it was driving the reliability of the factor low, and EFA was run again. The results were, non-overlapping, 3 task-related selection criteria factors and 2 partner-related selection criteria factors. They have a KMO of (0.607 and 0.739) respectively, which is above the bare minimum of 0.5 (Hutcheson and Sofroniou, 1999). The correlations between the variables were checked from the correlation matrix, and most of them correlate with each other significantly (correlation between .3 and .9). None has correlated higher than .9, which rule out any possible multicollinearity in the data. The determinants were (0.551 and .340) respectively which is greater than the necessary value of 0.00001. This further confirms that variables correlate reasonably, and multicollinearity is ruled out. The Cronbach’s alpha of the factors range between (0.587 and 0.652); this is close to the acceptable value in exploratory research (Hair, et al., 1998: p. 118).

**Independent variables:** EFA was used on the 13 strategic motives. After the initial test, one variable (To reap the benefits of economy of scale) was removed. It was loading almost equally on all factors creating a conflict with the variables. After the deletion process, EFA was run again using Kaiser’s criterion and SPSS extracted 3 non-overlapping factors with a KMO of (.827) which is above the bare minimum of 0.5 (Hutcheson and Sofroniou, 1999). The correlation matrix was checked, to check the correlation between the variables. Most of them correlates significantly with each

other (correlation between .3 and .9). None correlated higher than .9, which rule out any possible multicollinearity in the data. The determinant is .007, which is greater than the necessary value of 0.00001. This further confirms that variables correlate reasonably. Cronbach' alpha of the three independent variables ranged from (0.644 to 0.773).

**Table 4.1: Factors of task-related selection criteria and factors of partner-related selection criteria**

<b>Factors</b>	<b>Factor load</b>	<b>Eigen Value</b>	<b>% Variance explained</b>	<b>Cumulative %</b>	<b>Cronbach</b>
<b>Task Related</b>					
<b>Factor 1 (market knowledge)</b>		1.878	37.551	37.551	.589
Access to local or international knowledge	.758				
Access to knowledge of local culture	.722				
Access to government bodies	.703				
<b>Factor 2 (product Knowledge)</b>		1.242	24.848	62.399	N/A
Access to product-specific knowledge	.928				
<b>Factor 3 (Finance)</b>		.755	15.109	77.507	N/A
Access to capital/finance	.966				
<b>Partner Related</b>					
<b>Factor 1 (Stability)</b>		1.832	36.643	36.643	.652
The partner company's size	.769				
Reputation of the partner	.734				
Financial stability of the partner	.697				
<b>Factor 2 (Trust and Past association)</b>		1.512	30.232	66.875	.587
Degree of favourable past association between the partners	.893				
Trust between the top management teams	.695				

Principal components factor analysis with varimax rotation.

K-M-O Measure of sampling adequacy = (.739). Bartlett test of sphericity = 108.785; P <.000.

K-M-O Measure of sampling adequacy = (.607). Bartlett test of sphericity = 66.422; P <.000.

**Control variables:** Saxton (1997: p. 450) notes the administrative form of an alliance may indicate the motives of the partner companies and have a considerable impact on the expected performance outcomes. To control for alliance form, this variable was entered as a dummy, coded 1 for equity ISAs and 0 for non-equity ISAs. The industry sector of the alliance was also entered as a dummy variable, coded 1 for the manufacturing sector and 0 for the tertiary sector. The partner firm home economic stage was entered as dummy as well; it was coded 1 for firms from developed

economies and 0 for firms from developing economies. We also controlled alliance age; it was calculated as the difference between the time of data collection and the year of the alliance formation.

**Table 4.2: Factors of Strategic Motives**

<b>Factors</b>	<b>Factor load</b>	<b>Eigen Value</b>	<b>% Variance explained</b>	<b>Cumulative per cent</b>	<b>Cronbach</b>
<b>Factor 1 (Resource sharing and reduce competition)</b>		2.657	22.139	22.139	.773
To Obtain raw materials or natural resources	.790				
To Transfer production to low cost market	.709				
To cooperate with existing or potential competitor to reduce competition	.707				
To share R&D costs	.594				
<b>Factor 2 (Market Entry)</b>		2.374	19.786	41.925	.753
To Enable faster entry to the market	.853				
To Establish presence in the market	.826				
To Facilitate international expansion	.646				
To Accommodate Host government policy	.483				
<b>Factor 3 (Diversification and utilization)</b>		2.075	17.290	59.215	.644
To enable diversification of products or services	.781				
To Spread investment cost and risk	.566				
To Facilitate exchange of complementary Technology	.566				
To fully utilize financial capability	.555				

Principal components factor analysis with varimax rotation. K–M–O Measure of sampling adequacy = (.849). Bartlett test of sphericity = 496.900; P <.000.

### 4.3.3. Statistical analysis

Hypothesis 1 was tested using a t-test; it looked to the differences in means between the respective strategic motives. Hypotheses 2a, 2b and 3 were tested using multi-regression analysis. Normality and Multicollinearity were checked and the data were normally distributed and no evidence of multicollinearity. Furthermore, the variance inflation factor (VIF) was to measure multicollinearity level among the independent variables. The VIFs did not show any evidence of multicollinearity, and are well within the

recommended cut-off of 10 (1.018-1.261). A high value above 10 suggests the possibility of multicollinearity (Hair, et al., 2003: p. 305; Neter, Wasserman, and Kutner, 1985). Hence, it is not a problem in the regressions analysis (Park, 2011).

#### 4.4. Results and Findings

##### Hypothesis 1, 1b, 1c

Table 4.3 shows the strategic motives rank order of SAs formation. It shows both partners motives rank from the perspective of the Saudi partner. The ranking is based on the mean measure of 13 motives. It is evident that there are clear differences in the ranking between the two partners' motives. This provides reasonably good support to Hypothesis 1.

**Table 4.3: Saudi partner and foreign partner firms' strategic motives for ISA formation in Saudi**

Strategic Motives	Saudi Partner			Foreign Partner			T-Value
	Rank	Mean	S.D	Rank	Mean	S.D	
1. To reap the benefits of economy of scale	7	3.06	1.573	6	3.15	1.562	-.826
2. To facilitate international expansion	6	3.11	1.576	1	4.08	1.181	-5.911***
3. To facilitate exchange of complementary technology	4	3.64	1.458	7	3.05	1.426	4.077***
4. To enable faster entry to the market	3	3.65	1.440	2	3.97	1.222	-2.477**
5. To establish presence in the market	2	3.70	1.422	3	3.94	1.287	-1.874*
6. To enable diversification of product or services	1	3.78	1.344	4	3.32	1.448	3.668***
7. To spread investment cost and risks	5	3.19	1.401	5	3.25	1.474	-0.537
8. To fully utilize financial capability	8	2.82	1.442	8	2.97	1.465	-1.747*
9. To share R&D costs	11	2.38	1.393	10	2.41	1.408	-.395
10. To cooperate with existing or potential competitor to reduce competition	10	2.43	1.446	11	2.39	1.485	.491
11. To transfer production to low cost market	12	2.31	1.404	12	2.36	1.517	-.479
12. To accommodate host government policy	9	2.81	1.565	9	2.88	1.627	-.985
13. To obtain raw materials or natural resources	13	2.28	1.497	13	2.30	1.528	-.162

\*\*\*p<0.01; \*\*p<0.05; \*p<0.1 (two tailed).

The motives “To enable diversification of products and services” (P< 0.01), and, very close second, “To establish presence in the market” came at the top of Saudi partner strategic motives. For the foreign partner, as confirmed by most of the literature, the

motive “To facilitate international expansion” ( $P < 0.01$ ) came as the top motive. The second and the third motives were “To enable faster entry to the market” ( $P < 0.05$ ) and “To establish presence in the market” ( $P < 0.1$ ).

The results of foreign firms motivation came as predicted, and it is consistent with other literature that looked into foreign firms’ motives entering developing economies. On the other hand, Saudi firms need skills and expertise to bridge the shortage of some capabilities “quickly” in order to compete. Moreover, the Saudi market is young and developing with many new business areas that are worth exploiting. Saudi firms with extra cash always seek to invest in those new areas and diversify their portfolio. Hence, they lack the experience, they seek foreign partners with experiences to help them diversify faster and seize the opportunities the contract market present. This arrangement suited the foreign partner; they can spread the risk, have access to lucrative market, minimise the risks, win government contracts, and gain access to local knowledge. This can be seen in some of the new formed ISAs in Saudi Arabia. For example, Tharawat Investment House has collaborated with Kubota Corporation (Japan) to form Kubota Saudi Arabia Company IJV to manufactures heat-resistant alloy tube (Kubota, 2012). Tharawat is newly established investment house (2008) that has no experience on manufacturing alloy. Another example is from one of the latest ISAs in Saudi Arabia, which is between Philips and Al Faisaliah Medical Systems (FMS), a subsidiary of the Al Faisaliah Group. The responsibilities of the partner, as stated in the following announcement, “...The joint venture will combine Philips' healthcare portfolio, including medical imaging systems, patient monitoring devices and clinical information solutions, with FMS' knowledge of the market requirements and strong position in Saudi Arabia, the largest economy in the Middle East” (Marketwatch, 2012).

The few studies that looked into the perspective of firms from emerging economies had different motives from the Saudi one. In Dong and Glaister (2006), they found that “To effectively compete with existing competitors” and “To maintain competitive position in existing market” were the main motives of the Chinese partner. In their study, Hitt, et al., (2000) have looked into the selection criteria of some emerging economies (Mexico, Poland, and Romania). Financial assets came at the top of these companies list. Hitt, et al., (2004) have researched the motives of transitioning economies, China and Russia, and have concluded that financial assets were the main motive for the companies of both countries as well.

The foreign firms' motives in this study are to some extent consistent with the literature that looks into foreign firms' motives investing in emerging economies. In Dong and Glaister (2006), the motives "to enable faster entry to the market" and "to establish presence in the market" were the two highest ranked strategic motives of foreign partners as perceived by Chinese firms. In Glaister and Wang (1993), it was faster entry and facilitating international expansion that came at the top of British firms' motives investing in China. While in Tatoglu (2000), it was to gain presence in new markets and to enable faster market entry that came at the top of foreign firms' investing in Turkey.

The motives "To enable diversification of product or services", "To spread investment cost and risks", "To reap the benefits of economy of scale", and "To facilitate exchange of complementary technology" came in as the 4th to 7th motives respectively. The foreign firm wants to spread their investment cost and use their existing capabilities to maximise their profits.

There is no formal requirement on foreign investors to have a Saudi partner (SAGIA, 2012). Foreign companies can operate in Saudi Arabia with 100% ownership. However, it is common to see foreign investors seek a Saudi partner to have access to various government investment incentives. Hence, it is not surprising to see the motive "To accommodate host government policy" comes 9th on the list. However, some service sectors, such as telecommunications, have some license limitation. Thus, foreign firms form an alliance with existing license holder to operate in the Saudi market. It was not surprising to see the motives "To transfer production to low cost market", "To cooperate with existing or potential competitor", and "To share R&D costs" came at the end of the list. As the Saudi market is not characterised by cheap labour; and is not R&D oriented, especially private organization. The last motive in the list was "To obtain raw materials or natural resources". Unlike US, UK, and Russia where private investors develop natural resources; in Saudi Arabia Oil and Gas concessions are restricted. It is owned and run by government enterprise "Aramco", which develop, produce, and sell Oil and Gas on behalf of the government. However, recently Gas exploration concessions were opened to foreign investors.

Both SA partner motives in this study were from the perspective of the Saudi partner. It seems that the Saudi partner is aware of what the foreign partner motives and what they can offer. There seem to be a clear goal congruence or compatibility, and no conflict is obvious. The literature suggest that this relationship, in which both firms agree and

aware of each other objective, are more likely to achieve its goals (Beamish and Delios, 1997).

Hypothesis 1b, has predicted the foreign partner main motives would be market access. Table 4.3 shows that the first three foreign partner motives are: (To facilitate international expansion “4.14”, To enable faster entry to the market “3.91”, To establish presence in the market “3.91”). This provides strong support to Hypothesis 1b.

Hypothesis H1c have predicted the Saudi partner main motive would be access to complementary technology. The table shows that the first motive is (To enable diversification of product or services “3.78”); and with a very close second is (To establish presence in the market “3.70”). This provides some support for hypothesis 1c; thus, we can say that hypothesis 1c is partially supported.

### **Hypothesis 2a and 2b**

Task related and partner related selection criteria of the Saudi partner are ranked in order in table 4.4. There are five tasks related selection criteria; two out of five factors exceeded the median value of “3”. The most important tasks related were “Access to product specific knowledge”, and “Access to local or international market knowledge”. The other task related score were below the median “3”. The task “Access to capital/finance” score was the lowest “2.44”. The results are different from those found in the literature. The top task related selection criteria in Hitt, et al., (2004) study on Chinese and Russian firms were complementary capabilities, managerial capabilities, market knowledge, and unique competencies. While in Luo (2002c), it was technological capability, foreign market power, and international marketing expertise. Finally, in Dong and Glaister (2006), product specific knowledge, and international market knowledge come at the top of Chinese firms list.

In all of these past studies (Hitt, et al., 2004; and Dong and Glaister, 2006), with the exception of Luo (2002c), it was financial assets that came as one of the most important selection criteria. While for Saudi firms, financial assets did not hold the same importance.

Saudi firms, as the rest of emerging markets firms, placed high importance to product specific knowledge, and international and market knowledge as the top task related selection criteria. It is not surprising to see Saudi's firm attach high importance to

product specific knowledge. Saudi firms attempting to win a contract in a certain sector look for a partner that holds the necessary competencies, experience, and expertise to win the contract. Why financial assets are not at the top of the Saudi company list? Ali (2009) gives a good explanation; business families, especially those from established business families, have cash liquidity, and they seek partners with know-how, technical expertise, especially in organizing and new technology. Furthermore, there are many funding bodies in Saudi Arabia that offer long term loans with minimal or no interest.

**Table 4.4: Task-related and partner-related selection criteria ranking—Saudi firms**

<b>Task related Criteria</b>	<b>Rank</b>	<b>Mean</b>	<b>S.D</b>
1. Access to product-specific knowledge	1	3.72	1.497
2. Access to local or international market knowledge	2	3.69	1.259
3. Access to government bodies	3	2.91	1.472
5. Access to knowledge of local culture	4	2.48	1.385
4. Access to capital/finance	5	2.44	1.346
<hr/>			
<b>Partner Related Criteria</b>	<b>Rank</b>	<b>Mean</b>	<b>S.D</b>
1. Reputation of the partner	1	4.60	.749
2. Trust between the top management teams	2	4.08	1.176
3. Financial stability of the partner	3	4.00	1.212
4. Relatedness of partner's business	4	3.98	1.190
5. The partner company's size	5	3.80	1.199
6. Degree of favourable past association between the partner	6	3.46	1.311

There were six partner selection criteria and the mean value of 3 was exceeded by all of them. It was “Reputation of the partner” and “Trust between the top management teams” that came up on top. They had a mean over “4.60” and “4.07” respectively. The financial stability and relatedness of partner’s business came on as third and fourth.

The results from this study are consistent with the finding from previous few studies that looked into the perspective of emerging market firms, mainly Chinese perspective. Reputation of the firm were important for Chinese investors (Dong and Glaister, 2006; Luo, 2002c). In this study, trust shows its value as an important selection criteria; it confirms the findings of Dong and Glaister (2006). It validates the assumption of trust as an important selection criterion.

Ali (2009) talked about the importance of trust for Arabian and Saudis in particular: “Arabia is a personalized society where individuals are received and treated according to personal reputations. Therefore, image and impressions (e.g., sincerity, trust, and worthiness) are considerably important. In fact, once trust is established many other

obstacles will be minor and psychological barriers will crumble” (Ali, 2009: p. 130). In Saudi culture, trust must be established before any business can be conducted (Mababaya, 2002; Rice, 2003; Al-Khatib, et al., 2004). The results may support the claims that suggest trust has a positive association with performance and learning (Lane, et al., 2001; Doney, et al., 1998; Parke and Ungson, 1997; Ng, et al., 2007). Financial stability came on top of firm’s selection criteria, and it was consistent with previous studies (Dong and Glaister, 2006; Hitt, et al., 2000; Hitt, et al., 2004).

### **Hypothesis 2a**

The results in table 4.5 show support to Hypothesis 2a. The three regression models relating to task-related selection criteria have all significant F value ( $P < 0.01$ ); and each one of the three models has significant coefficient with 1 to 3 strategic motives. The first regression has the largest explanatory power ( $R^2$ ) with 30% of the variance is explained by the independent variables.

The first regression on task-related criteria is the market knowledge factor. It has a significant and positive relationship with the following strategic motives: resource sharing and reduce competition .285 ( $P < 0.01$ ), market entry .392 ( $P < 0.01$ ), and diversification and utilization .220 ( $P < 0.01$ ).

This shows the importance of market knowledge in SAs. All of the strategic motives (resource sharing and reduce competition, market entry, and diversification and utilization) had a positive relation with the task related market knowledge. Model one is an indication that whatever the firm's motives, market knowledge is crucial. The importance is not exclusive to the market entry motive; but also firms motivated with sharing resource and diversification, and diversification and utilization emphasis on market knowledge as well. Alliance's industry, form, and the economical stage of the partner had no significant relation with the dependent variable. However, alliance age has a negative significance relationship (-.013)  $P < 0.1$ . This means that younger alliances stress more on market knowledge.

The second regression model is on task-related criteria “product knowledge”. It has a significant and positive relationship only with the strategic motive diversification and utilization .311 ( $P < 0.01$ ). It has an explanatory power ( $R^2$ ) of 15.6%. Model 2 shows that firms motivated by diversification and utilization of products will select a partner with specific product knowledge. Alliance industry (0 if tertiary), has a significant

positive coefficient ( $P < 0.1$ ). This means manufacturing alliances, comparing to tertiary alliances, emphasise more on the product knowledge when selecting a partner.

**Table 4.5: Multiple regression on factors of task-related selection criteria, factors of partner-related selection criteria and factors of strategic motives**

	Task related			Partner related	
	Market knowledge	product Knowledge	Finance	Stability	Trust and PA
Constant	.058	-.214	.167	.139	-.261
Resource sharing and reduces competition	.285***	.129	.316***	.080	.137
Market Entry	.392***	.077	.088	.280***	.418***
Diversification and utilizations	.220***	.311***	.186**	.335***	.081
<b>Control Variables</b>					
JV age	-.013*	-.009	.006	-.006	-.003
JV Form	.082	-.071	.043	-.064	.247
Industry	.050	.347*	-.156	.183	.021
Economic Stage	.053	.289	-.294	-.145	.178
<b>Interaction effects</b>					
Resource sharing, and reduces competition X Form	-.322*	.140	.074	-.058	-.147
Market entry X Form	-.295*	.585***	.296	.014***	-.647***
Diversification and utilizations X Form	.103	.300	-.237	-.182	-.063
Resource sharing, and reduces competition X Industry	.161	-.002	-.040	.192	.020
Market entry X Industry	.067	-.449**	-.267	-.222	.448**
Diversification and utilizations X Industry	.214	-.079	.094	.269	-.037
Resource sharing, and reduces competition X Economic status	-.175	-.156	.424*	-.144	.068
Market entry X Economic status	.463**	-.299	-.471**	-.221	-.239
Diversification and utilizations X Economic status	.320	-.162	.424*	.663**	-.159
<b>R square</b>	.300	.156	.190	.188	.231
<b>F Value</b>	6.413***	2.771**	3.518***	3.446***	4.456***

\*\*\* $p < 0.01$ ; \*\* $P < 0.05$ ; \* $P < 0.1$ ; the F-test on R2 is one-tailed; the t-test on each regression coefficient is two-tailed.

The interaction effect of alliance form (0 if non-equity), is moderating the effect between market entry and product knowledge. This suggests that the link between the strategic motives of market entry and the task-related selection criteria of product knowledge is significant in EJVs. Equity-alliances usually involve higher resource commitment; and when entering a new market they will be looking for a partner with technical competencies. Moreover, alliance industry (0 if tertiary) is significantly moderating the effect between market entry and product knowledge. This means that

firms in tertiary sector will be looking for partner with product knowledge when entering new market.

The third regression model is on task-related criteria “finance”. It has a significant and positive relation with the strategic motive of resource sharing and reduce competition .316 ( $P < 0.01$ ), and diversification and utilization .186 ( $P < 0.05$ ). It has an explanatory power ( $R^2$ ) of 19%. Regression model three shows that firms motivated by resource sharing and reduce competition, and diversification and utilization will take into account the financial strength and stability of the partner.

The interaction table is showing that the partner economical stage (0 if developing), is moderating the effect between resource sharing and reduces competition, and diversification and utilizations with the task-related selection criteria of finance. However, it has a negative effect between market entry and finance. This shows that the link between the resource sharing and reduces competition, diversification and utilizations with finance is stronger when the alliance is formed with a partner from a developed economy. While the link between market entry and finance is stronger when the alliance is formed with a partner from a developing economy.

The results are an extension of previous studies. Consequently, they further affirm the importance of task related selection criteria for firms. The results add to the existing knowledge by testing some of the assertions in the literature in a new context, which is known by placing large weights on personalized relationships and feelings.

### **Hypothesis 2b**

The results from table 4.5 also show support to hypothesis 2b. The two regression models relating to partner-related selection criteria have significant F value ( $P < 0.01$ ); with the second regression having the largest explanatory power ( $R^2$ ) of 23.1%.

The first regression on partner-related selection criteria is stability factor. It has a significant and positive relationship with the following strategic motives market entry .280 ( $P < 0.01$ ), and diversification and utilization .335 ( $P < 0.01$ ). In other word, firms with market entry, and diversification and utilization motives will most likely choose a partner that is financially stable and has a good reputation.

The interaction table is showing that alliance form (0 if non-equity) is positively moderating the effect between market entry and stability .014 ( $P < 0.01$ ). This suggests

that the link between market entry and stability is stronger in EJVs. Furthermore, partner economical stage (0 if developing) is positively moderating the relation between diversification and utilization, and stability .663 ( $P < 0.01$ ). This means that the link between diversification and utilization, and stability is stronger when the alliance is formed with a partner from a developed economy.

The second regression on partner-related selection criteria is trust and past association. It has a significant and positive coefficient with market entry .418 ( $P < .01$ ), and with a high explanatory power  $R^2$  of 23.1%. The findings come as no surprise, and it is consistent with the existing literature. Glaister (1996), and Dong and Glaister (2006) have all highlighted the importance of trust on partner-selection criteria. In business dealings, trust has an imperative important for the Saudi firms that could decide the fate of the partnership. Ali (2009: p. 138), points that: “Arabian spends considerable time on cultivating relationships and hopes to establish trust at the early stage. For Arabians trust is the most significant step for moving toward the next steps”. In Saudi Arabia, trust is regarded as the core of business and economic relation, where business is built on (Child and Mollering, 2003). Child and Tse (2001) believe that the importance of trust in countries like China is due to the underdevelopment of its institutions. The same argument can be extended to the Saudi context. Trust according to Das and Teng (1998) is, after control, one of the biggest sources of confidence in partner cooperation. They also argue that any formed SA has some sort of minimum level of trust. The importance of trust in ISA will be discussed in detail in chapter 6.

In table 4.5, alliance form (0 if non-equity) has negatively moderated the relation between market entry and, trust and past association. It means that the link between market entry, and trust and past association is stronger in non-equity alliances. Furthermore, industry (0 if tertiary) has positively moderated the relation between market entry and, trust and past association. This means that the link between market entry and, trust and past association is stronger in manufacturing alliances.

### **Hypothesis 3**

Looking at the regressions models table 4.5, we could notice that task-related selection criteria have more explanatory power than the partner-related selection criteria. It shows that the task related selection criteria are more determined by the strategic motives than the partner related is. Thus, there is a reasonable support for hypothesis 3.

Task-related selection criteria are clearly more determined by strategic motives because it is a requirement for specific tasks (Glaister and Dong, 2006; Glaister, 1996). We can also notice in table 4.4 that partner related selection criteria has a higher mean (average: 3.97) than task related selection criteria (average: 3.05). The findings are consistent with previous studies, and it indicates that Saudi firms has greater consensus on partner related selection criteria than on task related selection criteria. The findings can be explained that task related selection criteria are more linked to firm's specific strategic motives and requirements. On the other hand, partner selection criteria are qualities and requirements the partner should possess; therefore, it is less driven by strategic motives. Although, this might not be the case for reliability and trust; as it has a higher value for the Saudi partner, and it can determine the future of any potential relationship .

The low means of task related selection criteria is linked to the Saudi partner different motives. The higher the differences in motives the lower is the mean of task related, unlike the partner related. This reinforces the findings that task related selection criteria are determined by strategic motives for alliance formation.

**Table 4.6: Correlation-task-related selection criteria, factors of partner-related selection criteria and factors of strategic motives**

<b>Variables</b>	<b>1</b>										
<b>SM Factor 1</b>	1.000	<b>2</b>									
<b>SM Factor 2</b>	-.034	1.000	<b>3</b>								
<b>SM Factor 3</b>	.002	.059	1.000	<b>4</b>							
<b>TR Factor 1</b>	.286**	.384**	.237*	1.000	<b>5</b>						
<b>TR Factor 2</b>	.088**	.024	.183	-.021	1.000	<b>6</b>					
<b>TR Factor 3</b>	.331**	.103	.217*	.021	-.060	1.000	<b>7</b>				
<b>PR Factor 1</b>	.047	.240*	.229*	.238*	.332**	.101	1.000	<b>8</b>			
<b>PR Factor 2</b>	.128	.388**	.155	.383*	-.076	.146	.036	1.000	<b>9</b>		
<b>IJV Age</b>	.119	.127	-.041	-.107	-.011	.040	-.080	.037	1.000	<b>10</b>	
<b>IJV Form</b>	.119	.143	.036	.138	.077	.058	.044	.152	.036	1.000	<b>11</b>
<b>Industry</b>	.126	-.069	.016	.059	.193*	-.046	.064	.035	.184*	.262**	1.000
<b>Partner stage</b>	-.095	.099	-.098	.058	.072	-.169	-.055	.091	.085	.076	.168

\*\*\*p< 0:01; \*\*P<0:05; \*P<0:1

## 4.5. Discussion and Contributions

The thesis has acknowledged the importance of research on ISA from the perspective of emerging market companies. However, it argues that not all emerging economies are the same; hence, motives and requirements will differ accordingly.

The institutional differences between the developed and developing markets illustrate that there is a need for local knowledge resources by the developed market firms (Choi and Beamish, 2013). They defined the local knowledge-related resources as “the resources that consist of local marketing skills, local personnel management skills, and legal/government relations management skills”. According to the RBV, firms engage in SAs when they perceive critical resource complementary (Beamish, 2008; Chung, Singh, and Lee, 2000; Gulati, 1995; Inkpen and Beamish, 1997); these resources are not readily available in the market (Choi and Beamish, 2013).

Many studies have confirmed that resource complementary is one of the key drivers behind the formation of ISAs (Beamish, 2008; Chung et al., 2000; Gulati, 1995; Inkpen and Beamish, 1997; Choi and Beamish, 2013). The foreign firms desire to access the local knowledge is a consistent pattern identified in the literature.

The study has illustrated that Saudi firms are not motivated by financial access, unlike most firms in developing nations. Due to its oil wealth and the size of the economy, the demand for foreign investment is motivated by combining resources and access to complementary technology and the know-how necessary to win contracts.

One of the factors that influence firm expansion strategies and firm selections criteria is institutional factors. These factors can be for formal (e.g. regulatory, economic, and politics) or informal institutions (e.g. culture, and commercial conventions). The choices are not only influenced by internal factors and firms’ resources, but also by external factors (Lei and Slocum, 2014; Ahlstrom, et al, 2013).

Some scholars have touched on the fact that partner selection criteria in strategic alliances have mostly focused on firms from developed economies (Ahlstrom et al., 2013). The local institutional environment can affect partner selection (Vasudeva, 2013). In this study, it is of a great importance. Although firms are not obliged to form alliances, they still do to access the local partner network and connections. This is valuable in conducting business in Saudi Arabia. Hence, culture has an important influence on strategic choices (Ahlstrom, et al, 2013).

The results illustrate that the task selection criteria are more important than the partner selection criteria; however, there was not a huge margin of difference. This is due to the nature of doing business in Saudi Arabia, where personal connections, more precisely trust, can be of huge importance when selecting a partner.

This study has looked into the role of reputation in alliance formation decisions. Recently, Stern, et al (2014) called for other scholars to incorporate reputation and status in any model examining alliance formation. Fombrun (1996: p. 72) defined reputation as “a perceptual representation of a company’s past actions and future prospects that describes the firm’s overall appeal to all its key constituents when compared to other leading rivals.” This means that the value of firms’ previous actions can determine its reputation.

The study illustrates how important reputation is for Saudi firms when selecting their foreign partner. Jones and Kahanna (2006: p. 453) have talked about how history “reputation” matters in international business. They said that “although there is widespread acknowledgment that history matters [in international business], there is still a search for how it matters.” The results helped us to address their concerns and show how history can influence firms’ decisions.

Stern, et al (2014) investigated how the reputation and status of firms’ founders can influence firms’ decisions to form an ISA with emerging firms. Their results indicate that a negative reputation and status has stronger effects than positive signals. Although their study context is in technology-driven industries, alongside the results of this study, it illustrates the weight of reputation in the strategic alliance selection criteria.

Theoretically, the study has given support to the studies of Hitt, et al. (2000, 2004) in proving that institutional factors (e.g. government, culture) affect partner selection criteria.

The practical contribution of this research can come from expounding on how Saudi firms select their partners, as well as what their motivations are. This will help executives to better understand their motivations, and their preferences, which will increase their chances of creating a successful alliance.

Another empirical contribution of this study is that it is the first empirical study to examine a sample from Saudi Arabia, a developing economy that is different from other developing economies. This information helps us to better understand the thinking of a

Saudi firm's managers and their decision-making process. It also contributes to practice by illustrating foreign firms ISA partner preferences of local firms in Saudi Arabia.

This study has also shown how important trust is for alliance formations, especially in the Saudi context. Although partner selection criteria are generally less important than task selection criteria, in this context, trust is illustrating strong associations with the ISA selection criteria.

#### **4.6. Conclusion**

The findings of this chapter are based on a good-sized sample of ISAs in Saudi Arabia. The study looked into the perspective of the Saudi firm. No empirical studies have looked into the strategic motivation or partner selection criteria of the Saudi firms, which make the study findings valuable extension to the existing research.

Saudi Arabia is a unique economy; it is vast and growing. It is a developing economy, yet very wealthy. Furthermore, it relies on government spending on key sectors, e.g. educations, transportation, health, energy, aviation, financial service, and infrastructure. Saudi firms lack the necessary expertise and skills to execute projects in this magnitude. Therefore, they are in need for essential skills and expertise. Thus, it was no surprise to find out that the highest ranked strategic motives for Saudi firms are “To enable diversification of products and services”, and “To facilitate exchange of complementary technology”. Foreign firms are in pursuit to access this lucrative economy. Thus, the motives of foreign firms from the perspective of the Saudi firms are “To facilitate international expansion”, “To enable faster entry to the market” and “To establish presence in the market”. The motives between the Saudi firms and the foreign firms vary significantly; thus, it confirms and supports Hypothesis 1.

This chapter has also looked into partner selection criteria in ISA formation. The study differentiated between the task-related and partner-related selection criteria. The findings from this study give a rare insight to the thinking, motivation, and partner selection criteria of Saudi firms. The empirical findings offered a good support to H2a and moderate support to H2b. It proved that task related selection criteria are influenced by firms' motivation; while partner related have a limited affect. Nevertheless, the partner related motive of reliability and trust was a very determinant factor. This confirms the important of trust and reliability in the Saudi business culture, and for Arabs in general.

The finding of this paper gives an insight to the motivation of the Saudi firms, and it is clear that Saudi firms are aware of the motivation of foreign firms. Thus, they are seeking a win-win situation; a relationship that gives the foreign firms the chance to enter the market, understand it, and avoid risks. On the other hand, the Saudi firms can benefit from the partner experience, technical expertise and skills that would assist them winning government contracts. Awareness of partners' motives and contribution has many positive outcomes. According to De Mattos, et al., (2002), it can lead to better understanding and negotiation process. They add that it will help partners to reach satisfying and attractive alternatives during negotiation.

This chapter provides detailed background literature, the measures of variables, the hypotheses, the results and discussion related to strategic motivations and selection criteria of the Saudi firms.

Next chapter, Chapter 6, examines the relation between knowledge tacitness, level of communication, trust, and number of expatriates with knowledge acquisitions rate.

# Chapter Five: The Determinants for Knowledge Acquisition in ISAs

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## 5.1. Introduction

The resources of a firm play an important role in laying down the foundations of the firm's strategy (Glaister and Buckley, 1996). The resources and capabilities of a firm, as the primary source of profit, are a firm's main strengths, and can be used to implement strategies that improve efficiency and effectiveness (Barney, 1991; Grant, 1991). The importance of timely acquisition of crucial skills has increased; thus, learning has become an important motive for the formation of ISAs and essential for firms' survival (Hamel, 1991; Kogut, 1988; Parkhe, 1991; Lane, et al., 2001). Intense global competition has forced firms to acquire new skills, as no firm can create all the resources needed in order to grow and prosper (Dussauge, et al., 2000).

The resource-based view of the firm has explained the reasons behind the formation of ISAs (Lubatkin, 1983). Firms, according to this theory, engage in ISAs to access valuable resources they lack, gain, or preserve control over certain resources (Chen and Chen, 2003). Firms engage in ISAs to add to their existing expertise and knowledge. They acquire knowledge via socializing, internalization, or combining different kinds of explicit and tacit knowledge to create new knowledge to enhance their competencies (Kumar and Nti, 1998; Makhija and Ganesh, 1997; Lyles and Salk, 1996). Firms by adapting to partner skills and capabilities can create competitive advantage for themselves (Porter, 1986). Thus, 'learning alliances', where the primary objective for both partners is to learn from each other to improve their operations, are increasingly common (Khanna, et al., 1998; Larsson, et al., 1998).

According to organizational learning theory, ISAs are a vehicle for firms to "learn or seek to retain their capabilities" (Kogut, 1988; Hayward, 2002). It is an effective tool to cope with market failure in transferring organizationally embodied knowledge (Kogut, 1988; Makhija and Ganesh, 1997; Lane and Lubatkin, 1998); especially tacit knowledge, technology based and dynamics capabilities (Mowery, et al., 1996).

Scholars have defined organizational learning as the successful restructuring 'by individuals' of organizational problems and growing insights, with an aim to improving actions through better knowledge and understanding (Fiol and Lyles, 1985). Prior

literature noted that there are four constructs related to organizational learning: knowledge acquisition, information distribution, information interpretation, and organizational memory. The one most related to ISAs is knowledge acquisition. Knowledge can be acquired by adopting different methods. The ones most closely related to ISAs are learning from experience, learning by observing other organizations, and grafting (Huber, 1991).

It is important to note that there are adverse factors that affect the success or failure learning outcome. These include the partners' characteristics, such as intent, receptivity, and transparency, which affect their learning. Other factors such as the partners' prior experience, cultural factors, attention to human resource management (Hamel, 1991; Makhija and Ganesh, 1997), type of knowledge (Ranft and Lord, 2002), employee reactions (Empson, 2001), communications (Bresman, et al., 1999), and expatriate (Hebert, Very, and Beamish, 2005). In chapter two, we have reviewed in details how some of these factors can hinder learning in ISAs.

This chapter will examine some of the factors that might hinder or bolster learning. It will first look into the impact of tacitness on knowledge acquisition. Second, it will provide an overview to the role of expatriate on acquiring knowledge. Third, it will test the effect of communication on knowledge acquisition. The final part will examine the role of trust in knowledge acquisition.

This study will give a better understanding of the determinants of learning in ISAs. Saudi firms have been trying for four decades to decrease its dependence on foreign technical competencies. They are still heavily dependent on foreign partner; this research will help uncover some of the causes that lie behind that presumed failure. There are no empirical studies that looked into this issue before in Saudi Arabia.

Although, the study does not offer a complete test of all complex factors that affect knowledge acquisitions, it does provide an important contribution to understanding the factors that contribute to better understanding. The findings lay foundations and provide direction for future studies to consider in detail how Saudi firms can maximize their learning. The failure (over many decades) of Saudi firms to break away from complete dependence on foreign knowledge and expertise make the findings more instrumental.

The argument relating to knowledge tacitness is straightforward: we expected that the weak Saudi knowledge base would mean that they were affected by this factor. The role

of expatriates in firms has been neglected; hence, the study contributes to the awareness of how numbers of expatriates can affect knowledge acquisition. The possible outcome could be valuable for Saudi in understanding their failure at reaping the benefits.

The study also contributes to understanding of how personal trust affects ISAs through knowledge acquisitions. The role of communication in SAs is minimized in the literature. It is expected that communication is an influential factor in determining the success of knowledge acquisition in ISAs. The hypotheses builds on existing literature, it examines similar hypotheses but with extension to a different context.

By the end of this chapter, the findings will help us to answer the third research question of the thesis “What are the factors affecting learning within ISAs?” The findings will lay foundation to future study and help give a good understanding to the reasons behind the continuous Saudi dependency on foreign knowledge and technology.

## **5.2. Literature Review and Hypotheses Development**

Inter-firm learning in ISAs takes place either by transferring the ‘existing’ knowledge from one firm to another, or by creating new knowledge through pooling the existing knowledge of both firms (Larsson, et al., 1998). However, learning from ISAs has some necessary conditions to be successful: the possession of absorptive capacity, and, most importantly, the intent to learn. Firms must be eager to learn from their partner firms; the absence of the intent to learn is a ‘form of arrogance’, which will negatively affect the outcome (Mowery et al., 1996).

The transfer of knowledge does not take place by merely bringing two firms together. There are many conditions and skills required and many obstacles to overcome. Capacity to learn (absorptive capacity), articulated goals, and structural mechanisms (such as foreign partner training) have all been reported to facilitate learning (Lyles and Salk, 1996; Dong and Glaister, 2009). Firms need to possess the necessary skills to learn from their alliances. These skills are what known as the “absorptive capacity” of the firms (Simonin, 2004; Kim and Inkpen, 2005; Cohen and Levinthal, 1990). It has been considered by many academics as the most significant determinant of organizational learning (Park, 2011). Moreover, both partners must be transparent (Larsson et al., 1998). Additional factors (such as the nature of the knowledge,

performance and the timing of the experience), also have an impact on the level of knowledge acquisition (Hayward, 2002).

Absorptive capacity is “a firm ability to value, assimilates, and utilizes new external knowledge” (Lane and Lubatkin, 1998). Simonin (2004) has described absorptive capacity as the ‘learning capacity’ of the firm; while Hamel (1991) has defined the partners’ capacity to learn from each other as ‘receptivity’. A lack of absorptive capacity is “the most important impediment of knowledge transfer” (Minbaeva, et al., 2003).

Several mechanisms generate absorptive capacity recommended in the literature. First, prior related knowledge is important to enable firms to evaluate and recognize knowledge. Business relatedness has been proposed as a tool to indicate prior knowledge (Cohen and Levinthal, 1990; Lane et al., 2001; Park, 2010). Lane, et al., (2001) have used cultural differences as a tool to measure the cultural compatibility as suggested by Cohen and Levinthal (1990). Yan and Gray (1994) have recommended some sort of business “similarity” and mutual experience. There are positive associations between an ISA’s performance and survival, and business relatedness (Mjoen and Tallman, 1997; Kogut, 1989). Relatedness has an association with positive learning and knowledge acquisition, which has been examined by Lane, et al., (2001). They found that there are positive associations; the “student” partner is able to assimilate more knowledge when there are business similarities.

Prior experiences and previously accumulated knowledge play an important role in improving the absorptive capacity of individuals and organizations, as they help firms to assimilate and use new knowledge (Cohen and Levinthal, 1990). Prior experience and knowledge facilitate the learning of new knowledge, although this does not mean that learning will not take place without prior experience (Cohen and Levinthal, 1990).

Cultural (national or corporate) factors are very powerful, and have an effect on people’s perceptions, values and beliefs (Sirmon and Lane, 2004). Studies have shown that national culture is the reason for 50 per cent of differences in values and beliefs among managers, even when they work for multinational companies (Hofstede, 1991). The differences between partners could lower resource sharing and create cultural conflict, consequently affecting knowledge acquisition (Sirmon and Lane, 2004; Lyles and Salk, 1996).

There are also other factors that play an important role in the transfer of knowledge and learning between partner firms. Ownership has been reported as a pivotal factor for the successful transfer of knowledge (Lyles and Salk, 1996). It has been identified that ownership affects knowledge transfer and acquisition between ISA partners. Equal ownership between partners is reported to have more difficulties, especially in the presence of cultural differences (Killing, 1983). Furthermore, shared management ISAs are affected by cultural misunderstanding (Lyles and Salk, 1996). This is because none of the parents has dominant control. However, in other studies, Salk (1992) has found that partners of equal partnerships display greater willingness to share and transfer knowledge, as both partners have the same commitment and stake in the business. A study by Lyles and Salk (1996) found that 50/50 ISAs reported higher levels of knowledge acquisition. In addition, in shared management ISAs, there are greater levels of communication and interaction, which in turn promotes greater knowledge transfer and sharing (Brown and Duguid, 1991; Westney, 2002).

Trust and transparency between partners are essential components for achieving desired learning (Hamel, 1991). Furthermore, business relatedness has been reported as a success factor for ISAs (Yan and Gray, 1994; Kogut, 1989). Ambiguity and partner protectiveness have also been reported to have hindering effect on learning and knowledge transfer (Simonin, 2004; Lyles and Salk, 1996).

For decades, Saudi Arabia economy has relied on oil exportation and oil based products. Thus, the kingdom is in an attempt to diversify its economy and learn how to compete in knowledge intensive industries (Rice, 2003). The Saudi government has placed a strong emphasis on education in an effort to build a solid base of young and highly skilled workforce to strengthen the innovation capability of the country (Rice, 2003).

ISAs are the preferred form for both Saudi firms and multinationals (Williams, 2009; Mababaya, 2002). ISAs allow both companies to pool their resources. They can combine the technical and commercial capabilities and competencies of the Western partner with the local knowledge and commercial competitiveness of the local partner (Al-Rasheedi, 2012). It allows the Saudis to bring in competencies that will add to their competitive advantage (Williams, 2009). When seeking to form ISAs with multinationals, Saudi companies (unlike their counterparts in many other developing nations) are not seeking capital. These firms have cash, some from established business families, and are seeking partners' technology and know-how (Ali, 2009: p. 222). The

Saudis have always preferred short cuts and to buy knowledge (a “turn-key” policy) in major projects. This has hindered the country efforts to develop technologically literate work force (Haidar, 2000). Thus, Saudis realized that they needed to possess the ability to assimilate, accommodate, and absorb technology to transfer it successfully (Haidar, 2000).

Saudis and the Saudi government have tried to learn from advanced countries. The government has sent thousands of students abroad in an attempt to ensure that they learn and transfer some of the knowledge back to Saudi. However, Saudis are facing some impeding factors that have hindered their learning and the utilisation of acquired knowledge. These factors include authoritarian leadership style, resistance to new ideas, and lack of qualified staff (Yavas, 1998). The transfer of technology in Saudi Arabia has always faced many barriers, most notably comprised of organizational, technical, and human problems (Atiyah, 1989). They face many barriers, such as the lack of a skilled workforce or management and industrial capabilities, as well as weak and ineffective legal and regularity conditions (Merdah and Sadi, 2011).

In the coming section we will be assessing how the following factors (tacitness, communication, number of expatriate, and trust) affect learning in ISA in the Saudi context.

### **5.2.1. Tacitness**

Knowledge can be divided into ‘explicit’ and ‘tacit’. It can be acquired from ISAs via socializing, internalization, or combining different kinds of explicit knowledge to create new knowledge (Lyles and Salk, 1996). Tacit knowledge is abstract and difficult to communicate (Dhanaraj, et al., 2004), more valuable (Sen, 2009), not easily codified in formulas and blueprints (Zander and Kogut, 1995), and according to Simonin (1999), “the most significant determinant of knowledge transferability”. By contrast, explicit knowledge is more codifiable and easier to transfer (Dhanaraj, et al., 2004).

Tacit knowledge is represented by the firm's experience in manufacturing and marketing products, and its knowledge of local customers, markets, and policies. Sen (2009) has noted that we know more than we can tell. Such knowledge is a non-codifiable set of skills, embodied in the individual. It can only be exchanged through 'intimate human contact' (Glaister and Buckley, 1996; Sen, 2009; Simonin, 1999). On the other hand, explicit knowledge (such as a quantifiable technology and product development) is

codified and can be transferred more easily in a written format and in formal systematic language (Dhanaraj, et al., 2004; Sen, 2009; Kogut and Zander, 1993).

Individual knowledge in the form of know-how, skills, managerial and marketing expertise are more tacit (Shenkar and Li, 1999; Lane, et al., 2001). It is complex knowledge which is hard to codify; it is difficult to articulate, and this affects the speed of knowledge transfer (Zander and Kogut, 1995). The level of tacitness of specific knowledge, skills, and know-how affects the transfer; more tacit knowledge is more difficult to transfer (Simonin, 1999; Lam, 1997). Kogut (1988) argues that, among the methods of transferring tacit knowledge, such as licensing, JVs are the best. The reason is not market failure or high transaction costs, as transaction cost theory explains; but simply that the target knowledge is embodied within the organization. Thus, it is the best (or possibly the only) way to transfer 'tacit' knowledge properly (Glaister, 1996; Tsang, 1998), whilst explicit knowledge - 'the simple knowledge' - is easy to learn and transfer (Bhagat, et al., 2002).

The process of transferring tacit knowledge is complicated, and it is more complex when it is combined with cultural differences (national or organizational). It becomes more difficult for the 'student' to understand the behaviour of the 'teacher', and the teacher will find it difficult to transfer the knowledge in an understandable 'language' for the student (Bhagat, et al., 2002).

Tacit knowledge has a certain ambiguity, and that is because it is embedded within "individuals' cognitive processes", and rooted in the routines of organization culture (Bhagat, et al., 2002). It is transferred by closely and directly monitoring the 'knower' doing what they do best, interacting with them, and analysing their actions (Dhanaraj, et al., 2004). Ambiguity creates more difficulty and puts more strain on knowledge, which in turn makes the knowledge immobile and hard to transfer (Kogut and Zander, 1992; Hamel, et al., 1989). This applies also to explicit knowledge, which, in theory, should be easier to transfer (Simonin, 2004). According to Inkpen and Crossan (1995), firms that fail to overcome the ambiguity of their partner skills will probably fail to achieve their desired learning. The greater the complexity of the knowledge or know-how the higher the likely level of ambiguity (Simonin, 1999).

Saudis prefer face-to-face meetings as personal dealings enhance personal trust and relationships (Ali, 2009). Ardichvili, et al. (2006) have pointed out in a recent study on

organizational learning and knowledge creation that knowledge sharing, communication, and learning in organizations are affected by employee cultural values. Saudi's score highly in the power distance index and low in individualism, which means that Saudis prefer to work together, and with personal interaction. As a high context society, Saudis better comprehend what is being communicated when they are able to closely observe the environment, situation, and people (Rice, 2003). Thus, knowledge is transferred best when there is direct instruction from a supervisor (Al-hazmi, 2010).

Saudi Arabia is suffering from a lack of Saudi skilled staff and technologically literate workforce (Haidar, 2000; Idris, 2007). This has hindered technological advancement and the ability to assimilate, accommodate, and absorb technology (Idris, 2007; Haidar, 2000).

**H1.** *From the perspective of Saudi ISA partners, knowledge acquisition is negatively related to the extent to which the knowledge of the foreign partners is tacit.*

### **5.2.2. Communication and Number of Expatriate**

The Saudi market is always in pursuit of the latest technology and management techniques. Nevertheless, Saudi firms have failed to reap the benefits of these partnerships. They face many barriers such as the lack of a skilled workforce and management and industrial capabilities, as well as weak and ineffective legal and regularity conditions (Merdah and Sadi, 2011). Above all, Saudi lacks management technology (Merdah and Sadi, 2011). The importance of management technology is that it has a direct impact on the selection, adaptation, absorption and integration of other forms of technologies (Grosse, 1996). Acquiring technology does not guarantee successful technology transfer; it has to be accompanied by absorption capabilities for successful integration and utilization (Merdah and Sadi, 2011).

Saudi culture places a strong emphasis on the group, not the individual. Furthermore, loyalty, obedience to seniors, face-to-face interaction, and personal connections are all important attributes to have (Kassem and Habib, 1989; Al-Rasheedi, 2012).

Saudi Arabia is suffering from a lack of Saudi skilled staff, which hinders technological advancement (Idris, 2007). Saudi is a net importer of technology and foreign labour in order to meet its technical needs (Al-Kibsi, et al., 2007). The availability of financial resources in Saudi Arabia and similar Arabic states (due to the huge influx of oil

revenue) has tempted the country to resort to short cuts (“turn-key” policies) in major projects. These methods, although beneficial in the short term, have obstructed the country from the opportunity to build technologically literate work force with the necessary skills (Haidar, 2000; Idris, 2007). In order for the country to be successful in transferring and benefitting from technology, it needs to develop the ability to assimilate, accommodate, and absorb technology (Haidar, 2000). In order to achieve this, Saudi must prepare a solid base of indigenous scientists, engineers, and skilled manpower (Haidar, 2000). Arabs, in general, are keen entrepreneurs with more inclination towards trade than towards manufacturing (Rice, 2003). Many studies have addressed the issue of private enterprise preference to expatriate, as they respond more positively to foreign job applicants (The Economist, 1997; Atiyah, 1996; Al-Dosary and Rahman, 2005; Sadi and Al-Buraey, 2009). This is because private sector believes in the foreign worker skills, they are generally less expensive, and for top and key positions, they possess more experience and higher competence (The Economist, 1997; Sadi and Al-Buraey, 2009). Earlier studies have found higher productivity and discipline of the expatriate in Middle East comparing to local workforces (Atiyah, 1996; and Lumsden, 1993). Park (2011) argues that co-working with expatriate experts can push the acquisition of operational and manufacturing activity. Expatriates in ISAs, according Park, et al., (2009) are the primary driver of knowledge flows.

Following the above argument, we expect a positive relationship between the number of expatriate and knowledge acquisition. The role of expatriate in organization has been largely neglected. The situation in Saudi Arabia and Gulf countries in general, is unique in terms of the proportion of foreign workforce to the local workforce.

**H2.** *From the perspective of Saudi ISA partners, knowledge acquisition will be higher in the Saudi firms with greater number of foreign expatriates compared to those with smaller number of foreign expatriates.*

Communication as an integral part of the process of distribution of knowledge (Buckley, et al., 2005; Daghfous, 2004; Si and Bruton, 1999), and is considered as an essential part of absorptive capacity. In the Saudi context, a lack of skilled Saudi employees and the resulting reliance on expatriates to do the technical jobs means that the number of expatriate is positively related to absorptive capacity. Lane, et al. (2001)

has suggested that trust is a critical part of absorptive capacity. As it plays a crucial role on learning and knowledge exchange.

Communication plays an important role in conducting business in Saudi Arabia. Business is conducted between people, not between companies or contracts (Al-Rasheedi, 2012). Socialising plays an important part in establishing business relations in Saudi (Moran, et al., 2007). Westerners place more emphasis on oral communication, while Saudi emphasizes both oral and aural communication. This is rooted in the traditional Bedouin culture that places emphasis on both speaking and listening (Al-Rasheedi, 2012). Saudis prefer face-to-face meetings, as the personal dealings enhance personal trust and relationships (Ali, 2009). National cultural differences can hinder the advancement of the relationship between partners in ISA due to the lack of shared norms and values, which reduces communication between partners (Sirmon and Lane, 2004; Pothukuchi, et al., 2002). This makes communication more important in cross-cultural SAs.

Organizational protectiveness behaviour, ambiguity and trust all have an impediment effect on learning. Thus, open and frequent communication might have a positive effect on the learning process (Adenfelt and Lagerström, 2006; Park, 2011). The exchange of formal and informal information is dependent on the quality of communication (Park, 2011). It helps the flow of knowledge between firms (Von Krogh and Roos, 1996). Park (2011) in his study of knowledge transfer in multinational enterprises claim that knowledge distribution is dependent on the frequency and density of interactions. Open communication breeds trust and reduces misunderstanding, thus increasing collaboration and knowledge sharing in return (Park, 2011). Interaction between top management plays a vital role in the firm's ability to access the partner technology (Inkpen and Dinur, 1998).

The role of communication in SAs is minimized in the literature. We expect that communication is an influential factor in determining the success of knowledge acquisition in ISAs. Therefore, we propose the following hypothesis:

**H3.** *From the perspective of Saudi ISA partners, knowledge acquisition is positively related to the level of communication between the Saudi firms and the foreign partners.*

### 5.2.3. Trust, Protectiveness, and Learning

Learning in alliances involves accessing sensitive and important information, competencies, and skills from the partner (Becerra, et al., 2008). According to social exchange theory, factors such as reciprocal commitment, trust, and mutual influence have a positive effect on the transfer of knowledge between alliance partners (Muthusamy and White, 2005). Trust has been defined in the literature in various ways; McEvily, et al., (2003: p.101), described it as a “multi-faceted concept”. This chapter adopts the following definition of trust -‘goodwill’ trust- which is “one party’s confidence in the goodwill” (Ring and Van de Ven, 1994). This definition is suited to this particular study, as the type of trust sought is on a personal level. It reflects how the two parties understand and appreciate each other’s needs (Lado, et al., 2008).

Firms may fear opportunistic behaviour in their partners, and may expect them to use alliances to “steal” their secrets and technology (Doz, 1996). A lack of trusts will increase fear of opportunistic behaviour, and firms will most likely have a negative outcome from untrustworthy behaviour (Nooteboom, 1996).

Shared values and systems, together with trust, play a vital role in facilitating learning and knowledge transfer between organizations. Thus, trust is a pillar for successful knowledge acquisitions (Park, et al., 2008). Trust leads to shared understanding, which in return facilitates access to resources and promotes cooperation between the different parties, which makes the knowledge sharing more successful (Dhanaraj, et al., 2004; Ring and Van de Ven, 1994; Park, 2011). It develops a sense of openness and shared understanding (Dyer and Nobeoka, 2000; Wahab, et al., 2011), facilitate knowledge access, and create commitment and openness in sharing knowledge and competencies (Inkpen and Dinur, 1998; Inkpen and Beamish, 1997). Cultural conflict and misunderstandings between partners will reduce trust, and this in return will limit the sharing of information, raise costs, and have a negative effect on the learning outcome between partners (Lane, et al., 2001; Doney, et al., 1998; Park and Ungson, 1997). There is a consensus among the ISAs literature that conflict, especially cultural conflict, has a destabilizing effect and could hinder positive performance (Killing, 1983; Lane and Beamish, 1990).

The quality of the relationship has significant effect on the degree of knowledge tacitness transfer, and more on explicit knowledge (Wahab, et al., 2011). The same argument is extended to mutual trust, except this time the transfer of tacit knowledge is

slightly stronger (Wahab, et al., 2011). Nielsen and Nielsen (2009) have confirmed the relation between trust and tacitness; moreover, they have affirmed that trust can affect learning outcome. Tacit knowledge requires trust, interaction, and exchanging of ideas in order for the knowledge transfer and learning to take place. Cultural differences slow down the integration process, and misunderstandings can replace trust with suspicions (Dhanaraj, et al., 2004; Kedia and Bhagat, 1988).

Transparency is an essential condition for learning to take place. The most important knowledge is tacit, “sticky”, and socially embedded, which makes transparency a must (Larsson, et al., 1998; Simonin, 1999). Hamel (1991) has also confirmed through his observation that transparency influences the learning process between partners. However, culture differences may restrict any attempt for firms to be transparent; differences in language, customs and tradition will obstruct communication between partners, and can make even the well codified knowledge hard to obtain (Larsson, et al., 1998; Simonin, 1999). It hinders the decision making process and firms’ efforts to promote social integration (Tsang, 1998; Zahra and George, 2002). It affects sociocultural integration, synergy realization and shareholder value in two ‘opposing’ way, depending on the degree of the cultural differences and relatedness (Stahl and Voigt, 2008).

In order for firms to exploit knowledge in SAs, they first need to share knowledge. Social integration mechanisms, whether formal or informal, are one of best methods of sharing knowledge between employees (Lane, et al., 2001).

Collective societies, due to their nature, trust their in-group members and place more value on trust. Individuals who want to be members of their in-group must first gain the trust of the group (Huff and Kelly, 2003). Saudis are known to be a collectivist society (Ali, et al., 1997; At-Twajjri and Al-Muhaiza, 1996). Collectivist societies have higher levels of loyalty and commitment to their groups, whether families or working groups (Al-Rasheedi, 2012). It is a personalized society where friendship, kinship, and communal relationship have a significant influence on individual behaviours (Ali, 2009).

Thus, the importance of loyalty and trust is paramount and cannot be separated from business. In Saudi culture, a person’s word has the same value as a written commitment (Mababaya, 2002; Rice, 2003). Businessmen in Saudi Arabia take the time to get to

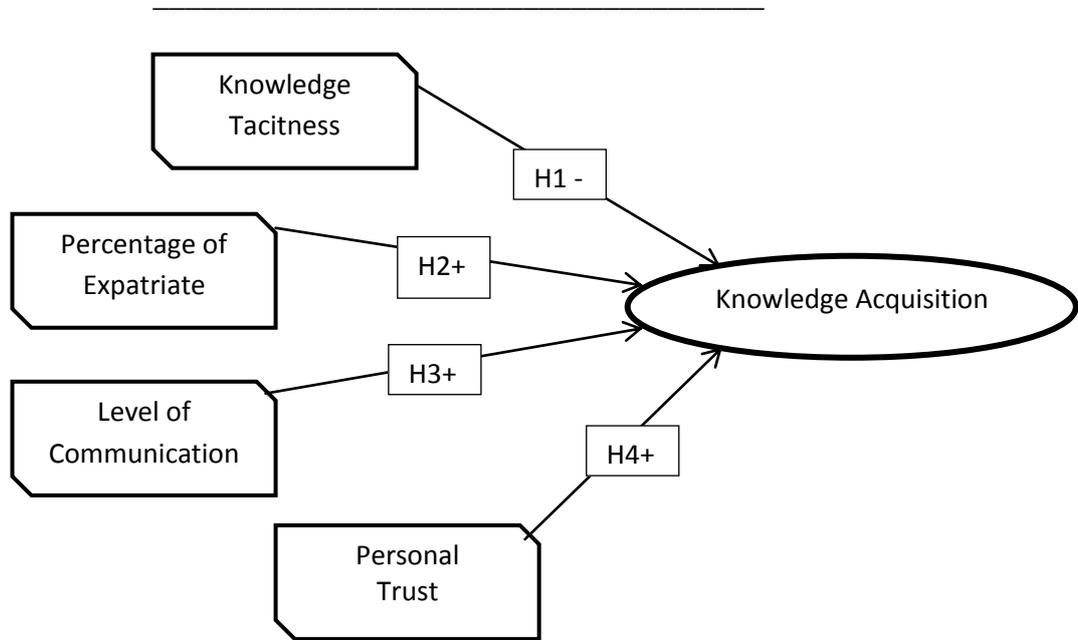
know someone and build a relationship before doing business with them; they must trust them first (Mababaya, 2002; Rice, 2003). There is a strong emphasis on building trust before any transaction takes place within the culture of all Gulf countries (Al-Khatib, et al., 2004). Thus, it is not uncommon for initial business meetings to consist only of socialisation, with no actual business taking place (Al-Rasheedi, 2012). When trust is gained, it eases business dealings and communications. However, when it is lost, it can cause serious obstacles (Ali, 2009). Companies need to develop a trust-based environment in order to successfully share their knowledge (Von Krogh, et al., 2000). Saudi Arabia exhibits a higher level of personalization and intimate relationships compared to Western societies (Ali, 2009). Saudis prefer to work together, and prefer personal interaction. Thus, knowledge is transferred best when there is direct instruction from a supervisor (Al-hazmi, 2010). There is a clear lack of understanding of Western culture, except among a few highly educated individuals (educated abroad), which has hindered the assimilation of Western technology (Hill, et al., 2000). The constant interaction between traditional culture and modern economic and business realities makes Saudi Arabia a unique culture (Abu-Musa, 2006).

The legal framework in Saudi Arabia is weak and still developing, with continuous conflict between traditionalist and modernist movements (Al-jarbou, 2007). There are essentially two legal systems in Saudi Arabia; “one is based on Shari'ah Islami'iah (Islamic teachings) and the other is based on secularized (non-religious) laws, known as nizam” (Cassell and Blake, 2012). The Saudi legal system is still developing, and there are some gaps in government regulations; for example, there is a lack of patent and copyright protection. Thus, in the absence of legal protection, foreign companies implement cautionary actions (Yavaş, et al., 1994). Child and Mollering (2003) have reflected on institution-based trust, and how lack of confidence in the legal system might damage it. Moreover, Luo's (2007) research results have confirmed that the lack of law enforceability in developing markets increases opportunistic behaviour. This shows that trust is even more important in enabling firms to exchange knowledge.

Considering the above argument, it is easier to predict that personal trust would be playing a large role in determining knowledge acquisition levels. Therefore, we propose the following hypothesis:

**H4.** *From the perspective of the Saudi ISA partners, knowledge acquisition is positively related to the level of personal trust between the top managers of the Saudi firms and the foreign partners.*

**Figure 5.1 Conceptual Framework**



### 5.3. Methodology

#### 5.3.1. Measures

The survey questions measured the Saudi firm managers' perceptions of the achieved learning and learning impediment (tacitness, communication, number of foreign workforce, and trust). Responses were assessed using five points Likert-type scales: for trust, knowledge acquisitions, and tacit (reverse coded) and explicit knowledge, a scale of 1 (little) to 5 (to a great extent) was used. This instrument has been used in previous studies (Dhanaraj, et al., 2004; Nooteboom, et al., 1997; Zaheer, et al., 1998; Simonin, 1999b; Simonin, 2004; Lane, et al., 2001). For culture distance, a scale of 1 (not at all) to 5 (a great deal) was used. These instruments have been used in previous studies (Lyles and Salk, 1996; Simonin, 1999b). For communication, a scale of 1 (strongly disagree) to 5 (strongly agree) was used. This instrument has also been used in previous studies (Simonin, 2004; Simonin, 1999a; Park, 2011). For trust, the scale ranged from 1 (strongly disagree) to 5 (strongly agree). Muthusamy and White (2005) have used this instrument in their study. The appropriateness of the instruments was tested during the

pilot study. The study explored the perspective of the local “Saudi” partner. Ideally, the researcher would have included representatives of both parent firms as well as the ISA, but the limited resources, access restrictions, absence of a database, and the size and nature of the study precluded such an approach. Many ISA studies have relied on data from one of the partner’s perspectives.

### 5.3.2. Variables

**Dependent variable:** This scale was designed to measure the learned knowledge from foreign partners across seven areas: new technological expertise, new marketing expertise, product development, process know-how, knowledge about foreign cultures and tastes, managerial techniques, and manufacturing processes. Respondents were assessed using five point Likert-type scales, ranging from 1 (little) to 5 (to great extent). Exploratory factor analysis (EFA) was run to produce one learning factor in line with previous studies (Geringer, 1988; Glaister, 1996, 1997; Dong and Glaister, 2006).

The items correlated significantly with each other (correlation between .3 and .9). None correlated higher than .9. This ruled out any possible multicollinearity in the data. The determinant was (0.099) respectively, which is greater than the necessary value of 0.00001. This further confirms that variables correlate reasonably and multicollinearity is ruled out. The Cronbach’s alpha of the factor was (0.819) within the acceptable value in exploratory research (Hair, et al., 1998: p. 118).

**Table 5.1: Factor Analysis of Dependent Variables**

<b>Factors</b>	<b>Factors load</b>	<b>EigenValue</b>	<b>% Variance explained</b>	<b>Cumulative %</b>	<b>Cronbach</b>
<b>Factor 1 (Learning)</b>		3.395	48.503	48.503	.819
Managerial technique	.732				
Process know-how	.713				
Product development	.700				
New technological expertise	.696				
Manufacturing processes	.695				
New marketing expertise	.684				
Foreign culture knowledge	.653				

KMO= .777

**Independent variables:** EFA was run on the 7 items measuring tacitness, number of foreign employees, and level of communication. After the initial test, one variable was removed “Your partner's technology/process know-how is easily codifiable (in blueprints, formulas, etc.)”, as it was driving the reliability down. After the second run another item was deleted “There are few difficulties in communicating with our partner”, it was loading almost equally on all factors. After the deletion process, EFA was run again using Kaiser’s criterion SPSS extracted 3 non-overlapping factors with a KMO of (.668) which is above the bare minimum of 0.5 (Hutcheson and Sofroniou, 1999). The correlation matrix was checked, to check the correlation between the variables. Most of them correlates significantly with each other (correlation between .3 and .9). None correlated higher than .9, which rule out any possible multicollinearity in the data. The determinant is .434, which is greater than the necessary value of 0.00001. This further confirms that variables correlate reasonably. Furthermore, the variance inflation factor (VIF) was to measure multicollinearity level among the independent variables. A high value above 10 suggests the possibility of multicollinearity (Hair, et al., 2003: p. 305). The VIF did not show any evidence of multicollinearity, which shows it is not a problem in the regressions analysis (Park, 2011). Cronbach’ alpha of the three independent variables ranged from (0.750 to 0.838).

**Personal Trust:** This scale was designed to measure the state of personal trust between top managers of the ISA parents. Respondents were asked, using a four-items scale, to indicate to what extent they would agree with the following statements about the state of personal trust between them and their partner. Responses were assessed using a five point Likert-type scale, ranging from 1 (strongly disagree) to 5 (strongly agree). EFA produced one factor with a KMO of .813 (Cronbach’s alpha, 0.838).

The items correlated significantly with each other (correlation between .3 and .9). None correlated higher than .9. This ruled out any possible multicollinearity in the data. The determinant was (0.154) which is greater than the necessary value of 0.00001. This further confirms that variables correlate reasonably and multicollinearity is ruled out.

**Table 5.2: Factor Analysis of Independent Variables**

<b>Factors</b>	<b>Factor load</b>	<b>Eigen Value</b>	<b>% Variance explained</b>	<b>Cumulative %</b>	<b>Cronbach</b>
<b>Factor 1 (Level of communication)</b>		2.003	40.057	40.057	.750
The quality of communication between parents is extremely good.	.861				
We always keep each other informed about events or changes that may affect the other firm.	.836				
Regular contacts are maintained between senior management.	.742				
<b>Factor 2 (Knowledge tacitness)</b>		1.004	20.083	60.140	N/A
Technology/process know-how is very difficult to understand and imitate.	.992				
<b>Factor 3 (Number of expatriate)</b>		1.004	20.079	80.079	N/A
The percentage of non-Saudi nationals working in medium or high level positions.	.994				
<b>Factor 4 (Personal Trust)</b>		2.804	70.106	70.106	.838
I always feel confident when my counterpart tells me he will do something.	.874				
My counterpart is trustworthy.	.870				
My counterpart and I can always find appropriate solutions through compromise when conflicts arise.	.868				
The joint ventures are characterized by personal friendship between the partners at multiple levels.	.729				

**Control variables:** EFA was run on the 5 items measuring cultural distance and relatedness. After the initial test one variable was removed “Language differences are major obstacles in communicating and understanding the partner”, it was loading almost equally on all factors and creating a problem with the module. After the deletion process, EFA was run again using Kaiser’s criterion SPSS extracted two non-overlapping factors, cultural distance, and relatedness, with a KMO of (.668). The items correlated significantly with each other (correlation between .3 and .9). None correlated higher than .9. This ruled out any possible multicollinearity in the data. The determinant was (0.434) which is greater than the necessary value of 0.00001. This further confirms that variables correlate reasonably and multicollinearity is ruled out. The Cronbach’s alpha of the factor was (0.819).

**Table 5.3: Factor Analysis of Control Variables**

Factors	Factor load	Eigen Value	% Variance explained	Cumulative %	Cronbach
<b>Factor 1 (Culture distance)</b>		2.330	58.247	58.247	.855
Their national culture is quite different from ours	.927				
There is much cultural dissimilarity between us and our foreign partner	.891				
There are significant cultural differences between us and our foreign partner	.823				
<b>Factor 2 (Relatedness)</b>		1.015	25.366	83.613	N/A
Are your company and your partner primarily engaged in the same industries	.994				

**Ownership:** a dummy variable to measure parents' equity share was used. One dummy variable was created; ISAs with 50/50 ownership were coded 0, whilst others were coded 1.

**Sector:** The industry sector of the alliance was also entered as a dummy variable, coded 1 for the manufacturing sector and 0 for the tertiary sector.

**Economic status:** The partner company's economic stage was also entered as a dummy variable; coded 1 for firms from developed economies and 0 for firms from developing economies. The classification is based on IMF "World Economic Outlook" report on April 2012.

**Age:** we also controlled for alliance age, which was calculated as the difference between the time of data collection and the year of the alliance formation.

### 5.3.3. Statistical analysis

The choice of an appropriate strategy could be derived from the research question and objectives (de Vaus, 1990, p.121). The study questions consider the factors that affect learning and knowledge transfer from the foreign firms to the Saudi firms in ISAs. Hence, this study is examining the causal relationship between the factors influencing the learning in the ISA. Multiple regression is one of the most effective techniques used to examine the cause-effect relationship between a dependent variable and several independent variables (Park, 2011). According to Hair, et al. (1995: p. 20), "multiple regression analysis is a statistical technique that can be used to analyse the relationship between a single dependent (criterion) variable and several independent (predictor)

variables. The objective of multiple regression analysis is to use the several independent variables whose values are known to predict the single dependent value the researcher wishes to know". The hypotheses were tested using a multi-regression analysis. Normality and Multicollinearity were checked. The VIFs did not show any evidence of multicollinearity, and are well within the recommended cut-off of 10 (1.000-2.381). Hence, it is not a problem in the regressions analysis (Park, 2011).

## 5.4. Findings and discussions

### 5.4.1. Results

The regression analysis in Table 5.4 shows a significant positive relationship between knowledge acquisition, and level of communication and knowledge tacitness (reverse coded), with coefficients of 0.346 ( $P < .01$ ) and 0.260 ( $P < .01$ ) respectively. The number of foreign expatriates and personal trust show no significant relationship with knowledge acquisition. The model has significant F value ( $P < .01$ ), and it has a large explanatory power ( $R^2$ ) of 49.2%.

**Table 5.4: Multiple Regressions on Knowledge Acquisitions**

	<b>Knowledge Acquisitions</b>
Constant	.207*
<b>Control Variables</b>	
Industry relatedness	.107
Cultural distance	.346***
Prior ties	-.328*
Ownership type	-.040
JV age	.007
Industry	-.106
Economic status	-.046
<b>Main Effects</b>	
<b>H1:</b> Knowledge tacitness	.260***
<b>H2:</b> Number of expatriates	-.034
<b>H3:</b> Level of communication	.346***
<b>H4:</b> Personal Trust	.014
<b>R<sup>2</sup></b>	<b>.492</b>
<b>F value</b>	<b>14.523***</b>

\*\*\*p< 0:01; \*\*P<0:05; \*P<0:1; the F-test on R2 is one-tailed; the t-test on each regression coefficient is two-tailed

The control variable cultural distance is showing a positive and significant correlation with knowledge acquisitions with coefficient of 0.346 ( $P < .01$ ). Too is Prior ties, which showing a significant and negative correlation with knowledge acquisitions with coefficient of -0.328 ( $P < .1$ ).

There is also, in the correlation table (Table 5.5), a positive and significant relationship between knowledge acquisition and level of communication (0.275) ( $P < .05$ ), knowledge tacitness (0.279) ( $P < .05$ ), and the personal trust (0.237) ( $P < .1$ ). Furthermore, two control variables are showing significant correlation. Cultural distance has a positive significance coefficient (0.424) ( $P < 0.01$ ); while, prior ties is showing significant but negative correlation (-.261) ( $P < .05$ ). Thus, the model is showing strong support to hypotheses 1 and 3, and no support to hypotheses 2 and 4.

**Table 5.5: Correlation- Knowledge Acquisitions, Independent and Control Variables**

	<b>1</b>											
Knowledge acquisition	1	<b>2</b>										
Level of communication	.275**	1	<b>3</b>									
Knowledge tacitness	.279**	-.198	1	<b>4</b>								
Number of expatriate	-.006	-.165	.091	1	<b>5</b>							
Personal Trust	.237*	.681***	-.050	-.141	1	<b>6</b>						
Industry relatedness	.085	.218*	-.090	-.102	.255**	1	<b>7</b>					
Cultural distance	.424***	-.001	.194	.237**	.125	-.215	1	<b>8</b>				
Prior ties	-.261**	-.117	-.058	.255**	-.130	-.049	-.126	1	<b>9</b>			
Ownership type	.131	-.023	.327***	.026	-.043	-.145	.161	-.081	1	<b>10</b>		
JV age	-.054	-.083	-.034	-.018	-.054	.004	-.166	.112	.157	1	<b>11</b>	
Industry	-.013	.152	-.140	-.075	.012	-.048	.005	-.209	.012	.231*	1	<b>12</b>
Economic status	.045	.094	.108	.180	-.173	-.083	.052	-.092	.192	.053	.320***	1

\*\*\*p<0.01; \*\*p<0.05; \*p<0.1 (two tailed). Spearman's

#### 5.4.2. Discussion

The results show that the less tacit the knowledge is the more of the knowledge acquired. The literature shows agreement that the more tacit knowledge is, the more difficult is to transfer it (see Dhanaraj, et al., 2004; Kogut and Zander, 1993; Simonin, 1999). Thus, the results of the study are consistent with the literature that has described “tacit” knowledge as difficult knowledge (Sen, 2009). Less tacit knowledge can be transferred more easily; it is less difficult to explain and easier to understand (Glaister, 1996; Tsang, 1998; Bhagat, et al., 2002).

Communication is important in international business in general and more so in the Saudi context. Hence, it was not surprising to see the significance of the level of communication on knowledge acquisition. Saudis after all are high context society. Communication has greater importance in high context cultures comparing to low context culture, like the US, where the context of a meeting is perceived less important (Hennart and Zeng, 2002). Level of communication, besides its role on knowledge acquisition, has an important role on building trust, resolving conflicts, and overcoming cultural distance barriers.

The results show that the better is the level of communication, the more the acquired knowledge. This is consistent with the finding from the literature that found a positive correlation between communication and knowledge acquisitions (Park, 2011). Communication plays very important part in a society like the Saudi society. It is a personalized society and knowledge is transferred best when it is communicated directly (Rice, 2003; Al-Hazmi, 2010).

Learning is based on sharing, and sharing cannot take place in a relationship not governed by trust. Trust plays a vital role in facilitating learning, sharing, and access to resources (Dhanaraj, et al., 2004). Thus, trust is vital for the success of alliances to achieve desired learning; more so if the knowledge desired is tacit (Kedia and Bhagat, 1988; Dhanaraj et al., 2004; Larsson et al., 1998; Simonin, 1999; Inkpen and Beamish, 1997).

Saudis place more importance on trust. Saudis, as a collectivist and personalized society, place higher importance on loyalty, friendship, and communal relationships (Ali et al., 1997; At-Twajri and Al-Muhaiza, 1996; Al-Rasheedi, 2012; Ali, 2009). Thus, in a place where the word has the same value as a written commitment, trust is of

paramount importance for business (Mababaya, 2002; Rice, 2003). The existence of trust is fundamental for successful learning relationships (Al-Khatib, et al., 2004; Al-Rasheedi, 2012; Von Krogh, et al., 2000).

Lane, et al. (2001) have emphasised the importance of trust as a critical tool to enhance absorptive capacity. It influences both the extent of knowledge exchanged in ISAs (Buckley and Casson, 1988; Inkpen, 1997; Inkpen and Currall, 1997; Johnson, et al., 1996; Lyles and Baird, 1994), and the efficiency with which it is exchanged (Kogut, 1988; Parkhe, 1993). The evidence from the literature was all directed towards the notion that the greater the trust, the greater the resource sharing (Mayer, Davis, and Schoorman, 1995; Chiles and McMackin, 1996). However, the results from this study showed no direct evidence between the level of personal trust and knowledge acquisition. Norman (2002) and Nielsen and Nielsen (2009), found a negative relationship between trust and protectiveness. Becerra, et al. (2008) have argued that trust is critical for learning; more so when the knowledge is tacit, due to the necessity of personal interaction.

The insignificance of personal trust is rather surprising. However, there might be a theoretical explanation to understand the nature of knowledge transfer in ISA. Buckley et al. (2009) have differentiated between complementary knowledge accession and supplementary knowledge accession, and between complementary knowledge acquisition and supplementary knowledge acquisition. First, let us explain the difference between complementary knowledge and supplementary knowledge. The first reflects the similarity of knowledge with aim to achieve higher efficiency and productivity. While the later takes place when ISA partners possess different core competencies from each other (Buckley et al., 2009). Knowledge accession, according to Buckley et al., (2009) entails knowledge amalgamation and it does not require high cost or trust comparing to the case of organizational learning that includes knowledge acquisition. Since Saudis have always preferred short cuts and to buy knowledge (a “turn-key” policy) in major projects (Haidar, 2000). This may be an indication that Saudi firms are seeking knowledge accessions, not acquisitions; which may justify the insignificance of trust. Hence, future studies should look into and trust affects the transfer of both kind of knowledge in ISA. Other explanation is that trust simply has no influence over knowledge acquisition, and cannot compensate the lack of absorptive capacity for example. In this study, we have looked only into the role of personal trust;

hence, we cannot eliminate the role of other kinds of trust. Distrust or inter-firm trust might have more influential role on knowledge acquisitions than personal trust. The results should encourage more research on the role of trust on knowledge transfer, if any. Trust role in knowledge might be not direct, and it might be playing a mediating role.

Percentage of expatriate did not show any significant effect on knowledge acquisition. One of the reasons to explain the failure can come from the employee motivation literature. Employees are not only motivated extrinsically, but intrinsically as well. Osterloh and Fery (2000) argued that intrinsic motivations are crucial for knowledge transfer, which is echoed by Yin and Bao (2006). They argued that successful knowledge acquisitions requires commitment and motivation, hence expatriates need to be motivated intrinsically. Commitment from managers and organization to learning would encourage employee to acquire knowledge (Evangelista, and Hau, 2009).

Some articles discussed some issues facing expatriates in Saudi Arabia. Bhuian, et al., (1996) have discussed the reasons behind the high turnaround and under-performance of high percentage of expatriate. One of the reasons is that in Saudi Arabia expatriate are employed on contractual bases, short or long term. Hence, their jobs tenure are not guaranteed. Although, most of them got their contracts renewed, they still have to live with this uncertainty. Bhuian, et al., (1996) described organizational commitment as “a strong desire to remain a member of the particular organization, given opportunities to change jobs”. In their study, they found that average expatriate employee in Saudi Arabia is not showing signs of commitment and more inclined to being uncommitted.

The reason for the weak commitment is the lack job satisfaction. Although, they were initially allured by extrinsic rewards; the lack of intrinsic rewards can cause lack of motivation and commitment.

Other possible explanation comes from Child and Rodrigues (1996) who pointed out that social identity were one of the barriers towards successful knowledge transfer (learning) in ISAs. According to Child and Rodrigues social identity “derives from people’s awareness that they belong to one group (the “in-group”) to the exclusion of other groups (out-groups)” (1996: P. 46). They argue that the different groups ISAs bring together create complexities. It is responsible for the quality of learning that take place in ISAs. The compatibility of identities is a condition for a successful learning.

Saudi firms dominated by large expatriate work force, 34% of the sample have reported to have expatriate in more than 51% of their medium and high-level position only. Hence, this may affect the firms' ability to establish its own identity.

Therefore, lack of intrinsic motivation, uncertainty, sense of belongings, and strong in-group culture all might be possible explanations of why expatriates, despite their technical skills and competence, are not significant factors in knowledge acquisition.

The findings in the literature relating to the effect of culture on ISAs are inconclusive or contradictory (Dong and Glaister, 2009; Hennart and Zeng, 2002). The findings of this study support the counter argument in the literature that claim cultural distance has a positive effect on learning.

Pak, et al., (2009) have found that national cultural differences will negatively affect knowledge acquisitions. Parkhe (1991, 1993) has argued that cultural distance has a negative influence on a firm's ability to benefit from knowledge spillover. Furthermore, Lane and Beamish (1990), Lyles and Salk (1996), and Hennart and Zeng (2002) have all affirmed that differences disrupt learning and collaboration. Sirmon and Lane, (2004) and Pothukuchi, et al., (2002) have highlighted the impeding effect of culture differences in term of building relationships and improving communications. Moreover, Bjorkman, et al. (2007) found that differences weaken absorptive capacity. Dussauge, et al. (2000), Lane et al. (2004) and Sirmon et al. (2004) have all affirmed that similarities have a very positive effect. Subsequently, all these researchers have agreed that cultural distance has an impeding effect on learning. Stahl and Voigt (2008) have argued that cultural differences affect firms in two "opposing" ways, depending on the degree of cultural difference and relatedness.

However, there is a counter argument. The idea that cultural distance can lead to learning is not a new notion; according to many researchers, differences in values and beliefs foster learning and innovation (Fiol, 1994; Huber, 1991; Vermeulen and Barkema, 2001). Morosini, et al. (1998) argued that due to their differences, firms are more likely to hold capabilities and competencies which are different from their partner firm; thus, there is a lot for each firm to learn. Vaara, et al. (2012) found that differences in national and organizational culture are positively associated with knowledge transfer in international acquisitions. Reus and Lamont (2009) argued that cultural distance has dual effects – both positive and negative. The positive effect of culture enhances

understandability and communication, which indirectly improves learning and performance. Nevertheless, all this research took place in the context of mergers and acquisitions rather than ISAs; although they have similarities, the findings of these studies cannot be generalized to ISAs context.

Chakrabarti, et al., (2009) have argued that cultural differences can actually become a source of ‘value creation and learning’; they can, according to theoretical studies, spur learning and innovation. However, Pothukuchi, et al. (2002), whilst agreeing that differences have an impeding effect, have questioned the assertion that cultural differences alone disrupt resource sharing. There is still limitation to our understanding of how culture affects knowledge transfer (Bjorkman, et al., 2007).

## **5.5. Conclusion**

This study has examined the effect of several factors on knowledge acquisition. It has first looked into the role of knowledge tacitness, number of expatriate, level of communication, and personal trust on knowledge acquisitions. The results showed good support to hypothesis 1 and 3; it shows that factors like knowledge tacitness, communication, cultural distance and prior ties has a significant effect of the level of the knowledge acquired from a partner.

The findings of this research could have an implication on the managerial view of business nature in Saudi Arabia. In addition, the existence of expatriate workforce had no effect on learning. Lack of skilled worker might be an institutional problem not a firm one. However, firms should either focus on training local workforce and build strong organizational culture; or try to address the issues of intrinsic motivation of expatriate.

Other interesting finding is that personal trust, although very important factor to start business in Saudi, not significant when it comes to knowledge acquisition. Saudi society is highly personalized one and place higher importance on trust. Trust is instrumental in improving relation between partners, and Fadol and Sandhu (2013) in their studies of ISA in UAE found that trust helped partners to exchange knowledge and information more smoothly.

However, this study showed that personal trust has no significant effect on knowledge acquisition. The insignificant of a linear relation between trust and knowledge

acquisition does not rule out the possibility of moderating or mediating effect. Future studies should further investigate the moderating role of trust, especially in relation with communication. Furthermore, future studies could look into the relation between knowledge acquisition and another kind of trust, especially inter-firm trust.

Hayward (2002) defined organizational learning as a process in which firms engage in action, draw some conclusions, and use these insights to guide future experiences. It shows that organizational learning is a process that needs to be implemented for successful learning. The literature has discussed the issues of organizational learning; we have highlighted the main arguments in Section 2.4.

Complementary alliances do not mean automatic learning and enhanced new product performance. There are mediating and moderating factors that can affect ISA learning, such as knowledge absorption effectiveness, organizational structure and culture (Yao, et al, 2013).

A learning organizational culture has been suggested as a necessary requirement for successful learning. Garvin (1993: p. 80 in Yao, et al, 2013) stated that “a learning organization is an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights”.

Vasudeva (2013) argued that firm’s institutional contexts are decisive on knowledge acquisition outcomes in an ISA. Countries vary regarding their knowledge acquisition approach and intentions.

In a recent paper, Pollitte, et al (2014) differentiated between industries for knowledge transfer in ISAs. They claimed that in manufacturing industries, the aim is to acquire knowledge, products, and innovation processes, in exchange for market entry. In the service industry, the goal is knowledge accession, which enjoys higher levels of success, because knowledge, in this case, is location specific and has little value outside the ISA.

Finally, Saudi culture, which is perceived to be too different and too difficult, has actually proved to be hospitable, adaptable, and foster learning. The fact it did not prove to be a hindering factor, on the contrary it proved to be enriching factor.

# Chapter Six: Trust in ISAs

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## 6.1. Introduction

There is much research on alliances and JVs, the three most important concepts that have received most of the attention are trust, control, and performance (Inkpen and Currall, 2004).

Gulati (1998) acknowledges that it is very complicated to recognize the factors affecting the performance of alliances. He argues that performance is one of the most “exciting” and unexplored areas in the SA and JV studies. The performance of alliances has received less attention due to different obstacles facing researchers when measuring the performance of alliances; for example, “logistical challenges” in collecting the necessary detail data for this type of research (Gulati, 1998). Moreover, the ambiguity of performance measurement makes it difficult for researchers to study alliances; it also make it more difficult for firms to learn from alliances (Zollo, et al., 2002).

Recent studies argue that SAs success is determined not by the conventional belief of formal set of structure (e.g. ownership structure), but more to the informal process that sum the quality of the relationship and goodwill between partner (Robson, et al., 2006). MacDuffie (2011) explains that the surge of studies in trust was driven by a combination of geo-political events, and organizational development that have put more emphasis on relationship collaboration. He acknowledged the rarity of empirical research on trust across different contexts. The role of trust in ISA management has been recognized and examined in previous literature (e.g. Gulati, 1995; Lane and Beamish, 1990; Currall and Inkpen, 2002; Parkhe, 1998; Inkpen and Currall, 2004). For example, inter-firm trust has been examined across many relationships: supplier relationships (e.g. Lane and Bachmann, 1996); joint ventures (e.g. Inkpen and Currall, 1997; Das and Teng, 1998); and strategic alliances (Ring and Van de Ven, 1992; Zaheer and Venkatraman, 1995). The role of trust in cooperative relationships was highlighted in a special issue of the *Academy Management Journal* (1995), which stated that “the study of trust and its impact on cooperative relationships at all levels may be a particularly fruitful area of future research” (Smith, Carroll and Ashford, 1995: p. 15).

However, despite the overwhelming support for this notion, there is still limited evidence to validate the “normative bias” that inter-partner trust in SA enhances

performance (Robson, et al., 2008). A review of the literature provides us with mixed results (Robson, et al., 2008). Some (e.g. Cullen, et al., 2000; Lane, et al., 2001) have found that inter-firm trust does enhance or create economic benefits for the alliances. However, others found no significant direct links between performance and trust (Fryxell, et al., 2002; Inkpen and Currall, 1997; Sarkar, et al., 2001). Other findings have revealed that alliances' performance is detrimentally affected by risky and costly inter-partner trusts (Lyles, et al., 1999).

Trust is not only relevant to firms in developing economies, it is as important for firms from developed countries when working in developing markets (De Mattos, et al., 2003).

This chapter will examine the effect of trust on the performance of ISAs within the Saudi context. It will start by reviewing the literature on ISA performance. Then, it will reflect on trust literature, and distinguish between the different kinds of trust in ISAs. It will then discuss the methodology employed in the chapter. Finally, the last section presents the results followed by a discussion, conclusion, and suggestions.

Existing literature is full of contradicting and mixed results on trust, and has failed to establish direct or clear links between trust and performance. There is therefore a lack of empirical evidence on trust. The study has responded to calls from researchers for an in-depth study on trust. By breaking the concept of trust into different dimensions (personal trust, distrust, and competence trust) and testing them, the study has made a valuable contribution to the existing literature. Conceptually, the study has distinguished between trust dimensions; trust in previous studies has been treated as a single construct. Dividing trust into different dimensions provides us with better understanding of how and when trust affects performance. The study using mediating and moderating factors shows how and where trust could influence ISA performance.

The study contributes to the literature by understanding the relation between trust and environmental uncertainty. It shows how sensitive alliance performance is to the environmental uncertainty.

By the end of this chapter, the findings will help us to answer, partially, the fourth research question of thesis "How far do cultural factors affect the performance of ISAs?" The seventh chapter will also attempt to answer the same question.

## 6.2. Literature Review and Hypothesis Development:

Arino (2003) has defined strategic alliance performance, as “the degree of accomplishment of partners’ goals, be these common or private, initial or emergent”. Yan and Beamish (2004) defined performance of SAs as the satisfaction of managers of the venture about the overall performance. Common goals are the goals shared by both partners in the SA; however, every partner has specific goals of their own, which are called “private” goals. Both the shared or private goals can change over time and be called “emergent” goals; these are different from the “initial” goals (Arino, 2003).

In the literature, there is no consensus on the appropriate measurement or definition of ISA performance (Zollo, et al., 2002; Geringer and Hebert, 1991). There is no universal approach to measuring the performance of SAs (Lunnan and Haugland, 2008), as there are many difficulties associated with the study of alliances’ performance. This is due to different factors, which will be discussed in more detail later in this chapter.

It is important, before measuring the performance of ISAs, to take into the account the motives for establishing ISAs. It might not be only to achieve the assumed motive, financial profitability; rather the firm might be motivated, for example, by enhancing organizational learning (Kogut, 1988; Hamel, 1991), or strategic positioning (Contractor and Lorange, 2008; Glaister and Buckley, 1996; Tatoglu and Glaister, 1997). Thus, it is important to adopt measures that will capture performance based on the performance expectation of the ISA.

Measurement of SA performance varies according to the set of objectives; each method is used in a particular context and depending on the goals of the alliance (Artisien and Buckley, 1985; Arino, 2003).

There are different methods used to evaluate the performance of SAs. Lunnan and Haugland (2008) have classified measurement approaches as financial, operational, and effectiveness. Geringer and Hebert (1991) have classified the approaches as subjective (such as financial indicators, profitability, growth, and cost position); and objective (such as the survival of the JV, its duration, and its stability). The literature is full of debate about the best method to measure the performance of ISAs.

Financial measures are common methods used when there is an “explicit” financial goal that includes profitability, growth, and cost position (Geringer and Hebert, 1991; Arino, 2003). Conversely, operational measures (which are based on stability measures, e.g.

longevity, survival, and contract stability) are used when focusing on key operation factors that are ultimately fundamental in yielding financial returns (Geringer and Hebert, 1991; Yan and Zeng, 1999; Arino, 2003). The most common, and probably the most popular, method is organizational effectiveness, which measures the firm's satisfaction with the SA's performance, and looks at the degree to which the SA has fulfilled the initial goals (Geringer and Hebert, 1991; Parkhe, 1993b; Arino, 2003).

Anderson and Narus (1990) have considered partner satisfaction as a reliable indicator of ISA performance. Although financial performance has been used in earlier ISA research, it does not convey satisfaction with the inter-partner relationship (Ring and Van de Ven, 1994). Other limitations to the use of objective measures are that they could fail to consider a SA reaching its long-term goals (Geringer and Hebert, 1991). They also fail to capture any difficulties, in contrast to subjective data (Osland and Cavusagil, 1996; Lu and Lee, 2005). Geringer and Hebert (1991) have pointed out in their study that objective and subjective measures correlate highly.

We have looked into ISA performance measurement issues in the literature review chapter (section 2.5). Please refer to the section for more lengthy debates regarding the different measurement approaches.

In this study, ISA performance is assessed by measuring overall partner satisfaction (Choi and Beamish, 2004; Yan and Gray, 1994; Lin and Wang, 2008; Glaister and Buckley, 1998; Geringer and Hebert, 1991). SAs need patience and it is rare to see a venture yielding profits in the first two years of its creation; some ventures need years to create positive returns on investments (Anderson, 1990). Thus, it is hard to evaluate the success of ISAs based purely on financial performance; this might not reflect the true performance and its success in achieving partner objectives. There is also the difficulty of obtaining financial data due to the sensitivity of the information and partners' inclination to protect it. It is more difficult in the Saudi context, as there are a limited number of firms listed in the Saudi stock index, which limit the information available in the public domain.

### **6.2.1. Trust in ISAs**

Trust has also been conceptualized as sentiment, or expectations of a partner's trustworthiness (Morgan and Hunt, 1994). Morgan and Hunt (1994) have defined trust

as the willingness to rely on the exchange partner. Trust occurs when a firm has confidence in a partner's reliability and integrity (Ramaseshan and Loo, 1998). Trust, according to Shah and Swaminathan (2008), consists of two dimensions: benevolence and competence. The first dimension focuses on the motives and the good intentions of the firm's partner, while the latter consists of the partner's ability to constantly show reliability and expertise (Shah and Swaminathan, 2008). The organizational trust literature suggests that trust takes place between organizations when one partner has confidence in the other partner's integrity and reliability (Gulati, et al., 2000; Li, 2005). According to Dyer and Chu (2011) organizational processes, whether within national or international relationship, are responsible for building positive expectations of predictability, reliability, and competence. McEvily, et al., (2003) have described trust within ISAs as acceptance by a firm's management of vulnerability based on positive expectations of partner firm intentions.

Many factors contribute to building trust in ISAs. Previous experience between the partners can increase their understanding of each other's cultures, capabilities, management practices, etc...(Zollo, et al., 2002). The accumulated knowledge and understanding of each other can help improve coordination and conflict resolution (Doz, 1996). Also, same-partner experience increases interpersonal trust (Zollo, et al., 2002); there will be less fear of opportunistic behaviour, as familiarity can breed trust (Gulati, 1995). The parent firm's past IJV experience has been postulated in some parts of the literature to have a positive impact on performance, although the results are conflicting (Blumenthal, 1988; Harrigan, 1988; Makino and Delios, 1996).

The links between trust and performance are now receiving more attention in the international business literature. There is general agreement in the literature that trust is an integral part of the success of ISAs (Beamish, 1993; Fryxell, et al., 2002; Das and Teng, 1998, 2001; Krishnan, et al., 2006; Robson, et al., 2008; Nielsen and Gudergan, 2012; Buckley, et al., 2009; Mohr and Puck, 2013). The link of trust as a source of satisfactory relationships can be traced back to the 1980s in Granovetter (1985). Sherman (1992: p. 78) claims that "the biggest stumbling block to the success of alliances is the lack of trust." This claim is echoed by Kale and Singh (2009: p. 51) who argued "...developing trust during the post formation phase of an alliance is critical to its success in many ways."

Zaheer, et al., (1998) have explained the positive influence of trust on performance through the reduction of transaction costs. Trust, as well, reduces conflicts through improved negotiation. Park and Ungson (2001) have linked organizational complexity and inter-firm rivalry to poor outcomes in alliances. Hence, trust helps firms to overcome the difficulties associated with organizational complexity, enhancing productivity by lowering transaction costs and increasing transaction value. This makes trust in particular a pivotal factor in higher-performance ISAs (McEvily and Zaheer, 2006). This, in a way, establishes a link between trust and performance (Robson, et al., 2008). Other way that explains the influence of trust is through the development of relational governance, which improves performance (McEvily and Zaheer, 2006). McEvily and Zaheer defined relational governance as “a mode of organizing exchange that involves the integration of activities—such as decision making, planning and problem solving” (2006: p. 284). Trust improves information flow and encourages partner to share valuable and confidential information (Dyer and Chu 2003; Lane et al., 2001; Sako, 1998). This in return create transaction value which reflects positively on alliance performance (McEvily and Zaheer, 2006; Robson, et al., 2008).

There is an undeniable link between ownership control and ISA performance (Lu and Hebert, 2005). Thus, we can notice that some of the research on ISA performance has shifted focus from ownership and legalism to trust (Lin and Wang, 2008; Madhok, 2006). However, some researchers argue that trust does not substitute control; in fact, they co-exist and interact with each other. It is important for the development of a healthy relationship based ultimately on non-calculative trust (MacDuffie, 2011). This takes us to the issue of legalism. In the presence of weak legalism, trust is considered an effective tool to deal with any of the ISA issues (Lin and Wang, 2008). Still, the phenomenon of trust is not fully understood (Carson, Madhok and Wu, 2006), and the extent of the relationship between trust and contracts is still unclear (Dyer and Singh, 1998; Poppo and Zenger, 2002). Contracts can increase the expectation of reliability and competence; however, they will be attributed to the existence of contracts not as evidence of trustworthiness (Murnighan, et al., 2004).

It is important to note the different kinds of trust in existence within ISAs (Currall and Inkpen, 2002). There is much focus within the literature on interpersonal trust (Ng, et al., 2007). Zaheer, et al. (1998) have pointed out that interpersonal trust and inter-

organizational trust are related, but different constructs and play different roles. Their findings confirm that inter-organizational trust has more significance than interpersonal trust in exchange relationship. Although, they argued that individuals in an organization are the ones who trust each other's, not the organizations. Thus, an organization's trust within a particular company or group of individuals will be mainly influenced by the individuals' inclination to trust (Huff and Kelley, 2003). The collective trust held by a firm's members towards partner firms is called inter-organizational or external trust (Zaheer, et al. 1998). In the Saudi context, the majority of the businesses are family-owned and run. Hence, decision makers are less likely to leave their companies, which make personal trust more relevant in this context.

However, research on trust economic benefits remains largely "anecdotal", and it does not establish direct link to performance according to Nielsen and Gudergan (2012), and Krishnan, et al., (2006). Silva, et al., (2012) have pointed out that there are limited empirical evidence to confirm the positive relationship between trust and performance. Child (2001) argues that trust in SAs is still an under-researched, under-theorized, and poorly understood phenomenon. Additionally, many researchers have called for more systematic empirical research on trust beyond the strongly held presumed positive relationship (e.g. Aulakh, et al., 1996; Hosmer, 1995; Inkpen and Currall, 1998; Mo'llering, 2003; Sako, 1998; Koza and Lewin, 1998; De Mattos, et al., 2003). The current literature is faced with conflicting and ambiguous findings; as some found positive relationship (e.g. Boersma Buckley, and Ghauri, 2003; Mo'llering, 2003), no significant direct links (e.g. Aulakh et al., 1996; Inkpen and Currall, 1997), or not conclusive findings (Lyles, et al., 1999). Hence, prompting for further research on trust performance relationships.

Furthermore, there is still a lack of empirical research on the role of trust in developing economies (Lane, et al., 2001; Ng, et al., 2007). The Middle East and Saudi Arabia in particular are lacking empirical studies analysing ISA management issues. In relation to trust, the writer is unaware of any empirical research on the role of trust in SAs. The existing information is constrained to a handful of business guidance books stressing the importance of trust in the Saudi culture in particular and within Arab culture in general (e.g. Ali, 2009).

Saudi Arabia is an ideal context for research on trust, and for testing existing theories which derive from a context distinctly different from the Saudi one. It is a country that

regards trust as the core of business and economic relations, although this is not empirically supported. Though business is built on trust, trust is difficult to build outside the close knit of tight social groups. This is a feature Saudis share with Far Eastern Asian countries, for example, China (Child and Mollering, 2003; Buckley, et al., 2006).

There are many reasons for the importance of trust in countries like China and Saudi Arabia. Child and Tse (2001) have argued that in China the cause of trust's significance to economic exchange is due to the underdevelopment of its institutions. This, in return, has made it clear why the Chinese will not extend trust easily beyond their inner circles, and foreigners in return do not find it easy to trust the Chinese (Child and Mollering, 2003).

There are some contradictions in existing studies regarding trust. Das and Teng (1998) have argued that trust is a belief that a partner firm's motivation is to act in accordance with the trustor's best interests. However, others (such as Gulati, 1995) claim that trust curbs the partner acting opportunistically. Thus, it is linked to opportunistic behaviour and not, as Das and Teng have argued, linked to acting according to the partner's best interests.

Trust is not one concept, or construct; it is a collective of constructs, with each construct having its own weight on ISA relationships. Therefore, in this study, we divided trust into three dimensions. The first is personal trust, which is the belief that a partner firm will act according to the best interests of both parties. This involves an element of loyalty. The second is distrust, which is the fear of a partner firm acting opportunistically. The third dimension is competence trust, which is the belief in a partner firm's ability and reliability in performing its functions within the alliance with no feeling of loyalty or fear of opportunistic behaviour.

The literature has looked into the cycles of trust and one of them is the breach of trust and the cost to repair it (Robinson et al., 2004). MacDuffie (2011) highlighted the differences, inconclusively, between the words "mistrust" and "distrust". He argued that the first refers to negative expectations based on past experiences; while the latter refers to "the prudent withholding of trust in situations where it is not yet proven".

As we argued previously, trust is the foundation of cooperation. However, it involves an element of competence trust (Buckley, Clegg and Tan, 2006). Trust is an indication of the confidence one partner has in another's experience and reliability (Inkpen and

Currall, 1998). Trust takes place in alliances when a partner has confidence in its partner firm's integrity and reliability (Ramaseshan and Loo, 1998).

Butler (1991) identified an element of trust regarding consistency and promise fulfilment, which is similar to the concept of competence trust. Later in this chapter, in the section regarding competence trust, we will further elaborate on how various trust definitions have used an element of competence trust.

The three dimensions will be discussed in more detail later in this section. The three dimensions are similar to those Cummings and Bromiley (1996) have proposed: keeping commitments, negotiating honestly, and avoiding taking excessive advantage of partner organizations.

#### **6.2.1.1. Personal trust**

Trusting relationships in ISAs are a mix of belief and behaviour (Robson, et al., 2008). Trust will be limited, even if a manager believes that their partner is trustworthy, if they are not willing to rely on that partner. It is a dependency if a firm relies on their partner without holding the belief that they are trustworthy (Nooteboom, et al., 1997).

Trust helps firms to achieve higher performance by triggering various structural and mobilizing mechanisms (Robson, et al., 2008). McEvily, et al. (2003) theorizes that trust gained through enhancing tie density, thickness and stability strengthens the structure of a network.

Trust based on relational behaviour has a positive effect on performance as it reduces transaction costs (Robson, et al., 2008). It reduces transaction costs by less time being spent by partners on non-productive activity such as monitoring each other's behaviour and performance and enforcing agreements (Dyer and Chu, 2003).

It has been argued that interpersonal trust and mutual trust plays an integral part in curbing opportunistic behaviour (Macneil, 1980), thus minimising the role of and the need for contractual and bureaucratic arrangements (Ng, et al., 2007) and reducing negotiations and conflicts costs (Zaheer, et al., 1998; Gulati, 1995). Luo, et al. (2001) consider trust as an informal control mechanism that complements formal control settings. Madhok (2006), based on the trust-centred approach, argues that the classic ownership-control perspective is stagnant, and does not reveal the complexity of managing ISAs. Trust is viewed more now as a source of enforceability, along with ownership and legal enforcement (Svejenova, 2006).

Parkhe (1993) has emphasised the role trust plays in ISA performance and stability. Effective commitment and strong goodwill and personal trust strengthen ISA relationships (Styles and Hersch, 2005). Baird, et al. (1990) have ranked trust at the top of success factors for ISAs, while Ng, et al (2007) have shown that trust has a positive effect on ISAs.

The fact that building trust in organizations is a social decision makes their national culture an influential factor in shaping their trust relationships (Doney, et al., 1998). The link between societal culture and an organization's ability to trust has not been discussed sufficiently in the literature (Huff and Kelley, 2003). It has been touched upon by acknowledgement of the existence of high trust and low trust national business societies (Fukuyama, 1995). Although trust has been proved to have an effect on performance, the level of impact, depending on social and institutional factors, does vary across countries (Currall and Inkpen, 2002; Zaheer and Zaheer, 2006). The national context might play a role in inflating the role of trust across borders (Zaheer and Zaheer, 2006). The effect of trust on performance is not always direct, as partners from different countries might bring either symmetric or asymmetric conceptions of trust to their relationships (Zaheer and Zaheer, 2006). Trust plays other important roles, as it moderates the negative effects of cultural misunderstanding (Ng, et al., 2007).

Personalisation of economic relations and personal relationships is one of the traditional values of Eastern society, as observed by Child (1994) and Child and Mollering (2003). It is common during business practice in China, for example (Dong and Glaister, 2007). Saudi society is no different. Dyer and Chu (2003) argue that theoretically, trust between firms does not exist. The rationale is that trust is a micro-level social phenomenon that lies within individuals. Trust can take place when one individual trusts another individual or group of individuals in other organizations (Dyer and Chu, 2003).

Saudi Arabian culture is heavily influenced by Islamic teaching and belief (Robertson, et al., 2013). They draw their values, local customs, and practices from Islam (Ali, 1990; Metcalfe, 2008). This also affects Saudi management culture, along with strong tribal and family orientations (Ali, 1995; Assad, 2002; Rice, 2004).

Cultural traits such as individualism and collectivism strongly influence managerial practices (Song, Di Benedetto and Song, 2000), which means that Saudis prefer to work together, and prefer personal interaction. Saudi Arabia exhibits a higher degree of

personalization and intimate relationships compared to Western societies (Ali, 2009). The continuous interaction between traditional culture and modern economic and business realities makes Saudi Arabia a unique culture (Abu-Musa, 2006).

Some of the Eastern cultures do not see legalism as an assurance for satisfactory ISA performance (Lin and Wang, 2008). The Saudi Arabian context of personal relationships is similar to (and as influential as) the Chinese concepts of *quanxi* (Robertson, et al., 2013). Saudis do not view contracts in the same way as Western executives do, as a means for specifying duties and obligations. For Saudis, the power of mutual trust outweighs any written agreement (Al-Ali, 1987). Personal and non-verbal behaviour is more important than legal documents (Calantone and Zhao, 2000). Weaknesses in the legal systems of some countries reinforce this weak reliance on legal mechanisms (Lin and Wang, 2008).

Collective societies, due to their nature, trust their in-group members, and place more value on trust. Individuals who want to be members of their in-group must first gain the trust of the group (Huff and Kelly, 2003). Saudi Arabia is known to be a collectivist society (Ali, et al., 1997; At-Twajiri and Al-Muhaiza, 1996). Saudis have higher levels of loyalty and commitment to their groups, whether families or working groups (Al-Rasheedi, 2012). It is a personalized society where friendship, kinship, and communal relationships have a significant impact on individual behaviour (Ali, 2009).

Saudi culture places a strong emphasis on the group, not the person. Furthermore, loyalty, obedience to seniors, face-to-face interaction, and personal connections are all important attributes to have (Kassem and Habib, 1989; Al-Rasheedi, 2012). Children in Gulf countries are taught the value of loyalty and obedience from a young age (Al-Khatib, et al., 2004). Thus, the importance of loyalty and trust is paramount and cannot be separated from business. In Saudi culture, a person's word has the same value as a written commitment (Mababaya, 2002; Rice, 2003). Businessmen in Saudi Arabia take the time to get to know someone and build a relationship before doing business with them; they must trust them first (Mababaya, 2002; Rice, 2003). There is a strong emphasis on building trust before any transaction takes place within the culture of all Gulf countries (Al-Khatib, et al, 2004). Thus, it is not uncommon for initial business meetings to consist only of socialisation, with no actual business taking place (Al-Rasheedi, 2012). When trust is gained, it eases business dealings and improves

communications, and minimizes the negative effects of institutional factors; but when it is lost, it can cause serious obstacles (Ali, 2009). Arab Firms are viewed as a “family unit”, and employees tend to focus on strengthen their standing among their working group (Rice, 2003). Therefore, we propose the following hypothesis:

**H1.** *From the perspective of Saudi firms, personal trust is positively related to ISA performance.*

#### **6.2.1.2. Distrust**

Opportunistic behaviour has been cited by scholars as one of the reasons behind the failure of many alliances (Das and Teng, 1998; Das and Rahman, 2010). Luo (2006) has defined opportunism in JVs as “an act or behavior performed by a party to seek its own unilateral gains at the substantial expense of another party and/or the joint venture entity by breaching the contract or agreement, exercising private control, withholding or distorting information, withdrawing commitment, shirking obligation, or grafting joint earnings”.

The transaction cost theory has explained opportunism as a party’s “calculated efforts (by an exchange agent) to mislead, distort, disguise, obfuscate, or otherwise confuse” (Williamson, 1985: p. 47). Firms cannot predict their partner’s behaviour in alliances. A detailed contract is one way to make this behaviour predictable. The other way to ensure predictability is through trust. One of the main determinants of a firm’s choice of governance structure in alliances is the presence of inter-firm trust which drives firms to behave loyally (Gulati, 1995).

Trust in ISAs is a key factor in reducing fears of one partner acting opportunistically (Lin and Wang, 2008). Trust curbs any fear of opportunistic behaviour which alters the associated transaction cost (Gulati, 1995). The fear of opportunistic behaviour has always jeopardized partners’ relationships; prior relationships increase trust and help to minimize these risks (Parkhe, 1993). Das and Rahman (2010) argue that opportunism in SAs have not received enough scrutiny. Ghoshal and Moran (1996) have made a distinction between opportunistic attitude and opportunistic behaviour. They argued that that the behaviour is a manifestation of attitude. In this study, we define distrust as the fear of opportunistic behaviour either as a result of opportunistic attitude, past experience, reputation, or stereotypes.

The Western tradition is characterized by a developed legal system and low-context culture of “information codification and application of rules” (Bosit and Child, 1999). Therefore, the concept of legalism is backed, and it serves Western organizations as a form of formalization (Abzug and Mezas, 1993) and provides solutions to potential problems and conflicts (Malhotra and Murnighan, 2002).

Emerging economies usually suffer from weak intellectual or industrial property rights (Delios and Henisz, 2000; Hoskisson, et al., 2000; Luo, 2006). Thus, people rather than laws shape economic activities (Luo, 2006). It is not an issue of the existence of legislation; rather it is a problem of enforceability due to different institutional factors (Luo, 2006).

The Saudi market is characterized by some weaknesses, such as weak and ineffective legal and regularity conditions (Merdah and Sadi, 2011). The legal framework in Saudi Arabia is weak and developing, and this is coupled with continuous conflict between traditionalist and modernist movements (Al-jarbou, 2007). There are essentially two legal systems in Saudi Arabia: “one is based on Shari'ah Islami'iah (Islamic teachings) and the other is based on secularized (non-religious) laws, known as nizam” (Cassell and Blake, 2012). The Saudi legal system is still developing, and there are some gaps in government regulations; for example, there is a lack of patent and copyright protection. Thus, the risks operating in Saudi Arabia increase the need for legalism for foreign firms and the implementation of cautionary actions (Yavaş, et al., 1994). They also increase the need for trust-based relationships.

Therefore, it can be argued that distrust and the fear of opportunistic behaviour hinders active sharing of information and the development of personal trust (Das and Teng, 1998). These factors also create an atmosphere of negativity and suspicion between the partners and jeopardize the inter-firm relationships (Das and Teng, 2001; Das, and Rahman, 2010). This means that in the absence of legalism distrust will have a higher impact on ISA performance. Therefore, we propose the following hypothesis:

**H2.** *From the perspective of Saudi firms, distrust is negatively related to ISA performance.*

Many researchers now argue that the relationship between trust and performance is not as clear-cut as it appears, and is more complex and contingent on other factors

(Krishnan, et al. 2006). The state of the industry and industry-related factors have been reported in the literature as contingent factors for SA performance. The literature suggests that parent firms' industry-relatedness has an impact on ISA performance (Sim and Ali, 1998).

The fear of opportunistic behaviour increases in alliances with the aim of sharing or developing new technologies (Badaracco, 1990; Hennart, 1988; Gulati, 1995).

Factors such as industry growth, structure technology, and competitive nature have been reported as influential factors (Luo, 1995; Kogut, 1988; Harrigan, 1988; Franko, 1987; Hennart, 1991). The factor discussed in this study is industry unpredictability and its impact on performance. Firms engaged in challenging industries where the core technologies keep changing, where demands are unpredictable, and which are R&D-dependent require different management styles. Firms from developing countries may find it more comfortable to deal with mature industries than unpredictable industries.

Early studies clearly indicated that high-trust social relations facilitate knowledge transfer, especially tacit knowledge (Hansen, 1990; Becerra, et al., 2008). The social learning perspective argues that knowledge is transferred and developed best through intensive social interaction (Brown and Duguid, 1991; Becerra et al., 2008). Explicit knowledge requires less cognitive relation, as it can be transferred through written documents.

Alliances differ in their degree of interdependencies, which increase based on shared resources and objectives (Gulati and Singh, 1998; Kumar and Seth, 1998; Krishnan, et al., 2006). For example, an alliance set up to develop new technology is considered a highly interdependent alliance (Nickerson and Zenger, 2004; Park and Russo, 1996); while alliances formed to share production facilities create weak interdependence (Gulati and Singh, 1998). Highly interdependent alliances share overlapping responsibilities and valuable knowledge-intensive materials, and require continuous mutual adjustment (Kumar and Seth, 1998; Nooteboom, 2002; Park and Russo, 1996; Park and Ungson, 2001; Gulati and Singh, 1998). The sensitivity of valuable knowledge-intensive materials raises concerns over each partner's intentions; this increases tensions between alliances (Oxley, 1999) Krishnan, et al. (2006) have argued that the effect of trust on alliances that are not highly interdependent will be weaker compared to alliances which are highly interdependent.

Trust has been argued in the literature as an important factor for alliance formation, and it interacts positively with environmental uncertainty and knowledge intensity (Mukherjee, et al, 2013). Since R&D alliances involves mutual transfers of key technologies and information, trust can act as safeguarding mechanism to mitigate any risks (Mukherjee, et al, 2013). Trust between partners can mitigate the negatives feelings associated with R&D alliance formation due its environmental uncertainty. The existence of trust can reduce the time for processing demands, and motivate the firm to form alliances and rely “blindly” on their partner (Krishnan et al., 2006; Mukherjee, et al, 2013).

A relationship not governed by trust makes partners reluctant to share their knowledge or motives. This may result in partners holding information back or taking unfair advantage if they are given the opportunity (Johnson, et al, 1996). Trust facilitates the sharing of intellectual capital and information exchange by creating or enhancing the necessary factors for the exchange to take place (Li, 2005).

Distrust is destructive to the transfer of management techniques and technologies (Clegg, 1990; Perlmutter and Hennan, 1986). The fear of partner opportunism can hinder the collaborative knowledge process (Simonin, 2004; Nielsen and Nielsen, 2009). In ISAs, the level of knowledge exchange and information sharing is determined by the level of trust (Inkpen and Beamish, 1997; Nielsen and Nielsen, 2009).

ISAs allow Saudi firms to pool resources with partners, combining the technical and commercial capabilities and competencies of the Western partner with the local knowledge and commercial competitiveness of the local partner (Williams, 2009; Mababaya, 2002; Al-Rasheedi, 2012). This allows the Saudis to bring in competencies that will add to their competitive advantage (Williams, 2009). The transfer of technology in Saudi Arabia has always faced many barriers, most notably comprised of organizational, technical, and human problems (Atiyyah, 1989).

Hence, we predict that the combination of distrust and uncertainty will have a higher negative effect on ISA performance than distrust in established industries.

**H3.** *From the perspective of Saudi firms, the negative relation between distrust and ISA performance will be higher when industry unpredictability is high.*

### 6.2.1.3. Competence trust

As we have explained earlier, trust is the foundation of cooperation, and it involves an element of competence trust (Buckley, Clegg and Tan, 2006). Trust is an indication of the confidence one partner has in other's experience, integrity and reliability (Inkpen and Currall, 1998; Ramaseshan and Loo, 1998). It involves an elements of consistency and promise fulfilment (Butler, 1991).

Inter-partner trust has been explained as the firm's management acceptance of vulnerability based on positive expectations about their partner firms' behavioural intentions (McEvily, et al., 2003). This view, according to Robson, et al. (2008), sheds light on two central aspects of trust in the inter-firm exchange literature. Conceptually, trust is described as sentiment; expectations about the partner's trustworthiness based on its competence, reliability or both (Morgan and Hunt, 1994). This is a view also shared within the ISA literature (e.g., Lane, et al., 2001).

Currall and Inkpen have identified "reliance" and "risk" as key components of most definitions of ISA trust across the literature. Reliance is when one partner's fate, based on positive trustworthiness of the other partner, is determined by another (Currall and Judge, 1995). Risk, on the other hand, is when the other partner proves untrustworthy (Currall and Inkpen, 2002). Thus, trust is a combination of social judgements that comes from assessing the other party's motives, trustworthiness, etc.; and weighing the risks in case the other party turns out to be untrustworthy (Currall and Inkpen, 2002). Thus, Currall and Inkpen (2002) have proposed this definition of ISA trust as "the decision to rely on another IJV party (i.e., person, group, or firm) under a condition of risk".

Becerra, et al., (2008) have identified three trust dimensions: integrity, benevolence, and ability. Integrity has been identified as "the overall moral character and ethical behaviour of the partner or trustee" (Becerra, et al., 2008). Benevolence, on the other hand, has been explained as "the positive vs. egocentric orientation of the trustee in dealing specifically with the trustor" (Becerra et al., 2008); or as Shah and Swaminathan (2008) have defined it: "the extent that partners in an alliance will act in a manner that shows their reliance on the partner's goodwill and avoidance of opportunism". Finally, ability (or competence-based trust) was explained as "general competence and expertise of the trustee" (Becerra, et al., 2008); or in another definition "the extent that partners consistently exhibit traits such as credibility and expertise. As such, competence-based

trust reflects the degree to which partners are willing to rely on each other's expertise, capabilities, and judgments" (Shah and Swaminathan, 2008).

Zaheer, et al., (1998) have suggested that inter-firm trust is based on three components: reliability, predictability, and fairness. Dyer and Chu (2003) define inter-organizational trust as a construct based on three components: reliability, fairness, and goodwill. It is the expectation that they will demonstrate reliability in carrying out their promises, fairness when dealing with each other, and goodwill in unforeseen contingencies. The importance of partner competence and reliability for the state of a trusting relationship between the partners is thus clear. This makes the importance and the effect of competence trust on performance hard to ignore. The effects of competence trust on performance have not been discussed on the literature. Nielsen, and Gudergan (2012) discussed competence similarity; they argue that it reduces information asymmetry, hence it should improve the productivity of the combined alliance resources.

Thus, it is clear that competence trust has been identified as a construct from personal trust. However, in the literature it has been largely treated as part of "general" trust concept. Trust in a partner's ability to do the job is not less important to the success of the alliance than personal trust (or distrust). This leads to the hypothesis:

**H4.** *From the perspective of Saudi firms, competence trust is positively related to ISA performance.*

Fear of opportunistic behaviour and distrust affects a firm's ability to perform its job. The local firm's distrust creates a fear that stems the partner firm's ability to show or prove their abilities. Thus, it creates an atmosphere of suspicion that makes the development of competence trust very difficult. This leads to the hypothesis:

**H5.** *From the perspective of Saudi firms, the positive effect of competence trust on ISA performance is moderated by distrust.*

### **6.2.2. Communication**

Differences between partners can have a devastating effect on their partnership (Hennart and Zeng, 2002). Cultural differences between ISA partners, in the absence of understanding, can obstruct communication (Rao and Schmidt, 1998). Furthermore,

they hinder communication between partners and their ability to resolve conflict, and inflate the cost of knowledge transfers (Lane and Beamish, 1990; Clegg, 1990; Kaufman and O'Neill, 2007). Cultural differences breed miscommunication. The different language can affect the verbal communication of both “perceptual and encoding/decoding gaps (Root, 1994). Communication has greater importance in high-context cultures compared to low-context cultures. In the US, for example, a low-context culture, the context of meeting is perceived as less important (Hennart and Zeng, 2002). Effective communication is crucial for the management of ISAs. It allows partner firms to communicate their goals and capabilities, and know each other’s behaviour well before the start. It allows firms learn about each other, and avoid misunderstandings and suspicion. Failure to do this will cause lower commitment and poor performance (Doz, 1996; Inkpen and Birkinshaw, 1994; Shenkar and Zeira, 1992). It has been reported that cross-national ISAs, due to partners’ value differences, have been suffering communication, cooperation, commitment, and conflict resolution problems (Pothukuchi et al., 2002; Harrigan, 1988; Mohr and Spekman, 1994; Parkhe, 1991; Ring and Van de Ven, 1994).

Communication and language barriers can be considered the most common problems as a result of culture distance (Yavaş, et al., 1994). Communication plays an important role in conducting business in Saudi Arabia. Business is conducted between people, not between companies or contractually (Al-Rasheedi, 2012). Saudis prefer face-to-face meetings, as personal dealings enhance personal trust and relationships (Ali, 2009). This makes communication an essential tool for conflict resolution, especially for ISAs in Saudi.

A relationship governed by trust fosters the development of communication and stabilizes the ISA relationship (Parkhe, 1993; Styles and Hersch, 2005). Furthermore, it reduces the difficulties associated with the transfer of tacit knowledge and the impact of cultural distance (Baird, et al., 1990; Li and Scullion, 2006). Trust encourages open communication and improves understanding, thus enhancing cooperation and knowledge transfer (Lin and Wang, 2008; Dhanaraj, et al., 2004). In conducting business, trust has been always significant to Asian culture in shaping relationships and determining cooperation (Lin and Wang, 2008; Wang, 2007). Trust is part of the social control mechanism between partners; performance is positively enhanced when trust

between partners increases (Frexell, et al., 2002). Other studies argue that trust can encourage more trade and further cooperation (Carson, et al., 2003).

The significance of level of communication to ISA performance is confirmed in the literature. In some service sectors, e.g. marketing, communications is considered as determinant of trust (Silva, et al., 2012). Communication entails an exchange of information, which means openness and willingness to rely on the other partner (Silva, et al., 2012). It contributes to strengthen the ties between partners (MacNeil, 1980), hence it can support them to cope with internal conflicts, or external threats (Heide and John, 1992). Good communication between partners can help firms understands each other demands, and recognizes mutual benefits (Shin, Park and Ingram, 2012). In the literature, there is a disagreement to which precede trust or communication. Silva, et al., (2012) from the social exchange perspective, considered communication to be an antecedent of trust. However, other authors have argued that trust can precede communication (e.g. Francis, Mukherji and Mukherji, 2009; Robson, et al., 2006). We argued earlier that trust could encourage communication and exchange of information. Hence, we believe that communication mediate the relationship between trust and performance.

**H6.** *From the perspective of Saudi firms, level of communication mediates the relationship between personal trust and ISA performance.*

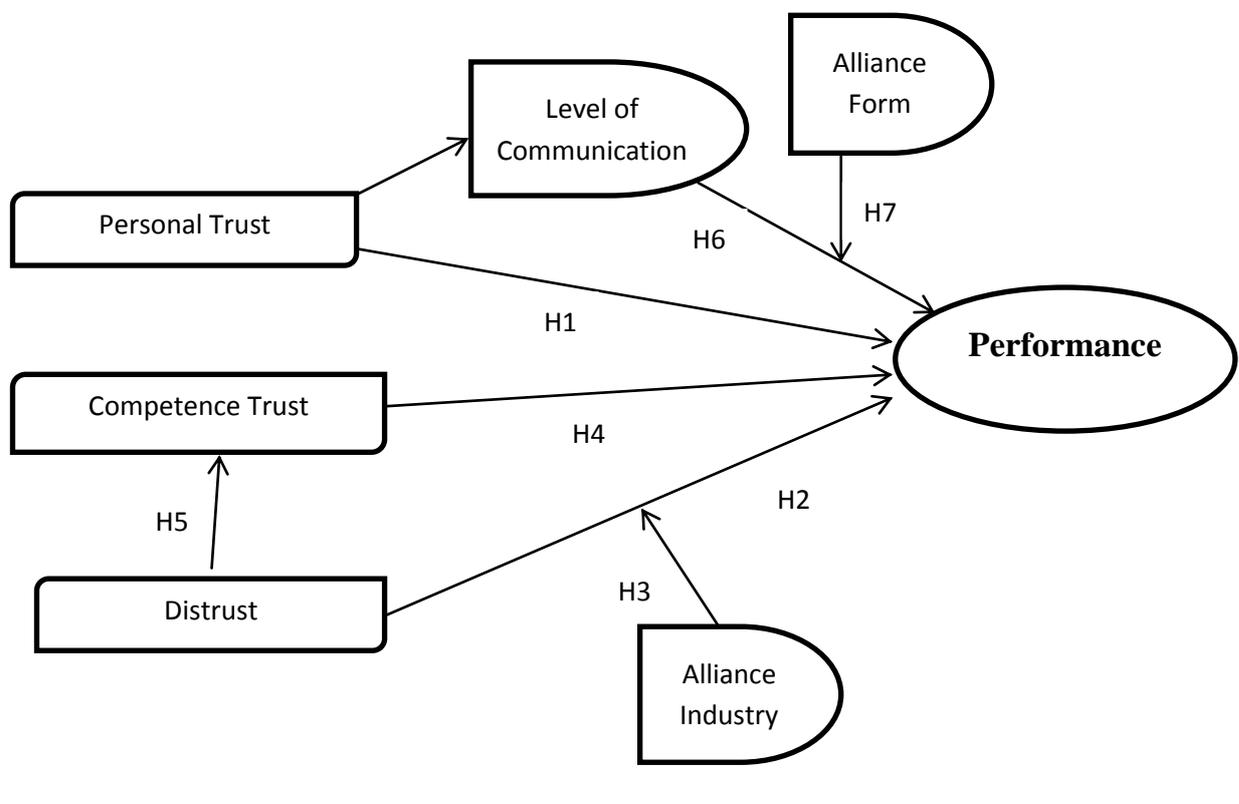
Lack of control (or ineffective control) might hinder a firm's ability to coordinate and effectively utilize resources (Geringer and Hebert, 1989). However, the need for control is conditioned to different factors (Tallman and Shenkar, 1994). Institutional factors and cultural differences create a unique set of managerial value and controls (Ralston, et al., 1993). Control has been discussed in the literature as a factor affecting ISA performance (Barkema et al., 1997; Geringer and Hebert, 1989; Yan, 2000). Some studies (Al-Aali, 1987; Phatak and Chowdhury, 1991; Killing, 1983) found some positive effect of one parent having dominant control over the SA.

The importance of communication is essential to make the partnership work, and performance can be severely affected if any of the partners find it difficult to coordinate with each other. Level of communication might have more weight in one condition than another. EJVs entail higher resource commitment and integration. Hence, they rely on

communication and coordination between the alliance parties. They are more likely to be affected by any drop of communication, and coordination than NEJ. Although, that does not mean that the level of communication has any lesser importance for NEJ. Therefore, the following hypothesis is proposed:

**H7.** *From the perspective of Saudi firms, the positive effect of the perceived level of communication on ISA performance is more apparent in equity alliances.*

**Figure 6.1 Conceptual Framework**



### 6.3. Methodology

#### 6.3.1. Measures

The survey questions measured the Saudi firm managers' levels of satisfaction and perceptions of performance, and the effects of trust and levels of communication on the performance of ISAs. Responses were assessed using five-point Likert-type scales: for performance assessment, a scale of 1 (not very good) to 5 (very good); and for profitability assessment 1 (strongly disagree) to 5 (strongly agree). For opportunities

creation, a “success measure” scale of 1 (none) to 5 (many opportunities) was used. This instrument has been used in previous studies (Geringer and Hebert, 1991; Lane, et al., 2001; Glaister and Buckley, 1998; Tatoglu and Glaister, 1998; Killing, 1983; Beamish, 1985; Walter, et al., 2008).

For measurement of trust, the scale ranged from 1 (strongly disagree) to 5 (strongly agree). Muthusamy and White (2005) have used this instrument in their study. In addition, these instruments have been used in the following studies (Dhanaraj, et al., 2004; Nooteboom, et al., 1997; Zaheer, et al., 1998; Simonin, 1999b; Simonin, 2004; Lane, et al., 2001). For cultural distance, a scale of 1 (not at all) to 5 (a great deal) was used. These instruments have been used in previous studies (Lyles and Salk, 1996; Simonin, 1999b). For communication, a scale of 1 (strongly disagree) to 5 (strongly agree) was used. This instrument has also been used in previous studies (Simonin, 2004; Simonin, 1999a; Park, 2011). The appropriateness of the instruments was tested during the pilot study. The study explored the perspective of the local “Saudi” partner. Ideally, the researcher would have included representatives of both parent firms as well as the ISA, but the limited resources, access restrictions, absence of a database, and the size and nature of the study precluded such an approach. Many ISA studies have relied on data from only one of the partner’s perspectives.

ISAs in past research have been measured by both objective and subjective measures (Beamish, 1993). However, previous studies have proved that both measures correlate highly (Geringer and Herbert, 1991; Beamish, 1993). The choice of subjective data was down to the difficulties of obtaining reliable, objective data in Saudi. Furthermore, many studies have employed subjective measures to assess ISA performance (e.g. Yavaş, et al., 1994; Ainuddin, et al., 2007; Kele, et al., 2002).

### 6.3.2. Variables

**Dependent Variable:** This scale was designed to measure ISA performance from the perspective of Saudi partner in terms of overall success, financial performance, and the strategic contribution of the alliance (see Table 6.1 for more details about these items). Subjective measures have been widely used in ISA research (e.g. Geringer and Hebert, 1991; Lane, et al., 2001; Glaister and Buckley, 1998; Killing, 1983; Beamish, 1985; Lee

and Beamish, 1995). Geringer and Hebert (1991) have shown that subjective and objective measures correlate highly with each other.

Respondents were assessed using five-point Likert-type scales, ranging from 1 (strongly disagree) to 5 (strongly agree).

EFA was run on 5 items measuring the level of satisfaction across different areas. Using Kaiser’s criterion SPSS extracted 1 non-overlapping factors with a KMO of (.872) which is above the bare minimum of 0.5 (Hutcheson and Sofroniou, 1999). The correlation matrix was checked, to check the correlation between the variables. Most of them correlates significantly with each other (correlation between .3 and .9). None correlated higher than .9, which rule out any possible multicollinearity in the data. The determinant is .017, which is greater than the necessary value of 0.00001. This further confirms that variables correlate reasonably, and multicollinearity is ruled out. The Cronbach’s alpha of the factor was (0.929) within the acceptable value in exploratory research (Hair, et al., 1998, p. 118).

**Table 6.1: Factor- ISA Performance**

<b>Factors</b>	<b>Factor load</b>	<b>Eigen Value</b>	<b>% Variance explained</b>	<b>Cumulative %</b>	<b>Cronbach</b>
<b>Factor 1 (Performance satisfaction)</b>		3.893	77.851	77.851	.929
Our firm is satisfied with the financial performance of the collaboration.	.897				
Our firm is satisfied with the overall performance of the collaboration.	.896				
This relationship provides our firms with many strategic benefits.	.882				
The objectives for which the collaboration was established are being met.	.882				
Our cooperation with this partner has contributed to growth in our firm.	.853				

**Independent variables:** EFA was run on ten trust items. Using Kaiser’s criterion and SPSS, three non-overlapping factors (personal trust, distrust, and competence trust) were produced, with a KMO of (.808). The three items comprised exactly the items in a priori operationalization for measuring distrust, personal trust, and competence trust respectively. The Cronbach’s alpha of these factors ranged between (0.831) and (.858); see Table 6.2 for more details. The correlation matrix was checked in order to assess the

correlation between the variables. Most of them correlated significantly with each other (correlation between .3 and .9). None correlated higher than .9, which rules out any possible multicollinearity in the data. The determinant is .002, which is greater than the necessary value of 0.00001, and rules out any possibility of multicollinearity. Furthermore, VIF was to measure multicollinearity level among the independent variables. A high value above 10 suggests the possibility of multicollinearity (Hair, et al., 2003, p. 305). The VIFs did not show any evidence of multicollinearity, and are well within the recommended cut-off of 10 (1.030-1.152). Hence, it is not a problem in the regressions analysis (Park, 2011). Cronbach' alpha of the three independent variables ranged from (0.644 to 0.773).

**Table 6.2: Factor- ISA Trust**

<b>Independent variables</b>	<b>Factor load</b>	<b>Eigen Value</b>	<b>% Variance explained</b>	<b>Cumulative %</b>	<b>Cronbach</b>
<b>Factor 1 (Personal trust)</b>		2.812	28.123	28.123	.838
My counterpart and I can always find appropriate solutions through compromise when conflicts arise	.823				
I always feel confident when my counterpart tells me he will do something	.809				
My counterpart is trustworthy	.777				
The JV is characterized by personal friendship between partner at multiple levels	.672				
<b>Factor 2 (Distrust)</b>		2.436	24.362	52.486	.858
Our partner is generally doubtful of the information we provide them	.914				
Our firm is generally doubtful of the information provided to us by our partner	.878				
Our partner in our IJV would be quite prepared to gain advantage by deceiving our firm	.800				
<b>Factor 3 (Competence trust)</b>		2.244	22.444	74.930	.831
We can always rely on our partner to do its part in our IJV	.843				
We feel very confident about partner firm's skills	.811				
Partner firm is very capable of performing its job	.708				

**Control Variable:** Alliance age was calculated as the difference between the time of data collection (2012) and the year of the alliance formation. Number of foreign employees in the organization was entered as a control variable.

EFA was run on the 4 items measuring cultural distance. After the initial test, one variable was removed “Language differences are major obstacles in communicating and understanding the partner”, due to low communalities. After the deletion process, EFA was run again using Kaiser’s criterion SPSS extracted 1 factor, with a KMO of (.694). The items correlated significantly with each other (correlation between .3 and .9). None correlated higher than .9. This ruled out any possible multicollinearity in the data. The determinant was (0.180) which is greater than the necessary value of 0.00001. This further confirms that variables correlate reasonably, and multicollinearity is ruled out.

**Table 6.3: Factor- Control Variables**

<b>Control variables</b>	<b>Factor load</b>	<b>Eigen Value</b>	<b>% Variance explained</b>	<b>Cumulative %</b>	<b>Cronbach</b>
<b>Communication</b>		2.006	66.857	66.857	.747
The quality of communication between the parents is extremely good.	.867				
We always keep each other informed about events or changes that may affect the other firm.	.837				
Regular contacts are maintained between senior managers of our firm and our partner.	.744				
<b>Culture</b>		2.330	77.662	77.662	.855
Their national culture is quite different from ours.	.927				
There is much cultural dissimilarity between us and our foreign partner.	.891				
There are significant cultural differences between us and our foreign partner .	.823				

**Communication:** This scale was designed to measure the efficiency and quality of communication between the partners. Respondents were asked to assess to what extent they would agree with the following statements about the status of communication between their company and its partner:

- (1) There are few difficulties in communicating with our partner;

- (2) Regular contacts are maintained between senior managers of our firm and our partner;
- (3) The quality of communication between the parents is extremely good;
- (4) We always keep each other informed about events or changes that may affect the other firm.

This was measured using a five point Likert-type scale, ranging from 1 “strongly disagree” to 5 “strongly agree”. EFA was run; however, after the initial test, the statement (There are few difficulties in communicating with our partner) was removed because of its low factor loading. EFA was run again and produced one factor (Alpha = 0.747) with KMO of (.656). See table 6.3 for more details.

### **6.3.3. Statistical Analysis:**

The choice of an appropriate strategy could be derived from the research question and objectives (de Vaus, 1990: p.121). The study questions consider the factors that affect the performance of ISAs from the Saudi firm perspective. Hence, this study is examining the causal relationship between the factors influencing the performance in the ISA. Multiple regression is one of the most effective techniques used to examine the cause-effect relationship between a dependent variable and several independent variables (Park, 2011). There are many studies that have used multiple regression to look into the relationship between a particular factors and ISA performance (Sim, and Ali, 1998; Child and Yan, 2003; Ng, et al., 2007; Pothukuchi, et al., 2002; Zollo, et al., 2002). According to Hair, et al. (1995: p. 20), “multiple regression analysis is a statistical technique that can be used to analyse the relationship between a single dependent (criterion) variable and several independent (predictor) variables. The objective of multiple regression analysis is to use the several independent variables whose values are known to predict the single dependent value the researcher wishes to know”. In this paper, we have had used multiple regression to test the relationship between the independent variables and the dependent variable. Same test was used to determine the relation of the moderating variables. Data have passed normality and multicollinearity tests. The VIFs did not show any evidence of multicollinearity, and are well within the recommended cut-off of 10 (1.030- 1.152). Hence, it is not a problem in the regressions analysis (Park, 2011).

## 6.4. Finding and discussion:

### 6.4.1. Results

Regression Model 2 (in Table 6.4) shows a significant relationship between performance satisfaction and the three independent variables personal trust, distrust, and competence trust. It shows positive and significant relationships with personal trust and competence trust, with coefficients of 0.366 ( $P < .01$ ) and 0.242 ( $P < .01$ ) respectively. It also shows a significant and negative relationship with distrust, with a coefficient of -0.229 ( $P < .01$ ). The model has a significant F value ( $P < .01$ ), and it has a large explanatory power ( $R^2$ ) of 35.5 %. Thus, the results give support to Hypotheses 1, 2, and 4.

The control variable ISA age, and cultural distance showed a significant and positive relationship, albeit small for age, with performance satisfaction with coefficient of 0.014 ( $P < .01$ ), and 0.195 ( $P < .05$ ). On the other hand, the number of expatriates did not show any significant relationship with performance.

**Table 6.4: Multiple Regressions**

	Variables	Model one	Model 2	Model 3
<b>Control</b>	Constant	-.329	-.372	-.001
	JV age	.014	.014*	
	Non-Saudi number	-.081	-.044	
	Cultural distance	.257***	.195**	
	Size	.087*	.072*	
<b>Independent</b>	Personal Trust		.366***	
	Distrust		-.229***	-.100
	Competence		.242***	.125
<b>M. Factors</b>	Communication			.374***
	Form			.225
	Industry unpredictability			.085
<b>Moderators</b>	Communication X Form			.550***
	Distrust X Industry unpredictability			.233***
	Distrust X Competence trust			-.166*
<b>R<sup>2</sup></b>		.129	.368	.412
<b>F value</b>		3.874***	8.484***	8.944***

\*\*\* $p < 0.01$ ; \*\* $P < 0.05$ ; \* $P < 0.1$ ; the F-test on  $R^2$  is one-tailed; the t-test on each regression coefficient is two-tailed

The result of the interaction effect in Table 6.4 (Model 3) is interesting. The level of communication X ISA form (0 if non-equity) shows a positive and significant interaction with performance satisfaction, with a coefficient of 0.550 ( $P < 0.01$ ). This

means that the positive effect of the perceived level of communication on performance is higher in EJV than in NEJ. The results give support to Hypothesis 7; Figure 6.1 shows the interaction effect of form on communication. The other interaction between competence trust X distrust trust is showing a significant and negative relationship with performance, with a coefficient of -0.160 ( $P < 0.1$ ). This means that competence trust is not showing any positive effect on performance due to the existence of distrust. Figure 6.2 is showing that competence trust is moderated when distrust is high. The interaction is negative, though low in significance, which provides support for Hypothesis 5. The last of interaction is between distrust X industry unpredictability, which is showing a positive and significant relationship with performance, with a coefficient of 0.233 ( $P < 0.01$ ). The result means that industry unpredictability has moderated the negative effect of distrust on performance; which is opposite to what we hypothesized. Thus, the result gives no support to Hypothesis 3.

**Table 6.5: Multiple Regressions– Mediations Personal Trust, Performance, and Level of Communication**

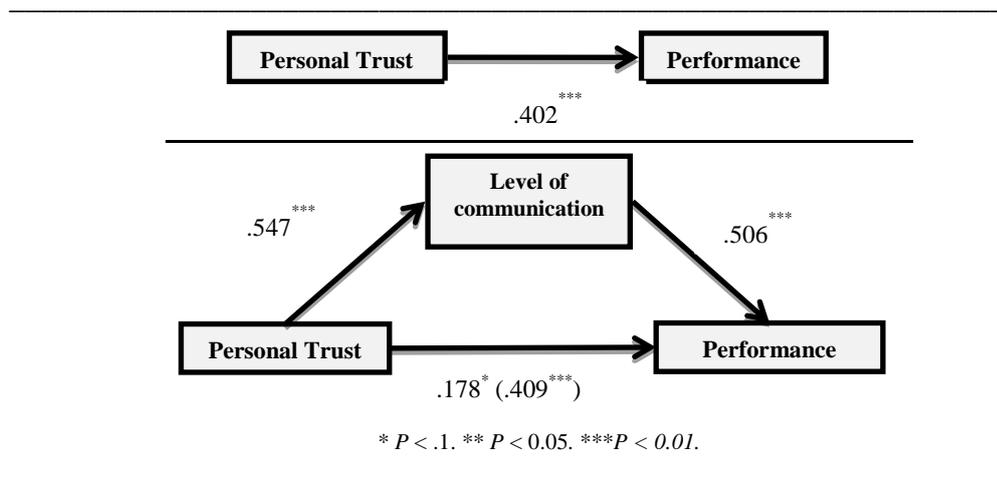
	R	R <sup>2</sup>	R <sup>2</sup> change	Beta
<b>Analysis one:</b>				
Personal Trust on Performance	.402	.161		.402 <sup>***</sup>
<b>Analysis two:</b>				
Personal Trust on Communication	.547	.299		.547 <sup>***</sup>
<b>Analysis three:</b>				
Step 1: Communication on Performance	.506	.256		.506 <sup>***</sup>
Step 2: Personal Trust on Performance	.528	.278	.022	.178 <sup>*</sup>

Note: \* =  $P < .1$ , \*\* =  $P < .05$ , \*\*\* =  $P < .01$

To test Hypothesis 6, multiple regression analyses were conducted (see Table 6.5) to assess each component of the proposed mediation model. First, it was found that personal trust was positively associated with performance satisfaction 0.402 ( $P < .01$ ). It was also found that personal trust was positively related to level of communication 0.547 ( $P < .01$ ). Lastly, results indicated that the mediator, level of communication, was positively associated with performance 0.506 ( $P < .01$ ). Because both the a-path and b-path were significant, mediation analyses were tested using the bootstrapping method with bias-corrected confidence estimates (MacKinnon, Lockwood and Williams, 2004; Preacher and Hayes, 2004). In the present study, the 95% confidence interval of the indirect effects was obtained with 1000 bootstrap resamples (Preacher and Hayes, 2008). Results of the mediation analysis confirmed the mediating role of level of communication in the relationship between trust and performance ( $B = .224$ ;  $CI = .082$

to .406). In addition, results indicated that the direct effect of personal trust on performance were reduce in term of b-value and significance from 0.402 ( $P < .01$ ) to 0.178 ( $P < .1$ ) when controlling for level of communication, thus suggesting full mediation. The Sobel test shows that the indirect effect of personal trust on performance through level of communication is significant ( $p < .01$ ). The result gives strong support to Hypothesis 6.

**Figure 6.2:** The indirect effect of personal trust on performance through level of communication.



#### 6.4.2. Discussion

The results in this study have given strong support to the proposed hypotheses. The study has re-affirmed the weight of trust on ISAs and offered a more detailed understanding of its role. The context, Saudi Arabia, was an excellent place to conduct this study. The role of trust in Eastern culture, and particularly in Saudi culture, is large. More so, with the role of regulation is still not detrimental as it is in other developed economies.

The relationship between trust and performance is not as straightforward as some might think. The complexity of the relationship has been discussed by Lado, et al., (2008), who have identified the complexity and paradoxes in the literature which looks into the relationship between trust and opportunism. Lado, et al. (2008) found a significant positive relationship between trust and opportunism in inter-firm relationships, which, in return, has a positive impact on performance.

The first hypothesis “From the perspective of Saudi firms, personal trust is positively related to ISA performance” was supported. In this study, we tested the personal trust

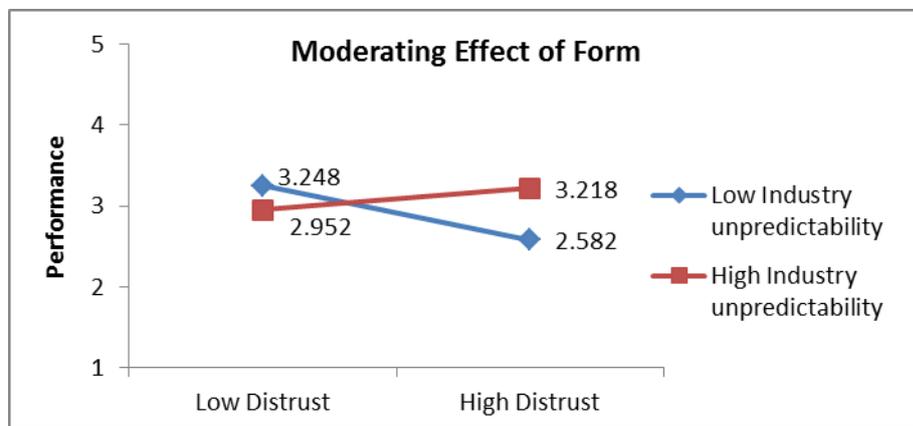
between the top executive of the Saudi partner firm and their counterpart in the foreign partner firm. The existence of trust makes negotiations less costly, and agreements can be reached more quickly (Zaheer, et al., 1998). It lowers transaction costs, facilitates investments in relationship assets, and encourages information sharing, which gives firms a competitive advantage (Zaheer, et al., 1998). It encourages flexibility in negotiations and giving concessions; hence the expectation is that the other partner will reciprocate (Zaheer, et al., 1998). The positive impact of trust on performance, although limited and indirect, has support from recent literature (Krishnan, et al., 2006; Nielsen, 2007; Nielsen and Nielsen, 2009). It extends to affect the efficiency of the knowledge exchange process (Parkhe, 1998) and the extent of knowledge (Inkpen, 1997). Furthermore, mutual trust widens the scope of relational learning, as both partners are encouraged to take more risks in sharing unrelated knowledge (Nielsen and Nielsen, 2009).

This study has distinguished the personal trust that individuals hold for each other from organizational trust. It has also identified the effect that trust (or distrust) between top executives has on the partner firm's abilities. Personal trust has proved to be the most influential of all kinds of trust. Previous studies have discussed the influence of personal trust, though the results were not conclusive. Some studies have claimed that inter-partner trust is less influential than inter-firm trust (Ng, et al., 2007). Their rationale is that key personnel face changes, which makes interpersonal trust exposed to change and fluctuation (Ng, et al., 2007). However, this might not apply to Saudi firms, where the owners usually run the business. The different findings can be attributed to the different contexts. In the Saudi context, in particular considering the culture, the results are logical and very relevant. Generally, it is assumed that collectivist societies have high trust, and individualist societies have low trust. The rationale is that collectivist societies have a shared world view, and relationships are of high importance within them compared to within individualists societies (Triandis, 1989, 1995; Chen, et al., 1998; Hofstede, 1980a, 1980b; Huff and Kelley, 2003).

The second hypothesis "From the perspective of Saudi firms, distrust is negatively related to ISA performance" was also supported. Lack of personal trust does not mean distrust; it means a no-trust relationship. This is a point that was touched upon by Lewicki, et al. (1998), who affirmed that trust and distrust are two separate and different constructs.

Some business relationship starts with neutral feelings before personal trust develops and improves performance, as the results of this study have shown. Alternatively, through time, firm rivalry, or reputation, a sense of distrust may develop. The results of the study show that this hinders the ISA’s performance. A fear of opportunistic behaviour or taking advantage of one partner’s competencies has been established in the literature as a hindrance. It stops firms from co-operating with each other, obstructs communications, and increases monitoring and control costs. It further reinforces the importance of trust as a factor in the success of ISAs. In the absence of trust, or where trust is low, the cost of negotiation increases out of the fear of opportunism (Williamson, 1975).

**Figure 6.3: Interaction-Industry X Distrust**



The test for the third hypothesis “From the perspective of Saudi firms, the effect of distrust on ISA performance will be higher when industry unpredictability is high” shows an interesting result. Figure 6.1 shows that in ISAs in predictable industries, distrust has a negative effect on performance. However, this is not the case in highly unpredictable industries; distrust is actually showing a positive and significant correlation with performance. It is clear that industry unpredictability is moderating the effect of distrust in this case. Krishnan, et al., (2006) have considered trust limitation, which may explain the result. Changes in economic conditions, such as instability or unpredictability of the market, create environmental uncertainty outside firms’ control (Dess and Beard, 1984; Wholey and Brittain, 1989; Krishnan, et al. 2006). These changes demands quick and decisive action and decisions, which require firms to find accurate and reliable information to respond to the threats they are facing (Huber, et al, 1990; Krishnan, et al., 2006). Krishnan, et al., (2006) have argued that since trust brings

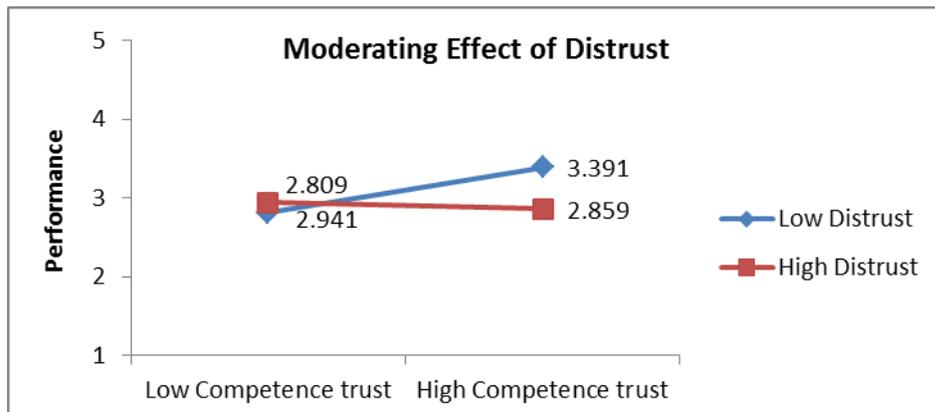
the perception of reliability of information from the partner and cognitive comfort, it reduces the need to think thoroughly. This limits the alliance partners' alertness, and thus their ability to respond to environmental uncertainty appropriately (Krishnan, et al., 2006). These environmental changes will affect the alliance's performance if not acted upon (Kogut, 1989). The results might explain why Mukherjee, et al, (2013) did not find support for their hypothesis and the relation with trust did not mitigate the negative effect of environmental uncertainty.

Trust, in a way, encourages partners, with no questioning or verifying, to rely on each other's knowledge and understanding when identifying threats and opportunities (Krishnan, et al., 2006). It encourages partners to complement each other's supposed expertise in specialized research (Krishnan, et al., 2006). However, problems might arise when information results in a potential loss for the focal partner and interest clashes (Nooteboom, 2002; Krishnan, et al., 2006). The partner will be reluctant to share information to respond to environment changes that might inflict harm on their interest (Krishnan et al., 2006). Thus, an alliance might fail to respond to the demands of its environment (Krishnan, et al., 2006). Thus, it is expected that instability and unpredictability can each reduce the trust-performance relationship. Therefore, distrust in these situations appears to be a blessing in disguise, and helps to overcome the limitations of trust. However, the results do not support the arguments of Young-Ybarra and Wiersema (1999), which suggested that trust can help to enable partners to respond more positively to any unexpected problems or changes in the environment. The findings are interesting, and further studies are recommended to better understand this relationship.

The fourth hypothesis "From the perspective of Saudi firms, competence trust is positively related to ISA performance" has been strongly supported. Confidence in partner competencies is fundamental to the success of ISAs in many ways. Lack of confidence will create anxiety, distrust, and conflict. The partner firm will question any attempts by the partner, which may cause delays and rifts between the alliance partners. It has been argued in the literature that trust in partner reliability is as important as personal trust. Das and Teng (1998) have highlighted the value of a firm's confidence in partner cooperation to the success of the alliance. Trust is one of the biggest sources, after control, of confidence in partner co-operation (Ring and Van de Ven, 1992; Das and Teng, 1998).

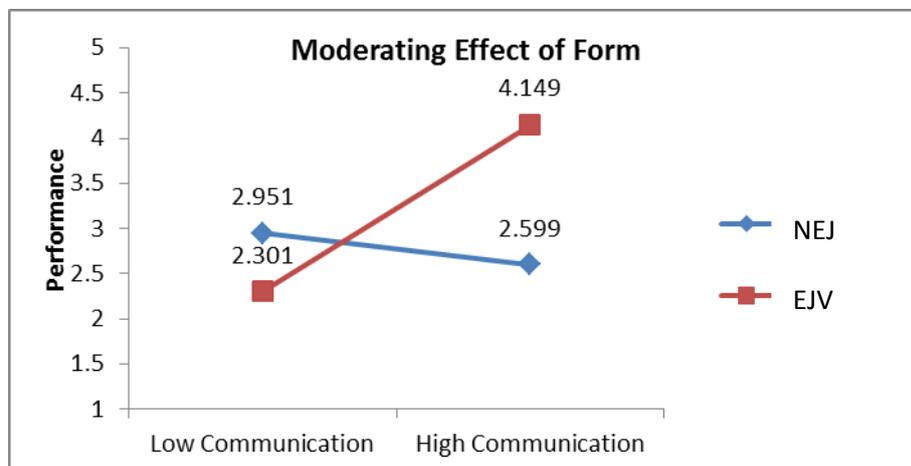
The argument here takes us to the fifth hypothesis “From the perspective of Saudi firms, the positive effect of competence trust on ISA performance is moderated by distrust”. It is assumed that distrust will moderate the effect of competence trust on performance. The results of the study supported this hypothesis. This is a clear indication that the negative effect of distrust may cancel any gain from competence trust. Furthermore, distrust creates doubts and suspicion, which may hinder the development of competence trust.

**Figure 6.4: Interaction- Distrust X Competence trust**



Hypothesis six “From the perspective of Saudi firms, level of communication mediates the relationship between personal trust and ISA performance” have contributed to our understanding to the role of trust on ISA performance. It explains how personal trust can have positive effect on ISA performance. Trust encourages frank exchange of information, which reflects on the quality of the communication. Good level of communication improves the ISA performance.

**Figure 6.5: Interaction- IJV form X Communication**



The seventh hypothesis aims to better understand the relationship between levels of communication and performance. Communication has proven to be instrumental to the performance of ISAs. However, the effect of the level of communication on performance will vary in importance, depending on the form of the ISA. We proposed the following hypothesis “From the perspective of Saudi firms, the positive effect of the perceived level of communication on ISA performance is more apparent in equity alliances”. The result showed strong support for this hypothesis. Communication is very important in ISAs; even more so in the Saudi context. An equity alliance involves the establishment of equity with bigger resource commitment and risks. Constant coordination and effective communication are needed to squash any possible conflicts. EJV involves three parties (local partner, foreign partner, and the IJV); hence, more coordination is needed. While on NEJ communication is usually two ways between the local and foreign partner, with clearer separation of operations and responsibilities, and less resource commitment.

Finally, the IJV’s age shows a very significant (though limited) relationship with performance. This further confirms the results from the literature. The same goes for cultural distance, which shows a positive correlation with performance. This result confirms the findings of some studies that cultural distance can have a positive effect on performance.

## **6.5. Conclusion**

This study has examined the effects of some trust dimensions on performance. The three dimensions are personal trust, distrust, and competence trust. The results showed good support for Hypotheses 1, 2 and 4. It showed that personal and competence trust both correlate positively with performance, while distrust has a negative relationship.

Tests on the interaction effects showed that competence trust was moderated by distrust. Distrust when moderated with industry predictability did show, contrary to expectations, a positive relationship with performance.

The originality of this chapter is that it explores a subject which has been under-researched in the literature: trust effects between ISA partners in developing economies.

It also led to a set of empirically based recommendations for practitioners interested in the Saudi Arabian markets.

The results should encourage firms to plan their communication and place more focus into keeping communication open and fluid.

The study has responded to calls from researchers for an in-depth study on trust. By breaking the concept of trust into different dimensions and testing them, the study has made a valuable contribution to the existing literature. Saudi society is highly personalized, and places high importance on trust. Future study could consider the perspective of foreign partners.

Future studies should look into the indirect effect of trust on performance. Moreover, future work should consider adopting longitudinal design to test the weight of these relationships overtime. Mohr and Puck (2013) have recently published a paper arguing that trust and performance influence relationship is reversed, and that good performance fosters the development of trust. Future studies may check the validity of these assertions, and investigate the direction of the relationship, whether it is unidirectional or bi-directional.

# Chapter Seven: National Cultural Differences and ISA Performance

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## 7.1. Introduction

Transaction cost theory explains that SAs are preferred when they show higher efficiency than market transactions (Beamish and Banks, 1987; Buckley and Casson, 1988; Hennart, 1988, 1991; Kogut, 1988). A study by Beamish and Delios (1997) noted and confirmed the differences in performance between ISAs in developed and developing countries. However, they concluded that ISAs in developing countries have a higher level of performance than ISAs in developed countries.

For decades, Saudi Arabia has relied on oil in exportation and oil-based products. Thus, the kingdom is attempting to diversify its economy and learn how to compete in knowledge-intensive industries (Rice, 2003). The government has placed a strong emphasis on education in an attempt to build a solid base of young and highly skilled people to strengthen the innovation capability of the country (Rice, 2003).

State-owned and family-owned businesses in Saudi Arabia are transitioning into international and multinational enterprises (Jasimuddin, 2001). Thus, in order to have competitive advantages within the global business domain, the ISA is the preferred form for both Saudi firms and multinationals alike (Williams, 2009; Mababaya, 2002). This arrangement allows companies to pool their resources, combining the technical and commercial capabilities and competencies of the Western partner with the local knowledge and commercial competitiveness of the local partner (Al-Rasheedi, 2012). It allows the Saudis to bring in competencies that will add to their competitive advantage (Williams, 2009).

A set of factors which affect the performance of ISAs has been identified in the literature (Please see the literature chapter for detailed list of the different factors discussed in the literature). This chapter will provide a detailed exploration of the role of cultural distance in ISAs within the Saudi environment. Culture has been recognized as one of the major factors affecting multinational companies operating across borders. Saudi Arabia has a distinctive and rooted culture, and a developing economy. This context makes it an interesting place to conduct this study.

When attempting to understand the factors affecting the performance of ISAs, it is important to note that there are still difficulties and ambiguities to consider (Gulati, 1998). Understanding alliance performance is one of the most exciting and unexplored areas in the study of ISAs (Gulati, 1998), and this will be discussed thoroughly in the next section.

Furthermore, the assessment of ISAs' performance has been mostly dominated by the perspectives of firms from developed countries. Naturally, their motives are different from those of firms from developing countries; the findings of some previous studies cannot therefore be generalized to all contexts. Leung, et al. (2005: p. 368) observed that "scholars have argued that instead of addressing whether national culture makes a difference it is more useful to address the issue of how and when it makes a difference". ISAs provide the perfect platform to test the impact of culture on the relationship between alliances (Kumar and Das, 2009). Sambasivan and Yen (2010), discussed the lack of empirical studies linking culture and SAs.

This chapter will begin by reviewing the literature on cultural distance in ISAs, and explaining the development of the hypotheses to be considered. This is followed by an explanation of the study's methodology. The results are then presented, and are followed by a discussion. The final section concludes the chapter by outlining the contribution and limitations of the study and suggestions for future studies.

National cultural distance has been the centre of much debate among researchers, with conflicting results. Further, the perspective of developed Western countries has dominated the literature. The study has contributed to our understanding of how cultural distance affects performance in developing economies. The study has provided the context of when and how it makes a difference. Conceptually and empirically, the study has made a valuable contribution to understanding the role of culture on ISAs.

The findings of this chapter will help us to answer the fourth research question of the thesis "How far do cultural factors affect the performance of ISAs?" It will complement the results from the previous chapter, and provide an original knowledge of how cultural factors affect ISA performance in Saudi.

## **7.2. Literature Review and Hypothesis Development**

### **7.2.1. Measures of performance**

Alliance performance has received relatively little attention. This is due to many obstacles facing researchers when they attempt to measure performance. First, there are logistical challenges in collecting the data necessary for this kind of research (Gulati, 1998). Second, there is ambiguity in performance measurement, which makes it difficult to capture the true performance of the alliance (Zollo, et al., 2002). Difficulties can stem from differences in motives, which require different methods of measurement (Artisien and Buckley, 1985; Arino, 2003); for example, enhancing organizational learning (Kogut, 1988; Hamel, 1991), or strategic positioning (Contractor and Lorange, 2008; Porter and Fuller, 1986; Glaister and Buckley, 1996; Tatoglu and Glaister, 1997). This has made it difficult to find a universal approach to measuring the performance of ISAs (Lunnan and Haugland, 2008). Previous studies have used different approaches to assess ISA performance. Early studies, according to Geringer and Hebert (1991), have relied on financial indicators such as profitability (e.g. Tomlinson, 1970; Lecraw, 1983 cited in Geringer and Hebert, 1991). Other studies have used different objective measures: for example, survival (Killing, 1983; Geringer, 1990; Geringer and Woodcock, 1995). In the literature chapter (section 2.5), we have talked in details about the different measurements, and the healthy arguments between scholars regarding some of the methods.

The choice of the best method to measure the performance of ISA alliances has been the centre of much debate in the literature. Measure of performance should be based on the success of the alliance in meeting expectations, rather than purely on financial indicators. Arino (2003) defined SA performance, as “the degree of accomplishment of partners’ goals, be these common or private, initial or emergent”. Yan and Beamish (2004) defined performance of SAs as the satisfaction of managers of the venture about the overall performance. The different partners’ motives have resulted, according to Zollo, et al. (2002), in failures to reach consensus on the appropriate measurement or on a unified definition of ISA performance (Geringer and Hebert, 1991).

Lunnan and Haugland (2008) have classified measurements as financial, operational, and effectiveness. The financial measures, such as profitability, are common methods when there is an “explicit” financial goal (Arino, 2003; Geringer and Hebert, 1991). On the other hand, as Geringer and Hebert (1991) have argued, in cases where firms focus

on key operational factors, using operational measures such as stability and longevity is more suitable (Yan and Zeng, 1999; Arino, 2003). Organizational effectiveness is probably the most popular and common method. It measures the firm's satisfaction with the ISA's performance, and the degree to which the partnership has successfully fulfilled its original goals (Arino, 2003; Parkhe, 1993b).

There is some agreement that partner satisfaction is one of the most reliable performance measures (Anderson and Narus, 1990). Several researchers (e.g. Killing, 1983; Beamish, 1985; Inkpen and Birkenshaw, 1994; Lyles and Baird, 1994; Glaister and Buckley, 1999) have used perceptual measures of partner satisfaction. Objective measures, such as financial indicators, fail to capture inter-partner relationship satisfaction (Ring, and Van de Ven, 1994); do not reflect ISA success on reaching its long-term goals (Geringer and Hebert, 1991); and fail to capture any experienced difficulties (Osland and Cavusagil, 1996; Lu and Lee, 2005). Furthermore, perceptual measures can provide, unlike objective measures, an assessment of the ISA's success in achieving its overall objectives (Glaister and Buckley, 1998). Additionally, not all countries have a pool of financial data available in the public domain. For example, the Saudi market index has only 160 company listed, compared to fifteen thousand in the US and more than four thousand in the UK. This makes access to financial data almost impossible for researchers. These limitations have been acknowledged by Geringer and Hebert (1991), who affirmed that in case of private firms and conglomerates, the data are often very difficult to acquire. Furthermore, the financial data can fail to incorporate financial returns from mechanisms other than dividends, such as management fees and royalties (Geringer and Hebert, 1991). Whilst having both sets of data is ideal, but for the reported complications, it makes acquiring them a very difficult task (Parkhe, 1993).

In this study, ISA performance is assessed by measuring perceptions of local partner overall satisfaction, following the method used by many studies (Choi and Beamish, 2004; Lin and Wang, 2008; Glaister and Buckley, 1998; Yan and Gray, 1994; Geringer and Hebert, 1991).

### **7.2.2. Alliance modes**

Equity ownership, a mechanism to maintain control, has a strong relation with ISA performance and has continued to receive attention from scholars (Lu and Hebert, 2005). Nevertheless, empirical results have not been conclusive regarding this issue.

Studies which have focused on developing economies have backed foreign dominant control (Ding, 1997) or shared control (Beamish, 1993). This is because ISAs with western partners are associated with technology transfer and sophisticated industry; thus they require resource commitment (Li and Xu, 1994 in Lin and Wang, 2008). On the other hand, ISAs with firms from fellow developing countries are mostly export-oriented, thus requiring fewer resource commitments (Beamish, 1993; Luo, 2001). Control is assumed to curb opportunism in ISAs; however, it has its downsides (Tiwana, 2008).

Lin and Wang (2008), however, point out that ownership is replaced by legalism. This is when one party relies on formal legal contracts to enforce compliance. Obligations and mechanisms are set out in contracts (Reuer and Arino, 2007).

Glaister and Buckley (1998) have argued that there is no reason to expect different performance outcomes between EJVs and NEAs. Their argument is based on the fact that firms choose alliance modes based on their expected outcomes (taking into account contingent factors). Thus, they have argued that subjective performance measure will not vary between alliance modes. The results are not expected to be different in this context. Saudi firms will choose a form that serves their objectives; the same applies to the foreign partner. Thus, the alliance performance assessment is not expected to differ between alliance modes.

**H1.** *From the perspective of Saudi partners, the mean measure of subjective performance will not vary between organizational modes of alliance.*

### **7.2.3. Culture and performance**

Cultural distance and its effect on ISAs has been studied extensively in the literature; for example, its effect on entry mode (Kogut and Singh, 1988; Dong and Glaister, 2007), partner control (Gomes-Casseres, 1989), goal divergence (Yan and Gray, 1994), and longevity (Barkema and Vermeulen, 1997; Hennart and Zeng, 2002). It has also been perceived to influence management style (Lin and Germain, 1998), and to create role conflict and ambiguity between executives (Shenkar and Zeira, 1992).

Culture is defined as a system of shared values that mainly solves two problems; external adaptation and internal integration (Barkema and Vermeulen, 1997). The first

is related to the objectives and strategy of the firm, and how to deal with threats and opportunities. This is influenced by the firm's stance on uncertainty avoidance and long-term orientation (Schneider and De Meyer, 1991; Barkema and Vermeulen, 1997). The later, internal integration is linked to the firm's relationship with its employees, which is influenced by their feelings towards power distance, individualism, and masculinity (Schneider and De Meyer, 1991; Barkema and Vermeulen, 1997).

The effects of cultural differences on management practice have been discussed extensively in the literature (Hofstede, 1980, 1994). Culture is a representation of how things are traditionally done in that particular context (Spender, 1996). The classic argument in relation to the impact of cultural differences on ISAs is simply based on the notion that similar cultural settings will reduce misunderstanding and result in fewer difficulties (Brown, et al., 1989; Lane and Beamish, 1990). Cultural distance creates greater organizational differences, different practices, and different employee expectations (Kogut and Singh, 1988; Park and Ungson, 1997). Cross-cultural conflict has been cited as one of the reasons behind high dissolution rates (Lane and Beamish, 1990; Shenkar and Zeira, 1992).

The relationship between cultural distance and performance has also been discussed in the literature. There is agreement between researchers that national cultural distance influences ISA performance (e.g. England, 1975; Hofstede, 1980; Davidson, 1982; Deal and Kennedy, 1982; Schein, 1985; Schneider, 1988; Sim and Ali, 1998; Geringer and Hebert, 1991). However, there is some disagreement over the direction of this influence. Some empirical studies have noted a negative impact on survival (e.g. Barkema and Vermeulen, 1997; Hennart and Zeng, 2002), while others observed a positive impact (Park and Ungson, 1997; Pothukuchi, et al., 2002). Others found no significant impact (Fey and Beamish, 2001).

On the one hand, cultural distance has been always regarded as a "hindrance" factor to the performance of the ISAs (Shenkar, 2001). In early studies, cultural distance has been perceived as a negative factor influencing the success of ISAs. The larger the distance between the partners, the lower are the chances of success (Brown, et al., 1989; Shenkar and Zeira, 1992; Barkema, et al., 1996, 1997). Cultural familiarity theory has claimed that firms are more likely to suffer from poor performance when investing in culturally distant countries (Lee, et al., 2008). Parkhe (1991, 1993) argues that national cultural differences will negatively affect the performance and the success of the alliance,

especially their ability to benefit from ‘knowledge spillover’. The relationship between cultural distance and performance is complex. Geringer (1998) argues that it is not the cultural distance per se which is the cause of problems, but the implications of such differences for structure and operation, as they create a kind of a ripple effect. This has prompted Lane and Beamish (1990) to conclude that cultural compatibility is an integral factor for the survival of ISAs. Therefore, we expect performance assessment to be better in cases where cultural distance is perceived as less important to the performance of ISAs, compared to where differences are perceived as important.

**H2.** *The mean measure of overall satisfaction obtained from subjective measures of performance will be higher in those alliances where the perception and effect of national cultural differences are not important to the Saudi partner, compared to those for whom such differences are important.*

#### **7.2.4. Culture and performance assessment**

Differences in culture lead to differences in values. Thus, firms with cultural differences will find it difficult to agree on common goals, overcome problems, and resolve conflicts (Hennart and Zeng, 2002). This can lead to the different objectives, coordination techniques, and strategy implementation (Root, 1994; Sullivan and Peterson, 1982; Geringer, 1988; Brown, et al., 1989). In contrast, firms from similar or the same national cultures are expected to show greater agreement in managing ISAs, thus reflecting a positive outcome on performance and satisfaction (Anderson and Weitz, 1989). Geringer and Hebert (1991) have concluded that similarities will yield a better ISA performance, while differences will have a negative influence on ISA performance.

Differences between partners can have a devastating effect on their partnership (Hennart and Zeng, 2002). It has been reported that cross-national SAs, due to partners’ value differences, have been suffering communication, cooperation, commitment, and conflict resolution problems (Pothukuchi, et al., 2002; Harrigan, 1988; Mohr and Spekman, 1994; Parkhe, 1991; Ring and Van de Ven, 1994). Cultural differences between ISA partners, in the absence of understanding, could obstruct communication (Rao and Schmidt, 1998) and destroy trust and knowledge sharing (Das and Teng, 1998). Cultural distance is assumed to affect managerial practices and norms (Ralston, et al., 1993). It

affects firms' ability to adapt to the host country's environment and business practices (Shenkar, 1990). Thus, cultural distance might hinder positive performance (Luo, et al., 2001).

Parkhe (1993) argues that cultural diversity within ISAs disrupts effective cooperation; while Lane and Beamish (1990) state that the problems emerge from the impact of national culture on behaviour and management, which creates unresolved conflicts. Conflict resolution methods vary between cultures, as noted by Henderson (1975) and Johnson et al. (1990 cited on Pothukuchi, et al., 2002). Cultural differences can complicate the relationship between partners. They make integrating the routines and repertoires of the partner more problematic (Anderson and Gatignon, 1986), thus decreasing any chance for an innovation-oriented venture to succeed (Kaufman and O'Neill, 2007). Similarity between the partners can lead to agreement between them regarding the ISA's performance, and since similarity leads to better communication, their respective perspectives on performance should be known (Geringer, 1991).

Emerging from cultural distance are differences in performance measurement. Every culture has its own way of assessing performance, and this is sometimes completely different from those of other cultures. This is because different cultures embody different attitudes, values, and beliefs (Hofstede, 1980; Schein, 1985; Schneider, 1988; Geringer and Hebert, 1991).

Firms from similar cultures will mostly have similar performance evaluation methods. Differences in culture will most likely lead to differences in objectives and measurements to evaluate them (Geringer and Hebert, 1991). Japanese and many European firms, for example, do not look for an immediate result and are more 'strategic'; they look always for long-term, less accounting-based approaches to assessing performance. On the other hand, American firms tend to use financial criteria, and value more immediate results; this is considered the main indicator of whether an operation is a success or not (Bleeke and Ernst, 1991; Pothukuchi, et al., 2002). Therefore, it can be expected that performance assessment methods will differ between the Saudi partner and a foreign one. Thus, the following hypothesis is proposed:

**H3.** *From the perspective of the Saudi partner, correlation between partners' assessments of ISA performance will be stronger in ISAs involving parents with the perception that national cultural differences are not important.*

### 7.2.5. Culture, learning, and performance

It is not surprising that Saudi firms report higher levels of cultural differences. As discussed earlier, Saudi culture is heavily influenced by Islamic teachings which are drawn from values, customs and practice. Furthermore, Saudis are influenced by strict tribal codes and strong patriarchal family structures (Robertson, et al., 2001; Al-Rasheedi, 2012). Thus, there are easily many notable differences between Saudis and Western ‘foreigners’, which have been reported in previous research (Al-Khatib, et al., 2004; Shane, et al., 1995).

We cannot simplify the relationship between cultural distance and performance in a general statement only. Despite the wealth of cross-cultural research, the relationship is not clear. According to De Mattos, et al. (2007) “...there is no single theory that is widely recognised as a flawless approach to tackling cultural differences in a cross-border situation”. The contradicting results in the literature about the effects of cultural distance are proof that the relationship is more complicated (Park and Ungson, 1997). Cultural distance by itself does not lead to problems (Geringer, 1998). There are many factors, whether institutional or at micro-level, that may mediate the influence of cultural distance (Park and Ungson, 1997). Many firms enter into alliances to access complementary resources (e.g. know-how, technology, local knowledge) which they lack (Geringer and Woodcock, 1995). It has been argued that, in some cases, differences may facilitate learning between organizations, which in return contributes to satisfactory alliance performance (Geringer, 1998). Differences might cause a collision which has a negative impact, or might be complementary and lead to improved operation (Geringer and Frayne, 1990). This shows the importance of choosing an appropriate partner with complementary resources for a successful alliance (Geringer, 1988, 1991; Geringer and Frayne, 1993).

The link between successful learning and satisfactory performance of SAs has long been noted in the literature. We have touched upon this relation in the literature chapter (section 2.4); and in the forthcoming discussion, we will be talking about it in more details.

Lyles and Salk (1996) and Steensma, et al. (2000) have noted the connection between successful learning and performance of the ISA, especially in young ISAs. Furthermore, there is a positive and direct relationship between innovation and performance (Rice, 2003). Through inter-firm learning, firms accumulate knowledge, gain experience in

how to avoid mistakes, reduce costs, increase efficiency, and improve problem-solving techniques (Jiang and Li, 2008). Organizational learning facilitates knowledge transfer, which in return leads to improved performance (Jiang and Li, 2008).

Knowledge acquired by ISAs leads to strong organizational capabilities and thus creates better performance (Dhanaraj, et al., 2004). The acquired knowledge can then be transferred into new products, processes and services, which contribute to better financial performance.

Dhanaraj, et al. (2004) also found that the transfer of explicit knowledge has a positive effect on ISA performance. They argue that explicit knowledge's low cost and clarity have a direct impact on positive performance. Furthermore, Subramaniam and Venkatraman (2001) have noted a positive link between tacit knowledge and positive ISA performance.

The idea that cultural differences can lead to learning is not a new notion; according to many researchers, differences in values and beliefs foster learning and innovation (Fiol, 1994; Huber, 1991; Vermeulen and Barkema, 2001). Morosini, et al. (1998) argued that due to their differences, firms are more likely to hold capabilities and competencies which are different from their partner firm; thus, there is a lot for each firm to learn. Vaara, et al. (2012) found that differences in national and organizational culture are positively associated with knowledge transfer in international acquisitions. Reus and Lamont (2009) argued that cultural differences have dual effects – both positive and negative. The positive effect of culture enhances understandability and communication, which indirectly improves learning and performance. Nevertheless, all these studies took place in the context of mergers and acquisitions rather than ISAs; though they have similarities, the findings of these studies cannot be generalized into the ISA context. Chakrabarti, et al., (2009) have argued that cultural differences can actually become a source of 'value creation and learning'; they can, according to theoretical studies, spur learning and innovation.

However, not everyone shares the argument above. Parkhe (1991, 1993) has argued that cultural differences have a negative influence on a firm's ability to benefit from knowledge spillover. Lane and Beamish (1990) have also supported this argument, and Hennart and Zeng (2002) have affirmed that differences disrupt learning and collaboration. Lane, et al. (2001) and Sirmon, et al. (2004) have all confirmed that

similarities have a very positive effect. Subsequently, all these researchers have agreed that cultural differences have an impeding effect on learning.

However, some of the previous arguments were based on assumptions and propositions and had no empirical support for the effect of cultural distance on knowledge acquisition. Furthermore, they were mainly from the perspective of the foreign “developed” partner. In the literature, researchers started to question the strong hold assumption that culture distance is an obstacle to transactions due to the lack of fit (Shenkar, 2012). Shenkar (2012) argued that not every cultural gap is critical to performance; and some differences may be complementary, and hence have a positive impact on performance. Tallman and Shenkar (1994: p. 108) argued that “different aspects of firm culture may be more or less central, more or less difficult to transmit, and more or less critical to operations”. The reason for the link between culture distance and lack of cooperation, is its relation with identity building (Weber, et al., 1996; Vaara, 2003). There is general tendencies to link cultural similarities with trustworthiness, and differences with negative feelings and associations (Hogg and Terry, 2000). These assumptions impede us from assessing the differences beyond the stereotypical conceptions that, mostly, does not reflect the reality of an organization (Sarala and Vaara, 2010).

Stahl and Voigt (2008) have argued that cultural differences affect firms in two “opposing” ways, depending on the degree of cultural difference and relatedness, although the study was related to M&A, in which employees’ reactions were different from those in ISAs. However, Pothukuchi, et al., (2002) have found that it is organizational cultural differences rather than national cultural distance which have an embedding effect on an ISA’s performance. This made them question the assertion that cultural differences alone disrupt resource sharing.

Dussauge, et al., (2000) have concluded that different alliance types lead to different learning outcomes. They argue that link alliances (inter-firm partnerships to which partners contribute different capabilities) enjoy a higher level of inter-firm learning and skills transfer compared to scale alliances (partnerships to which partners contribute similar capabilities). Lyles and Salk (1996), in their Hungarian based study, found limited evidence to support the claim that cultural distance impedes knowledge acquisition. Moreover, Bjorkman, et al. (2007), though the focus was on international acquisition, found that differences weakened absorptive capacity. However, they also

argued that the relationship is not linear, and that there are factors which moderate or mediate the relationship.

He and Wei (2011) argued that market-oriented firms would choose culturally distanced markets. This choice will allow them to better exploit their resource and capabilities. Their argument is based on resource-based view, the higher the resources firms possess the more they have to offer. Through learning firms can overcome the “foreignness” barriers and the risks associated with culturally distance markets. The findings of their study have supported their hypothesis. This shows a positive relation between cultural distance and learning, hence a better performance. Glaister and Buckley (1999) found no evidence to support the negative relationship between cultural distance and performance, which was not surprising for them. They argued that similarities are not a necessary condition for success. It may be more beneficial to have a partner from culturally distant country, as there will be something to learn from the relationship. These relationships will give the partner the opportunity to learn new things and add to their existing capabilities, which will reflect positively on the alliance. In Sarala and Vaara (2010), culture distance has been viewed as a source of potential knowledge transfer in international acquisitions.

ISAs allowed Saudi firms to pool their resources, combining the technical and commercial capabilities and competencies of the Western partner with the local knowledge and commercial competitiveness of the local partner (Williams, 2009; Mababaya, 2002; Al-Rasheedi, 2012). They allow the Saudis to bring in competencies that will add to their competitive advantage (Williams, 2009).

Learning is a strategic choice for Saudi firms as they attempt to diversify their economy, away from over-reliance on oil to knowledge-intensive industries (Rice, 2003). The country is a net importer of technology, and heavily dependent on a foreign workforce and foreign partners to supply them with the required skills and technology (Idris, 2007; Al-Kibsi, et al., 2007). Thus, successful learning from the foreign alliance will reflect positively on the performance of the ISA.

Saudi firms form alliances mainly to access foreign partner competencies and skills rather than their financial resources. Furthermore, Saudi partner does not pose a threat to the foreign partner market position. It creates mutual benefits and dependencies with “complementary alliances” partners. Therefore, no partner will act opportunistically,

and there is no need for protective behaviour. Hence, it reduces the chances of conflicts. Thus, taking into account the Saudi firm's motivation and the need to partner with a Western (developed economy) firm to stay competitive, it could be expected that cultural distance differences would be a source of knowledge and learning, and would in return reflect positively on an ISA's performance. Hence, it will create what Dussauge, et al. (2000) called "link alliances". On this basis, the following hypotheses are proposed:

**H4.** *From the perspective of the Saudi partner, perceived cultural distance will be positively related to alliance performance.*

**H5.** *From the perspective of Saudi partners, the relation between cultural distance and performance is mediated by knowledge acquisition.*

Since it is expected that cultural distance will play an enriching part, it is also expected that manufacturing alliances will, due to the technical requirements of those alliances, perceive cultural distance more positively than will tertiary alliances. Therefore, the following hypothesis is proposed:

**H6.** *From the perspective of the Saudi partner, the perceived relationship between cultural distance and alliance performance will be moderated by the alliance industry.*

#### **7.2.6. Culture understanding, communication, and performance**

Cultural values are not fully captured by nationality. However, national boundaries define institutional differences (Ronen and Shenkar, 1985). Along with cultural differences, there are institutional differences (Hitt, et al., 2006). Shenkar (1990) has suggested that one of the main problems facing ISAs in developing economies is the existence of institutional differences; that is, differences in the political, economic, cultural, and legal environments. As with cultural differences, intuitional differences have a devastating effect (Globerman and Nielsen, 2007).

Teitelbaum (2002) has noted that the introduction of the internet, satellites, and ease of travel have opened a window for Saudis to the outside world. This, along with other reasons, might have raised the cultural understanding. Ali (2009) has pointed out that Arabs are fascinated by Western culture, especially American culture, and thus tend to

be more receptive to their messages. Furthermore, most of the Saudi executives and managers are familiar with the English language, which further helped understanding and communication.

Discussing all the areas influenced by cultural distance makes cultural understanding of paramount importance in cross-border alliances. Cultural understanding or awareness is “the degree of knowledge about the way of thinking and behaving of people from a different culture” (Buckley, Clegg and Tan, 2006: p. 275). Cultural misunderstanding and lack of knowledge can be a cause of stress between the ISA partners (Brunner, et al., 1992; Baided, et al., 1990). However, the tacit nature of culture makes it difficult to learn in an articulated format, it has to be experienced to be understood (Nonaka and Takeuchi, 1995). Experience involves the chance for observation, which subsequently can enhance understanding and, hence, success. Cultural understanding, as opposed to misunderstanding, can help defuse arguments and build bridges of communication channels. Brown, et al. (1989), and Lane and Beamish (1990) have reached a conclusion that compatibility of organizational culture is more important than similarity of national culture. Cultural differences, if moderated by cultural understanding, will have a positive effect and will actually enhance learning. This in return will reflect positively on the performance of ISAs. Thus, the following hypothesis is proposed:

**H7.** *From the perspective of the Saudi partner, cultural understanding will be positively related to alliance performance.*

### **Cultural understanding and communication**

The importance of effective communication in ISAs has been recognized, as it allows firm to cooperate better and hence improve performance (Doz, 1996; Inkpen and Birkinshaw, 1994; Shenkar and Zeira, 1992; Hennart and Zeng, 2002). Cultural differences between SA partners, in the absence of understanding, can obstruct communication (Rao and Schmidt, 1998; Park and Ungson, 1997) and can destroy trust and knowledge sharing (Das and Teng, 1998). Cultural distance is assumed to affect managerial practices and norms (Ralston, et al., 1993). It affects firms’ ability to adapt to their host country’s environment and business practices (Shenkar, 1990). Furthermore, the obstructed communication between partners hinders their ability to resolve conflict and inflates the cost of knowledge transfer (Lane and Beamish, 1990;

Clegg, 1990; Kaufman and O'Neill, 2007). Cultural differences breed miscommunication. Differences in language can affect the verbal communication of “perceptual and encoding/decoding gaps” (Root, 1994; Hennart and Zeng, 2002). On the other hand, cultural similarities promote communication between partners (Geringer and Hebert, 1991).

Communication has greater importance in high context cultures compared to low context cultures, like the US, where the context of the meeting is perceived as less important (Hennart and Zeng, 2002). Effective communication is crucial for the management of ISAs. It allows partner firms to communicate their goals and capabilities, and to understand each other's behaviour well before the start. It allows firms to learn about each other, avoiding misunderstandings and suspicion. Failure to do this will cause lower commitment and poor performance (Doz, 1996; Inkpen and Birkinshaw, 1994; Shenkar and Zeira, 1992). It has been reported that cross-national SAs, due to partners' value differences, have been suffering communication, cooperation, commitment, and conflict resolution problems (Pothukuchi, et al., 2002; Harrigan, 1988; Mohr and Spekman, 1994; Parkhe, 1991; Ring and Van de Ven, 1994).

Partners usually lack full understanding of each other's goals and behaviours at the start of an alliance, which may have devastating effects if they fail to establish understanding (Hennart and Zeng, 2002). It may lead to suspicion and lower commitment (Doz, 1996; Shenkar and Zeira, 1992). Furthermore, it hinders firms' ability to coordinate, therefore making the partnership vulnerable to conflicts (Lane and Beamish, 1990). Cultural understanding can develop empathy and reduce suspicion between partners; it allows the partners to be open and improve communication. Lack of understanding of a partner's behaviour might cause a breakdown in communication and lower commitment.

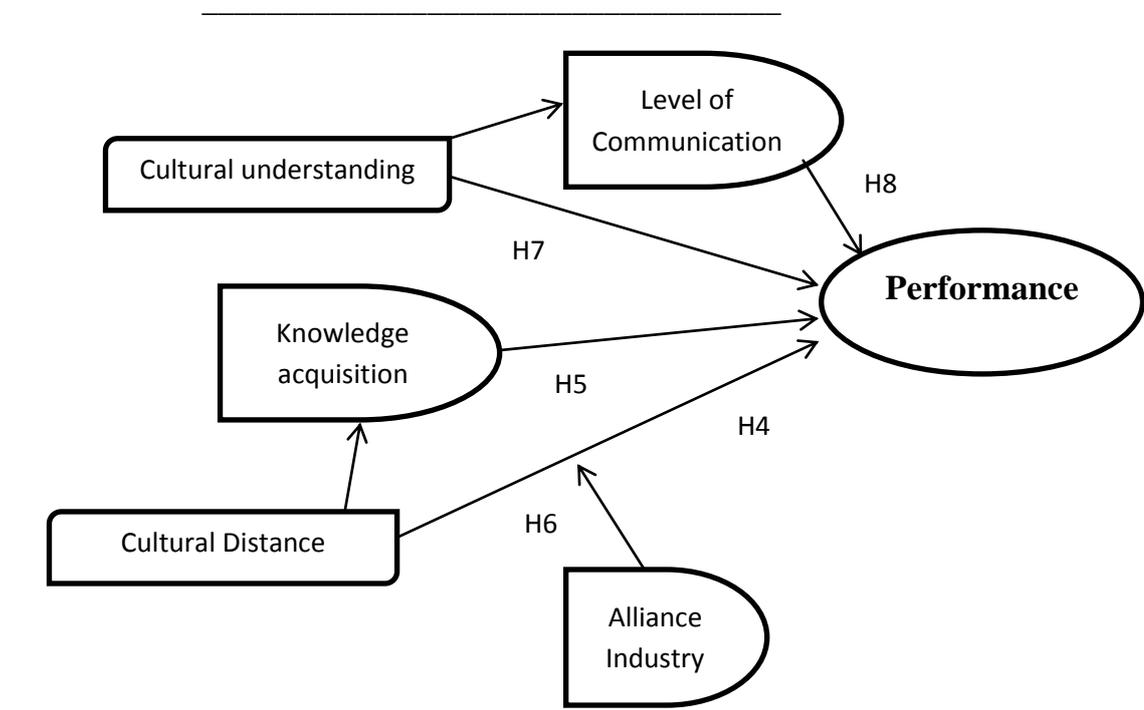
Communication and language barriers can be considered the most common problems as a result of cultural distance (Yavaş, et al., 1994). Communication plays an important role in conducting business in Saudi Arabia. Business is conducted between people, not between companies or contractually (Al-Rasheedi, 2012). Socialising plays an important part in establishing business relations in Saudi (Moran, et al., 2007). Westerners place more emphasis on oral communication, while Saudis emphasize both oral and aural communication. This is rooted in the traditional Bedouin culture that

places emphasis on both speaking and listening (Al-Rasheedi, 2012). Saudis prefer face-to-face meetings, as personal dealings enhance personal trust and relationships (Ali, 2009). This makes communication an essential tool for conflict resolution, especially for ISAs in Saudi.

Previous research (Brown, et al., 1989; Lane and Beamish, 1990; Kogut and Singh, 1988) has confirmed the notion that similarities can reduce misunderstanding and differences can create misunderstanding; the latter can in turn create communication difficulties and conflicts. Cultural understanding can reduce the negative effect of cultural distance on communication, which is vital to the success of cross-country ISAs. Therefore, the following hypothesis is proposed:

**H8.** *From the perspective of Saudi partners, the relationship between cultural understanding and performance is mediated by levels of communication.*

**Figure 7.1 Conceptual Framework**



## 7.3. Methodology

### 7.3.1. Measures

The survey questions measured the Saudi and foreign partner firms' performance satisfaction and perceptions of their local partners, as well as the effect of culture on ISA performance. Responses were assessed using five-point Likert-type scales: for performance assessment, a scale of 1 (not very good) to 5 (very good); and for success assessment 1 (strongly disagree) to 5 (strongly agree). These instruments were used in previous studies (Geringer and Hebert, 1991; Lane, et al., 2001; Glaister and Buckley, 1998; Tatoglu and Glaister, 1998; Killing, 1983; Beamish, 1985; Walter, et al., 2008).

For cultural distance, a scale of 1 (not at all) to 5 (a great deal) has been used. These instruments have been used in previous studies (Lyles and Salk, 1996; Simonin, 1999b). Glaister and Buckley (1998) have argued against using perceptual measures, such as nationality or location, when attempting to capture cultural distance. They argue that it is important to "accommodate the respondent's perception of national cultural differences", rather than assuming the differences. Cultural understanding was measured using two items scales ranged from 1 (not true) to 5 (very true); one of the scales was reverse-coded. Schweiger and Goulet (2005) previously used the scale. For knowledge acquisition, a scale of 1 (none) to 5 (very much) was used. This instrument has been used in previous studies (Dhanaraj, et al., 2004; Nooteboom et al., 1997; Zaheer, et al., 1998; Simonin, 1999b; Simonin, 2004; Lane, et al., 2001). For communication, a scale of 1 (strongly disagree) to 5 (strongly agree) was used. This instrument has also been used in previous studies (Simonin, 2004; Simonin, 1999a; Park, 2011). The appropriateness of the instruments was tested during the pilot study. The study explored the perspective of the local "Saudi" partner. Ideally, the researcher would have included representatives of both parent firms as well as the ISA, but the limited resources, access restrictions, absence of a database, and the size and nature of the study precluded such an approach. Many ISA studies have relied on data from one of the partner's perspectives.

ISAs performance has been measured in past studies by both objective and subjective measures (Beamish, 1993). However, previous studies have proved that both measures correlate highly (Geringer and Herbert, 1991; Beamish, 1993). The choice of subjective data was influenced by the difficulties in obtaining reliable, objective data in Saudi.

Furthermore, many studies have employed subjective measures to assess ISA performances (Yavaş, et al., 1994; Ainuddin, et al., 2007; Kele, et al., 2002).

### 7.3.2. Variables

**Dependent Variable:** This scale was designed to measure ISA performance from the Saudi partner perspectives of overall success, financial performance, and strategic contribution of the alliance (see Table 7.1 for more details about the items). Subjective measures have been widely used in SA research (Geringer and Hebert, 1991; Lane, et al., 2001; Glaister and Buckley, 1998; Killing, 1983; Beamish, 1985; Lee and Beamish, 1995). Geringer and Hebert (1991) have proved that subjective and objective measures correlate highly with each other. Respondents were assessed using five-point Likert-type scales, ranging from 1 (strongly disagree) to 5 (strongly agree).

**Independent variables:** Researchers have used different measurement, secondary and primary data, to capture cultural distance between partners. Shenkar (2012) argued that cultural distance does not capture many of the real differences that firms face when operating off base. Thus, Brouthers (2013: p. 15) argued against the use of secondary measures as a “proxy for disparate institutional environmental dimensions” or institutional contexts. He argued that secondary measures “results in oversimplification and a narrow focus on specific differences”. In this study, we have relied on primary data that reflects the managers’ real views on these differences.

**Table 7.1: ISA Performance**

Factors	Factor load	Eigen Value	% Variance explained	Cumulative %	Cronbach
<b>Factor 1 (Performance satisfaction)</b>		3.89	77.851	77.851	.929
Our firm is satisfied with the financial performance of the collaboration.	.897				
Our firm is satisfied with the overall performance of the collaboration.	.896				
This relationship provides our firms with many strategic benefits.	.882				
The objectives for which the collaboration was established are being met.	.882				
Our cooperation with this partner has contributed to growth in our firm.	.853				

EFA was run on the 6 items measuring cultural distance and culture understanding. After the initial test, one variable was removed “Language differences are major obstacles in communicating and understanding the partner”, due to low communalities. After the deletion process, EFA was run again using Kaiser’s criterion SPSS extracted 2 factors cultural distance (3 items) and cultural understanding (2 items), with a KMO of 0.648 (see Table 7.2 for more details about the items). Cronbach’ alpha of the independent variables ranged from (0.644 to 0.773). The items correlated significantly with each other (correlation between .3 and .9). None correlated higher than .9. This ruled out any possible multicollinearity in the data. The determinant was (0.180) which is greater than the necessary value of 0.00001. This further confirms that variables correlate reasonably. Furthermore, VIF was to measure multicollinearity level among the independent variables. A high value above 10 suggests the possibility of multicollinearity (Hair, et al., 2003: p. 305). The VIFs did not show any evidence of multicollinearity, and are well within the recommended cut-off of 10 (1.014-1.265). Hence, it is not a problem in the regressions analysis (Park, 2011).

For hypothesis two and three national culture was measured using single item. The item was “How important have the differences in *national* culture been on the overall performance of the alliance”? “. This is a similar item to the one used by Glaister and Buckley (1998).

**Table 7.2: Factor- ISA Culture**

<b>Control variables</b>	<b>Factor load</b>	<b>Eigen Value</b>	<b>% Variance explained</b>	<b>Cumulative %</b>	<b>Cronbach</b>
<b>Culture</b>		2.349	46.986	46.986	.855
Their national culture is quite different from ours	.927				
There is much cultural dissimilarity between us and our foreign partner	.891				
There are significant cultural differences between us and our foreign partner	.823				
<b>Culture Understanding</b>		1.659	33.190	80.176	.787
I find the other firm’s culture ambiguous to me (RC)	.919				
I believe that I understand the other firm’s culture	.888				

**Control Variable:** Saxton (1997, p. 450) notes the administrative form of an alliance may indicate the motives of the partner companies and have a considerable impact on the expected performance outcomes. To control for alliance form, this variable was entered as a dummy, coded 1 for equity ISAs and 0 for non-equity ISAs. The industry sector of the alliance was also entered as a dummy variable, coded 1 for the manufacturing sector and 0 for the tertiary sector. The partner company economic stage was entered as dummy as well; it was coded 1 for firms from developed economies and 0 for firms from developing economies. We also controlled for alliance age which was calculated as the difference between the time of data collection and the year of the alliance formation (2012). Number of the employees were entered as a control variables as an indication of size.

**Mediating variables:**

**Communication:** This scale was designed to measure the efficiency and quality of communication between the partners. Respondents were asked to assess to what extent they would agree with the following statements about the status of communication between their company and its partner:

- (1) There are few difficulties in communicating with our partner;
- (2) Regular contacts are maintained between senior managers of our firm and our partner;
- (3) The quality of communication between the parents is extremely good;
- (4) We always keep each other informed about events or changes that may affect the other firm.

This was measured using a five point Likert-type scale, ranging from 1 “strongly disagree” to 5 “strongly agree”. EFA was run; however, after the initial test, the statement (There are few difficulties in communicating with our partner) was removed because of its low factor loading. EFA was run again and produced one factor (Alpha = 0.747) with KMO of (.656). See table 7.3 for more details.

**Knowledge acquisition:** This scale was designed to measure the learned knowledge from foreign partners across seven areas: new technological expertise, new marketing expertise, product development, process know-how, knowledge about foreign cultures and tastes, managerial techniques, and manufacturing processes. Respondents were assessed using five point Likert-type scales, ranging from 1 (little) to 5 (to great extent).

Exploratory factor analysis (EFA) was run to produce one learning factor in line with previous studies (Geringer, 1988; Glaister, 1996, 1997; Dong and Glaister, 2006).

**Table 7.3: Factor-Interaction (Communication and Knowledge acquisition)**

	<b>Factor load</b>	<b>Eigen Value</b>	<b>% Variance explained</b>	<b>Cumulative %</b>	<b>Cronbach</b>
<b>Factor: Communication</b>		2.006	66.857	66.857	.747
The quality of communication between the parents is extremely good.	.867				
We always keep each other informed about events or changes that may affect the other firm.	.837				
Regular contacts are maintained between senior managers of our firm and our partner.	.744				
<b>Factor: Knowledge acquisition</b>		3.395	48.503	48.503	.819
Managerial technique	.732				
Process know-how	.713				
Product Development	.700				
New technological expertise	.696				
Manufacturing processes	.695				
New marketing expertise	.684				
Knowledge about foreign cultures and taste	.653				

### 7.3.3. Statistical analysis

The choice of an appropriate strategy could be derived from the research question and objectives (de Vaus, 1990: p.121). The study questions consider the factors that affect the performance of ISAs from the Saudi firm's perspective. Hypothesis 1 was tested using parametric two sample t-tests to test the differences in means between the local partner and a foreign partner ISA's performance assessment. For Hypotheses 2, an independent sample t-test was used in order to compare the means of ISA performance controlled by culture distance. To test Hypothesis 3, Spearman rank-order correlation coefficient was used. This was computed using SPSS. This method is supported by Geringer and Hebert (1991) and Glaister and Buckley (1998), who argue that this non-parametric statistic is the most appropriate given the measures used and the sizes of samples and sub-samples. We followed Glaister and Buckley (1998) and used Kendall tau-B and Pearson correlation coefficients to assess the reliability of the results. The

results from the test were consistent with those obtained from Spearman-based analysis (see Tables 1 and 2 in Appendix D).

Hypotheses 3, 4, 5, 6, 7 and 8 examine the causal relationship between the factors which influence the performance of the ISA. Multiple regression is one of the most effective techniques used to examine the cause-effect relationship between a dependent variable and several independent variables (Park, 2011). There are many studies that have used multiple regression to look into the relationship between particular factors and ISA performance (Sim and Ali, 1998; Child and Yan, 2003; Ng, et al., 2007; Pothukuchi, et al., 2002; Zollo, et al., 2002). According to Hair, et al., (1995: p.20):

*multiple regression analysis is a statistical technique that can be used to analyse the relationship between a single dependent (criterion) variable and several independent (predictor) variables. The objective of multiple regression analysis is to use the several independent variables whose values are known to predict the single dependent value the researcher wishes to know.*

Data have passed normality and multicollinearity tests. Data have passed normality and multicollinearity tests. The VIFs did not show any evidence of multicollinearity, and are well within the recommended cut-off of 10 (1.014- 1.265). Hence, it is not a problem in the regressions analysis (Park, 2011).

## **7.4. Finding and discussion**

### **7.4.1. Results**

The results in Table 7.4 show strong support for Hypothesis 1. The subjective performance between EJVs and NEAs does not show any significant differences between the means. The results are consistent with those of Glaister and Buckley (1998). This study has looked further into the extent to which the alliance modes have managed to successfully create new opportunities and contribute to the growth of the firms, both of which were not significant.

**Table 7.4: T-test (Performance and Form)**

	Group	N	Mean	SD	t-value
From the perspective of your firm, how is the performance of the IJV evaluated?	<b>EIJVs</b>	<b>73</b>	4.08	.968	<b>-.879</b>
	<b>NEIJVs</b>	<b>38</b>	4.24	.675	
From the perspective of your partner, how is the performance of the IJV evaluated?	<b>EIJVs</b>	<b>73</b>	4.10	1.043	<b>-.609</b>
	<b>NEIJVs</b>	<b>38</b>	4.21	.704	
Our firm is satisfied with the financial performance of the collaboration.	<b>EIJVs</b>	<b>73</b>	3.99	.965	<b>1.215</b>
	<b>NEIJVs</b>	<b>38</b>	3.76	.820	
Our partner firm seems to be satisfied with the financial performance of the collaboration	<b>EIJVs</b>	<b>73</b>	3.99	1.007	<b>1.132</b>
	<b>NEIJVs</b>	<b>38</b>	3.76	.943	
Our firm is satisfied with the overall performance of the collaboration.	<b>EIJVs</b>	<b>73</b>	4.00	1.00	<b>1.663*</b>
	<b>NEIJVs</b>	<b>38</b>	3.68	.842	
Our partner firm seems to be satisfied with the overall performance of the collaboration	<b>EIJVs</b>	<b>73</b>	4.04	1.047	<b>.887</b>
	<b>NEIJVs</b>	<b>38</b>	3.87	.811	
To what extent has the IJV created new opportunities for your firm?	<b>EIJVs</b>	<b>73</b>	3.97	1.105	<b>1.362</b>
	<b>NEIJVs</b>	<b>38</b>	3.68	.962	
Our cooperation with this partner has contributed to growth in our firm.	<b>EIJVs</b>	<b>73</b>	3.86	1.018	<b>.802</b>
	<b>NEIJVs</b>	<b>38</b>	3.71	.802	
This relationship provides our firm with many strategic benefits.	<b>EIJVs</b>	<b>73</b>	4.11	1.008	<b>.945</b>
	<b>NEIJVs</b>	<b>38</b>	3.95	.769	
The objectives for which the collaboration was established are being met.	<b>EIJVs</b>	<b>73</b>	3.95	1.039	<b>.664</b>
	<b>NEIJVs</b>	<b>38</b>	3.82	.834	

\* P < .1; \*\* P < .05; \*\*\* P < .01

Table 7.5 shows the results for Hypothesis 2. The differences in means are not significant for the overall performance measures. It is clear that the perception of the importance of national cultural differences does not affect the overall perception of performance. However, small differences in the extent to which the ISAs have created new opportunities in non-equity alliances are apparent. The perceived cultural differences have, to a small degree, helped firms in NEAs to create future business opportunities. Thus, Hypothesis 2 is not supported.

**Table 7.5: T-test (Culture and Performance)**

How important have the differences in <i>national</i> culture been on the overall performance of the alliance'?													
		All Sample				Equity IJV				Non-equity IJV			
	Groups	N	Mean	SD	t-value	N	Mean	SD	t-value	N	Mean	SD	t-value
<b>P1</b>	Important	64	4.19	.794	.731	42	4.12	.916	.376	22	4.32	.477	.868
	Not Important	47	4.06	.987		31	4.03	1.048		16	4.13	.885	
<b>P2</b>	Important	64	4.17	.918	.479	42	4.17	1.010	.672	22	4.18	.733	-.291
	Not Important	47	4.09	.974		31	4.00	1.095		16	4.25	.683	
<b>P3</b>	Important	42	4.33	.928	1.185	42	4.33	.928	1.185	0			
	Not Important	31	4.06	.998		31	4.06	.998		0			
<b>P4</b>	Important	67	4.05	.916	1.947*	42	4.10	1.008	1.105	22	3.95	.722	1.984*
	Not Important	47	3.64	1.206		31	3.81	1.223		16	3.31	1.138	

**P1:** From the perspective of your firm, how is the performance of the IJV evaluated?

**P1:** From the perspective of your partner, how is the performance of the IJV evaluated?

**P3:** From the perspective of the IJV, how is the performance of the IJV evaluated?

**P4:** To what extent has the IJV created new opportunities for your firm?

\* P < .1; \*\* P < .05; \*\*\* P < .01

Cut off point (3)

The results in Table 7.6 show the degree of correlation between partners' performance assessments. It shows that the differences between partners' ISA performance assessments are not far from each other. The assessment between the partners correlates slightly more highly when the local partner perceives national cultural differences as not important, compared to when they are perceived as important. Thus, the results offer weak support for Hypothesis 3.

**Table 7.6: Correlation- Performance and cultural Distance**

Subjective performance	All	National culture not important	National culture important
How is the performance of the IJV evaluated	.742***	.776***	.718***
The firm is satisfied with the financial performance of the collaboration	.875***	.928***	.834***
The firm is satisfied with the overall performance of the collaboration	.834***	.892***	.785***

\* P < .1; \*\* P < .05; \*\*\* P < .01

Regression Model Two (in Table 7.7) shows a significant relationship between performance satisfaction and the two independent variables, cultural distance and cultural understanding. It shows positive and significant relationships with both of them, with coefficients of 0.215 (P < .05) for cultural distance, and 0.300 (P < .01) for cultural understanding. The model has significant F value (P < .01), and it has an explanatory power of (R<sup>2</sup>) of 22.5 %. Thus, the results offer strong support to Hypotheses 4 and 7.

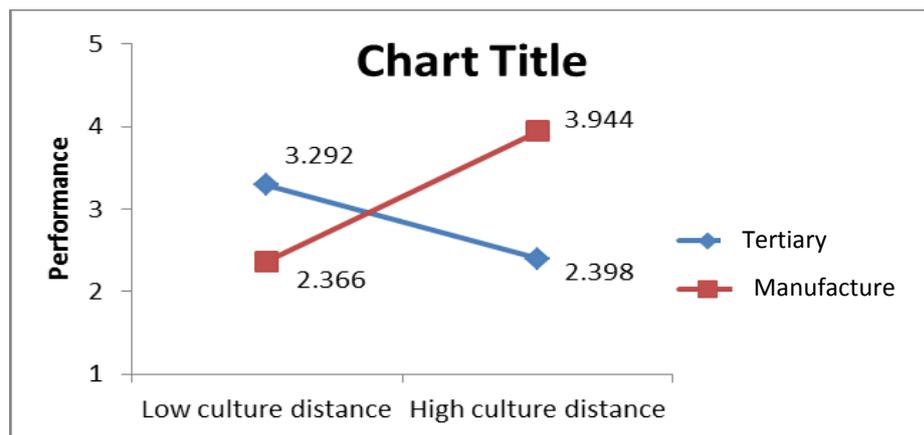
The control variable ISA age shows a significant and positive, albeit small, relationship with performance satisfaction, with a coefficient of 0.015 (P < .1). Other control variables do not show any significant relationship with performance.

**Table 7.7: Multiple Regressions- Performance and Culture**

	Variables	Model one	Model 2	Model 3
<b>Control</b>	Constant	-.776***	-.719**	.013
	JV age	.009	.015*	
	Size	.091*	.074	
	Form	.192	.194	
	Industry	-.073	-.166	.155
	Partner economic status	.222	.196	
<b>Independent</b>	Perceived Culture Distance		.218**	.171**
	Culture understanding		.300***	
<b>Moderating</b>	Culture distance X Industry			.618***
<b>R<sup>2</sup></b>		.078	.225	.143
<b>F value</b>		1.764	3.669***	7.496***

\* P < .1; \*\* P < .05; \*\*\* P < .01

**Figure 7.2: Interactions- Industry X Culture Distance**



The result of the interaction effect in Table 7.7 (Model 3) is showing a significant result. The interaction between cultural distance X industry (0 if tertiary) is showing a positive and significant relationship with performance, with a coefficient of 0.618 ( $P < 0.01$ ). The result means that the cultural distance significantly enhances manufacturing alliances' performances (see figure 7.1). On the other hand, tertiary alliances seem to react negatively the higher the cultural distance. The result gives support to Hypothesis 6.

**Table 7.8: Multiple Regressions–Mediations Culture Distance, Performance, and Knowledge Acquisition**

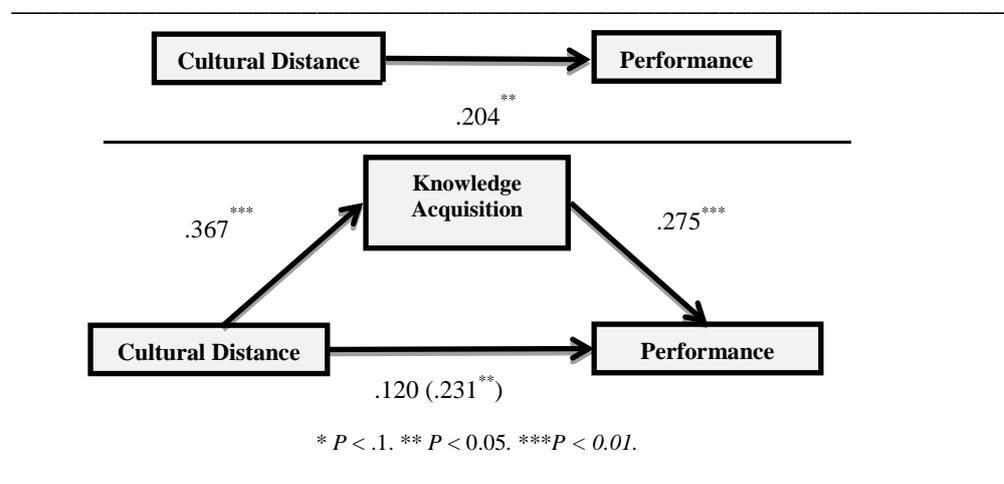
	<b>R</b>	<b>R<sup>2</sup></b>	<b>R<sup>2</sup> change</b>	<b>Beta</b>
<b>Analysis one:</b>				
Culture distance on Performance	.204	.042		.204**
<b>Analysis two:</b>				
Culture distance on Knowledge acquisition	.367	.135		.367***
<b>Analysis three:</b>				
Step 1: Knowledge acquisition Performance	.275	.075		.231**
Step 2: Culture distance Performance	.296	.088	.012	.120

Note: \* =  $P < .1$ , \*\* =  $P < .05$ , \*\*\* =  $P < .01$

To test Hypothesis 5, multiple regression analyses were conducted (see Table 7.8) to assess each component of the proposed mediation model. First, it was found that cultural distance was positively associated with performance satisfaction 0.242 ( $P < .05$ ). It was also found that cultural distance was positively related to knowledge acquisition 0.367 ( $P < .01$ ). Lastly, results indicated that the mediator, knowledge acquisition, was positively associated with performance 0.275 ( $P < .01$ ). Because both the a-path and b-path were significant, mediation analyses were tested using the bootstrapping method with bias-corrected confidence estimates (MacKinnon, et al., 2004; Preacher and Hayes, 2004). In the present study, the 95% confidence interval of

the indirect effects was obtained with 1000 bootstrap resamples (Preacher and Hayes, 2008). Results of the mediation analysis confirmed the mediating role of knowledge acquisition in the relationship between cultural distance and performance ( $B = .085$ ;  $CI = .016$  to  $.199$ ). In addition, results indicated that the direct effect of cultural distance on performance became non-significant  $0.120$  ( $P > .1$ ) when controlling for knowledge acquisition, thus suggesting full mediation. The Sobel test shows that the indirect effect of culture distance on performance through knowledge acquisition is significant ( $p < .05$ ). The result gives strong support to Hypothesis 5.

**Figure 7.3:** The indirect effect of Cultural distance on performance through Knowledge acquisition.



To test Hypothesis 8, the same procedure was followed as for Hypothesis 5 (see Table 7.9). First, it was found that cultural understanding was positively associated with performance  $0.282$  ( $P < .01$ ). It was also found that cultural understanding was positively related to level of communication  $0.467$  ( $P < .01$ ). Lastly, results indicated that the mediator, level of communication, was positively associated with performance  $0.506$  ( $P < .01$ ). Because both the a-path and b-path were significant, mediation analyses were tested using the bootstrapping method with bias-corrected confidence estimates (MacKinnon, et al., 2004; Preacher and Hayes, 2004). In the present study, the 95% confidence interval of the indirect effects was obtained with 1000 bootstrap resamples (Preacher and Hayes, 2008). Results of the mediation analysis confirmed the mediating role of knowledge acquisition in the relationship between cultural understanding and performance ( $B = .224$ ;  $CI = .092$  to  $.392$ ).

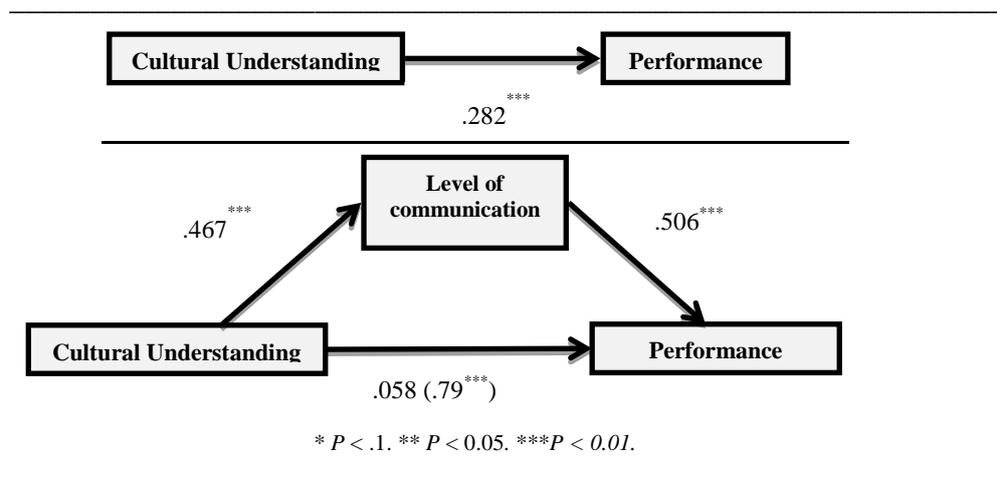
**Table 7.9: Multiple Regressions–Mediations Culture Understanding, Performance, and Level of Communication**

	R	R <sup>2</sup>	R <sup>2</sup> change	Beta
<b>Analysis one:</b> Culture understanding on Performance	.282	.080		.282***
<b>Analysis two:</b> Culture understanding Level of communication	.467	.219		.467***
<b>Analysis three:</b> Step 1: level of communication on Performance	.506	.256		.479***
Step 2: Culture understanding on Performance	.509	.259	.003	.058

Note: \* = P < .1, \*\* = P < .05, \*\*\* = P < .01

In addition, results indicated that the direct effect of cultural understanding on performance became non-significant 0.058 ( $P > .1$ ) when controlling for level of communication, thus suggesting full mediation. The Sobel test shows that the indirect effect of culture understanding on performance through level of communication is significant ( $p < .01$ ). The result gives strong support to Hypothesis 8.

**Figure 7.4:** The indirect effect of Cultural understanding on performance through level of communication.



### 7.4.2. Discussion

The study first considered the relationship between alliance modes and subjective alliance performance. It then looked into how cultural distances affect alliance performance. We compared alliance performance perceptions between partners who perceived cultural distance as important or not important. The first two hypotheses were derived from the work of Glaister and Buckley (1998). It should be noted though, that this study has a different research context. Glaister and Buckley (1998) used UK data, while this study offer an extension to their study and focus on developing countries and

Saudi Arabian perspectives. Thus, the conclusion of this study will build upon existing findings and help to build understanding within the alliance performance literature. Adding this different perspective to the literature will increase depth of knowledge.

The study attempted to better understand and explain the role of cultural distance, especially in the Saudi context. The Saudi business environment is dominated by speculations and stereotypes rather than hard facts, although stereotypes are usually based on similar experiences within a similar culture and context or within the same country. However, for a country that is part of the G20, a rigorous empirical study is needed to know how international partnerships work in Saudi Arabia. The context is interesting because it is different from many developing countries, and some may say unique.

The first hypothesis looked into the differences in means between the different alliance modes. The results were not significant, which in some ways was not surprising. They confirmed the findings of Glaister and Buckley (1998), who also found no significant differences. Firms enter alliances with goals in their minds, and usually will choose the best mode that serves their interest. Furthermore, to understand the differences better, we analysed the data and looked at how the differences in modes varied across industries (see Tables 3 and 4 in Appendix D). The results were consistent, and no differences between means were significant. Thus, we can comfortably generalize the findings across industries.

The second hypothesis states that performance assessment of the local partner is not affected by cultural distance. The results showed that whether cultural distance is felt to be important or not has no effect on performance, as both are enjoying relatively high performing alliances. Table 7.5 shows that alliances where cultural distance is perceived to be important have relatively higher means, though not significantly so. This is in contrast to what was expected, and in line with Glaister and Buckley's (1998) findings. The results show that even across alliance modes the performance evaluation is consistent with the whole sample. This shows that cultural distance did not affect the performance evaluation.

Limited support is shown for the third hypothesis. A partner whose cultural distance is not important will most likely have similar performance assessments. However, the differences were not high, and they were very close to each other. It was expected that

cultural similarities would mean compatibility of goals, while partners from culturally distant countries might have different goals. Differences mean that despite the different goals there is understanding of foreign partners' goals and mutual satisfaction. Ali (2009: p. 172) has touched on this issue slightly, raising points that might justify these results. He argued that Arabs in general look for a win-win situation "where compromise and parity are enhanced". This means that Saudis may be aware of their foreign partners' goals, and do their best so they can reach their goals.

The Saudi culture is different, with huge influences from Islamic and Bedouin traditions, which are reflected in how business is conducted and managed in this country. However, it is these particular differences which make the relationship between cultural distance and performance different and enriching. The need to access a new, lucrative market and the need to access certain competencies and learn new skills have created a favourable partnership. This study has considered the role of cultural distance in alliance performance. A positive relationship was expected because of the learning effect of cultural distance, which has been supported in the literature. Knowledge acquisition has mediated the relationship between culture and performance. Learning is instrumental to Saudi firms, their fast-growing economy, and huge government spending on infrastructure projects have pushed Saudi firms to seek partners who possess skills and technology they lack. This has provided an opportunity to foreign firms looking to enter the Saudi market. Glaister and Buckley (1999) have acknowledged the benefits of choosing a partner with a dissimilar culture in order to learn, and "thus expand the capabilities of the organisation then this may be a source of strength to the alliance".

Culture similarities have been argued in some part of the literature as a main factor for alliance success (Murray and Kotabe, 2005). Moreover, differences for many researchers can be a cause for a failure (Lyles and Salk, 1996; Killing, 1983; Beamish 1985; Shenkar and Zeira, 1992). Sambasivan and Yen (2010) argued that the success spur form the fact that similarities build transparency, mutual respect, and trust. They argued that successful alliances between culturally distance partners are difficult to achieve. However, the findings of this study prove that culture distance has, through learning, a positive impact on the alliance performance. Sirmon and Lane (2004) have noted that cultural differences may have an indirect positive effect; they may alert

managers and prompt careful planning and communication to overcome any difficulties, which in return will have a positive impact on performance.

The study has explored the role of cultural understanding in performance, which is essential for the success of alliances. The absence of cultural understanding may hinder the benefits of cultural distance; a stance shared by Glaister and Buckley (1999), who linked the benefits of cultural distance with the condition that partners “recognise and appreciate the differences in culture”. The findings have empirically confirmed the importance of cultural understanding. In our view, the importance of cultural distance lies in its role in establishing a healthy communication between alliance partners, which is essential to alliance success; which has been confirmed in this study as well.

Saudis influenced by the Western quest for oil might have shaped in part the Saudi management and business culture through the presence of big oil companies (Hickson and Pugh, 1995). The presence of large Western oil companies accompanied the building of the country. Some Saudi firms were started by former employees of these large oil companies, or have to adhere to the standards set by these companies. Thus, these firms became familiar with the culture of multinationals and their business structures, despite the wide national culture. This explanation might be true for firms in oil, and petrochemical supporting industries, especially the firms located in the eastern region. However, it cannot be generalized to all firms in Saudi. This might explain the understanding of large multinationals and Saudi firms of each other’s national culture.

Teitelbaum (2002) has noted that the introduction of the internet, satellites, and ease of travel have opened a window for Saudis to the outside world. This, along with other reasons, might have raised understanding, but we cannot be certain as there is no comparative study to measure the differences between the past and the present. Ali (2009) has pointed out that Arabs are fascinated by Western culture, especially American culture, and thus tend to be more receptive to their messages. The results challenge Alnatheer and Nelson (2009) who have claimed that cultural differences in the Saudi context will hinder technology transfer. They also contradict the claims of Hill, et al. (2000), who have argued that Saudis (apart from the few educated abroad) lack understanding of Western culture, which has hindered the assimilation of Western technology.

Brown, et al. (1989) and Lane and Beamish (1990) have reached a conclusion that compatibility of organizational culture is more important than similarity of national culture. Sirmon and Lane (2004) have noted that cultural differences may have an indirect positive effect; they may alert managers and prompt careful planning and communication to overcome any difficulties, which in return will have a positive impact on performance.

The study has helped to explain to some extent the relationship between culture and performance, which has been puzzling. There were many contradicting findings where culture effects swing between positive, negative, or no effect. The findings here may allow the argument that with the existence of learning intent, cultural distance can prove to be beneficial. Nevertheless, it is difficult to generalize the findings across all alliances. This argument should be tested in relation to competing firms, or in cases where both partners are from developed economies, where the risks of losing certain competencies outweigh gains.

## **7.5. Conclusion**

This study has presented interesting findings that will add to the existing rich strategic alliance literature. National cultural distance has been the centre of much debate among researchers, with conflicting results. The findings of this study have proved the positive effects of cultural distance through facilitating learning. It has also shed light on the sensitivity of cultural understanding and its effects on performance and communication between partners. The Saudi context is an ideal context for this study. A country with a culture deeply rooted in its heritage and religion, whilst also developing, has an international appeal and mystery.

The results of this study pave the way for future studies to better understand the relationship established in this study; in particular, the nature of knowledge acquired and its relationship to cultural distance. Future studies could look into partner motivation and how it has shaped the culture/performance relationship. Furthermore, it would be ideal to look into the perspectives of foreign partners operating in Saudi Arabia. Longitudinal studies will provide deeper understanding of alliance performance, and how cross relations evolves.

# Chapter Eight: Summary and Conclusion

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## 8.1. Introduction

This thesis has begun by examining theoretical perspectives on ISA formation. It has also reviewed the classic literature on culture, learning, and performance in ISAs. Considering the uniqueness of the context and the fact that some of the hypotheses are context-related, an overview of Saudi Arabia has been included as a part of the literature review. Following this, a detailed presentation of the study's methodology is followed by analysis of the study data, divided on four empirical chapters. The main aim of this chapter is to re-present the study and summarize the findings, and to discuss the managerial implications of the findings. Finally, the chapter will conclude by acknowledging the study's limitations, and making suggestions for future research areas.

## 8.2. Background and Aims of the Study

The lack of any empirically supported assumptions regarding the nature of ISAs in Saudi Arabia provided the main motivation to conduct this study. Furthermore, there is a need to better understand strategic motives and partner selection criteria, knowledge acquisition success factors and impediments, and how culture can positively or negatively influence ISA performance.

The thesis has two main aims. The first is to identify Saudi firms' motivations and selection criteria. The second is to understand the factors affecting the performance of ISAs. The study aims were to answer the following questions:

- Question 1: What are the main motivations for engaging in ISAs in Saudi Arabia? (Chapter 4)
- Question 2: On what basis do firms select their partners? How far are their decisions influenced by their motivations? (Chapter 4)
- Question 3: What are the factors affecting learning within ISAs? (Chapter 5)
- Question 4: How far do cultural factors affect the performance of ISAs? (Chapter 6 and 7)

The findings of this study are a stepping-stone towards comprehensive understanding of the success factors of ISAs. The study contributes to fill the gap left by the lack of the research on the Middle East. The study has proved that particular assumptions relating to developing economies' motivations and partner selection criteria are not universal. Socio-political factors play an important role in shaping firms' strategies. The study has provided empirically backed assumptions on the nature of the relationship between performance, trust and culture.

### **8.3. Research Methods of the Study**

The main aim of the methodology is to adopt the most appropriate methods to answer the study's research questions. Despite the global interest in investing in the Saudi market, there is an absence of academic studies relating to ISAs in the Saudi context. The country has received little management research attention, even in comparison with other Middle Eastern countries (Dedoussis, 2004; Noer, et al., 2007; Alnatheer and Nelson, 2009). This has resulted in a shortage of data concerning many business and management areas (Alnatheer and Nelson, 2009; Al-Yahya, 2009; Al-ajmi, 2003; Al-Khatib et al., 2004), including studies on organizational performance and the effects of culture on business in Saudi Arabia (Idris, 2007). The key dimensions of the study could not, therefore, be obtained from any publicly available database. These limitations meant that the researcher had to contact the Saudi firms directly to obtain the necessary level of detail needed. The goal was to generate data from as large a sample as possible. Taking into account time and cost constraints, questionnaire survey was the ideal tool with which to achieve the study's goals.

The development of the questionnaire was guided by the literature review, consultation with experts, and a pilot test. Furthermore, to confirm the accuracy of the translation, the questionnaire went through a process of back-translation. The items used in the study were adopted from measures previously tested within existing literature. These were then tested in new contexts. It is common to use methods from established previous studies as criterion for choosing data collection methods. The survey was conducted by a self-administered instrument, delivered via the internet to the target sample. The target group was internet, and email dependent when conducting business (Idris, 2007).

The study was based on a statistical quantitative survey, which tested the developed hypotheses. It took a cross-sectional approach, with minimal interference. The questionnaires on ISA performance were collected directly from those involved. The survey was carried out in Saudi Arabia between January and May 2012.

Given the nature of the information being sought, the sample units (which included CEOs, VPs, GMs, and PMs) could be expected to have had first-hand experience in managing or negotiating ISAs in Saudi Arabia. No data were available regarding the precise size of the survey population; the estimated number of units varied considerably between government agencies and other publications. Empirical studies have always faced a number of limitations and challenges, especially in emerging markets and in Saudi in particular (Robertson, et al., 2013). In order to overcome this limitation, the study's sample was built using "The literature counting method".

There is a general lack of interest and unresponsiveness in Saudi towards participation in questionnaires and research-related activity. Thus, to increase the response rate we employed more than one method for collecting survey data. In addition, respondents were guaranteed anonymity, and were promised a summary report of the study's findings if requested. No systematic non-response bias was found.

#### **8.4. Summary of the Findings**

A summary of the hypotheses developed for this study can be found in Table 8.1, which also includes the level of support found for those hypotheses, and the type of statistical analysis used to test the hypotheses.

The study began by examining the strategic motivations for ISA formation, as well as partner selection criteria. It then examined the factors that influence knowledge acquisition. Finally, it analysed how trust and culture distance affect ISA performance. The study analysis is based on a sample of 134 ISAs in Saudi Arabia. The data were obtained from the Saudi partner. The main empirical findings of the study are summarized following the chapter order.

**Table 8.1: Summary of Hypotheses**

Hypotheses	Level of support	Statistical Analysis
<b>Chapter 4: Strategic Motives of ISAs: Saudi Firms' Perspective</b>		
<b>H1.</b> <i>From the perspective of Saudi partners, the importance of the strategic motives for ISA formation in Saudi Arabia will differ significantly between Saudi partners and foreign partners.</i>	Supported	Two Sample t-test
<b>H1b.</b> <i>From the perspective of Saudi partners, foreign firms' main motives would be market access and partner local knowledge respectively.</i>	Strong Support	Two Sample t-test
<b>H1c.</b> <i>From the perspective of Saudi partners, local Saudi firms' main motives would be access to complementary technology.</i>	Partial support	Two Sample t-test
<b>H2a.</b> <i>From the perspective of Saudi partners, the Saudi firms' task-related selection criteria will be determined by the strategic motives for ISA formation.</i>	Supported	Factor Analysis; Multiple regression
<b>H2b.</b> <i>From the perspective of Saudi partners, the Saudi firms' partner-related selection criteria will be determined by the strategic motives for ISA formation.</i>	Supported	Factor Analysis; Multiple regression
<b>H3.</b> <i>From the perspective of Saudi partners, the Saudi firms' task-related selection criteria will be determined more strongly by the strategic motives for ISA formation than will the Saudi firms' partner-related selection criteria.</i>	Supported	Factor Analysis; Multiple regression
<b>Chapter 5: The Determinants for Knowledge Acquisition in ISAs</b>		
<b>H1.</b> <i>From the perspective of Saudi ISA partners, knowledge acquisition is negatively related to the extent to which the knowledge of the foreign partners is tacit</i>	Supported	All Hypothesis were tested using hierarchical multiple regression
<b>H2.</b> <i>From the perspective of Saudi ISA partners, knowledge acquisition will be higher in the Saudi firms with greater number of foreign expatriates compared to those with smaller number of foreign expatriates.</i>	Not Supported	
<b>H3.</b> <i>From the perspective of Saudi ISA partners, knowledge acquisition is positively related to the level of communication between the Saudi firms and the foreign partners.</i>	Supported	
<b>H4.</b> <i>From the perspective of the Saudi ISA partners, knowledge acquisition is positively related to the level of personal trust between the top managers of the Saudi firms and the foreign partners.</i>	Not Supported	
<b>Chapter 6: Trust on ISAs</b>		
<b>H1.</b> <i>From the perspective of Saudi firms, personal trust is positively related to ISA performance.</i>	Supported	All Hypothesis were tested using hierarchical
<b>H2.</b> <i>From the perspective of Saudi firms, distrust is negatively related to ISA performance.</i>	Supported	

<b>Hypotheses</b>	<b>Level of support</b>	<b>Statistical Analysis</b>
<b>H3.</b> <i>From the perspective of Saudi firms, the negative relation between distrust and ISA performance will be higher when industry unpredictability is high.</i>	Not Supported	multiple regression
<b>H4.</b> <i>From the perspective of Saudi firms, competence trust is positively related to ISA performance.</i>	Supported	
<b>H5.</b> <i>From the perspective of Saudi firms, the positive effect of competence trust on ISA performance is moderated by distrust.</i>	Supported	
<b>H6.</b> <i>From the perspective of Saudi firms, level of communication mediates the relationship between personal trust and ISA performance.</i>	Supported	
<b>H7.</b> <i>From the perspective of Saudi firms, the positive effect of the perceived level of communication on ISA performance is more apparent in equity alliances.</i>	Supported	
<b>Chapter 7: National Culture Differences and ISAs Performance</b>		
<b>H1.</b> <i>From the perspective of Saudi firms, the mean measure of subjective performance will not vary between organizational modes of alliance.</i>	Supported	Independent Sample t-test
<b>H2.</b> <i>The mean measure of overall satisfaction obtained from subjective measures of performance will be higher in those alliances where the perception and effect of national cultural differences are not important to the Saudi partner, compared to those for whom such differences are important.</i>	No Support	Independent Sample t-test
<b>H3.</b> <i>From the perspective of the Saudi partner, correlation between partners' assessments of ISA performance will be stronger in ISAs involving parents with the perception of national cultural differences is not important.</i>	Weak Support	Spearman rank-order correlation coefficient was
<b>H4.</b> <i>From the perspective of the Saudi partner, perceived cultural distance will be positively related to alliance performance.</i>	Supported	Hierarchical multiple regression
<b>H5.</b> <i>From the perspective of Saudi firms, the relation between cultural distance and performance is mediated by knowledge acquisition.</i>	Supported	Hierarchical multiple regression
<b>H6.</b> <i>From the perspective of the Saudi partner, perceived cultural distance relation to alliance performance will be moderated by alliance industry.</i>	Supported	Hierarchical multiple regression
<b>H7.</b> <i>From the perspective of the Saudi partner, cultural understanding will be positively related to alliance performance.</i>	Supported	Hierarchical multiple regression
<b>H8.</b> <i>From the perspective of Saudi firms, the relation between cultural understanding and performance is mediated by level of communication.</i>	Supported	Hierarchical multiple regression

### **8.4.1. Strategic Motives of ISAs: Saudi Firms' Perspective**

This chapter examines strategic motivations for ISA formation, as well as partner selection criteria. The highest ranked-strategic motives of Saudi firms are to enable diversification of products or services, to establish a presence in the market, and to enable faster entry to the market. On the other hand, the major strategic motives for alliance formation of the foreign firms are characterised by market entry and establishing business successfully. The relative importance of strategic motives for ISA formation is found to vary a little between Saudi firms and foreign firms.

The study also examines aspects of partner selection criteria for ISA formation from the perspective of Saudi partners. The study's findings show that the task-related selection criteria are determined slightly more by the strategic motives for ISA formation than are the partner-related selection criteria. This confirms that task-related selection criteria tend to be specific to the alliance, whereas partner-related selection criteria are more general in nature. However, the slight differences are an indication of the importance of the nature of the partner from the perspective of the Saudi firm. The chapter answers the first and second research questions "What are the main motivations for engaging in ISAs in Saudi Arabia?" and "On what basis do firms select their partners? How far are their decisions influenced by their motivations? ".

### **8.4.2. The Determinants for Knowledge Acquisition in ISAs**

The fifth chapter aimed to answer the third research question "What are the factors affecting learning within ISAs?" It examined the determinants of knowledge acquisition in ISAs. It looks into the impact of the following factors: knowledge tacitness, the role of expatriates, communication, and trust in knowledge acquisition.

The results illustrated that knowledge tacitness negatively affects knowledge transfer. The result is consistent with the literature findings. The study offers an extension to the hypothesis and tests it in a different institutional context. The nature of the tacit knowledge makes it difficult for Saudis to transfer it successfully. This is due to their nature of their institutions and their lack of skills in comparing themselves with their partner firms.

The second factor, which shows a significant relationship with knowledge acquisition, is the level of communication. It is a factor that, generally, has been mainly treated as a

control or passive factor in the strategic alliance literature. However, we argue that, in a high context culture, it has great importance and impact. The results are important, because it proves the positive weight of the satisfactory level of communications between partners in the ISA.

The third factor is trust. Trust is of high importance in Saudi society; it extends to business dealings. The results in the first chapter have illustrated that trust can influence the partner selection criteria. Hence, we expect trust between partners to be influential in effectively acquiring knowledge. The results, although the hypothesis was rejected, are of high importance in better understanding the role of trust in ISAs, especially in terms of knowledge acquisition. It shows that trust, although important in the selection of the partner and overall performance, cannot affect the rate of knowledge transfer. It adds to the ISA trust literature and contributes to our understanding of where and when trust can be the most influential.

The fourth is how expatriates are affecting the knowledge transfer rate. In Saudi Arabia, the number of expatriates is huge in the private sector; they are the dominant force. Despite the fact that the Saudi markets attract foreign workers all over the world with its opportunity and economic growth, Saudi Arabia is facing local unemployment issues. Among the many reasons for this is the Saudi preferences and trust in foreign workers who are considered superior and better skilled than their Saudi counterparts. However, there are no empirical studies that have assessed the expatriates in Saudi Arabia (a situation shared by other gulf states) and how they affect ISAs in Saudi Arabia.

The results have illustrated that the number of expatriates has no effect on knowledge transfer, despite their expertise, skills, training, and cultural understanding. As in trust, although the hypothesis was rejected, the results will be of huge importance. The effect of expatriates was taken for granted by firms and policy-makers. However, it shows that the mere presence of a skilled and experienced workforce is not enough to achieve the goals of acquiring knowledge. The results could encourage further research on the role of expatriates in transferring knowledge, including what the factors are that might boost or hinder their contribution. In the discussion section of Chapter 5 (Section 5.4), we attempted to explain the results from the literature; however, future empirical studies are encouraged.

### **8.4.3. Trust in ISAs**

This chapter has distinguished personal trust, which individuals hold for each other, from organizational trust. It has also identified the effect that trust (or distrust) between top executives has on the partner firm's abilities. This chapter examines the effects of trust dimensions (trust, distrust, and competence trust) on the performance of ISAs within the Saudi context. The results show that personal and competence trust both correlate positively with performance, while distrust has a negative relationship. Personal trust has proved to be the most influential among the other kinds of trust in this study. It also shows that competence trust is moderated by distrust. However, distrust, when moderated with industry predictability, did (surprisingly) show a positive relationship with performance. In chapter 6, discussion section, we have explained the results in details. Communication was found to mediate the relationship between personal trust and performance, which reflects positively on ISA performance. The positive influence of communication on ISAs is found to be more apparent in equity alliances. The chapter partially answers the research question 4 “How far do cultural factors affect the performance of ISAs?”

### **8.4.4. National Cultural Differences and ISA Performance**

This chapter and analysis presents interesting findings which add to the existing rich ISA literature.

Chapter 7 looks into the factors that affect ISA performance with focus into cultural distance. Cultural distance has been researched extensively in the literature; however, the conflicting results and findings have made it difficult to have conclusive evidence on the cultural distance effects on ISA performance.

The conflicting results in the literature have created a gap in better understanding when and where cultural distance has a negative, positive, or no effect on ISA performance. This has created a gap that we have attempted to bridge.

Malik and Zaho (2013) illustrated a correlation between cultural distance and learning. The knowledge transferred and the learning in ISA enhances alliance performance (Pak, et al, 2014). Since Saudi are motivated by combining resources and foreign knowledge, knowledge acquisition forms a big part behind the creation of the ISA. Thus, we expect that cultural distance will have a positive effect on ISA performance through its positive influence on knowledge transfer.

The data analysis shows that cultural distance has a positive impact on ISA performance, contrary to the general assumption of a negative effect. Cultural distance has a positive effect on learning, and thus, on performance.

We expect that the alliance industry will moderate the relationship between cultural distance and performance. The results have supported the hypothesis, with manufacturing alliances reaping most of the benefits. This result further contributes to our understanding as to where and when cultural distance can influence ISA performance.

Understanding of a partner's culture shows a positive association with ISA performance. It also explains the relationship between cultural understanding, communication, and performance. It shows that communication mediates the relationship between culture, understanding and performance.

## **8.5. Contributions of the Study**

By tapping into the Saudi sphere, the study has made a valuable contribution to the literature. In international business research, context is highly significant, due to the different macro and micro factors present. The Middle East in general and the GCC in particular are lacking empirical research, despite the increasing investment interest across the world. Inflow FDI to the GCC increased by over 3800% between 2002 and 2008 alone (Toone, 2012), although in the wake of the global financial crisis the FDI inflow has recently plummeted. The importance of developing world economies is increasing; according to UNCADT (2013), for the first time in history, developing economies absorbed more FDI than developed countries.

It is therefore important to test existing established theories against the empirical evidence from developing countries, which are surrounded by factors different from the conventional developed economies. As we have stated earlier in the first chapter, the local context is of extreme importance in international business research. MacDuffie (2011) argues that it is best to provide country-specific as well as general hypotheses where the data allows for testing both types.

This thesis faced many obstacles in terms of collecting the necessary data to conduct this study. There were no databases available to withdraw data from. Hence, I had to

build a database from scratch. To accomplish this, I followed “the literature counting method”.

Thus, by explaining the difficulties I experienced, I believe that I will help people that conduct future studies on Saudi Arabia to avoid some of the associated difficulties that I faced. The suggestions for future studies can also be of great help for future researchers interested in doing their studies on Saudi Arabia and in the context of the ISA.

The study contributed substantially to scholars and practitioners interested in ISA performance antidotes in developing economies, and Saudi Arabia, in particular. The difficulty was the lack of research concerning this area; this means that data was rare. Despite that, in this study, we managed to achieve the research objectives.

Many theories, studies, and approaches have attempted to explain the rationales for ISAs formations. There is no grand theory that explains all the different motives for engaging in international alliances. Hence, this study, to avoid pluralism, has adopted multiple theoretical frameworks. The study attempts not to develop a new theory of ISAs, but to examine existing perspectives in different settings. The existing theories are based on Western developed economies; this study provides an interesting test as Saudi Arabia is a unique, and single-crop economy, it is vast and growing. It is a developing economy, yet very wealthy. The motivation of Saudi firms is not explained by transaction cost theory. Rather, the resource-based view and organizational learning provide better explanations for the motivations of Saudi firms.

The findings of chapter 4 contribute to the strategic alliance motivation and partner selection criteria literature in several ways. First, the empirical results contribute to better our understanding of firms’ strategic motivations, differentiating between the different developing economies, taking into account key institutional differences. Thus, the results help us to better understand the similarities and differences among the firms from developing economies. It also identified the foreign firms’ motivations, when partnering with Saudi firms.

The study differentiates between developing countries and argues that the motives of ISA formation are context dependent. The study has argued that emerging markets firms’ motivations and selection criteria differ. This adds to the existing literature by breaking the cluster into different groups according to their institution and economic state. The results will further enrich the existing literature with important details.

Furthermore, the results from this study uncover information about Saudi firms and their motivations.

The Middle East is a largely neglected area in term of business and management research studies, although in the past decade, it witnessed a great influx of western investment. The Middle East was largely treated as one entity in the literature; this research will encourage future studies in the GCC area. Theoretically, the study has given empirical support to the Hitt, et al. (2000, 2004) studies by proving that institutional factors affect the partner selection criteria.

The results of the study have highlighted the role of trust and reputation in alliance formation decisions. Recently, Stern, et al, (2014) called other scholars to incorporate reputation and status in any model examining alliance formation. This study illustrates how important reputation is for Saudi firms when selecting their foreign partners.

Stern et al. (2014) investigated how reputation and the status of firms' founders can influence firms' decisions to form an ISA with emerging firms. Their results indicate that a negative reputation and status have stronger effects than positive signals. Although their study context is in technology-driven industries, along with the results from this study, it shows the weight of reputation in the strategic selection criteria.

This study also illustrated how important trust is for alliance formation, especially in the Saudi context. Although partner selection criteria are generally less important than task selection criteria, in this context, trust is showing a strong association with the ISA selection criteria.

Learning and knowledge transfer are one of the main motivations for firms to engage in SAs. The results from chapter 5 offer an insight to some of the factors that can contribute to positive outcomes. Although, the study does not offer a complete test of all complex factors that affect knowledge acquisitions, it does provide an important contribution to understanding the factors that contribute to better understanding. The findings lay foundations and provide direction for future studies to consider in detail how Saudi firms can maximize their learning. The failure (over many decades) of Saudi firms to break away from complete dependence on foreign knowledge and expertise make the findings more instrumental.

This study has examined the effects of knowledge tacitness, numbers of expatriates, levels of communication, and personal trust on knowledge acquisitions. The argument

relating to knowledge tacitness is straightforward: we expected that the weak Saudi knowledge base would mean that they were affected by this factor. The number of expatriate workers is very high in the Saudi private sector; the reason for this is their superiority in terms of skills and expertise in comparison to local workers. The role of expatriates in firms has been neglected, and the study contributes to awareness of how numbers of expatriates can affect knowledge acquisitions. The role of expatriates in firms has been neglected; hence, the study contributes to the awareness of how numbers of expatriates can affect knowledge acquisition. Although expatriates had no effect on knowledge acquisition in ISAs, the possible reasons could be valuable for Saudi in understanding their failure at reaping the benefits. The lack of intrinsic motivation, uncertainty, sense of belongings, and strong in-group culture all might be possible explanations of why expatriates, despite their technical skills and competence, are not significant factors in knowledge acquisition.

The study also contributes to understanding of how personal trust affects ISAs through knowledge acquisitions, which despite its weight on ISA has not effect on the success of knowledge acquisition. Trust can facilitate the transfer, but it does not help assimilating the knowledge, which requires a different set of competencies. The role of communication in SAs is minimized in the literature. It is expected that communication is an influential factor in determining the success of knowledge acquisition in ISAs, and the findings therefore proved to be valuable contributions towards understanding of what can affect knowledge acquisitions between partners.

Alliance performance has received relatively little attention in the literature. This is due to many obstacles facing researchers when they attempt to measure performance. The study's main contribution is towards understanding of the factors that affects ISA performance.

The study in chapter 6 has examined the effects of trust on performance. Existing literature is full of contradicting and mixed results on trust, and has failed to establish direct or clear links between trust and performance. There is therefore a lack of empirical evidence on trust. The study has responded to calls from researchers for an in-depth study on trust. By breaking the concept of trust into different dimensions (personal trust, distrust, and competence trust) and testing them, the study has made a valuable contribution to the existing literature. Conceptually, the study has distinguished between trust dimensions; trust in previous studies has been treated as a

single construct. Dividing trust into different dimensions provides us with better understanding of how and when trust affects performance. Second, it also showed, through the use of mediating and moderating factors, how and where trust could influence ISA performance. Empirically the results showed that the trust dimensions are one of the main determinants of ISA performance.

This study has distinguished the personal trust that individuals hold for each other from organizational trust. It has also identified the effect that trust (or distrust) between top executives has on the partner firm's abilities. Personal trust has proved to be the most influential of all kinds of trust. Previous studies have discussed the influence of personal trust, though the results were not conclusive. Some studies have claimed that inter-partner trust is less influential than inter-firm trust (Ng, et al., 2007). Their rationale is that key personnel face changes, which makes interpersonal trust exposed to change and fluctuation (Ng, et al., 2007). However, this might not apply to Saudi firms, where the owners usually run the business. The different findings can be attributed to the different contexts. In the Saudi context, in particular considering the culture, the results are logical and very relevant. Generally, it is assumed that collectivist societies have high trust, and individualist societies have low trust. The rationale is that collectivist societies have a shared worldview, and relationships are of high importance within them compared to within individualists societies (Triandis, 1989, 1995; Chen, et al., 1998; Hofstede, 1980a, 1980b; Huff and Kelley, 2003).

The study contributes to the literature by understanding the relation between trust and environmental uncertainty. It shows how sensitive alliance performance is to the environmental uncertainty, and the fact that distrust can actually mitigate the negative performance is an important findings. It is clear that industry unpredictability is moderating the effect of distrust in this case. Krishnan, et al., (2006) have considered trust limitation, which may explain the result.

This limits the alliance partners' alertness, and thus their ability to respond to environmental uncertainty appropriately (Krishnan, et al., 2006). These environmental changes will affect the alliance's performance if not acted upon (Kogut, 1989).

The investigation of alliance performance has continued in chapter 7 to explore the effects of national culture. National cultural distance has been the centre of much debate among researchers, with conflicting results. Further, the perspective of developed

Western countries has dominated the literature. The study has contributed to our understanding of how cultural distance affects performance in developing economies. The study has provided the context of when and how it makes a difference. Conceptually and empirically, the study has made a valuable contribution to understanding the role of culture on ISAs.

We argued that cultural distance would have a positive effect on ISA performance through its positive influence on knowledge transfer. The knowledge transferred and the learning in ISA enhances alliance performance (Pak, et al, 2014). It also affects the knowledge acquisition process in ISA. Vasudeva (2013) argued that firms' institutional contexts are decisive on knowledge acquisition outcomes in an ISA. Countries vary regarding their knowledge acquisition approach and intentions.

The results have supported the first and second hypothesis in chapter 7, which can be a good contribution to the body of knowledge towards better understanding the cultural distance enigma. The conflicting results in the literature have created a gap in the understanding of when and where cultural distance has a negative, positive, or no effect on ISA performance.

The findings in this study establish the causal relationship between cultural understanding and ISA performance, which can push managers to invest more in cultural understanding training.

In conclusion, the present study investigated some core aspects of the management of international joint ventures with parent firms from Saudi Arabia. One contribution of the research was the extension of the existing empirical work to a new area of the world. The primary purpose of this study was to add to our knowledge on international business and to provide new evidence in the context of Saudi Arabia.

Although this study does not provide a complete test of all the complex variables affecting the performance of ISA, it provides a framework for integrating the different soft factors which affect ISA performance.

This study also develops several trust-related constructs (i.e. Personal trust, distrust, and competence trust) to thoroughly investigate how these constructs influence ISA performance. This was backed up with empirical evidence to support its relationship with performance. In so doing, this study contributes to the growing body of ISAs

research by combining elements from diverse theories, such as the resource-based view of the firm, transaction cost economics, organisational learning, and institutional theory. An important part of the study objectives was to expand the understanding of ISA cultural distance and trust and to provide a new empirical contribution. This study proposes and verifies several variables that moderate and mediate the cultural distance and trust constructs. This study developed an empirically testable framework of ISA cultural distance and trust and its relationship with performance.

## **8.6. Managerial Implications of the Study**

The study suggests that foreign firms are motivated by market entry, and that Saudi partner provides safe and quick solution to achieve this goal. Saudi firms, however, are not motivated by transaction costs theory, but more on accessing resources, expertise, skills, and diversification. Saudi firms seek to expand quickly to keep up with the demand and the growth of the local economies. However, Saudi firms are relying on one competitive advantage their “market knowledge” in attracting foreign partners. Foreign firms are gaining local experience; and Saudi government in attempt to encourage foreign investment are facilitating market entry, the ease of doing business, and modernizing legal system and arbitration courts. Therefore, in the future foreign firms might find fewer incentives to collaborate with local firms. Saudi firms should start building technical competencies, and not just play an intermediary role. Just recently, SAGIA have published its new investment pack, and it included some incentives for foreign firms (SAGIA, 2014). One of those is access to low interest loans, which means foreign firms will have fewer incentives to collaborate with the Saudi partner. There will be more studies on the Saudi market and business, government is working to improve the regulatory conditions. This means with time foreign firms will find it less risky to enter the market alone. Saudi firms should try to build competencies, and not relying on their market knowledge. Building capabilities will allow Saudi firms to compete with foreign firms when they enter the market, or motivate foreign firms to collaborate with the Saudi firms and share their experience and skills.

Saudis may be aware of their foreign partners’ goals, and vice versa. The predictability of Saudi motives should make it easier for foreign firms to enter the market and form a proposal that satisfies their Saudi counterparts. It will make the negotiation costs lower and will be a first step towards establishing mutual trust. The results of this study have

generally illustrated a great rate of ISA success in Saudi Arabia. According to Choi and Beamish (2013), the synergy effects of partners' complementary resources can drive the performance of the ISA. Nakos, et al (2014) indicated that alliances with non-competitors enjoy more success than alliances with competitors.

However, the dynamics of this relationship might change in the future. Foreign firms with regulation and institutional conditions improving in Saudi Arabia could mean the Saudi partners might be dispensable. On the other hand, Saudi firms could improve their competencies and directly rival the foreign firms; this may lead to rivalry or the protectiveness of core knowledge and competencies.

The literature suggests that competition can affect the firms ISA performance. In their study, Nakos, et al (2014) concluded that competition between firms can have a disparate direct and moderating effect on ISA performance. Nakos, et al (2014) indicated that alliances with non-competitors enjoy more success than alliances with competitors.

This implies that when the bridge is narrowed and the Saudi market grows in regulation, status, and business environment, it will reduce the uncertainty surrounding it. Hence, there will be a need for local knowledge. The emerging market will, in time, develop senior professionals equipped with in-depth local market knowledge, which might be a threat to the Saudi firms.

In Chapter 5, we discussed how employee motivation is an important element in successfully acquiring knowledge. Saudi firms are not reaping the benefits of having qualified and experienced expatriates. They depend on expatriate for their superior skills and expertise; however, their presence has not proved to be instrumental for the firms' knowledge acquisitions success. The failure to learn from established and well-known partner firms can be considered lost opportunities. Managers and owners should seize these opportunities and build a strong knowledge base and know-how. Thus, if the Saudi firms want to transfer the knowledge to their firm and decrease their dependency on foreign skills a change of approach might be required. Firms should either focus on training local workforce and build strong organizational culture; or try to address the issues of intrinsic motivation of expatriate. Focusing on building indigenous workforce and equip them with skills can pay dividends on the long run. Furthermore, Saudi firms should address the issues of intrinsic motivation of expatriate. Successful learning

requires commitment, and motivation, and companies needs to build that. Hence, firms should focus on building strong organizational culture, and sense of loyalty to increase their chances of successfully acquiring knowledge.

In chapters 5, 6 and 7, the study has established the importance of communication on knowledge acquisitions and ISA performance. The results have proved that level of communication is instrumental to knowledge acquisition and performance. Hence, firms engaging in alliances should ensure the flow of information by keeping the communication channels open and engaging in more dialogue formal or informal.

In chapter 6, trust has proved to be critical to the success of ISAs. It pays to spend some time on building trust, eliminating any fear of opportunistic behaviour. Saudis place high emphasis on trust when doing business, the absence of trust could lead partners to undermine each other.

Firms have always faced the challenge of building trust and preventing opportunistic behaviour in ISAs. Therefore, it is important for parent firms to develop imitative in order to build trust with their ISA counterpart, which affects their performance.

These environmental changes will affect the alliance's performance if not acted upon (Kogut, 1989). The findings have shown that distrust has a positive effect on the performance of ISAs in unpredictable industries. The results should alert managers to the risks of complacency in unpredictable industries, as it might damage their performance. It should also alert managers to a drawback of trust, which is reliance and dependency.

The results in chapter 7 show that cultural distance has proved to be valuable to the alliances, differences are seen to be source of knowledge. Saudi Arabia has a unique and strong local culture, firms investing in Saudi Arabia should understand the culture and prepare accordingly to increase their chances of success.

In addition, the findings established a causal relationship between cultural understanding and ISA performance. Both of these results should encourage managers to invest more in cultural understanding training. In the literature, culture adaptation was found to have mutual benefits in the international supply relationship (Jia and Lamming, 2013). In the literature chapter, Section 2.3.5., we presented some of the methods to manage cultural differences. Dong and Glaister (2009) discussed it extensively and suggested some forms of cross-cultural training (CCT) to develop

manager confidence and “self-interaction skills.” Adopting culture management policies can reduce the perception of cultural differences. According to Dong and Glaister (2007), firms adopting these policies report a much higher degree of trust in the different relationship levels of the ISA. The improved trust will have, in return, a better ISA performance.

## **8.7. Policy Implications**

The success of many ISAs in Saudi Arabia could signal that Saudi Arabia is a good place to do business. This reality should help the Saudi government attempt to attract more foreign investment into the country.

The high success rate of ISAs in Saudi Arabia might be a positive sign. However, it is substantially higher than any rate reported in the literature. This might be an indication that Saudi firms are merely playing an intermediary role and not transferring technology and know-how to the country. In addition, with the high number of expatriates, Saudi Arabia is missing out on a big opportunity to give their workforce the chance to learn and acquire knowledge working on government mega-projects. This will result in the failure to build a base of local firms that are strong enough to break away from their dependence on foreign technology and expertise.

Thus, Saudi Arabian firms have to better themselves and improve their competitive set. The Saudi Arabian economy and institutions are improving steadily, and hence, will make them less desirable to partner with. The argument is supported by comments from Ahlstrom, et al. (2013), who argued that “Firms operating in an environment with well-developed formal institutions are less likely to acquire those resources through alliance partners and may try to build and more closely control those resources internally”. This could support our argument in the previous section regarding the managerial implications. The government should address this issue urgently, and create a strategy to develop stronger and more competitive local firms, as they cannot protect local firms forever.

In Chapter 5, we discussed how employee motivation is an important element in order to acquire knowledge successfully. Saudi firms are not reaping the benefits of having qualified and experienced expatriates, due to the absence of intrinsic motivations, which are crucial for knowledge transfer (Osterloh and Fery, 2000; Yin and Bao, 2006). They

argued that successful knowledge acquisitions require commitment and motivation. Hence, expatriates need to be intrinsically motivated.

Part of the lack in motivation is because expatriates do not link their future with a stay in Saudi Arabia, due its residency regulations. As a result, the Saudi economy is missing out on big opportunities to retain knowledge and experiences and lose it to other countries. In an age that will be dominated by talent hunts and acquisitions, Saudi policy-makers should think of ways to address this problem and put forward policies that will allow them to attract and keep the best of the talent, and encourage them to contribute to the country's set of skills.

## **8.8. Limitations of the Study**

The study relied on self-reported questionnaire surveys to collect data, which affected the depth of data collected. It could not provide richer contextual information for the issues under consideration, although the study attempted to compensate for this by engaging in an extensive literature review to build contextual understanding. Furthermore, the study was cross-sectional, which resulted in limitations in exploring the evolution of factors that affects the success of ISAs.

In addition, the study relied on a single respondent from each ISA, assuming they were aware of all aspects of ISA activities. This limitation could be overcome by collecting data from multiple respondents within a firm.

Another concern relating to the research was connected to sampling methods. The problems of obtaining the required data and information faced in this area are not new. However, there is the possibility of bias due to the fact that the obtained sample might not include all the sample units. The possible loss of some sample unit might have created unit non-response bias. This problem will be hard to overcome if no government institution or organization builds a comprehensive database.

One of the limitations is the generalizability of the findings. This study data were collected from a single country, Saudi Arabia, and the hypotheses were in general context dependent. Hence, the findings might not be generalized to all developing economies, replication of the study is highly recommended.

## 8.9. Suggestions for Future Research

The purpose of this section is to provide general recommendations for future studies. The individual chapters have highlighted areas for future research relating to the particular research questions.

Methodologically, future work should consider adopting a longitudinal design to test the weight of different social factors on alliance performance. Furthermore, future studies could benefit from using questionnaires and interviews, which will add value and depth. Furthermore, obtaining data from each of ISA elements the local, foreign and alliance management would provide better explanations of how these factors influence all the parties. It would also overcome any criticism in the literature of the practice of gathering data from one ISA element.

Future studies could look into how negative or positive reputations can affect firms' ISA selection criteria from the perspective of Saudi firms; non-Saudi Arabian firms can also be investigated. Stern, et al (2014) distinguished between the concepts of reputation and status; hence, future studies should consider these concepts also.

The insignificance of personal trust is rather surprising. However, the insignificance of a linear relationship between trust and knowledge acquisition does not rule out the possibility of the moderating or mediating effect. Future studies should further investigate the moderating role of trust, especially in relation to communications. Furthermore, future studies could look into the relationship between knowledge acquisition and another kind of trust, more specifically, inter-firm trust.

Buckley et al. (2009) differentiated between complementary knowledge accession and supplementary knowledge accession, and between complementary knowledge acquisition and supplementary knowledge acquisition. Since Saudis have always preferred shortcuts and to buy knowledge (a "turn-key" policy) in major projects (Haidar, 2000), this may be an indication that Saudi firms are seeking knowledge accessions, not acquisitions; which may justify the insignificance of trust. Hence, future studies should consider these differences and investigate how trust affects the transfer of both kinds of knowledge in an ISA. The results should encourage more research on the role of trust on knowledge acquisition, if any. Trust roles in knowledge might be not direct and might be playing a mediating role.

The findings of Chapter 6 on the trust performance relationship should encourage further investigations. Future studies should look into the indirect effect of trust on performance. Moreover, future work should consider adopting a longitudinal design to test the weight of these relationships over time.

Mohr and Puck (2013) argued that the trust and performance influence relationship is reversed and argue that good performance fosters the development of trust. Future studies may check the validity of these assertions and investigate the direction of the relationship, as to whether it is unidirectional or bi-directional.

In one situation, distrust appears to be a blessing in disguise, and helped firms to overcome the challenges of the industry's environmental uncertainty. The results did not support the arguments of Young-Ybarra and Wiersema (1999), who suggested that trust can help to enable partners to respond more positively to any unexpected problems or changes in the environment. The findings are interesting; hence, further studies are recommended to better understand this relationship.

In Chapter 7, we attempted to expand our understanding on alliance performance, which is one of the most exciting and unexplored areas in the study of ISAs.

The results of this chapter paved the way for future studies to better understand the relationship established in this study; in particular, the nature (and the complexity) of knowledge acquired and its relationship to cultural distance. Future studies should link partners' motivation and the culture performance relationship. Longitudinal studies will provide a deeper understanding of alliance performance and how cross relationships evolve.

The role of communications deserves more attention in the ISA research. It has received little theoretical and empirical attention. In this study, the level of communication proved instrumental to the performance of the in-depth analysis of its role; hence, this is an area which future research should focus on.

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## Appendices

### A- Questionnaire Cover letter in English and Arabic

Dear participant

عزيزي المشارك

Thanks for taking the time to read this letter.

شكرا لإعطائكم الوقت الكافي لقراءة هذه الرسالة.

I am currently undertaking doctoral research looking into the success factors for the management of the International Joint ventures in Saudi Arabia.

أقوم حاليا بالتحضير لرسالة دكتوراه تبحث عن عوامل نجاح إدارة المشاريع الدولية المشتركة في المملكة العربية السعودية.

The purpose of this study is to examine some of the factors such as strategic motives, culture, trust and learning and their effect on the performance.

الهدف من هذا البحث هو دراسة تأثير بعض العوامل مثل الدوافع الإستراتيجية، والثقافة والثقة واكتساب المعرفة على أداء الشراكة. هناك القليل من الأبحاث الأكاديمية المتعلقة بهذا المجال ولا يمكن استنتاج الكثير منها، لذا أتوقع أن تكون نتائج هذا البحث مثمرة. وسوف تساهم بشكل ايجابي في زيادة نجاح الشراكات الدولية في المملكة العربية السعودية. كما أنها ستساعد الشركاء على فهم مشاكل الشراكات بشكل أفضل، خصوصا المتعلقة بالسياق السعودي.

Very little academic research seems to have been conducted in this area so I expect my findings to be illuminating. It will help increase the successes of international cooperation taking place in Saudi Arabia, and will help venture partners to better understand the current problems, especially in the Saudi context.

مساعدتكم في أكمال هذا الأستبيان ستكون محل تقدير. بإكمالكم الأستبيان ستكونون قد ساهمتم بشكل كبير في أنجاح هذه الدراسة المتعلقة بموضوع هام لم يتم بحثه بشكل مناسب.

Your co-operation in completing the research questionnaire will be greatly appreciated. Your will be making a great contribution to an important yet under researched topic.

أود أن أؤكد لكم أنه سيتم معاملة جميع إجاباتكم بسرية تامة، وسيتم استخدامها فقط للأغراض الأكاديمية والبحثية. سوف يتم تجميع النتائج في حالة عرضها أو نشرها. ولن يتم ذكر أسمائكم أو أسماء شركاتكم عند نشر اي من الأبحاث. وسوف يتم تقديم ملخص للنتائج للمشاركين في الاستبيان في حالة طلبها.

I would like to assure you that all of your answers will be treated with complete confidentiality, and will be used only for the academic purposes and research.

نظرا لطبيعة المعلومات التي نسعى لجمعها، فإنه من المستحسن أن يكون المشارك في تعبئة الاستبيان له تجربة وخبرة مباشرة في التفاوض أو إدارة المشاريع الدولية المشتركة في المملكة العربية السعودية (على سبيل المثال: مدير تنفيذي، نائب رئيس، مدير عام، مدير مشاريع).

The result will be aggregated in any presentation and publication. Neither you nor your company would be identified in any form of publications of this research. A summary of the results will be made available to participants if requested.

إذا كان لديك أية أسئلة، أو تحتاج إلى مزيد من التوضيح أرجو عد التردد في الاتصال بي على العنوان في الأسفل أو مخاطبتي عبر البريد الإلكتروني التالي:

m.almasaad@rhul.ac.uk

Given the nature of the information being sought, it would be helpful if the respondent has some first-hand experience in managing or negotiating international joint ventures in Saudi Arabia (for example; CEO, VP, GM, PM).

شكرا جزيلاً على دعمكم و أرائكم القيمة. و أتطلع إلى الاستماع منكم.

أطيب الأمانى

مشعل فواز المسعد

If you have any questions, or need further clarification please do not hesitate to contact me at the following address or e-mail me at m.almasaad@rhul.ac.uk

Thank you very much for your valuable opinion and support.

I look forward to hearing from you.

Kind regards,  
Mushal Almasaad

### How to fill up the questionnaire:

1. Fill in the questionnaire electronically from the following website (you will not need to resend it)

[Press here to fill the questionnaire](#)

2. You can download the questionnaire from the following link:

[Press here to download the questionnaire](#)

You can fill the questionnaire from your PC and when you finish press the "Submit" button.

Or you can print it, fill it, and then re-send it using one of the 3 following ways:

a. Scan the questionnaire the send it to the following email: m.almasaad@rhul.ac.uk.

b. Fax it to this number: 1  
+(966)(0)4781131

c. Mail it to the following address:  
Mushal Almasaad  
Riyadh11541. P.O.box; 42277.

### كيفية تعبئة الاستبيان:

1. تعبئة الاستبيان الكترونيا من الموقع التالي مباشرة ولن يكون هناك حاجة لإعادة إرساله  
[أضغط هنا لتعبئة الاستبيان](#)

2. بإمكانك تنزيل الاستبيان من الرابط التالي:  
[أضغط هنا لتنزيل الاستبيان](#)

وبإمكانك تعبئة الاستبيان من جهازك وإعادة إرساله بالضغط فقط على رز "إرسال" أو "Submit".

أو يمكنك طباعته وتعبئته, وإعادة إرساله يمكن استخدام أحدال3 طرق التالية:

أ. نسخ الاستبيان وإرساله الكترونيا إلى البريد الإلكتروني التالي:

m.almasaad@rhul.ac.uk

ب. إرساله بالفاكس للرقم التالي:  
+(966)(0) 14781131

ج. إرساله بالبريد إلى العنوان التالي:  
مشعل المسعد

الرمز البريدي:الرياض 11541. صندوق  
بريد 4227

## B- Questionnaire in English



### CONFIDENTIAL

### INTERNATIONAL JOINT VENTURES

This questionnaire concerns a specific international joint venture formed between a SAUDI ARABIAN firm and a foreign partner firm. Please note:

- (1) A joint venture can be either a separate firm in which your company has an equity shareholding or a cooperative agreement where no separate firm is established.
- (2) The questionnaire is still relevant even if the joint venture has been terminated.
- (3) Most of the questions ask you the extent to which you agree with a statement. If you strongly disagree then circle (1), if you strongly agree with the statement then circle (5). The numbers (2), (3) and (4) enable you to indicate intermediate positions in between these two extremes.

Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	2	3	4	5

- (4) All answers will be treated in the strictest confidence and neither you nor your company will be identified during the analysis or publication of results.

Thank you very much for your cooperation.

Mushal Almasaad  
PhD Candidate  
School of Management  
Royal Holloway, University of London

Dr Li Dong  
Lecturer in International Business  
School of Management  
Royal Holloway, University of London

You can re-send the questionnaire using one of the following ways:

a. Scan the questionnaire the send it to the following email: [m.almasaad@rhul.ac.uk](mailto:m.almasaad@rhul.ac.uk).

b. Fax it to this number: +(966)(0) 1-4781131

c. Mail it to the following address:

Mushal Almasaad  
Riyadh11541. P.O.box; 42277.

**Or**, you can access an electronic copy by copying this link: <http://bitly.com/almasaad>

## INTERNATIONAL JOINT VENTURES

**Please be assured that information provided here will be kept in strict confidence.**

Please answer each question in sequence unless directed otherwise.

### **I. General Information**

1. In what year was the joint venture formed? \_\_\_\_\_

2 (a). When it was first established, what was the form of the joint venture? *Please tick one.*

- (i) Separate firm in which own company had an equity share holding, i.e. equity-based  If you tick this box please go to question 2(b)
- (ii) Cooperative or contractual agreement, no separate firm established, i.e. non-equity-based  If you tick this box please go to question 3

2(b). What share of the equity in the joint venture is held by your firm? *Please tick one.*

- (i) 49% or less  (ii) 51 to 74%
- (iii) 75% or More  (iv) Equal 50%

3. Nationality of your firm: \_\_\_\_\_

4. What is the type of your firm?

- Public listed company (PLC)  Government owned cooperation
- Family business  Others

5. Nationality of your partner firm: \_\_\_\_\_

*Please note: Where there is more than one partner, please answer with respect to the most important partner.*

6. Roughly, how many employees in your company? (Pleas tick one)

- (a) 1-10. (b) 11-25. (c) 26-99. (d) 100-299. (e) 300-499. (f) 500-1000. (g) More than 1000.

7. Roughly, what percentage of non-Saudi nationals working in medium level or high level positions in your company? (Pleas tick one)

- (a) 0 – 10% (b) 11-30% (c) 31-50% (d) 50-70% (e) More than 71%

8. When the joint venture was formed, what was the major industry sector of your company, your partner, and the joint venture (in case separate firm was formed)? *Please tick.*

	Your company	Your Partner	Joint Venture
(1) Food / Drink Manufacturing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(2) Metals and Minerals processing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(3) Power and water	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(4) Construction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(5) Petrochemicals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(6) Pharmaceuticals (life science)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(7) ICT	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(8) Health	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(9) Automobiles/ Aerospace	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(10) Education	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(11) Transportation and logistics	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(12) Distribution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(13) Financial Services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(14) Other Manufacturing.....	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- (15) Other Services..... [ ] [ ] [ ]  
 (16) Other (Please specify)..... [ ] [ ] [ ]

9. Are your company and your partner primarily engaged in the same industries? (Please circle one: 1= completely different; 5= exactly the same)

**Completely different** **Exactly the same**  
 1                      2                      3                      4                      5

**II. Strategic Motivation for Forming the International Joint Venture**

1. From the perspective of your company and your partner, to what extent is the following strategic motivation important for the formation of the international joint venture between your firm and the partner firm? (Please circle: 1= not important; 5 = very important)

	<u>Your Firm</u>					<u>Your Partner</u>				
	Not Important				Very Important	Not Important				Very Important
(1) To reap the benefits of economy of scale	1	2	3	4	5	1	2	3	4	5
(2) To facilitate international expansion	1	2	3	4	5	1	2	3	4	5
(3) To facilitate exchange of complementary technology	1	2	3	4	5	1	2	3	4	5
(4) To enable faster entry to the market	1	2	3	4	5	1	2	3	4	5
(5) To establish presence in the market	1	2	3	4	5	1	2	3	4	5
(6) To enable diversification of product or services	1	2	3	4	5	1	2	3	4	5
(7) To spread investment cost and risk	1	2	3	4	5	1	2	3	4	5
(8) To fully utilize financial capability	1	2	3	4	5	1	2	3	4	5
(9) To share R&D costs	1	2	3	4	5	1	2	3	4	5
(10) To cooperate with existing or potential competitor to reduce competition	1	2	3	4	5	1	2	3	4	5
(11) To transfer production to low cost market	1	2	3	4	5	1	2	3	4	5
(12) To accommodate host government policy	1	2	3	4	5	1	2	3	4	5
(13) To obtain raw materials or natural resources	1	2	3	4	5	1	2	3	4	5
(14) Other (please specify) _____	1	2	3	4	5	1	2	3	4	5

2. How important was the formation of the international joint venture in allowing access to inputs that your company did not have? Please circle one.

	<b>Not important</b>			<b>Very important</b>		
(1) Access to product-specific knowledge	1	2	3	4	5	
(2) Access to local or international market knowledge	1	2	3	4	5	
(3) Access to governmental bodies	1	2	3	4	5	
(4) Access to capital/ finance	1	2	3	4	5	
(5) Access to knowledge of local culture	1	2	3	4	5	
(6) Other (please specify) .....	1	2	3	4	5	

3. From the perspective of your company and your partner, at the time the joint venture was formed, how much importance did your company and your partner place on selecting a partner with the following characteristics? (Please circle: 1= not important; 5 = very important)

	<u>Your Firm</u>					<u>Your Partner</u>				
	Not Important				Very Important	Not Important				Very Important
(1) Degree of favourable past association between the partners	1	2	3	4	5	1	2	3	4	5
(2) Trust between the top management teams	1	2	3	4	5	1	2	3	4	5
(3) Reputation of the partner	1	2	3	4	5	1	2	3	4	5
(4) The partner company's size	1	2	3	4	5	1	2	3	4	5
(5) Financial stability of the partner	1	2	3	4	5	1	2	3	4	5
(6) Relatedness of partner's business	1	2	3	4	5	1	2	3	4	5
(7) Other (please specify) _____	1	2	3	4	5	1	2	3	4	5



(2) The technology/process know-how held by your partner has been assimilated by your company and has contributed to other projects developed by your company.

**Strongly disagree**                      **Strongly agree**  
 1            2            3            4            5

**IV. Culture**

1. How far do you think (1) differences in national culture and (2) differences in corporate culture have contributed to differing views between you and your counterparts on the management of the International joint ventures?

	<b>Not at all</b>					<b>A great deal</b>
(1) National Culture	1	2	3	4	5	
(2) Corporate Culture	1	2	3	4	5	

2. How important have the differences in national culture been on the overall performance of the alliance"?

**Not important**                                      **Very Important**  
 1            2            3            4            5

3. How important have the differences in corporate culture been on the overall performance of the alliance"?

**Not important**                                      **Very Important**  
 1            2            3            4            5

4. Please indicate the to which you agree with the following statements, from the perspective of your firm and your partner. (Please tick one: 1= Not at all; 5 = a great deal)

	<b>Your Firm</b>					<b>Your Partner</b>				
	Not at all				A great deal	Not at all				A great deal
(1) There are significant cultural differences between us and our partner.	1	2	3	4	5	1	2	3	4	5
(2) Their national culture is quite different from ours.	1	2	3	4	5	1	2	3	4	5
(3) Cultural dissimilarity poses considerable challenges in interacting/understanding the partner	1	2	3	4	5	1	2	3	4	5
(4) Language differences are major obstacles in communicating and understanding the partner.	1	2	3	4	5	1	2	3	4	5

5. To what extent do you agree with the following statement about the cultural similarity between your firm and your partner? (Please circle: 1= strongly disagree; 5= Strongly agree)

	<b>Strongly disagree</b>					<b>strongly agree</b>
(1) The business and operational practices of your partner are very similar to yours.	1	2	3	4	5	
(2) The corporate culture and management style of your partner is very similar to yours.	1	2	3	4	5	

6. To what extend do you agree with the following statement: "Our long-term strategies are similar to our partner's long-term strategies". (Please circle one: 1= Strongly agree; 5= Strongly disagree)

**Strongly agree**                                      **Strongly disagree**  
 1            2            3            4            5

7. To what extent would you rate the following statements as true about the nature of your understanding of your partner firm's culture? (Please circle: 1= not true; 5= very true)

	<b>Not True</b>					<b>Very True</b>
(1) I believe that I understand the other firm's culture.	1	2	3	4	5	
(2) I find the other firm's culture ambiguous to me.	1	2	3	4	5	

**V. Trust**

1. To what extent would you agree with the following statements about the state of trust between you and your partner. (Please tick: 1= strongly disagree; 5 = strongly agree)

	<b>Strongly disagree</b>			<b>Strongly agree</b>	
(1) As we have been doing business for so long, we can understand each other well.	1	2	3	4	5
(2) The partner firm is fair in business dealings with us.	1	2	3	4	5
(3) The joint venture is characterized by mutual trust between the partners at multiple levels.	1	2	3	4	5
(4) In this relation, informal agreements have the same significance as formal contracts.	1	2	3	4	5
(5) Our business relationship with this partner is characterized by high levels of trust.	1	2	3	4	5
(6) Our firm and the partner firm generally trust that each will stay within the terms of the contract.	1	2	3	4	5
(7) When making important decisions, our firm considers our partner's welfare alongside our own.	1	2	3	4	5
(8) Our partner always stands by its word even when this was not the best interest for them.	1	2	3	4	5
(9) The partner firm never uses opportunities that arise to profit at our expense.	1	2	3	4	5
(10) Our firm is generally doubtful of the information provided to us by our partner.	1	2	3	4	5
(11) Our partner is generally doubtful of the information we provide them.	1	2	3	4	5
(12) Our partner in our IJV would be quite prepared to gain advantage by deceiving our firm.	1	2	3	4	5

2. To what extent would you agree with the following statements about the state of personal trust between you and your partner. (Please tick: 1= strongly disagree; 5 = strongly agree)

	<b>Strongly disagree</b>			<b>Strongly agree</b>	
(1) The joint ventures is characterized by personal friendship between the partners at multiple levels.	1	2	3	4	5
(2) My counterpart is trustworthy	1	2	3	4	5
(3) My counterpart and I can always find appropriate solutions through compromise when conflicts arise	1	2	3	4	5
(4) I always feel confident when my counterpart tells me he will do something	1	2	3	4	5

**3. Interdependence;** To what extent would you agree with the following statements about the strategic interdependence of your relationship with your partner. (Please tick: 1= strongly disagree; 5 = strongly agree)

	<b>Strongly disagree</b>			<b>Strongly agree</b>	
(1) We depend on our partner to achieve our goals.	1	2	3	4	5
(2) It would not be very difficult and/or costly to find an alternative partner.	1	2	3	4	5
(3) It would not be very difficult &/or costly for our partner to find an alternative partner.	1	2	3	4	5

**4. Competence;** From the perspective of your firm and your partner, to what extent would you agree with the following statements about the competency of your partner. (Please tick: 1= strongly disagree; 5 = strongly agree)

	<u>Your Firm</u>					<u>Your Partner</u>				
	Strongly disagree			Strongly agree		Strongly disagree			Strongly agree	
(1) Partner firm is very capable of performing its job.	1	2	3	4	5	1	2	3	4	5
(2) We feel very confident about partner firm's skills	1	2	3	4	5	1	2	3	4	5
(3) We can always rely on our partner to do its part in our joint venture.	1	2	3	4	5	1	2	3	4	5

**5. Communication;** To what extent would you agree with the following statements about the status of communication between your company and your partner. (Please tick: 1= strongly disagree; 5 = strongly agree)

	Strongly disagree					Strongly agree				
(1) There are few difficulties in communicating with our partner						1	2	3	4	5
(2) Regular contacts are maintained between senior managers of our firm and our partner.						1	2	3	4	5
(3) The quality of communication between the parents is extremely good.						1	2	3	4	5
(4) We always keep each other informed about events or changes that may affect the other firm.						1	2	3	4	5

5b. Please indicate the frequency with which managers from your firm and your partner firm communicate with each other via any form of media such as written memos, reports, email, phone conversations, meetings, and social events.

Very frequent Hardly ever

1                      2                      3                      4                      5

**6. Previous IJV experience;** At the time of the formation of the international joint venture, were there any of the following business relationships between your firm and your partner? If yes, how would you evaluate the particular previous collaborative experience? (Please tick: 1= not very good 5 = very good)

	YES	Not very good					Very good				
(1) No previous relationship	[ ]										
(2) Technology transfer agreements	[ ]	1	2	3	4	5					
(3) Supply contracts	[ ]	1	2	3	4	5					
(3) Licensing /patent agreements	[ ]	1	2	3	4	5					
(5) Marketing agreements	[ ]	1	2	3	4	5					
(6) Trading partners	[ ]	1	2	3	4	5					
(7) Personal relationship between top management	[ ]	1	2	3	4	5					
(8) R & D agreements	[ ]	1	2	3	4	5					
(9) Other (Please specify)_____	[ ]	1	2	3	4	5					

**VI. Performance**

1. From the perspective of your firm, your partner, and the IJV (in case separate firm was formed), how is the performance of the IJV evaluated? (Please tick: 1 = not very good; 5 = very good)

	Not very good					Very good				
(1) Your firm	1	2	3	4	5					
(2) Your partner	1	2	3	4	5					
(3) The IJV	1	2	3	4	5					

2. For each of the following categories of IJV performance, please evaluate the extent to which the IJV's actual performance has met performance expectations at the time of the IJV formation.  
*Please circle.* (1= Expectation not met; 5= Expectation fully met; 6= No initial expectation)

	Expectations not met			Expectations fully met			No Initial Expectation
(1) Sales level	1	2	3	4	5	6	
(2) Market share	1	2	3	4	5	6	
(3) Profitability	1	2	3	4	5	6	
(4) Technology/knowledge development	1	2	3	4	5	6	
(5) Technology/knowledge transfer	1	2	3	4	5	6	
(6) Product design	1	2	3	4	5	6	
(7) Marketing	1	2	3	4	5	6	
(8) Distribution	1	2	3	4	5	6	
(9) Reputation	1	2	3	4	5	6	
(10) Others _____	1	2	3	4	5	6	
(11) Overall performance	1	2	3	4	5	6	

3. To what extent has the IJV created new opportunities for your firm? (Please tick: 1= None; 5 = Many opportunities)

None				Many opportunities
1	2	3	4	5

4. To what extent do you agree with the following statement about the success and the profitability of the joint venture. (Please circle; 1= strongly disagree; 5= strongly agree)

	Strongly disagree			Strongly agree	
	1	2	3	4	5
(1) Our cooperation with this partner has contributed to growth in our firm.					
(2) This relationship provides our firm with many strategic benefits.					
(3) The objectives for which the collaboration was established are being met.					
(4) <u>Our firm</u> is satisfied with the <u>financial performance</u> of the collaboration.					
(5) <u>Our partner firm</u> seems to be satisfied with the <u>financial performance</u> of the collaboration.					
(6) <u>Our firm</u> is satisfied with the <u>overall performance</u> of the collaboration.					
(7) <u>Our partner firm</u> seems to be satisfied with the overall performance of the collaboration.					

**VII. Personal Information:**

1. Your job title?

- (a). CEO. (b). General Manager. (c). VP Vice president.  
 (d). Project manager (e). Consultants. (f). Others (please specify).....

2. What is your nationality: \_\_\_\_\_

3. How many years have you worked in this company in Saudi Arabia? \_\_\_\_\_

4. Your academic or professional qualification:

- [ ] Undergraduate degree level [ ] Post graduate/ Master level/ other equivalent  
 [ ] Professional qualification [ ] Others

**Thank you very much for your assistance. We would again like to assure you that all information will be kept in the strictest confidence.**

1. Would you be interested in receiving a summary report of the findings?

Please tick

(1) Yes [  ]

(2) No [  ]

2. Would you be willing to discuss further any of the issues raised in this questionnaire?

Please tick

(1) Yes [  ]

(2) No [  ]

3. If 'Yes' to either of the above two questions, please write your name and email below:

Your name: \_\_\_\_\_

Your email: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

## C- Questionnaire in Arabic



### الشراكات الاستراتيجية الدولية

هذا الاستبيان يركز على الشراكات الاستراتيجية بين الشركات والمؤسسات السعودية والشركات الاجنبية. يرجى تكرمًا ملاحظة ما يلي:

1. المقصود بالشراكة الاستراتيجية هي أما أن تكون شراكة ينتج عنها تأسيس شركة جديدة برأس مال وادارة منفصله عن الشركات الأم، أو اتفاق تعاوني لا يتم فيه تأسيس شركة جديدة.
2. الأستبيان لا يزال صالحا حتى في حالة أنتهاء الشراكة.
3. معظم الأسئلة التي تطلب منك الى أي مدى توافقون مع الجملة، أختار الرقم (1) اذا كنت لا توافق بشدة، اما اذا كنت توافق بشده فيجربى أختيار الرقم (5). الأعداد (2) و (3) و (4) تشير الى مواقف وسيطه بين هذين النقيضين.

لا أوافق بشدة	لا أوافق	محتار بين وبين	أوافق	أوافق بشدة
1	2	3	4	5

4. يرجى الأطمئنان أنه سيتم التعامل مع جميع الأجویة بسرية تامه، ولن يتم أظهار أسم شركتم أو شركائكم عند تحليل النتائج ونشرها.

أشكركم جزيل الشكر على تعاونكم

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ولإعادة إرساله يمكن استخدام أحد الطرق التالية:

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أو بإمكانك الوصول الى نسخة الكترونية وتنزيله و تعبئته الكترونيا بالدخول للرابط التالي:  
<http://bitly.com/a-mushal>



9. الى أي حد تعمل شركتكم والشريك في نفس المجال؟ (يرجى اختيار: 1 = مختلفة تماما؛ 5 = المجال مطابق بشكل تام)

مختلفة تماما	2	3	4	المجال مطابق بشكل تام
1	2	3	4	5

## II. الدوافع الاستراتيجية لتشكيل شراكات دولية

1. من وجهة نظر شركتكم والشريك, الى أي مدى كانت الدوافع الاستراتيجية الآتية سبب في تشكيل الشراكة؟ (يرجى اختيار: 1 = ليس مهما؛ 5 = مهم جدا)

شركتكم	الشريك				شركتكم	الشريك					
	ليس مهما	2	3	4		مهم جدا	ليس مهما	2	3		4
1	1	2	3	4	5	1	2	3	4	5	(1). تعزيز المكاسب الاقتصادية عن طريق نشر التكلفة
2	1	2	3	4	5	1	2	3	4	5	(2). تسهيل عمليات التوسع الدولي
3	1	2	3	4	5	1	2	3	4	5	(3). تسهيل تبادل التكنولوجيا المكمل
4	1	2	3	4	5	1	2	3	4	5	(4). تسريع عملية دخول السوق
5	1	2	3	4	5	1	2	3	4	5	(5). تنويع المنتجات أو الخدمات
6	1	2	3	4	5	1	2	3	4	5	(6). تأسيس حضور في السوق
7	1	2	3	4	5	1	2	3	4	5	(7). نشر وتقليل تكلفة الأستثمار والمخاطر
8	1	2	3	4	5	1	2	3	4	5	(8). الأستفادة الكاملة من القدرات المالية
9	1	2	3	4	5	1	2	3	4	5	(9). تقاسم تكاليف البحث والتطوير
10	1	2	3	4	5	1	2	3	4	5	(10). التعاون مع منافس حالي\ أو محتمل للحد من المنافسه
11	1	2	3	4	5	1	2	3	4	5	(11). نقل الإنتاج الى سوق منخفضة التكاليف
12	1	2	3	4	5	1	2	3	4	5	(12). الألتزام بسياسه الحكومه المضيفة
13	1	2	3	4	5	1	2	3	4	5	(13). الحصول على المواد الخام أو الموارد الطبيعيه
14	1	2	3	4	5	1	2	3	4	5	(14). أخرى (يرجى التحديد) .....

2. الى أي مدى كان مهما لشركتكم تشكيل المشروع المشترك الدولي للسماح لها بالوصول إلى مزايا لم تكن بحوزتها؟ (يرجى اختيار: 1 = ليس مهما؛ 5 = مهم جدا)

شركتكم	الشريك				شركتكم	الشريك					
	ليس مهما	2	3	4		مهم جدا	ليس مهما	2	3		4
1	1	2	3	4	5	1	2	3	4	5	1. الوصول الى معرفة خاصة بمنتج معين
2	1	2	3	4	5	1	2	3	4	5	2. الحصول على معرفة خاصة بالسوق المحلي أو الدولي
3	1	2	3	4	5	1	2	3	4	5	3. الوصول والأرتباط بجهات حكومية
4	1	2	3	4	5	1	2	3	4	5	4. الحصول على تمويل \ رأس مال
5	1	2	3	4	5	1	2	3	4	5	5. الحصول على معرفة خاصة بالثقافة المحلية
6	1	2	3	4	5	1	2	3	4	5	6. أخرى (يرجى التحديد) .....

3. من وجهة نظر شركتكم والشريك, في الوقت الذي تم فيه تشكيل الشراكة, الى أي مدى كان من المهم أن يملك الشريك الخصائص والمميزات التالية؟ (يرجى اختيار: 1 = ليس مهما؛ 5 = مهم جدا)

شركتكم	الشريك				شركتكم	الشريك					
	ليس مهما	2	3	4		مهم جدا	ليس مهما	2	3		4
1	1	2	3	4	5	1	2	3	4	5	1. وجود علاقات إيجابية سابقة.
2	1	2	3	4	5	1	2	3	4	5	2. الثقة بين أعضاء مجلس إدارة الشركتين.
3	1	2	3	4	5	1	2	3	4	5	3. سمعة الشركة.
4	1	2	3	4	5	1	2	3	4	5	4. حجم الشركة.
5	1	2	3	4	5	1	2	3	4	5	5. الأستقرار المالي للشريك.
6	1	2	3	4	5	1	2	3	4	5	6. تشابة النشاط التجاري.
7	1	2	3	4	5	1	2	3	4	5	7. أخرى (يرجى التحديد) .....

## III. أكتساب المعرفة

1. الى أي حد كان تبادل المعلومات والمصادر سهلا بين الشركة والشريك؟ (يرجى اختيار: 1 = سهل جدا؛ 5 = صعب جدا)

سهل جدا	2	3	4	صعب جدا
1	2	3	4	5

2. الى أي حد كان الشريك متحفظ على معلوماته/ معرفته/ تقنيته؟ (يرجى اختيار: 1= لم يكن متحفظا ابدا؛ 5= متحفظ جدا)

لم يكن متحفظا ابدا	2	3	4	متحفظ جدا
1	2	3	4	5

3. هل لشريكك إجراءات داخلية أو روتين وسياسه للحد من تبادل المعلومات ذات الصلة بشأن التكنولوجيا والدرابه الفنية؟ (يرجى اختيار: 1= لا اوافق بشده؛ 5= اوافق بشده)

لا اوافق بشده	2	3	4	اوافق بشده
1	2	3	4	5

4. الى أي مدى تتفق على صحة العبارات التاليه حول طبيعة معرفة الشريك؟ (يرجى اختيار: 1= لا اوافق بشده؛ 5= اوافق بشده)

لا اوافق بشده	2	3	4	اوافق بشده
1	2	3	4	5

5. الى أي مدى العبارات التاليه صحيحة حول طبيعية صناعتك؟ (يرجى اختيار: 1= لا اوافق بشده؛ 5= اوافق بشده)

لا اوافق بشده	2	3	4	اوافق بشده
1	2	3	4	5

6. من وجهة نظر شركتكم ووجهة نظر الشريك, الى أي مدى أكتسبت ما يلي من الشريك؟ (يرجى اختيار: 1= لا شيء؛ 5= كثير جدا؛ 6= ليست ذات صلة (يرجى اختيار الرقم 6 في حالة عدم وجود صلة)

شركتكم	الشريك				
	لا شيء	2	3	4	كثير جدا
لا شيء	2	3	4	كثير جدا	ليست ذات صلة
1	2	3	4	5	6

7. الى أي مدى توافق على العبارات التاليه حول كمية التعلم المحققة نتيجة لهذه الشراكة؟ (يرجى اختيار: 1= لا اوافق بشده؛ 5= اوافق بشده)

لا اوافق بشده	2	3	4	اوافق بشده
1	2	3	4	5

#### IV. الثقافة

1. الى أي مدى تعتقدون أن (1) الاختلافات في الثقافة المحلية و (2) الاختلافات في ثقافه الشركة ساهمت في اختلاف وجهات النظر بينكم وبين (نظيركم الأجنبي) فيما يتعلق بكيفية ادارة التحالف؟ (يرجى اختيار: 1= لم تؤثر إطلاقا؛ 5= أثرت بشكل كبير)

لم تؤثر إطلاقا	2	3	4	أثرت بشكل كبير
1	2	3	4	5

2. كيف كان أثر الاختلاف في الثقافة المحلية على الأداء العام للتحالف؟

لم يكن له تأثير	2	3	4	تأثير كبير
1	2	3	4	5

3. كيف كان أثر الأختلاف في ثقافة الشركة على الأداء العام للتحالف؟

تأثير كبير	4	3	2	لم يكن له تأثير
	5	4	3	1

4. الى أي مدى توافق على العبارات التالية، من وجهة نظر شركتكم ووجهة نظر الشريك؟ (يرجى اختيار: 1= لا يوجد على الإطلاق؛ 5= الى حد كبير)

الشريك	شركتكم				
الى حد كبير	لا يوجد على الإطلاق	لا يوجد على الإطلاق	الى حد كبير	لا يوجد على الإطلاق	الى حد كبير
5	4	3	2	1	1
5	4	3	2	1	1
5	4	3	2	1	1
5	4	3	2	1	1

(1). هناك أختلافات ثقافية كبيرة بيننا وبين شركائنا.

(2). ثقافتهم المحلية مختلفة تماما عن ثقافتنا المحلية.

(3). هناك الكثير من الأختلاف الثقافي بيننا وبين شركائنا.

(4). الأختلاف اللغوي هو من العقبات الرئيسية في التواصل والتفاهم مع الشريك.

5. الى أي مدى توافق على العبارات التالية حول التشابه الثقافي بين شركتكم والشريك؟ (يرجى اختيار: 1= لا أوافق بشدة؛ 5= أوافق بشدة)

لا أوافق بشدة	4	3	2	أوافق بشدة
5	4	3	2	1
5	4	3	2	1

(1). الأجرانات الإدارية والتنفيذية لشركتكم مشابهة لأجرائتكم.

(2). ثقافة شركة الشريك مشابهة لثقافتكم.

6. الى أي مدى توافقون على العبارة التالية: "أستراتيجياتنا على المدى الطويل متوافقة مع أستراتيجيات الشريك"؟ (يرجى اختيار: 1= أوافق بشدة؛ 5= لا أوافق بشدة)

أوافق بشدة	2	3	4	لا أوافق بشدة
1	2	3	4	5

7. الى أي مدى توافقون على العبارات التالية عن طبيعة فهمك لثقافة الشريك؟ (يرجى اختيار: 1= غير صحيح؛ 5= صحيح جدا)

ليس صحيحا	2	3	4	صحيح جدا
1	2	3	4	5
1	2	3	4	5

(1). أعتقد أنني أفهم ثقافة الشركة الأخرى.

(2). أجد ثقافة الشركة الأخرى غامضة بالنسبة لي.

## V. الثقة

1. الى أي مدى توافقون على العبارات التالية حول حالة الثقة بينكم وبين شريكك؟ (يرجى اختيار: 1= لا أوافق بشدة؛ 5= أوافق بشدة)

لا اوافق بشدة	2	3	4	أوافق بشدة
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5
1	2	3	4	5

(1). حيث أننا نعمل مع بعضنا البعض لفترة، فأنتنا نفهم بعضنا جيدا.

(2). شريكنا عادل في تعاملاته التجارية معنا.

(3). يتميز المشروع المشترك بالثقة المتبادلة على مستويات متعددة.

(4). في هذه العلاقة، الاتفاقات الغير رسمية لها نفس أثر العقود الرسمية.

(5). علاقة عملنا مع الشريك تتميز بمستويات عالية من الثقة.

(6). هناك ثقة من قبل شركتنا والشريك أن كلا الطرفين سيلتزمون ببند العقد.

(7). عند اتخاذ قرارات هامة تأخذ شركتنا مصلحة الشريك في عين الاعتبار.

(8). شريكنا يلتزم دوما بكلمته حتى عندما يكون ذلك لا يمثل أفضل مصلحة لهم.

(9). الشريك لا يستخدم الفرص التي تسنح له لتحقيق

مكاسب على حسابنا.

(10). بشكل عام هناك شكوك حول المعلومات المقدمة لنا من قبل شريكنا.





شكرا جزيلاً لمساعدتكم. نود مرة أخرى أن نؤكد لكم أنه سيتم الحفاظ على كافة المعلومات في سرية تامة.

1. هل أنت مهتم بالحصول على تقرير موجز للنتائج؟

الرجاء اختيار

[ ] \* نعم  
[ ] \* لا

2. هل لديك استعداد لمناقشة اي من القضايا التي أثرت في هذا الاستبيان؟

الرجاء اختيار

[ ] \* نعم  
[ ] \* لا

3. إذا أجبت "نعم" على أي من السؤالين أعلاه, يرجى كتابة الاسم والبريد الإلكتروني في المساحة التالية:

الاسم:

البريد الإلكتروني:

## D – Tables from chapter 7

**Table1 (Pearson Correlation)**

Subjective performance	All	NC not important	NC important
How is the performance of the IJV evaluated	<b>.772<sup>***</sup></b>	.853 <sup>***</sup>	.653 <sup>***</sup>
The firm is satisfied with the financial performance of the collaboration	<b>.902<sup>***</sup></b>	.942 <sup>***</sup>	.874 <sup>***</sup>
The firm is satisfied with the overall performance of the collaboration	<b>.858<sup>***</sup></b>	.908 <sup>***</sup>	.829 <sup>***</sup>

\* P < .1; \*\* P < .05; \*\*\* P < .01

**Table2 (Kendall's tau b Correlation)**

Subjective performance	All	NC not important	NC important
How is the performance of the IJV evaluated	<b>.706<sup>***</sup></b>	.750 <sup>***</sup>	.673 <sup>***</sup>
The firm is satisfied with the financial performance of the collaboration	<b>.847<sup>***</sup></b>	.908 <sup>***</sup>	.801 <sup>***</sup>
The firm is satisfied with the overall performance of the collaboration	<b>.801<sup>***</sup></b>	.866 <sup>***</sup>	.751 <sup>***</sup>

\* P < .1; \*\* P < .05; \*\*\* P < .01

**Table 3 (Manufacturing)**

	Group	N	Mean	SD	t-value
From the perspective of your firm, how is the performance of the IJV evaluated?	<b>EIJVs</b>	<b>36</b>	4.06	.984	<b>-.406</b>
	<b>NEIJVs</b>	<b>10</b>	4.20	1.033	
From the perspective of your partner, how is the performance of the IJV evaluated?	<b>EIJVs</b>	<b>36</b>	4.06	1.068	<b>-.397</b>
	<b>NEIJVs</b>	<b>10</b>	4.20	.789	
Our firm is satisfied with the financial performance of the collaboration.	<b>EIJVs</b>	<b>36</b>	4.14	.931	<b>1.251</b>
	<b>NEIJVs</b>	<b>10</b>	3.70	1.160	
Our partner firm seems to be satisfied with the financial performance of the collaboration	<b>EIJVs</b>	<b>36</b>	4.08	.937	<b>1.306</b>
	<b>NEIJVs</b>	<b>10</b>	3.60	1.350	
Our firm is satisfied with the overall performance of the collaboration.	<b>EIJVs</b>	<b>36</b>	4.14	.833	<b>1.607</b>
	<b>NEIJVs</b>	<b>10</b>	3.60	1.265	
Our partner firm seems to be satisfied with the overall performance of the collaboration	<b>EIJVs</b>	<b>36</b>	4.08	1.052	<b>.998</b>
	<b>NEIJVs</b>	<b>10</b>	3.70	1.160	
To what extent has the IJV created new opportunities for your firm?	<b>EIJVs</b>	<b>36</b>	4.11	1.090	<b>.792</b>
	<b>NEIJVs</b>	<b>10</b>	3.80	1.135	
Our cooperation with this partner has contributed to growth in our firm.	<b>EIJVs</b>	<b>36</b>	3.86	1.018	<b>.430</b>
	<b>NEIJVs</b>	<b>10</b>	3.70	1.160	
This relationship provides our firm with many strategic benefits.	<b>EIJVs</b>	<b>36</b>	4.14	1.018	<b>.103</b>
	<b>NEIJVs</b>	<b>10</b>	4.10	1.197	
The objectives for which the collaboration was established are being met.	<b>EIJVs</b>	<b>36</b>	4.00	1.095	<b>.265</b>
	<b>NEIJVs</b>	<b>10</b>	3.90	.876	

\* P < .1; \*\* P < .05; \*\*\* P < .01

**Table 4 (Service)**

	<b>Group</b>	<b>N</b>	<b>Mean</b>	<b>SD</b>	<b>t-value</b>
From the perspective of your firm, how is the performance of the IJV evaluated?	<b>EIJVs</b>	<b>37</b>	4.22	.672	<b>-.221</b>
	<b>NEIJVs</b>	<b>28</b>	4.25	.518	
From the perspective of your partner, how is the performance of the IJV evaluated?	<b>EIJVs</b>	<b>37</b>	4.24	.760	<b>.158</b>
	<b>NEIJVs</b>	<b>28</b>	4.21	.686	
Our firm is satisfied with the financial performance of the collaboration.	<b>EIJVs</b>	<b>37</b>	3.84	.986	<b>.239</b>
	<b>NEIJVs</b>	<b>28</b>	3.79	.686	
Our partner firm seems to be satisfied with the financial performance of the collaboration	<b>EIJVs</b>	<b>37</b>	3.89	1.075	<b>.294</b>
	<b>NEIJVs</b>	<b>28</b>	3.82	.722	
Our firm is satisfied with the overall performance of the collaboration.	<b>EIJVs</b>	<b>37</b>	3.86	1.134	<b>.626</b>
	<b>NEIJVs</b>	<b>28</b>	3.71	.659	
Our partner firm seems to be satisfied with the overall performance of the collaboration	<b>EIJVs</b>	<b>37</b>	4.00	1.054	<b>.314</b>
	<b>NEIJVs</b>	<b>28</b>	3.93	.663	
To what extent has the IJV created new opportunities for your firm?	<b>EIJVs</b>	<b>37</b>	4.84	1.118	<b>.752</b>
	<b>NEIJVs</b>	<b>28</b>	3.64	.911	
Our cooperation with this partner has contributed to growth in our firm.	<b>EIJVs</b>	<b>37</b>	3.86	1.032	<b>.675</b>
	<b>NEIJVs</b>	<b>28</b>	3.71	.659	
This relationship provides our firm with many strategic benefits.	<b>EIJVs</b>	<b>37</b>	4.08	1.010	<b>.952</b>
	<b>NEIJVs</b>	<b>28</b>	3.89	.567	
The objectives for which the collaboration was established are being met.	<b>EIJVs</b>	<b>37</b>	3.89	.994	<b>.457</b>
	<b>NEIJVs</b>	<b>28</b>	3.79	.833	

\* P < .1; \*\* P < .05; \*\*\* P < .01