A new way to look at an old problem: International joint venture partner selection via constrained systematic search

Tommie Welcher

University of Louisville, 2301 S. Third Street, Louisville, KY 40292, U.S.A.

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Abstract Although international joint ventures (IJVs) provide many benefits to multinational enterprises (MNEs), IJVs continue experiencing high dissolution rates; there is a pressing need to re-evaluate the partner selection process for IJVs. In this article, I utilize constrained systematic search (CSS) as the proposed process by which to improve the partner selection process and reduce IJV dissolution rates. CSS is a process MNEs can utilize to gain private information about potential IJV partners. The implementation of CSS can improve the success rates for an MNE entering an IJV in two ways: MNEs can more effectively identify (1) information withholding/misleading behavior of potential partners and (2) complementary resources in potential partners.

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1. Solving the information gathering problem

International joint ventures (IJVs) have been an attractive option for multinational enterprise (MNE) expansion (Lane & Beamish, 1990; Triki & Mayrhofer, 2016). IJVs offer many advantages to MNEs, including fast entry into a new market, gaining access to local knowledge and distribution channels, and utilizing the reputation or trust previously established by the local partner (Inkpen & Beamish, 1997). Yet, IJV is known for its high rates of dissolution with studies finding dissolution rates between 50% and 70% (Bleeke & Ernst, 1991; Lowen & Pope, 2008; Park & Ungson, 1997).

Information asymmetry, a condition in which one potential partner possesses information the other does not have, can create an additional challenge in selecting a partner with complementary resources (Reuer & Koza, 2000). Complementary resources are what a company needs to succeed in a new market but does not possess itself. asymmetric information makes it likely that a firm miscalculates the resources a potential partner possesses (Reuer...
An international venture not only brings together two firms separated by geographic distance and diverse corporate cultures, but also two firms with different national cultures. Research has identified lack of complementary resources as a primary cause of such high rates of dissolution among IJVs (Chowdhury, 1992; Killing, 2013). Thus, to enhance the likelihood of IJV survival and success, a primary need in the evaluation of a partner is reliable information about the potential partner’s resources. Information about a potential partner’s resources may not be publicly available. In this case, the MNE is either to rely on the potential partner’s assertion of their assets or use private information from third parties to ascertain an accurate representation of the potential partner’s resources. If a potential partner does not disclose pertinent information to an MNE, it becomes important for the MNE’s alliance manager to find another way to obtain it. Systematically collected private information could be the complement to public information MNE alliance managers need.

A corporation is a social community of individuals and information search is carried out by individuals. I argue and demonstrate that constrained systematic search (CSS), a theory conceptualized for individual entrepreneurs to collect private information, can be used by MNEs to evaluate and select the proper partner for an IJV. Fiet (2007) conceptualized CSS from a process successful entrepreneurs utilize to gain private information by systematically searching through their private networks. CSS gives its users a competitive advantage over those relying purely on general knowledge that is publicly available. CSS not only provides an advantage to general knowledge, it also provides an advantage over conducting due diligence. The reliability of information collected through due diligence is limited; however, information obtained through CSS will be reliable. The reliability of information obtained through CSS comes from the quality and trustworthiness of information channels used. For alliance managers, utilizing CSS could lead to a higher probability of choosing a partner with complementary resources, and ultimately a more successful IJV.

2. Information asymmetry in partner selection and IJV success

When a publicly traded MNE is entering a developing country, its public financial records will allow a corporation in a developing country to see what assets are available. On the other hand, the information a multinational company values (e.g., compatibility in business and local market access) may not be as readily available, particularly from companies in developing countries. This lack of information can create information asymmetry as a local company within the developing country may have private information an MNE cannot access.

This asymmetric information between potential partners becomes a problem if one party leverages the asymmetry to mislead the other party. For instance, a company entering an IJV that possesses private information could intentionally provide misleading or incomplete information about the resources it has. In this case, the company with private information is intentionally and unethically leveraging information asymmetry to achieve a desired outcome. Smaller firms in developing countries may leverage information asymmetry to gain entry into an IJV since they have higher production costs competing against an MNE than they would if they were in a partnership (Wong & Leung, 2001). Thus, if an MNE has resources the local firm needs, there is an incentive for the local firm to mislead the MNE if its management team believes entering a joint venture will lead to higher profits (Wong & Leung, 2001).

Identification of private information can play a significant role in overcoming information asymmetry, which is made evident by the IJV between XALT Energy, LLC (XALT) and Hybrid Kinetic (HKG). XALT is involved with the design and manufacturing of advanced lithium-based energy storage and battery cells in Midland, MI and HKG is an electric vehicle manufacturer headquartered in Hong Kong. In the IJV, the two firms were developing a specific type of battery pack. The IJV supply agreement specified that HKG would provide XALT with capital funding through deposit and letters of credit and that HKG would purchase every battery cell manufactured at the XALT plant (Townsend Ventures LLC et al. v. Hybrid Kinetic Group Limited et al., 2017). During the negotiations of the IJV, HKG made claims to XALT about the level of orders it already had for the buses that would use the new batteries. HKG also claimed it had acquired Huanghai Bus, but later said that it never owned any bus companies (Townsend Ventures, LLC et al. v. Hybrid Kinetic Group Limited, et al., 2017). HKG also made assertions that it would provide XALT with various letters of credit, although XALT never received any letters of credit from HKG. XALT alleged that HKG misrepresented itself in most, if not all, of the representations it made during negotiations. XALT alleged that HKG made these misrepresentations to show investors that it had secured the services of a U.S. manufacturing plant. In this case, HKG leveraged its information asymmetry to establish an IJV with XALT. HKG subsequently admitted to misrepresenting its resources.