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

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ABSTRACT

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

1. Introduction

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

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

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

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

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

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

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

2. Theory

2.1. Institutions

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

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

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

potential type of approach firms employ in response to the institutional structure of the environment (Ahlstrom et al., 2008; Peng, 2005).

2.2. Institutional variation and firms in ethnic Chinese communities

Peng (2005) notes that research on international management and institutions have often implicitly or explicitly treated institutions in a country as a single and constant effect. Much previous research on ethnic Chinese firms has also often assumed that the firms and their structures are influenced by similar institutions, partially grounded in Confucian cultural values thereby leading to similarities in their structures and strategies (Bond & Hofstede, 1990; Bruton et al., 2001; Hamilton, 2000). Such an approach to study of institutions often fails to take into account the institutional differences among various ethnic Chinese communities that have emerged with changes in governance in Mainland China, Taiwan, and Hong Kong and the experimentation with new laws and regulations to guide commercial behavior (Li, Lam, & Qian, 2001; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

Although often described as relatively homogeneous (e.g., Fukuyama, 1995), Greater China is characterized by institutional diversity; Mainland China, Taiwan, and Hong Kong share similarities but also some differences in terms of formal institutions and culture (Chan, 2000; Kwon, 2012; Li et al., 2013; McEwen, 1994; Van Kemanade, 1997). And firms' practices are adaptive to those institutional environments. Hong Kong, located in the south of China, was a British colony for 150 years, only reuniting with Mainland China in 1997. The British introduced capitalist economic, legal and social systems to Hong Kong. Hong Kong's highly capitalist economy has been ranked as the freest economy in the world for 19 consecutive years by the Index of Economic Freedom (Index of Economic Freedom, 2013). Hong Kong has been a Special Administrative Region of the PRC since 1997 and under the ensuing "one country, two systems" policy, Hong Kong is largely self-governing. The existing capitalist economic, legal and social systems there will be maintained at least through 2047. The significant presence of foreign multinational enterprises (MNEs) – over a third of the workforce was employed by foreign multinational firms in recent years (Findlay, Li, Jowett, & Skeldon, 1996) – has also exerted considerable influence on the institutional structure there through contract law and commercial conventions brought by the multinationals.

Situated off of Mainland China's east coast, Taiwan is populated by 23 million ethnic Chinese including approximately 2 million who fled China's Civil War in the late 1940s (Spence, 1990). Taiwan is considered by Mainland China as one of its provinces, though it is a self-governing entity with its own system of governance, judiciary and legal enforcement. Taiwan's formal institutions have been significantly influenced by more developed countries such as Japan, Germany and the United States (U.S.) (Liu, Wang, Zhao, & Ahlstrom, 2013). In 1895, Taiwan was ceded to Japan in the wake of the Sino-Japanese war. Japan introduced a number of new laws in Taiwan including property rights and intellectual property laws during this period (Myers & Peattie, 1983). After WWII, Taiwan was returned to Nationalist China but then was politically separated from the Mainland when the latter was taken over by victorious Communist forces in 1949. Not long after, a modern judicial system and civil code was introduced. The U.S. also extended financial aid to develop Taiwan's economy and Taiwan created financial institutions and regulations and other formal institutions similar to those in the U.S. (Berger & Lester, 2005; Liu, Ahlstrom, & Yeh, 2006). Many Taiwanese subsequently studied and worked in the U.S. Taiwan's formal institutions developed along the lines of Western economies such as the U.S. and Germany, particularly in terms of laws and business practices (Fischer, 2012; Roy, 2003). Alternatively, unlike Hong Kong, where most people speak Cantonese as a first language, nearly all Taiwanese speak Mandarin well, many as a first language, creating a strong linguistic bond with Mainland China. Like the linguistic bonds, research has also suggested that Taiwan's cultural distance from Mainland China is relatively smaller (Bond, 1996; Cheng & Farh, 2001; Fischer, 2012; House, Hanges, Javidan, Dorfman, & Gupta, 2004).

With the accession of the Chinese Communist forces in Mainland China in 1949, China's legal system was largely eliminated (Lubman, 1999). Commercial laws and their enforcement were virtually nonexistent at the start of China's economic reforms in 1978 and there has been a struggle to gradually create a legal–commercial infrastructure to guide commerce and protect property (Ahlstrom, Young, Nair, & Law, 2003; China Law and Governance Review, 2004; Lubman, 1999). Overlapping jurisdictions at the national, provincial, county and city levels and among various departments, bureaus and law enforcement have made legal reform a very challenging matter in China (Peerenboom, 2006; Poncet, 2005, 2006).

2.3. Hypotheses

2.3.1. Managerial capabilities

Managerial capabilities are often not well developed in emerging economy firms (Lyles & Baird, 1994). Indeed, the lack of managerial capabilities has posed critical competitive problems for firms in Mainland China (Carney, 1998; Peng, 2003). Luo (1999) found that many firms in Mainland China, for example, had inferior organizational and managerial capabilities. In spite of over two decades of joint ventures and much management training, firms in Mainland China report that local management skills are still relatively weak in a number of areas (Carney, 1998; Wuttke, 2012). The cultural values of harmony, paternalism and the importance of *guanxi* significantly shape managerial decision making style in both Mainland China and Taiwan where cultural norms are more tradition-bound (Chen, 2001; Luo, 2000; Park & Luo, 2001). Researchers have found that Mainland Chinese managers tend to centralize decision making and do not feel comfortable delegating much responsibility to middle managers and employees (Ahlstrom, Young, Chan, & Bruton, 2004; House et al., 2004; Lieberthal & Lieberthal, 2003; Wuttke, 2012). This centralized decision-making style also characterizes many firms located in Taiwan (Hamilton & Biggart, 1988). These firms tend to be more concerned with wealth preservation and stable income streams (Perez-Gonzalez, 2006). As a result, the governments in Mainland China and Taiwan have recently placed a great deal of emphasis on the acquisition of management skills. Management training has been funded through vocational centers as well as the funding of international executive programs through the universities.

As noted previously, Hong Kong's historical development and material conditions have created a culture somewhat distinct from that of Mainland China or Taiwan. British influence in Hong Kong for over 150 years had a considerable effect on Hong Kong's culture and business operations. A cadre of professionally trained managers, such as expatriates brought by western MNEs, provided advanced management benchmarks through their interaction with local managers and employees (Findlay et al., 1996; Fischer, 2012). Therefore, the Hong Kong government has not typically encouraged management reform, focusing more on the improvement of engineering and information technology skills which they perceived as requiring more development (HKSAR, Innovation and Technology Commission. 2004). Managers in Hong Kong have learned and institutionalized considerable advanced managerial expertise over the last century. In contrast, McKinsey's widely quoted study on China's looming talent shortage found that in the coming years, China may have less than ten percent of the managers required by its economy (Farrell & Grant, 2005; Fix, 2013). Some similar concerns have been expressed about Taiwan in terms of managerial shortages and deficiencies in the education and development systems for managers (The Economist, 2008).

In sum, having realized a need for such capabilities as a consequence of increasing integration of the world economy, managers from Mainland China and Taiwan emphasize the acquisition of managerial skills in selecting alliance partners from whom they can learn, more so than in Hong Kong. Indeed, the need for capital and a desire for economic growth in conjunction with global competition provide Mainland Chinese and Taiwanese managers the desire to develop more effective managerial skills (Steinfeld, 2005, 2012). These arguments lead to the following hypothesis.

Hypothesis 1. Both Mainland Chinese and Taiwanese firms place emphasis on the managerial capabilities of partners and emphasize this criterion more strongly in selecting international strategic alliance partners than do Hong Kong firms.

2.3.2. Financial assets

Decades of unrest and upheaval experienced in Mainland China and much of East Asia have reinforced a strong cultural predilection toward saving and investing among ethnic Chinese (Chen, 2001; Seagrave, 2010). Economies with large Chinese populations have some of the highest amounts of hard currency reserves. Chinese entrepreneurs have exhibited a similar orientation; many firms are initially founded by entrepreneurs who employ their own resources; those resources largely coming from personal or family savings (Carney & Gedajlovic, 2001). This same characteristic is common among Chinese managers in larger firms as well (Chen, 2001). Managers are not only conservative with financial capital; they seek to maintain slack resources that they either own or to which they have ready access. Further, as noted earlier, likely influenced by traditional paternalistic cultural values, Chinese managers often seek to centralize control and minimize delegation (Ahlstrom et al., 2004; Cheng, Chou, Farh, Huang, & Wu, 2004). This orientation may be reinforced by the cultural value of high uncertainty avoidance as well as continuing difficulties for private firms in China to raise money (House et al., 2004). As a result, Chinese managers may feel uncomfortable relying on outside debt or equity financing; many firms in China have also reported difficulty in financing, as bank financing and access to financial markets is limited mostly to state enterprises and other well-connected firms (Walter & Howie, 2012). Financial insecurity is also a problem in Taiwan businesses. Mainland China and Taiwan firms may also place more reliance on *guanxi* to obtain needed financial capital and other resources (House et al., 2004; Luo, 2007). However, the financial resources available from social connections are usually smaller in amount than from well-established external financial markets.

In Hong Kong, formal institutions (e.g., government economic policies and regulations) may play a greater role in promoting and governing the financial markets and provide firms with a greater range of financing options. Because of its well-established community of financial institutions and the safety of investments there, Hong Kong has been regarded at times as the financial center of East Asia and consistently as the freest economy in the world (Index of Economic Freedom, 2013). As a result, international banks and financial intermediates enter Hong Kong and make available substantial funds to the Hong Kong financial market. Indeed, Hong Kong business culture is rather unique in the ability to supply significant financing and large syndicate loans, sometimes on twenty-four hour notice (Bruton, Ahlstrom, & Yeh, 2004). Further, because of the Hong Kong commercial culture described earlier, many Hong Kong firms emulate the business practices of foreign MNEs located in Hong Kong such as making extensive use of capital markets and banks. Also, the entrepreneurial culture existing in Hong Kong has opened funding from angel investors and other venture capitalists.

Mainland Chinese and Taiwanese firms are more likely to shun external financing and utilize several possible measures to avoid diluting their ownership that would broaden the control of the firm (Faccio, Lang, & Young, 2010; Liu et al., 2013; Young, Ahlstrom, & Bruton, 2004) Further, the nature of the traditional commercial culture present in Taiwan and Mainland China makes it more difficult to widely involve venture capital or private equity financing and restructuring. Recently, virtually the only outside financing available for Chinese private companies are bank loans, which remain difficult to arrange as the central government's emphasis tends to be on loans to state-owned enterprises, as opposed to private firms (The Economist, 2011; Zhang, 2013). That leaves the shadow banking and informal financing system, which is an institutional accommodation to the lack of formal institutions sometimes operated by local governments or larger firms that have extra cash to loan (The Economist, 2011; Zhang, 2013). These arguments suggest that Mainland Chinese and Taiwanese managers more aggressively seek partners with superior financial resources compared to Hong Kong where a greater range of financial instruments are readily available and the financial industry is well monitored (Clissold, 2006). Thus, we hypothesize:

Hypothesis 2. Both Mainland Chinese and Taiwanese firms place emphasis on the financial assets of partners and emphasize this criterion more strongly in selecting international strategic alliance partners than do Hong Kong firms.

2.3.3. Intangible assets

Classics such as Sun Tzu's *Art of War* describe traditional Chinese thinking on strategy and strategic choice still in use today (Chen, 2001). Based on this thinking, many traditional Mainland Chinese and Taiwanese managers are thought to strategize from more intuitive, tradition-based and informal perspectives than are Hong Kong managers, who are driven more by "Western," systematic approaches (Chen, 2001; Zhou & Peng, 2010). Thus, Taiwanese and Mainland Chinese managers are likely to emphasize the importance of intangibles such as *guanxi* in terms of knowing the right people, and having the appropriate connections with the government and other legitimacy strategies that are less common in Hong Kong (Ahlstrom et al., 2008; Newman, Gunnessee, & Hilton, 2012; Wank, 2002). Therefore, they are especially interested in alliance partners with strong relational capital – a key intangible asset.

Indeed, as noted earlier, because Mainland Chinese and Taiwanese managers tend to avoid outside financing that might dilute their control, their investment in branding is likely to be limited (Ahlstrom et al., 2004). Yet, a good reputation is a critical strategic asset for firms to compete effectively over time, especially with foreign firms (in domestic and international markets) (Roberts & Dowling, 2002). As such, Taiwanese and Chinese firms more strongly prefer international alliances with partners having a positive global reputation, whereas Hong Kong firms can draw more on their own reputational capital. Firms that have well-known alliance partners enjoy an advantage in the market regarding the recognition and acceptance of their products, services and processes, etc. (e.g., Stuart, 1998). Reputational capital is thus, an intangible asset.

In contrast, significantly influenced by western commercial conventions, Hong Kong firms tend to behave similarly to their western counterparts and strive for legitimacy in the global marketplace rather than through the reputation and domicile of their alliance partners. As such, while they desire alliance partners with positive reputations, other attributes are likely to be more important in their partner selection processes. These arguments suggest that both Mainland Chinese and Taiwanese firms more strongly emphasize intangible assets such as *guanxi* and reputation in selecting alliance partners than do Hong Kong firms, which leads to the following hypothesis.

Hypothesis 3. Both Mainland Chinese and Taiwanese firms place strong emphasis on intangible assets as a criterion in selecting partners, and emphasize this criterion more strongly in selecting international alliance partners more than do Hong Kong firms.

2.3.4. Special skills to acquire from partner

Similarly, special skills that a firm can learn from an alliance partner are an important criterion for making alliance partner selection (Hitt et al., 2004). The ability for a firm to learn and acquire special skills that a partner possesses, such as production or marketing know-how, often is considered a critical outcome of a successful partnership. Both China and Taiwan have strongly encouraged the acquisition of key skills by indigenous firms. This emphasis was created through training provided by the government to firm personnel in key industries such as consumer electronics and information technologies. Hitt, Li, and Worthington (2005) argued that emerging economy firms (e.g., Chinese firms) can build their capabilities to compete in global markets by forming alliances with resourceful foreign multinational firms and working closely with them to gain the knowledge necessary to compete in domestic and foreign markets. They suggest that these emerging economy firms, such as those from mainland China, engage in exploratory learning (e.g., to learn processes in which they have not engaged previously such as market research) and experiential learning by working closely with the foreign firm in specific areas (e.g., developing a marketing strategy to increase market share and/or respond effectively to rivals).

Further, the mainland Chinese government encourages cross-border merger and acquisition (M&A) to acquire international distribution networks and global brands as an alternative way of obtaining special skills (Leung, Michaelis, & Tang, 2008; Sun, Peng, Ren, & Yan, 2012). Mainland Chinese firms continue to search for partners with valuable capabilities they can learn. And, although Hong Kong firms likely prefer alliance partners from which they can learn, their greater business acumen developed from Western business practices learned in the past lessens the importance of this criterion in their selection of alliance partners.

These arguments suggest that Taiwan and mainland Chinese firms will place a stronger emphasis on special skills that can be learned from an alliance partner of potential partners than do Hong Kong firms.

Hypothesis 4. Firms in Mainland China and Taiwan place more emphasis on special skills that they can learn from an alliance partner more strongly than do Hong Kong Firms in selecting international alliance partners.

2.3.5. Technical capabilities

Technical capabilities refer to the ability to develop new process or product technologies (e.g., significant R&D operations; develops and commercializes new products). And, such capabilities have been argued to be critical for gaining and sustaining competitive advantage in global markets. Hong Kong firms have been strongly exposed to international markets and have a long history of strategic alliances with foreign partners from Japan, the United States, Britain and other western countries. Interestingly, while they recognize that technical capabilities are important, Hong Kong firms have long been content to be followers in product and process innovation (Davies, 1996; Enright, Scott, & Chang, 2005).

In contrast, Chinese and Taiwanese firms have been more aggressive in pursuing both product and process technologies from alliance partners, which has been a government policy in both economies for many years (Steinfeld, 2005, 2012). The Hsinju industrial park in Taiwan facilitated technology transfer as firms were given incentives to acquire technological and production skills and then share those, particularly process skills, with other Taiwan firms. This approach was used to help develop Taiwan's extensive electronics industry infrastructure.

Official PRC policy holds that Mainland Chinese firms should build alliances with foreign firms for the purpose of technology transfer. This lower spending on indigenizing technology by Chinese firms also contrasts with spending patterns in several other Asian economies (Gilboy, 2002). The Mainland Chinese government has recently emphasized independent innovation as a national strategy (Chen, 2005; Forster, 2006). Yet, to become independently innovative, the Chinese firms must build technological skills and learn how to effectively enter new product into the market and compete with foreign rivals (Hitt et al., 2005; Wang, Ahlstrom, Nair, & Hang, 2008). Therefore, both Taiwanese and Mainland Chinese firms search for alliance partners which have strong technological capabilities that they can potentially acquire.

The reasoning presented above leads to the following hypothesis:

Hypothesis 5. Firms in Mainland China and Taiwan place more emphasis on acquiring technical capabilities from an alliance partner more strongly than do Hong Kong Firms in selecting international alliance partners.

3. Methods

3.1. Sample and research design

Firms in Taiwan, Hong Kong, and Mainland China involved in strategic alliances were identified and contacted to determine the managers responsible for developing and managing those alliances. Each manager was contacted personally by the researchers or their representative and asked to complete the survey instrument described below. Data were collected through a specially designed policy capturing survey instrument (Hitt & Middlemist, 1979; Hitt et al., 2004). The policy capturing instrument is used to examine how managers process information and make decisions when asked to weigh particular choices or strategies (Hitt & Tyler, 1991; Karren & Barringer, 2002; Rynes & Lawler, 1983). After omitting surveys from respondents not involved in alliances and incomplete survey responses, the resulting sample comprised 192 firms, of which 61 were based in Taiwan, 68 based in Hong Kong and 63 based in Mainland China.[2] This represented of response rate of 91 percent from Taiwanese managers contacted, 94 percent of Hong Kong managers contacted, and 86 percent of Mainland Chinese managers contacted.[3] Because the varying development paths of Hong Kong, Taiwan, and Mainland China have been primarily

[2] The Mainland China sample was originally used as part of an earlier article in Organization Science which compared alliance partner selection in China and Russia (Hitt et al., 2004). Additional data collection was undertaken in Hong Kong and Taiwan to develop a more nuanced understanding of alliance partner preferences in these ethnic Chinese communities in East Asia.

[3] Our sample is nonrandom and similar to much macro-level research in that regard (e.g., Short et al., 2002). Nevertheless, we were careful to identify major firms from Mainland China, Taiwan, and Hong Kong with significant strategic alliance activities, thus creating a purposive sample across a range of industries representative of these economies (Kerlinger, 1986, pp. 120–121). The response rate was very high because managers were contacted first by letter or email and then by phone call or in person to discuss their participation in the study; about ten percent declined to participate.

influenced by political forces (as explained earlier) largely exogenous to the firms in our sample, these three different economies serve effectively as exogenous sources of variation for cleanly identifying the effects of location-based institutions on firms' strategic alliance partner decisions (Siegel, 2007). The firms were selected to represent a balance of manufacturing and service firms, including consumer electronics, toy manufacturing, steel mills, plastics production, financial services, television and entertainment, and some internet and software firms. The sample was necessarily a purposive sample (Kerlinger, 1986, pp. 120–121; Yin, 2013) as a purely random sample would have produced a large proportion of State and Collective firms in Mainland China. Such a sample would likely have been biased because of the heavy influences on alliance partner selection based on government preferences and could introduce public policy considerations that are outside of the scope of this study. This research thus represents a comparative study of private firms domiciled in the three economies.

3.2. Survey instrument

Based on a thorough review of the alliance literature as well as interviews with a number of executives the policy capturing survey instrument was developed. As described in Hitt et al. (2000), this instrument was based on policy capturing, which is derived from social judgment theory in social psychology. Research has shown that policy capturing does a good job of capturing individual judgment policies when the decision involves numerous criteria (Slovic & Lichtenstein, 1971; Stumpf & London, 1981) as with alliance partner preferences. The policy capturing instrument presented 30 different prospective alliance partner firms for managers to evaluate; each scenario represents the characteristics of a different potential alliance partner (Hitt et al., 2004).

The 30 scenarios were constructed from 14 partner-selection criteria provided at varying levels of strength on a five-point scale to represent a range of possible alliance partners. The 14 partner selection criteria identified were financial assets, complementarity of capabilities, unique competencies, industry attractiveness, cost of alternatives, market knowledge/access, intangible assets, managerial capabilities, capabilities to provide quality products/services, willingness to share expertise, a partner's ability to acquire your firm's special skills, previous alliance experience, special skills that you can learn from your partner, and technical capabilities. For example, a potential partner might be strong (have a score of 5) in terms of capabilities including managerial capabilities and quality, but lower on other criteria. Such a partner would look different (and thus likely garner a different assessment from a manager) than one that is low on those capabilities but high on the financial assets criterion. The instrument was translated into Chinese primarily for the respondents in Mainland China; the respondents in Hong Kong and Taiwan generally spoke English well, although they were offered the choice of instruments in either of the two languages. The Chinese version was back-translated independently into English to confirm consistency and accuracy (Brislin, 1986).

In a policy-capturing study, respondents are presented with the scenarios of potential alliance partners, one by one, and asked to make assessments and choices about them on the basis of the varying strength of the prospective partner's selection criteria (Hitt & Middlemist, 1979). Based on the decisions made and assessments of the prospective alliance partners (constituting the outcome variables), the decision criteria preferred by the respondent (constituting the predictors) can be identified statistically (Karren & Barringer, 2002; Slovic & Lichtenstein, 1971). Importantly, this method avoids the problems of the retrospective rationality bias that hampers many survey techniques about past decisions (e.g., Golden, 1992).[4] In short, the policy capturing instrument has proven very effective in investigating managerial preferences and choices in that it identifies managers' actual *theories in use* (those actually employed but perhaps not easily articulated) and allows us to avoid making inferences on their *espoused theories* in use (Argyris & Schon, 1974; Reuer, Tong, Tyler, & Arino, 2013; Tong, Reuer, Tyler, & Zhang, 2013).[5] Though institutions can be somewhat challenging to capture at the macro level, their impact is discernible and directly observable through managers' decisions (Collins, 2004).

3.3. Variables[6]

3.3.1. Outcome

The outcome variable was constructed from a two-item scale. As noted, the managers rated each of the 30 potential partners (scenarios) described, one by one on a seven-point Likert-type scale for (1) the attractiveness of the firm as an alliance partner, and (2) their likelihood of actually recommending an alliance with that firm. We averaged these two items to form the outcome variable. These scales had high internal reliability, with an inter-item correlation of $r = .88$.

3.3.2. Predictors

The 14 partner firm characteristics identified above served as the predictor variables. We constructed the 30 cases by varying the levels of these 14 characteristics randomly over five levels, from 1 (low) to 5 (high). Hitt and Middlemist (1979) in the early work on policy capturing found that 30 cases were sufficient to have ample variance (if the number of criteria was not too high) and yet about the maximum that managers would accept and complete the survey without significant fatigue effects occurring in the study. It was also possible to cover a range of cases that captured meaningfully different scenarios such as an alliance partner with strong financial partners versus those with few financial resources yet with important managerial capabilities or other intangible assets. Moreover, the cases enabled a repeated measures-type assessment of alliance partner selection criteria based on the respondents' evaluation of 30 potential strategic alliance partners on these 14 criteria at varying levels.

Seven control variables were initially included in our three individual analyses of managers from Hong Kong, China and Taiwan because of their potential effect on partner selection.[7] These variables included three industry dummy variables (natural resources, basic manufacturing, service, and high technology), an Inverse Mills Ratio (Heckman, 1979) to control for possible selection bias (discussed further in the following paragraph), firm size, prior alliance experience of the respondent's firm, and country GDP. Each industry type was transformed into a dummy variable (0,1), with high technology treated as a zero to avoid a unitary matrix.

[4] In constructing the cases, we randomly assigned levels of predictors in each case (using a random number generator) in order to reduce potential multicollinearity problems as well as to avoid inordinately weighting a single variable. We concluded that the outcome was successful as the highest common variance between any two of the 14 predictors was .13.

[5] We originally pilot tested with executives from Canada, the United States and Mexico. After revising, we administered the instrument and conducted interviews with managers from China, France, Poland, Romania and Russia prior to collecting data utilized in this study.

[6] Because of the varying and sometimes opposing terminology used in the empirical multilevel research (e.g., Bryk and Raudenbush, 1992; Skrondal and Rabe-Hesketh, 2004), we categorized our variables as predictors and outcome.

[7] Our analyses also included size (measured as the natural log of the respondent's firm's total employees), prior alliance experience of the respondent's firm, but the statistical program used, STATA v.10.1 dropped these from the analysis because of their high collinearity with our Inverse Mills Ratio variable.

In order to control for the possibility that our sample was biased toward those firms having the tendency to form alliances, we collected additional data on Hong Kong, Mainland China and Taiwan firms from Thomson SDC joint venture, Compustat Global, PACAP, and annual reports of listed firms for the same time period when the survey data were collected. These additional firms varied in terms of their industry representation, size, and previous alliance experience (including some firms that had no alliance experience). In total, we collected data on an additional 28 firms from Hong Kong, 38 firms from Mainland China, and 27 firms from Taiwan. We then used the procedure recommended by Heckman (1979) to create an Inverse Mills Ratio variable. To do so, first, we coded a dummy outcome variable as 1 if a firm was part of our original sample, and 0 if it was one of the additional firms. We then ran three separate probit regressions, one for each of three "Chinas". Specifically, we regressed this outcome variable on our three industry dummy variables, previous firm alliance experience, and total firm revenues in U.S. Dollars because these repressors might predict inclusion in our final sample (we used the exchange rate on Dec. 31, 2000 to convert Hong Kong Dollars, Chinese Renminbi, and New Taiwan Dollars to U.S. Dollars). One parameter from these probit regressions was the Inverse Mills Ratio, estimated as standard normal density (y-hat)/cumulative standard normal distribution (y-hat), where y-hat represents fitted values from the probit. We then included the Inverse Mills Ratio as an additional explanatory variable in the analysis to effectively account for potential sampling selection bias (Heckman, 1979).[8]

The Mills Ratio is largely a measure of the potential bias inherent in each observation included in our sample due to its proclivity to form alliances. This potential bias is important to control because, in the presence of this bias, we could not conclude that effects identified in our empirical models are due to institutional variation (and not proclivity to form alliances). Inclusion of the Inverse Mills allows us to discount bias due to alliance proclivity. The predictors previous alliances experience, industry dummy variables, and revenue allow the consistent estimation of final sample selection because previous alliance experience is largely equivalent to propensity to form alliances, and industry dummies control for any industry biases toward forming/not forming alliances.[9] Moreover, revenues can proxy the resources available to the firm for forming alliances or the need to form alliances.[10]

In tests used to assess statistical differences across the China, Hong Kong and Taiwan models (described in more detail in Section 4), we estimated an Inverse Mills Ratio in a similar manner but with one change. As noted, in addition to industry dummies, alliance experience, and total firm revenues, we included Gross Domestic Product per Capita (in U.S. Dollars) for Mainland China, Taiwan and Hong Kong to control for the possibility that economic development differences across these three might explain managers' partner preference differences. Effectively, this Mills Ratio accounts for potential bias inherent in each observation due to home country economic conditions. Its inclusion in our difference tests (between managers of any two geographic areas studied) allows us to rule out the possibility that differences are due to macroeconomic conditions. As such, these additional controls enhance confidence in the results of the analyses.

4. Results

4.1. Hypotheses

Correlation tables for our estimation sample are presented in Tables 1 and 2. After examining simple correlations, we estimated separate models for the managers from Hong Kong, Taiwan and Mainland China using the XTMIXED procedure in STATA v.10.1. XTMIXED allows the fitting of linear models that contain both fixed (e.g., respondent) and random (e.g., firm, country) effects, also known as "mixed models." These initial estimations are shown in Table 3, columns A–C. Overall, our estimation sample was comprised of 68 firm level and 2040 respondent level (68×30) observations from the Hong Kong managers, 61 firm level and 1830 respondent level (61×30) observations from Taiwan managers, and 63 firm level and 1890 respondent level observations (63×30) from Mainland China managers.

To first assess differences between managers from Hong Kong, and those from Mainland China, we combined our Hong Kong and Mainland China samples, and examined the interactions of the 14 predictor variables collected from our survey with a Hong Kong dummy variable, coded 1 if the manager is from Hong Kong and 0 otherwise (Siegel, 2007). We then re-estimated the model to include a Hong Kong fixed effect, and the interaction term. Next, we conducted a likelihood ratio test, which allowed us to compare our restricted model (all effects except for the interaction) with our full model (all effects). This test shows whether the two groups – the Hong Kong and Mainland China managers – differ in their partner selection preferences (Acock, 2008). Statistically significant interactions are highlighted in Table 3. We repeated these steps to compare partner selection preferences between Hong Kong and Taiwan managers by combining our Hong Kong and Taiwan samples. Lastly, we combined our Taiwan and Mainland China samples, and created a Mainland China dummy variable (1 if the respondent was from Mainland China and 0 otherwise) and interactions to assess partner selection preference differences between these two groups of managers. The results are reported in Table 3, columns D–F and broadly indicate that managers from Mainland China and Taiwan were similar on most alliance preferences while Hong Kong firms differed from the other two on several alliance partner criteria preferences.

Regarding Hypothesis 1, we predicted that both Mainland Chinese and Taiwanese managers place strong emphasis on partners' managerial capabilities. We found support for this hypothesis as shown in columns B and C of Table 3. Furthermore, we argued that both Mainland Chinese and Taiwanese managers would place greater emphasis on partners' managerial capabilities than would Hong Kong firms. Results presented in Table 3 (coefficient, -0.11, $p > 0.001$; LR Test, $p < 0.01$), indicate that Mainland Chinese firms more strongly emphasize managerial capabilities in selecting alliance partners than do firms from Hong Kong. However, the non-significant LR Test statistic in comparing Taiwanese and Hong Kong firms precludes us from concluding that

8 We used a similar procedure to control for the possibility that our China estimations were biased toward firms located in the developed southern coastal cities (from which we drew our initial sample). To our Mainland China probit regressions, we added four region dummy variables (since our additional firms were located in 5 distinct areas) and again estimated our Inverse Mills Ratio. Results estimated using this "modified" Inverse Mills Ratio were virtually identical to those produced when utilizing the Inverse Mills described in the body of our paper.

9 We also ran tests including other country/region variables such as total Foreign Direct Investment (FDI), unemployment level, total capital investments and worker age but these were dropped because of their collinearity with other variables in the models.

10 Empirically, model fit statistics of our selection equation (the equation from which we constructed our Inverse Mills Ratio) provide effective support for our selection equation specification. We combined all our data (from the original sample as well as the additional data collected) into a single sample. We regressed our selection outcome variable (1 if included in the final estimation sample, 0 otherwise) on previous alliance experience, industry dummies, total firm revenue and two country dummies. The Chi-squared of the model, 25.58, is highly significant ($p < 0.001$). The likelihood ratio test statistic comparing this model to a constant only model (i.e., a test that all the coefficients except for the constant are zero) is significant at the $p < 0.0001$ level. The Chi-squared of the model, 25.58, is highly significant ($p < 0.001$). The likelihood ratio test statistic comparing this model to a constant only model (i.e., a test that all the coefficients except for the constant are zero) is significant at the $p < 0.0001$ level.

Table 1
Descriptive statistics and correlations for partner criteria and attractiveness.[a]

	Mean	Std.	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Financial assets	3.20	1.38														
2. Comp. capab.	2.97	1.43	0.13**													
3. Unique comp.	2.87	1.45	0.03*	−0.03**												
4. Industry attract.	2.87	1.36	−0.19**	0.15**	−0.09**											
5. Cost of alts.	2.80	1.40	−0.03*	0.06**	0.24**	−0.11**										
6. Market knwldg.	3.43	1.26	−0.28**	−0.17**	0.10**	−0.06**	0.23**									
7. Intangible assets	2.93	1.44	0.19**	0.17**	−0.004	−0.36**	0.12**	0.07**								
8. Mgr. capab.	2.97	1.66	−0.27**	0.28**	0.06**	−0.03*	0.22**	0.19**	0.02*							
9. Capability for quality	3.10	1.45	0.20**	−0.12**	0.03**	−0.34**	−0.07**	0.06**	−0.14**	−0.23**						
10. Willing. to share	2.53	1.31	−0.22**	−0.007	−0.06**	−0.05**	−0.23**	0.04**	−0.24**	−0.08**	0.02^{+}					
11. Partner ability	2.70	1.37	0.03*	−0.03**	0.19**	0.01	−0.24**	0.13**	−0.12**	−0.19**	0.08**	−0.17**				
12. Previous all. exp.	3.07	1.48	−0.13**	0.20**	0.18**	0.004	0.13**	0.03**	−0.17**	0.01	−0.06**	0.23**	0.19**			
13. Special skills	2.90	1.40	−0.05**	0.03*	0.07**	−0.14**	0.21**	0.13**	−0.003	0.19**	0.12**	0.06**	−0.25**	−0.27**		
14. Tech. capab.	3.03	1.43	0.09**	0.32**	0.002	−0.20**	−0.19**	−0.13**	0.13**	0.31**	0.19**	0.02*	0.14**	−0.04**	0.16**	
15. Partner attract.	3.61	1.57	0.17**	0.34**	0.22**	−0.03*	0.15**	0.10**	0.13**	0.26**	0.05**	0.009	0.01	0.11**	0.17**	0.27**

$^{+}$ $p < 0.10$.
* $p < 0.05$.
** $p < 0.01$.
[a] $n = 5760$.

Table 2
Descriptive statistics and correlations for control variables.[a]

	Mean	S.D.	1	2	3
1. Natural resources	0.35	0.47			
2. Service	0.02	0.14	−0.11***		
3. Manuf.	0.42	0.48	−0.63***	−0.13***	
4. Inverse mills	0.36	0.08	0.09***	−0.01	0.19***

*** $p < 0.001$.
[a] $n = 192$.

Taiwanese firms prefer partners with this attribute more strongly than their Hong Kong counterparts. Thus, the results showed partial support for Hypothesis 1 in that the Mainland Chinese more strongly emphasized managerial capabilities than their Hong Kong counterparts, but the results did not support Hypothesis 1 for the Taiwan sample.

Hypothesis 2 predicted that Mainland Chinese and Taiwanese managers place significant emphasis on partners' financial assets. We found support for this belief as shown in columns B and C of Table 3. In addition, we argued that both Mainland Chinese and Taiwanese managers would also place greater emphasis on partners' financial assets than would Hong Kong firms. The results presented in Table 3 (coefficient −0.11, $p > 0.01$; LR Test, $p < 0.001$) indicate that Mainland Chinese firms are indeed more concerned with a partner's level of financial assets than are their counterparts from Hong Kong. Similarly, Taiwanese firms are also more concerned with a partner's financial assets than are Hong Kong firms (coefficient −0.08, $p > 0.05$; LR Test, $p < 0.01$), supporting for Hypothesis 2.

In Hypothesis 3 we argued that both Mainland Chinese and Taiwanese managers place strong emphasis on partners' intangible assets. We found support for this belief in columns B and C of Table 3. Moreover, we hypothesized that both Mainland Chinese and Taiwanese managers would place greater emphasis on partners' intangible assets than would their Hong Kong counterparts. The results presented in Table 3 (coefficient −0.14, $p > 0.001$; LR Test, $p < 0.001$) indicate that Mainland Chinese firms are more concerned with a partner's intangible assets than are firms from Hong Kong. Similarly, Taiwanese firms are more concerned with a partner's intangible assets than are Hong Kong firms (coefficient −0.10, $p < 0.001$; LR Test, $p < 0.05$), indicating support for Hypothesis 3.

In Hypothesis 4, we predicted that both Mainland Chinese and Taiwanese managers place significant emphasis on partners' special skills. We also found support for this belief in columns B and C of Table 3. We also argued that both Mainland Chinese and Taiwanese managers would place greater emphasis on partners' special skills than would Hong Kong firms. We found no statistical support for the hypothesized difference of the Mainland China and Taiwan sample in comparison with the Hong Kong sample.

The fifth and final hypothesis stated that firms in Mainland China and Taiwan place emphasis on the acquisition of technical capabilities and also would place greater emphasis on partners' technical capabilities than do Hong Kong firms. The results in Table 3 in columns B and C show that the Mainland China and Taiwan firms did place emphasis on selecting alliance partners with technical capabilities. Moreover, the results presented in Table 3 (coefficient −0.10, $p < 0.05$; LR Test, $p < 0.001$) indicate that Mainland Chinese firms are more concerned with a partner's technical capabilities than are firms from Hong Kong. Likewise, Taiwanese firms are more concerned with a partner's intangible assets than are Hong Kong firms (coefficient −0.12, $p < 0.001$; LR Test, $p < 0.001$), indicating support for Hypothesis 5.

5. Test of robustness

We took several actions to ensure that the results could not be accounted for by alternative explanations. For instance, one might hypothesize that economic development differences across these three economies could produce differences in firm alliance partner preferences. Major economic development in Hong Kong could make it less necessary for Hong Kong firms to obtain financial assets, intangible assets, managerial capabilities and technical capabilities than for Taiwan and Mainland China firms (Dacin et al., 1999; Hitt et al., 2000). But, our analysis provides strong evidence against this alternative explanation. Gross Domestic Product per Capita (U.S. Dollar) was inserted in the calculation of an Inverse Mills to effectively account for such selection bias due to economic conditions.

Specifically, this Inverse Mills Ratio was used in the estimation of our difference test statistics thereby controlling for the differences in economic development across Mainland China, Taiwan and Hong Kong. As shown in Table 3, after controlling for the economic development differences across these three economies (via an Inverse Mills Ratio), Hong Kong firms, strongly influenced by its formal institutions (e.g., regulations, laws), differ in their partner selection preferences from Mainland China and

Table 3
Mixed Models and Difference Tests–Taiwan, Mainland China, and Hong Kong.[a]

Firm effects	(A) Hong Kong		(B) Mainland china (PRC)		(C) Taiwan	
	Estmt.	SE.	Estmt.	SE.	Estmt.	SE
Std. dev. (Intercept)	0.46	0.08	0.005	0.07	0.50	0.07
Std. dev. (Industry 1)	0.47	0.51	0.29	0.13	0.001	0.001
Std. dev. (Industry 2)	0.001	0.001	–	–	–	–
Std. dev. (Industry 3)	0.23	0.20	0.07	0.71	0.49	0.18
Std. dev. (Inverse Mills Ratio)	−0.01	0.02	0.84	0.71	0.01	1.52

Partner characteristics	(A) Hong Kong		(B) Mainland china (PRC)		(C) Taiwan		(D) HK vs. PRC		(E) HK vs. Taiwan		(F) PRC vs. Taiwan	
							Difference Tests[b]					
	Coef.	SE	Coef.	SE	Coef.	SE	Coef.	LR Test	Coef.	LR Test	Coef.	LR Test
Intercept	-2.11^{***}	0.31	-2.61^{***}	0.30	-2.75^{***}	0.32	–	–	–	–	–	–
Financial Assets	0.16^{***}	0.03	0.31^{***}	0.02	0.27^{***}	0.03	-0.11^{**}	***	-0.08^{*}	**	0.03	–
Complementary capabilities	0.19^{***}	0.03	0.15^{***}	0.02	0.23^{***}	0.03	−0.05	–	-0.10^{**}	***	-0.05^{+}	ns
Unique competencies	0.16^{***}	0.03	0.20^{***}	0.03	0.17^{***}	0.02	−0.01	–	−0.03	–	−0.02	–
Industry attractiveness	0.22^{***}	0.03	0.20^{***}	0.03	0.17^{***}	0.03	0.05	–	0.06	–	0.003	–
Cost of alternatives	0.07^{**}	0.03	0.08^{**}	0.03	0.09^{**}	0.03	−0.03	–	−0.005	–	0.03	–
Market knowledge/access	0.10^{**}	0.03	0.14^{***}	0.03	0.13^{***}	0.03	−0.02	–	−0.02	–	−0.01	–
Intangible assets	0.10^{***}	0.03	0.17^{***}	0.03	0.14^{***}	0.03	-0.14^{***}	***	-0.10^{***}	*	0.04	–
Managerial capabilities	0.13^{***}	0.02	0.22^{***}	0.02	0.20^{***}	0.02	-0.11^{***}	**	-0.09^{***}	ns	0.02	–
Capability for quality	0.21^{***}	0.03	0.11^{***}	0.02	0.11^{***}	0.03	0.08^{*}	***	0.06^{+}	***	−0.02	–
Willingness to share expertise	0.15^{***}	0.03	0.13^{***}	0.03	0.18^{***}	0.03	0.08^{*}	***	0.03	–	−0.05	–
Partner ability to acquire skills	0.05^{+}	0.03	−0.004	0.03	0.14^{***}	0.03	0.05	–	-0.07^{*}	ns	-0.12^{***}	**
Previous alliance experience	0.13^{***}	0.02	0.10^{***}	0.02	0.09^{***}	0.02	0.05^{+}	ns	0.001	–	-0.05^{+}	ns
Special skills to learn from partner	0.20^{***}	0.03	0.13^{***}	0.02	0.15^{***}	0.02	0.02	–	0.02	–	0.003	–
Technical capabilities	0.04	0.03	0.14^{***}	0.03	0.13^{***}	0.03	-0.10^{**}	***	-0.12^{***}	***	−0.03	–
Log Restricted Likelihood	−3277.08		−3198.24		−3070.77							
Chi- square	649.99^{***}		1014.72^{***}		978.82^{***}							

$^{+}$ $p < 0.10$.
* $p < 0.05$.
** $p < 0.01$.
*** $p < 0.001$.
[a] The top portion of the table shows firm effects (not varying within the respondent); the bottom portion shows effects that vary within the respondent. Coef. = coefficient; SE = standard error; Estmt. = estimate; LR Test = Likelihood Ratio test.
[b] Positive test statistics favor Hong Kong in tests vs. Mainland China and Taiwan, and Mainland China in tests vs. Taiwan. Coefficients reported for interactions between country dummy and corresponding Partner Characteristic. Likelihood Ratio test summaries provided for statistically significant interaction coefficients.

Taiwan firms which are influenced by their entrenched informal institutions (see Table 4).

6. Discussion

6.1. Contributions

This study provides several empirical, theoretical, and practice contributions. In terms of empirical contributions, this is one of the first empirical studies comparing samples from Hong Kong, Taiwan, and Mainland China. The results provide empirical evidence that there are differences among samples of firms from different regions of Greater China supporting the suggestions from conceptual works (e.g. Kwon, 2012; Li et al., 2013; Schlevogt, 2001). In particular, there are several similarities between the Mainland Chinese and Taiwanese managers, and they often differed from the Hong Kong managers on a number of key alliance partner selection criteria. For example, the managers of Chinese firms sought alliance partners with managerial capabilities, financial assets, intangible assets, technological skills more strongly than did the Hong Kong managers (supporting all the hypotheses in this regard except for one – H4 on special skills). There were differences between the responses from Taiwan and Hong Kong on three of the four attributes where differences existed with the managers from China (with the exception of managerial capabilities – H1). Generally speaking, the managers from China and Taiwan exhibited very similar preferences and differed from Hong Kong in terms of many of the selection criteria studied.

In addition, Taiwan managers exhibited a stronger preference for complementary capabilities than Hong Kong or Mainland China managers, which may be linked to Taiwan's historical emphasis on contract manufacturing and the need to fit their capabilities carefully with those of their alliances partners (Sturgeon & Lee, 2005). Since the emergence of Taiwan's electronics and

Table 4
Summary of the comparisons of China, Taiwan, and Hong Kong.

Hypothesis			Results
Hypothesis 1	Emphasis on the managerial capabilities	PRC > HK	Support
		Taiwan > HK	ns.
Hypothesis 2	Emphasis on the financial assets	PRC > HK	Support
		Taiwan > HK	
Hypothesis 3	Emphasis on the intangible assets	PRC > HK	Support
		Taiwan > HK	
Hypothesis 4	Emphasis on special skills	PRC > HK	ns
		Taiwan > HK	
Hypothesis 5	Emphasis on acquiring technical capabilities	PRC > HK	Support
		Taiwan > HK	

information technology industries, Taiwanese firms have followed a co-evolutionary path with their foreign alliance partners, such that they pursue a "manufacturing-first" for firm formation and growth (Sturgeon & Lee, 2005). As a result, securing partners with complementary capabilities to fit into a sophisticated supply chain is crucial and must be carefully planned.

In terms of contribution to theory, it is not uncommon for researchers to assume that cultural values and therefore managerial practices are similar for Chinese businesspeople virtually everywhere (e.g. Hamilton, 2000; Weidenbaum & Hughes, 1996). Yet, much previous research while focusing on lineage and certain cultural elements, gave less note to the potential formal institutional differences present in different Chinese societies. Institutional differences between Mainland China, Taiwan and Hong Kong created a divergence in the key strategic decision of alliance partner preferences with Mainland China and Taiwan firms generally differing from Hong Kong firms. The results of our research support and extend the work of Hitt and colleagues (Hitt et al., 2000, 2004) by showing that firms differ in their partner selection criteria likely based on the institutional environments (both formal and informal) in which they must operate.

Moreover, in terms of theory contribution, the results also suggested that the dominant institutional propensity (formal or informal) in an economy may more strongly influences firms' strategic behavior. Informal institutions represented largely by Confucian culture and other traditional business practices, as well as idiosyncratic adaptive practices that have developed in Mainland China and to a lesser extent in Taiwan, remain the dominant institutional force in Mainland China and Taiwan. These environments have a more circumscribed rule of law and greater overlapping authority such as government agencies that fight for influence over firms in their jurisdiction (Brødsgaard, 2002; Chen, 2001; Peng & Heath, 1996; Weller, 2006).

This study maintains that institutions can be both constraining and enabling (Bruton & Ahlstrom, 2003). Formal institutions limit the range of officially permissible behavior. On the other hand, multilayered institutional environments offer adaptive possibilities with overlapping jurisdiction and inconsistent mandates in providing opportunities for managers to adjust to or even evade portions of formal institutions (Studwell, 2013). In China, they do that with the help of partner firms that have good connections with government agencies and other key stakeholders such as large state enterprises or major banks (Ahlstrom et al., 2008). In addition, these behaviors may represent adaptive informal institutional behavior, that is, regular and accepted behavior in response to opportunities afforded by gaps in formal institutions Adaptive informal institutions create new patterns of interaction not directly governed by formal institutions and firms will be more likely to require intangible resources from their partners that can help them to navigate the vicissitudes of the institutional environment and its lack of formal institutions such as well-defined laws or their enforcement.

In terms of contributions to practice, this research adds to our understanding of strategic preferences by firms operating in major developing (and newly developed) economies in East Asia. While much previous empirical research has focused on the alliance partner preferences of foreign firms from developed economies, this study focused on firms indigenous to Mainland China, Taiwan, and Hong Kong. With the growth of both inbound and more recently outbound FDI of these economies, it is important to understand these firms' strategic decision making as firms in ethnic Chinese communities are an increasingly important part of the world economy.

The results of this research add to our knowledge of partner selection decisions made in different institutional environments, and particularly in parts of Greater China which otherwise have similar cultural and lineage backgrounds. The findings suggest that the types of partners desired vary by the characteristics of the environment; firms operating in an environment where informal institutions are quite important (and can substitute for formal institutions) are likely to have preferences geared toward acquiring resources that are difficult to develop or obtain without well-developed formal institutions. 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. Finally, the results also contribute to indigenous research (Tsui & Lau, 2002) suggesting that culture plays a role in strategic decisions such as alliance partner selection by influencing the mindset of managers.

Formal institutional structures are stronger and have more influence in Hong Kong. Alternatively, informal institutions had important influences on the alliance partner selection preferences in China and Taiwan. The structure of these latter societies encourages the reliance on informal institutions to accomplish tasks; it is the institutional configuration of society that leads to the patterns of behavior that prevail in Chinese societies. These societies share weaker legal infrastructures, so that networking, reciprocal gift-giving and trust building have become fundamental parts of economic transactions and may be more important in those societies compared with Hong Kong. As Peng and his colleagues suggested (e.g. Peng & Heath, 1996; Peng & Khoury, 2008), in economies with fewer formal rules, or where formal rules often fail, informal institutional forces exert considerable influence on firms.

The empirical results of our study support this argument. Elements such as culture can have an important influence on strategic choices, though as an economy becomes more institutionally developed, formal institutions are likely to become increasingly influential. This conclusion suggests that organizations domiciled in Mainland China, Taiwan, and Hong Kong are influenced by formal institutions but adjust when necessary, rather than adhering to a static "Chinese business model." (Redding, 2000). The fact that formal institutions are more important in Hong Kong than in China and Taiwan suggests that, cultural proclivities notwithstanding, as they become stronger, formal institutions are likely to gradually increase in importance and eventually have greater influence than informal institutions.

6.2. Managerial relevance

The research also contributes to practice by providing insight into international alliance partner preferences of indigenous firms in the Greater China region. The partner selection process is vital to alliances' success (e.g., Hitt et al., 2000). Our findings help executives understand the basis on which firms domiciled in these ethnic Chinese communities prefer to select their alliance partners (Hitt et al., 2005). Mainland China, Taiwan, and Hong Kong have all emerged as major participants in the global economy, and will likely play increasingly important roles in the coming years. Executives who understand the subtle yet significant differences in potential alliance partners' resource and capability needs and other requirements can increase the likelihood that their strategic alliances will be successful.

Finally, in terms of contributions to policy, institutions are also a critically important component of the external environment, and each institution has idiosyncratic effects (Child, 1997). One could expect that China, with its lower level of development to emphasize informal institutions, especially because its reforms regarding law and governance have developed only haltingly (Brødsgaard, 2002; Peng & Jiang, 2010). For Taiwan, one might less expect this outcome, but institutions do not necessarily follow economic development directly. Rather, a government must purposely try to build formal and enduring institutions, through new laws, enforcement, education, and civic campaigns, as Hong Kong did in rooting out corruption (Mao, Wong, & Peng, 2013). Taiwan has recently started to reform and strengthen its corruption laws, particularly the so-called ''black gold'' practices of payoffs to organizations and government, along with special government preferences, based on political affiliation – a spoils system that is not unlike that of the U.S. in the 1800s before the latter's civil service reforms around the turn of the 19th century (Howe, 2007). Institutions, both formal and informal, are relevant to strategic alliance preferences and to other types of strategic decisions as well. An economy's economic growth alone does not eliminate the need for policymakers to pursue institutional reform or for executives to pay attention to the local institutional environment and its effect on firms (Ahlstrom, 2010).

7. Limitations and future research

Although we base our explanations on institutional differences among the ''three Chinas,'' we do not explicitly measure institutional effects. Our main concern was to provide respondents with as comprehensive a description of hypothetical partners as possible through our survey instrument and allow them to select which alliance partners they would prefer. However, we did not want to limit the possible institutional effects (i.e., by providing these levels in our survey instrument to respondents) but rather for the institutions to vary ''freely'' within the minds of managers. By controlling levels of partner attributes, we also placed restrictions on what a respondent could perceive as a partner (and thus conserved respondents' attention and cognitive resources). We allowed respondents' experiences, however, to dictate ranges of the institutional effects, allowing for them to inform (through theories in use) the power of institutional heritage. Nonetheless, a useful avenue of future research would be to attempt to replicate our results by providing explicit depictions of institutional environments to managers. In this way, managers would be encouraged to react within a given range of influences, rather than allow their histories to serve as a guide to responses.

This study suggests several research questions that require further exploration. For example, how diverse are the institutional environments in Mainland China and around the East Asia regions? Research in economics (Poncet, 2005, 2006) and in geography (Yang, 2007; Yeung, 2004) suggests a great deal of commercial diversity around China. Even within Mainland China, there are differences across regions in terms of laws, regulations, subcultures, and business climate, which lead to different commercial environments and practices (Gong et al., 2011; Huang, 2008; Kwon, 2012).

For example, two Mainland Chinese provinces adjacent to Shanghai, Jiangsu and Zhejiang, exhibit a number of similarities in terms of dialect and culture, and yet have much different commercial environments (Huang, 2008). Jiangsu has emphasized Shanghai-style development with a great deal of government participation, the attraction of multinational firms, and government spending on major infrastructure projects and state-owned enterprises. In contrast, Zhejiang has continued its emphasis on entrepreneurial firms, reducing regulation, ensuring the availability of financing to startups, encouraging venture capital and incubators, and funding entrepreneurial education. Business people in turn are thought to have much different attitudes toward entrepreneurship and private enterprise (Huang, 2008). How do the differences in the institutional environments in these two provinces (and with other provinces or regions of China) affect firm strategies such as decisions regarding prospective alliance partners? And how are these policies affecting firm performance and the development of industry in these provinces and other regions that are following similar (or much different) types of policies? Important implications for strategy can emerge from studies comparing culturally similar regions, such as different provinces within a large country such as China or India that have differing institutions and developmental policies.

Future research should also address how strategic alliances can be managed successfully to ensure that both partners' requirements are satisfied through the partnership. This is especially important when the partners are based in countries with vastly different institutional environments. Do firms with a home institutional environment in which informal dimensions are more influential have difficulty developing a successful alliance with firms accustomed to operating in a more formal institutional environment (and visa versa)? What is the importance of economic development relative to institutional development for alliance preferences? Our research suggests that institutional development is an important factor and perhaps more so than economic development. Exploring this issue requires a broad based comparative study across several countries and institutional environments.

Building on our findings and their theoretical implications, future research should examine conditions under which formal or informal institutions exert the dominant influence on firms' strategic behavior. Identifying the dominant institutional influence can help researchers to further unpack the range of strategic behaviors exhibited by firms in different countries. Finally, the effects examined in this study should be investigated in other countries or regions of the world especially in which the influence of the informal institutions and formal institutions vary (e.g., Latin America, Eastern Europe, and the Middle East).

8. Conclusion

This research sought to identify the differences in the selection criteria for strategic alliance partners held by managers in Mainland China, Taiwan, and Hong Kong. Although the three ethnic Chinese economies share a broad lineage, their institutional development differs. Ethnic Chinese firms from Mainland China, Taiwan, and Hong Kong may seem superficially similar in structure, governance and organization, yet they may have very different needs and seek different types of partners. The results of this research suggested how institutional similarities and differences are linked to variation in alliance partner preferences. This study is one of the first large-sample empirical studies to explore how firms' strategic behavior is affected by formal and informal institutions, both of which are important; yet, the dominant institutions in a particular economy (formal or informal) are likely to exert more influence on firms' partner selection decisions. It also helps in the understanding of how decision-makers utilize stepwise theory-in-use thinking as they weigh choices and solve daily problems (cf. Sarasvathy, 2008).

This research distinguished among influences of institutional heritage on strategic alliance partner selection, suggesting that informal institutional attributes and the more formal institutional framework both likely play important roles in such decisions. While the environment in which firms are embedded influences strategic decisions, a more fine-grained approach to discerning formal and informal institutional effects on firms' strategic behavior is needed to better understand the differential effects of these institutional forces, perhaps analogous to Porter's (1980) work on competitive forces. This understanding is crucial because a substantial number of new alliances are created annually, and many international alliances fail, some spectacularly so (Clissold, 2006; Ireland et al., 2002). One reason for the failures of alliances is that partners do not understand each other's goals and preferences. Managing alliances between foreign partners is especially challenging if the cultures (Ireland et al., 2002) or institutions (Hitt et al., 2004) are significantly different. The results of this study suggest that it is important to understand the different institutional factors and forces at work and their link to firm strategy, much in the way that the impact of competitive forces are understood. The firm's home institutional environment is likely to influence its alliance partner selection, among other behaviors, and understanding this may help foreign firms form alliances with (and win the business of) Chinese firms, while increasing the likelihood of successful partnerships.

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