

Environmental Factors and Measures that Affect the Success of International Strategic Alliances

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Abstract

Strategic alliances help firms to enter new markets tactically, elude government restrictions quickly, distribute technologies effectively, and model leading firms swiftly. International strategic alliances (ISAs) are providing firms strategic flexibility, enabling them to respond to changing market conditions, and establishing effective passages for achieving global scale in enterprise operations. There are several key environmental factors that affect the success of the ISAs and those factors include cost saving in production and Research and Development (R&D), accessing intangible assets, strengthening market presence, and the firm's overall performance. In this context, this paper considers the relationship between the successful ISAs and the key environmental factors and the performances measures. This research has used an empirical study, incorporating interviews and e-mail and web-based surveys, to investigate a sample of U.S partner firms that engaged in successful ISAs. Financial and non-financial measures are utilized in order to capture the impact of the successful ISAs on the firms' performance. The study results show positive relationships between most of the key environmental factors such as coordination, interdependence, communication, trust, and commitment; and the successful ISAs. Besides, the results indicated a negative relationship between culture distance and the successful ISAs.

Key words: International strategic alliances (ISAs), environmental factors, firm's overall performance, strategic flexibility, partner firms

Introduction

The growth of International Strategic Alliances (ISAs) has significantly increased in the last two decades (1990s and 2000). A strategic alliance refers to an effective partnership between two or more firms which have agreed to involve in production and operations together strategically towards the enhancement of the performance, productivity, and, hence, profitability. Wheelan and Hungar (2000) defines strategic alliances as “an agreement between firms to do business together in ways that go beyond normal company-to-company dealings, but fall short of a merger or a full partnership (p. 125). “Boeing, the pre-eminent aircraft manufacturer, makes the little more than cockpits and wing bits” (Quinn, 1995, p. 1). In fact, Boeing has entered into strategic alliance with its partners (suppliers) to help in its production and manufacturing of the jumbo jets.

Globalization of markets and products, the ever-increasing competition on a global-scale, and technological innovations are some of the factors that have caused this notable increase in the number of ISAs. Typically, at least one successful ISA is a goal for all or most international firms that are aspiring to form global relationships with partner firms (Geringer, Michael, and Herbert, 1991; Lambe J., Spekman, R., and Hunt, S., 2002). A successful ISA is aiming to enhance the productivity and the profitability of the partners. In the current (2013) rapidly changing global environment, ISAs are the fastest growing trends in businesses because these ISAs help firms to enter new markets tactically, elude government restrictions quickly, distribute technologies effectively, and model leading firms swiftly. The benefits of ISAs such as lowering

the cost of research and production, entering new international markets, strengthening the firm's position in the international markets, earning new technologies and managerial skills, enhancing local market and customer knowledge levels, coping with international government obstacles, and sharing risks (Chio, 2004) have motivated some firms to engage in ISAs.

Several firms enthusiastically embrace the concept of strategic alliances; however, only few firms succeed in their efforts (Soursac, 1996; Malott, 1992; Michelet and Remacle, 1992). Numerous international firms have failed to achieve successful ISAs. The failure in achieving a successful ISA has been identified as a problem. According to Kalmbach and Roussel (1999 cited by Zineldin and Bredenl w 2003) the failure rate of established strategic alliances is remarkably up to 70 per cent. According to Kang and Sakai, (2000) the failure rate has been estimated to be as high as 50-70% of the total ISAs. According to the literature, there are several factors that cause the dissatisfaction and failure in the ISA relationship. The factors are such as rigidity, poor communication, unsuitable objectives, poor perceived performance, ownership arrangements, and control (Kauser and Shaw, 2004). Additionally, there are several environmental factors either internal or external that might affect the success of the ISAs within the organizational environment.

Another debate that needs to be addressed in the context of the ISA is the issue of measuring the ISA performance. There found to have several studies, conferences, textbooks and articles about the ISA; but there is a lack in the literature that would help measuring the success of ISAs to be able to observe the benefits of such relationships and to evaluate the relationship. In case of

availability of such profound literature would certainly help the decision-makers to come-up with best decisions toward the ISA relationship. By reviewing the literature on ISAs, it has been found that there is no single adequate measure of the success of ISAs. One reason could be the lack of definition of ISA's success (Kauser and Shaw, 2004). Therefore, the purpose of this research is to explore how some of the key environmental factors affect the success of the ISAs and to evaluate how successful ISAs affect the firms' performance.

Literature Review

An international strategic alliance is an important phenomenon in current global markets. With the globalization trends, firms are increasingly seeking partnerships to gain and sustain competitive advantages. The rapid development in technology and communication is enabling firms to be more flexible, flatter, and networked on an international level; and the physical distance is no longer a barrier to expanding international business. Therefore, one of the most important hot topics currently is the research on how international cooperation or relationships expand and sustain business relationships (Kauser and Shaw, 2004; Chio, 2004).

Culpan (2002) synthesized that there are six general theoretical foundations of strategic alliances which specifically related to the motivation and the choice of the strategic alliances. Basically, the theoretical foundations of collaborative firm behaviors of business partners can be found in the following theories: transaction cost theory, resource based view, game theory, organizational learning, industrial organization model, and knowledge in the literature. However, most of these theories do not directly deal with the ISAs performance (Culpan, 2002).

The ISA is defined as an inter-firm cooperative strategic organization or agreement between two or more firms from different countries to achieve their strategic objectives by pooling their resources (Geringer, Michael, and Herbert, 1991).

Key environmental factors affecting the success of ISA

There has been a large amount of research found in the domain of ISAs. Most of the research has aimed to focus on the motives of alliance, partner selection, formation, and the characteristics of the resulting cooperation. However, the research that focuses on the success of ISAs is, in the meantime, still growing. Most of this research has been focused on different factors that might have impacts on the performance of international strategic alliances, including ownership, structure and the control-performance relationship. There are a growing number of studies on inter-organizational relationships that significantly support the notion that more understanding of ISAs' performance will be achieved by the testing of behavioral characteristics or what has been classified as the environmental factors. There are many environmental factors that might contribute to the success or failure of ISAs (Kaiser and Shaw, 2004). In fact, there are number of researchers who have focused on the environmental factors underlining the relationship attributes between the partners as an illustration for the success of ISAs. However, most of these empirical studies are not answering some question regarding the direct impact of the environmental factors on the success of the ISAs.

In spite of the importance of the research signifying that the post-formation behavioral processes ISA performance outcomes, there is a lack in understanding of the role of the key environmental factors (Arino, 2003). The reasons behind the inability of the previous efforts to understand the role of environmental factors in influencing the success of the ISAs are: the lack of theories on the subjects, complexity of conceptualizing and operationalizing the behavioral variables, collection of cross-sectional rather than longitudinal data, and tendency to deal with only the direct impact of behavioral attributes on the successful ISA (Kausser and Shaw, 2004).

Researchers of ISAs have studied a wide variety of environmental factors that affect ISA performance. The different factors are so wide in scope. It is difficult to limit them and precisely explain how the environmental factors affect ISA performance. However, commonly mentioned factors affecting ISA performance are (a) cultural distance, (b) coordination, (c) interdependence, (d) trust, (e) communication, (f) commitment, (g) control (which partner will control the relationship), (h) ownership (equity share versus non-equity), (i) previous experience of ISA partners, (j) the participant firms numbers, (k) the nature of resources that each partner contributes to the ISA relationship, and (l) culture of the organizations. Also there are more factors that could affect ISA success such as industry characteristics (number of competitors) and government pressures. Since the influence of these factors on ISAs' performance varies depending on the conditions of the ISA such as, locations or type of industries, it will be difficult to generalize how these factors work together to influence the performance of ISAs. Therefore, this research has focused focus on some key environmental factors, which are coordination, interdependence, communication, trust, commitment, and culture distance (Robson, Leonidou, and Katsikeas, 2002).

Firm performance and Successful ISA

The research on ISAs success and performance is still complex and challenging, even though there is a long interest in measuring and understanding ISAs performance and success. The nature of ISAs performance measures such as what aspects should be evaluated, and the various components of performance evaluation such as which point of view should be measured the parent firm's financial performance or ISA managers evaluation, is leading to conclude that there is no consensus on the correct measures of ISA success performance (Luo, 2002; Chio 2004). However, without accurate measurements of what ISA has achieved, the partners or the ISAs managers will find it difficult to evaluate the quality of the ISAs relationships and to make the best strategic alliances decisions (Chakravarthy, 1986). Therefore, it is necessary that researchers and practitioners develop effective performance measurements of the ISA to properly evaluate the performance of the alliances and to ensure that the greatest value from the ISA can be achieved for the partners. According to the literatures being reviewed for this study it can be stated that there is a lack of ISAs measures. Researchers and practitioners have used three extensive measures: financial measures (such as sales growth, market share, return on investment, return on assets or sales), non-financial measures (such as duration, survival, the quality of products, and exit), or combinations of financial and non- financial measures.

Financial versus non-financial performance measures

Large number of ISAs researchers has widely used financial measures because such measures can explicitly show the economic situation and performance of an ISA. However, using these measures potentially causes some problematic issues because of; first the fact that there is no

harmonization of accounting methods or standards between countries. Different accounting standards in countries do not allow -to certain extent- proper comparisons of financial performance measures between ISAs, which does not facilitate the evaluation of their financial performance. Second, the difficulty in obtaining objective financial information is another problem. Partners in ISAs usually do not disclose reliable financial information about their subsidiaries because of the sensitivity of this kind of information. Without the adequate information from the partners of ISA, researchers will find it not easy to accurately evaluate the ISAs financial performance (Chakravarthy, 1986).

Based on that, using financial performance measures can be effective only when researchers can obtain the objective financial information that supports the financial objectives of an ISA. The ISAs objectives are not only about the achievement of financial goals but also non-financial goals. The objectives of ISAs may include nonfinancial goals such as the improvement of product or design quality, product line differentiation, or gaining of partner marketing skills. Third, the differences in partners' objectives in ISAs are another problem. Since each partner firm might have different objectives that the firm aims to achieve in ISAs relationship, the differing objectives of each partner make ISAs financial performance an incomplete measure of the true economic health of the ISAs (Chio, 2004).

Based on the previous discussion, the financial measures of ISA performance do not fully represent overall performance dimensions of ISAs, but they represent only one dimension of ISAs' performance. Therefore, it has been found that ISAs researchers often use non-financial measures to evaluate the effectiveness of ISAs such as exit rate, liquidation, termination, survival or

duration, and competitiveness. These non-financial measures can represent different partner objectives that are not only related to financial objectives. Also, these non-financial measures which allow the researchers to measure the stability and the objectives of ISA have some limitations and unanswered questions. It is difficult to concede that survival, exit, duration, or termination valid measures of ISA performance are valid measures. For example, ISAs can be terminated before the expected time by the partners' agreement after the partner's accomplished their objectives (Gulati, 1998).

Therefore, it has been found that a combination of both financial and non-financial measures is advisable trends. Such combination will capture a wide variety of ISAs' performance dimensions that the partners in the ISA tend to achieve. Using different measures would be more effective to the researchers to evaluate and understand different objectives of ISAs from various performance dimensions. A few amount of previous research used a combination of both financial and non-financial measures to evaluate ISA performance in different dimensions.

Theoretical Model & Development of Research Hypotheses

Upon reviewing the literature on ISAs in terms of the environmental factors that affect the success of ISAs and the measures of ISA success or performance, the following two research questions have been framed: (i) how do some of the key environmental factors affect the success of the ISA? And (ii) how can firm measure the performance of a successful ISA?

It is the hope of the researchers that the answer for these two questions will enhance the understanding of what the successful ISA is. Furthermore, what makes this paper distinct from the previous researches is that this study is trying to combine two aspects (the environmental factors and the measures) that may help the literature to define the success of the ISA effectively. Most of previous research has focused only on one aspect in discussing the success of ISAs, either by focusing on the factors that affect the success of ISAs or the measures of ISA success; however, this research considers the two aspects. Within the ISA partnership related literatures, attributes (environmental factors) have been considered within six broad areas; coordination, interdependence, communication trust commitment and culture distance (Bo Bernhard, 2007).

First of all, this study will focus on the key six environmental factors (coordination, interdependence, communication trust commitment and culture distance) and their relationship with the success of ISA. Second, part of the study will deal with the relationship between the successful ISA and the firm's overall performance. The model of the study and the hypotheses are illustrated in Figure 1.

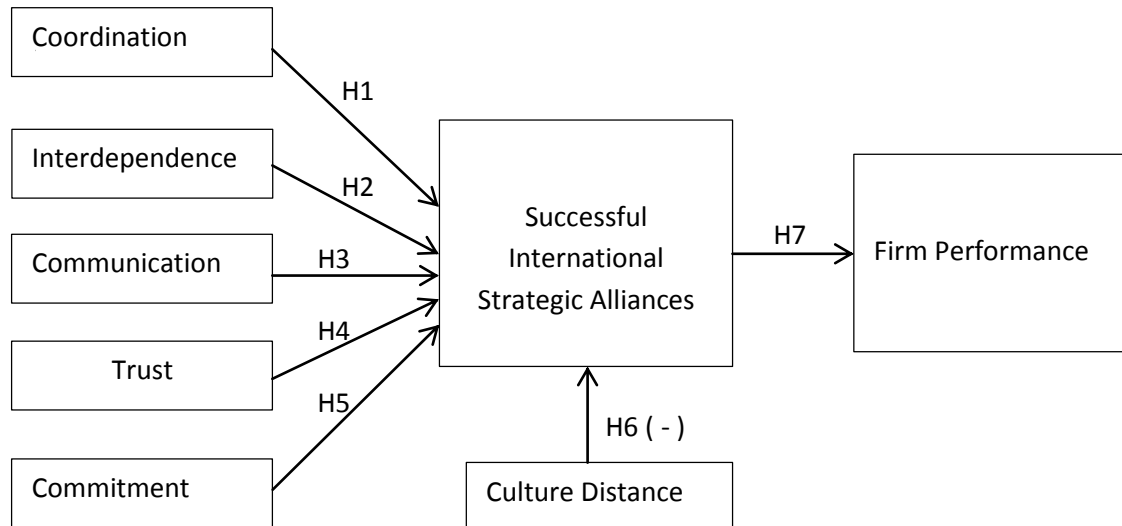


Figure 1: The Theoretical Model

The Development of the Research Hypotheses

Within the literature related strategic alliance, coordination has been defined as the extent to which two organizations are integrated within a relationship. Based on the theory of resource dependency, partners need to coordinate their operations in order to reduce the uncertainty and to manage the dependency. The balance in the level of dependency could lead to better coordination. Based in the previous research, it has been found that the coordination is a suitable and significant predictor of the success of the ISA (Kausar and Shaw, 2004). This leads to start with the first hypothesis that needs to be tested in this research:

H1: A higher level of coordination will lead to a successful ISA.

According to Geyskens, Steenkamp, Scheer, and Kumar (1996), the definition of interdependence is “the level of dependency and exchangeability of each firm on its partner in terms of investment and resources”. Through the review of the literature on strategic alliances and the dealer-supplier relationship, it has been found that interdependence enhances the strategic alliances’ performance (Geyskens, et. al., 1996; Kauser and Shaw, 2004) and very little of this research directly relates to the success of ISAs. This leads to the second hypothesis:

H2: A higher level of interdependence will lead to a successful ISA.

Communication plays a significant role in assisting the development of inter-firm partner relationships and works to hold the channel members together. Communication between the ISA partners facilitates the process of exchanging and sharing information, contributes to solve the conflict between the partners, and creates a strong relationship. Also, communication is considered as an alliance asset that allows the ISA partners to coordinate their operations and to learn from each other. Inter-organizational communication is defined “as formal as well as informal sharing of meaningful information between firms”, (Ramaseshan and Loo 1998, p. 147). Within the alliances context, the role of communication is useful in facilitating better understanding among partners and thus improves their collaboration perception. The above discussion about communication leads to the third hypothesis:

H3: High level of communication will lead to a successful ISA

Trust is a critical factor in understanding the inter-firm relationships. Within the literature related ISA, transaction cost theory suggest that trust has the ability to minimize the transaction costs by making the ISA partners take a long-term perspective to the ISA relationship. Trust is defined as “an individual’s confidence in the good will of the others in a given group and belief the others will make efforts consistent with the group’s goal”, (Mellat-Parast and Digman, 2007, p. 814). According to Lyles, Le Dang, and Barden (2000) trust in economic exchanges might be considered as an expectation that ISA partners will act in good faith, be honest, uphold commitments, and not take advantages of others. Trust is a significant concept in ISA fields and has been found to be a key factor of ISA’s success, which leads to the following hypothesis:

H4: High level of trust will lead to a successful ISA.

The construct of commitments between partners has obtained much concentration in the organizational behavior literature as well as in the literature of marketing channel Commitment defined “as an implicit pledge of relational continuity between exchange partners” (Kausser and Shaw, 2004, p. 17). A strong correlation between commitment and the success or the performance of strategic alliances has been observed in several studies which suggest the fifth hypothesis of this study:

H5: High level of commitment will lead to a successful ISA.

The impact of the culture distance on ISAs has been identified in the ISAs literature. Many of the misunderstanding and problems in ISA can be traced to the differences in culture between ISA partners. Human resource management practices are the more sensitive to culture distance. For

example, Japanese firms are characterized by life time employment, paternalism, group decision making, and promotion and pay based on the seniority. However, in the American system emphasizes contractual relationships, individual decision making, high labor mobility, and compensation based on the performance. Some studies have found that culture distance often cause miscommunication among partners and contribute to the ISAs failure (Culpan 1993).

According to Dong and Glaister (2007), little research has focused on the impact of the culture distance on the success of ISA. In addition, most of the research in investigating the strategic alliances remains within the national borders and does not pay attention to the culture-related aspects which are necessary in an international setting. ISAs combine different countries partners from different national source, with some differences in their culture and political backgrounds. A large number of studies try to explore the relationship between culture distance and ISA performance or success. Mixed results are found some of them support the notion that culture distance has a negative impact on ISA performance; however other studies show no or even a positive impact. Therefore, since there is no consensus on how distance culture will affect the ISA performance of success, it is essential to test the sixth hypothesis:

H6: Low degree of cultural distance among partners will lead to successful ISA.

As mentioned above, the definition and measurement of the firm performance resulting from successful ISA are still unclear. Some research counts on a variety of financial measures such as profitability, and objective measures such as duration or survival, while others use subjective

measures such as the satisfaction with the ISA performance or completion of goals. A mix of both measures seems advisable. This leads to the last hypothesis:

H7: A successful ISA will lead to successful firm's performance

In order to test this hypothesis, the creation of the most effective measures will explore the relationship between the successful ISA and the firm performance.

Methodology and Data Collection

Research Setting

The first stage of the research is to develop a database of most the ISAs activity for at least 10 years between US Firms and foreign firms. The database will be developed using information gathered from The Economist (is a weekly news and international affairs publication owned by The Economist Newspaper Ltd edited in London, UK) and Financial Times (is an international business newspaper) along the lines of similar databases created by other studies. At least 500 strategic alliances should be identified. Contact details should be obtained to call them by telephone to identify the persons who have the responsibility of ISAs and to request their participations in the research. Also, questionnaires will be sent out to all alliances asking for information on ISAs performance, and the key environmental factors. Both a mail and a web survey will be used to collect data and test the research' hypotheses. The web survey method will be used because computer technology allows the researchers to efficiently collect data better than the traditional mail survey. Also, the web survey allows the researchers to obtain essential data in shorter time and less cost than the traditional mail survey. A combination of mail and web survey aims to increase the response rate. Steps will be applied in the survey designing stage to

reduce the potential systematic errors that may occur and also to increase the response rate (Chio, 2004; Kauser and Shaw, 2004).

Sample Frame

The population of the survey for this study will be individuals who are or were involved in international businesses activities or alliance operations in the U.S. and other countries. The target sample is considered appropriate because it comprised of individuals who are or were involved in international business activities in general and in alliances in particular therefore; those individuals are likely to have international strategic alliance experience with foreign partners. ISAs are categorized as equity such as joint venture and non-equity alliances such as R&D agreement, and marketing agreement to find out whether there are any systematic differences in the achievement of successful ISAs between equity and non-equity ISAs. The ISA comprised of partner firms from the U.S. and firms from other countries. The alliance location can either be in the U.S. or other countries.

Measures

First, many previous studies into coordination have measured this construct using either a single or multiple items. By contrast this study will use at least five items derived from the literature. Second, interdependence will be measured on two dimensions: exchangeability and dependency on firm's resources. Third, communication will be measured on three dimensions which are information sharing, information quality, and the participation in setting goals and

planning. At least 12 items will be developed and adapted in measuring the communication construct. Fourth, much research has already developed items for trust; a large pool of trust items is available. At least four items, which are appropriate in ISAs context, will be selected and modified for the purpose of this research. The items will be measured based on a seven-point Likert scale from (1) strongly disagree to (7) strongly agree (Chio, 2004).

Fifth, commitment will be measured by using organizational commitment (Porter, Steers, Mowday, and Boulian, 1974) questionnaire (20 items), which measured the level of which each partner identifies with the objectives and goals of the strategic alliance. The items will measure the effort of the alliance and the willing of maintaining the relationship. The three dimensions of communication, mentioned above, will be measured using the 20 items. These items are widely used in studies of organizational behavior. Sixth, cultural distance construct hypothesized to influence the success of the ISA. Based on previous research, cultural distance will be measured as a multi-item construct. Aiming to overcome some of the criticism of this construct, different items will be developed and adapted to measure several dimensions of cultural distance.

Finally, the review of the literature on ISAs success has indicated that “there is no single adequate measure of success”, (Kaiser and Shaw, 2004, p. 47). One reason for this may be the lack of a definition of international strategic alliance success. This research will measure the success of ISA by using some subjective measures such as the ability to achieve the objectives of the relationship. ISA performance will be measured by the level of which respondents believed their firms achieved their financial and non-financial objectives in the ISAs. Three items will be used for financial and non-financial objectives. Financial performance measures will be

profitability, sales growth, market share. However, non-financial performance measures will include objectives such as the acquisition of marketing skills, partner technology, and partner's knowledge of international markets. Also, the improvements of product design, product or process quality are another example of non-financial objectives. A seven-point Likert scale will be used in assessing the construct, (1) strongly disagree and (7) strongly agree.

Expected Results and conclusion

The expected results of this research will greatly enhance the understanding of the nature of the relationships between the six environmental factors (coordination, interdependence, communication, trust, commitment, and culture distance) and the successful ISA. Such understanding aims to provide a clear definition and understanding of what ISA success is. On the other hand, this research also will try to find out the relationships between the successful ISA and the firm performance. The purpose from exploring this relationship is to provide effective performance measurements that could measure the success of ISAs. The results of this research will produce practical benefits for both the practitioners and researchers in the field of ISAs. The practitioners will benefit from this research because it is expected to provide a clear understanding of the success of ISAs.

In conclusion, this research is aiming to explain the structure and the content of this research interest. For the time being, it is at designing questionnaire stage. Finally, this research is supposed to add contributions to the practitioners and researchers in ISAs field.

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