International Journal of Business and Management Vol. 5, No. 1
www.ccsenet.org/ijbm January 2010

International Market Expansion Strategies for High-Tech Firms: Partnership Selection Criteria for Forming Strategic Alliances

Øystein Moen (Corresponding author)
Norwegian University of Science and Technology (NTNU)
Department of Industrial Economics and Technology Management
N-7491 Trondheim, Norway
Tel: 47-7359-3505 E-mail: Oeystein.Moen@iot.ntnu.no
Ottar Bakås
SINTEF Technlogy and Society, Department of Industrial Management
N-7465 Trondheim, Norway
E-mail: ottar.bakas@sintef.no
Anette Bolstad
Norwegian University of Science and Technology (NTNU)
Department of Industrial Economics and Technology Management
N-7491 Trondheim, Norway
Vidar Pedersen
Investment Office Nordic, Telenor Nordic Finance
Snarøyveien 30, N-1331 Fornebu
Tel: 47-9823-2599 E-mail: vidar.pedersen@telenor.com

Abstract

Newly established, technology-based firms entering international markets often have limited resources in terms of capabilities, time, and capital. As a consequence, these firms often use entry modes characterised by low resource commitment, including partnership agreements (strategic alliances). This paper, investigates which partner selection criteria that are important for this group of firms when they are selecting partners. Based on case studies of three Norwegian firms targeting the UK market, five selection criteria have been identified as important (trust, relatedness of business, access to networks, access to market knowledge, reputation), one has been identified as partly important (sharing of financial risk), and ten have been identified as having limited importance. Further, the paper discusses the implications of these results for managers of small firms entering international markets and presents recommendations for further research.

Keywords: International marketing, Partner selection, Strategic alliances, Competitiveness

1. Introduction

Although many new, technology-based firms remain relatively small over time, and only a small fraction of them grow into larger firms, several researchers have presented empirical evidence suggesting that this minority of fast growing companies generates a significant proportion of economic growth and new jobs (Rickne and Jacobsson, 1996; Jones-Evans and Westhead, 1996). For many of these firms, international expansion is necessary to realise growth ambitions, while others are pushed into international markets due to significant R&D start-up costs and limited home market potential.

Managers of internationally oriented new, technology-based firms need to navigate complex international environments, and their challenges are different from the challenges facing domestic and established firms. Most importantly, these firms will have limited resources as well as limited time, capital, and capabilities; qualities that are all needed for entry into international markets (Doutriaux, 1992). As a consequence, these firms will tend to use entry modes characterised by low resource commitment. Burgel and Murray (2000, p. 35) state that "findings from quantitative surveys agree that the preferred entry modes of technology based start-ups are characterized by relatively low resource commitments and are directed toward commercialization rather than foreign production". Similar results were obtained by Lindquist (1991) and Bell (1995).

The next sections are organized as follows: First, the reasons and risks related to entering a partnership agreement is emphasised in order to understand firm behaviour and priorities. Second, criteria for partner selection are addressed. Third, the process of partner selection is commented upon. On the basis of these sections, a case study of three Norwegian firms entering the UK market is presented in order to gain insight into partner selection criteria and the partner selection process.

2. Literature Review

2.1 The use of alliances

The use of contractual agreements represents a possible entry form, and Nielsen (2003a) states that firms often form alliances due to the many potential benefits for the firms involved, or as a way to compensate for a lack of resources or knowledge There has been a sharp increase in the number of alliances formed since the 1980s, particularly among high-tech firms (Krubasik and Lautenschlager, 1993). Ohmae (1989, p. 143) states: "Globalization mandates alliances, makes them absolutely essential to strategy." Firms have a number of internal resources that may give the firm a competitive advantage, but a range of well chosen and well developed relationships may also strengthen the competitive edge, as described by Glaister (1996). Most of the available literature and research on strategic alliances as an entry stragegy focuses on joint ventures from the perspective of large, multinational companies. As expressed by Varis et al. (2005), there is limited knowledge about how newly established firms may use partnership agreements as an entry strategy in international markets in general, and: "In particular, partner selection and the reasons why a firm allies with a certain partner have received limited attention" (p. 20).

Obviously, a firm is not able to pick and choose whichever partner it wants; there will be a process of interaction and negotiation in order to reach an agreement and be accepted by a potential partner. This process is not the focus of this study, whose main focus is an investigation of the criteria used for partner selection when small, technology-based firms are entering international markets.

The terms strategic alliance and partnership agreement are used, and these terms denote several forms of cooperative working modes. Both these terms are, based on Mahoney et al. (2001), defined as: "[B]usiness arrangements where two or more firms choose to cooperate for their mutual benefit" (p. 501). Such alliances may differ between spot market transactions and complete mergers, and may also differ in terms of inter-organisational dependence and strategic impact (Root, 1987; Contractor and Lorange, 1988). As most new export and technology-based firms may be characterized as "born global" firms, the term born global firm will also be used in this paper.

2.2 Motives and Risks

As long as the variety of different types of alliances is great, so is the variety of motives for forming them (Nielsen, 2003a). Mahoney et al. (2001), as well as Lei and Slocum (1991), present categories of motives for alliance formation including ease of market entry, shared risk as well as synergies and competitive advantages. Even though the advantages of and motives for partnership agreements are well documented (Mowery et al, 1996; Glaister, 1996; Ohmae, 1989), there will still be a certain element of risk. If a firm shares its competitive knowledge it runs the risk of increased competition instead of cooperation, as described by Mahoney et al. (2001). This might happen if the partner acts opportunistically, monitoring the skills that migrate between firms. All firms should develop safeguards against unintended informal transfers of information in order to limit the transparency of their operations (Hamel et al., 1989). Engaging in a strategic alliance, the firm develops a degree of dependency on its partner, especially if the partner's function is not easily replaced by another firm, in which case this dependency might be extensive. Being too dependent on a partner may be challenging during periods of sudden and substantial change in technology or market segmentation. Mitchell and Singh (1996, p.191) found that "[b]usinesses that are able to work closely with current partners while at the same time identifying capabilities that need to be integrated are likely to be the most successful in an industry marked by ongoing technological change."

From a managerial perspective this illustrates the duality between potential advantages and risk when entering partnership agreements. As a consequence, the process of selecting suitable partners for the firm's strategic alliances is of utmost importance, as described by Cavusgil and Evirgen (1997). Making poor choices when selecting a partner will negatively impact several different areas of operation. Possible outcomes of choosing an unsuitable partner might be problems with distribution, promotion, sales, after-sales, and pricing strategies (Nijssen et al., 1999). Not surprisingly, the choice of partner has significant impact on the firm's performance in international markets, as identified both by Nijssen et al. (1999) and Glaister and Buckley (1997).

2.3 Partner Selection Criteria

Geringer (1991) has summarised the available literature, identifying 15 different partner selection criteria. Furthermore, he presented a typology that has been widely adopted, splitting the partner selection criteria into two categories: task-related selection criteria and partner-related selection criteria. The task-related criteria focus on operational skills; the variables that are important to the firm's operations and for its competitive success. The partner-related criteria, on the other hand, are variables influencing the partner's ability to cooperate effectively and efficiently in a partnership with the firm.

Glaister (1996), Glaister and Buckley (1997), and Nielsen (2003a) have all conducted empirical tests of partner selection criteria. The results are similar, with the task-related criterion "knowledge of local market" ranked as the most important. This criterion has a mean value that is significantly higher than the other task-related criteria. The next three task-related criteria that are also deemed important are "distribution channels", "links to major buyers" and "knowledge of local culture". These are all criteria related to ease of market entry.

An examination of these empirical studies reveals that partner-related criteria were generally higher ranked than task-related criteria. To the degree that the results of joint ventures and other strategic alliances have been presented separately, the two corresponds in that the top three criteria are the same, only with a different internal ranking. The top partner-related criteria are "trust between the top management teams", "relatedness of partner business and reputation", "financial resources" and "complementarity of the partner's resource contributions". Based on these empirical studies, partner selection criteria are classified as either important or less important (Table 1).

When examining the criteria above from the perspective of Born Global firms, trust between top management teams should be as important for Born Globals as for other firms. The Born Global is most likely a small firm of which the potential partner often has limited or no knowledge. The Born Global is dependent on gaining the trust of a partner in order to obtain a productive partnership. Furthermore, the Born Global needs to know that it can trust its partner so that it does not need to have concerns about the partner behaving opportunistically.

By being associated with a partner with a good reputation, the Born Global enhances its legitimacy, which may ease the process of establishing a network. Furthermore, a positive reputation may act as a substitute for first-hand experience with a partner. Hence, partner reputation should be expected to be important for a Born Global firm.

Reducing financial risk may be suggested to be an essential motive for finding a partner for Born Globals, as limited financial resources are often presented as a typical characteristic of a Born Global firm. Since market entry is uncertain and costly, sharing the financial risk through strategic alliances have been known to help firms decrease the financial loss experienced by a less successful entry (Mahoney et al., 2001).

The complementarities of a partner's resource contribution are also expected to be important. Born Global firm have resource gaps, which could be one of the strongest motives for entering a strategic alliance. The chosen partner is thus expected to cover one or more of these resource gaps. If the partner only possesses the same resources as the Born Global, these resource gaps will not be covered.

In order to penetrate a new market, firms need local market knowledge. In order to secure sales, knowledge is needed about potential customers, competitors, and the level of technology in the market. Several researchers have suggested that gaining a strong foothold in foreign markets can be more easily achieved through an alliance where the partner has market knowledge and experience (Bleeke and Ernst, 1991; Lei and Slocum, 1991; Mowery et al., 1996).

Upon examining the criteria classified as less important, it is expected that the size of the partner firm is not an issue in itself. As long as the trust, reputation, and financial status are at adequate levels, the size is of less importance to the Born Global. As a young firm, a Born Global will have few past experiences with potential partners. Due to the limited history of such experiences, past experience is not an important criterion for the Born Global.

The potential for new technology development is probably also less important for a Born Global than for many other companies. Born Globals are likely not very willing to commit their scarce resources to obtain a high degree of technology transfer. For this reason, access to technology/knowledge is also expected to be of limited importance.

In total, six different partner selection criteria is expected to be of importantce for a Born Global firm entering international markets, whereas a number of other criteria is expected to be of less importance. However, limited empirical evidence exists about these issues, and the case studies will examine how the firm managers assess the importance of different criteria.

<Insert table 1 here>

3. Methodology

Due to the limited knowledge of the partner selection process and partner selection criteria for newly established firms, a case study approach was selected for this study. Norwegian firms classified as Born Globals within the field of information and communication technology in the process of entering the UK market was selected for analysis. A limited list of possible firms was obtained based on information from the export promotion part of the public "Innovation Norway" organisation, and from this list, three firms that seemed to best match the defined criteria were selected for further evaluation.

The firms were IKT Interactive, Pronto TV, and Netlife. These three firms were in different phases of UK market entry; IKT Interactive had one employee working half-time from Surrey and had several established partnerships in the UK; Pronto TV had one employee working in London, and they were in the process of establishing their first partnership in the UK; whereas Netlife had one employee working in London, but the firm had no customers or partners in the UK.

The interviews were prepared by drafting an interview guide covering the central topics of the study. Under each main topic, several issues that should be covered during the interview were listed. The interview guide was thoroughly reviewed several times in order to prepare for an unbiased interview, asking open-ended questions. Finally, the interview guide was adjusted for each firm, so that it would match the firm's internationalisation experiences, partner situation, and experiences from the negotiation process.

Four personal interviews were conducted, including the UK manager of IKT Interactive, both the Head of Sales and Marketing and the UK Manager of Netlife, and the UK Director of Pronto. Each interview lasted two to three hours.

The interviews were conducted as semi-structured interviews. This type of interview is "characterised by predefined themes, but without specifying in detail the wording and ordering of questions" (Ryen, 2002, p.99).

Eisenhardt (1989) proposes two key steps in case study analysis. First, a within-case analysis should be conducted, involving a detailed case study write-up for each case. The overall idea is to become intimately familiar with each case as a stand-alone entity, thereby contributing to the generation of insight. The second step is to search for cross-case patterns, using selected categories or dimensions (Eisenhardt, 1989).

The data in this research were categorised as described by Strauss and Corbin (1990), and sorted into the categories A, B, and C. First, the transcribed interview material was reviewed, and firms were separated looking for statements relevant to this study's specific research problem. These statements were then placed in the A category. Structuring the information in this way reduces the material in that it eliminates information deemed not important in relation to research problem. However, quotes listed belonging to category A do not offer any logical arrangement of the data. Bringing the information to a higher level of abstraction in the search for cross-case phenomena, statements were placed in the B category. Findings in the B category were discussed and evaluated against the theory. Based on these discussions category C was conceptualised, representing the highest level of abstraction.

4. Case Firms Presentations

This section presents the three case firms in the study, IKT Interactive, Pronto TV, and Netlife.

IKT Interactive was established in 1996, and the firm's business idea was to create an ERP (Note 1) system that could be distributed to SMEs via the internet at a much lower cost than existing systems. IKT Interactive has 15 employees, and is pursuing market opportunities in Germany, Belgium, Spain, Australia, Singapore, and Brazil.

In the autumn of 2002, IKT Interactive made plans to enter the British market. The plans were made after the firm participated on a business trip to Guilford, where a Norwegian export promotion agency presented the possibilities of joining Springboard UK. This programme targets Norwegian SMEs; easing market entry in the UK by providing office space, advisory services, and technology networks in regional research parks across the UK. Through the programme, IKT Interactive established an office in Surrey Technology Park and a sales office in London. At that point the system was not yet translated into English, so product development and market activities proceeded simultaneously. In January of 2004 all modules except accounting were fully developed and partners were in place. At the same time the firm had experienced that market entry took much longer than expected, due to prolonged processes in both product adaptation and partnership establishment. IKT Interactive has entered formal agreements with two partners and signed a letter of intent with a third.

The **Pronto Group** started product development in 1996, and the firm was formally established in 1999. The Pronto idea was a response to the growing interest in interactive television during the early 1990s. Broadband technology started being used more widely, and this helped make interactive television possible. The Pronto Group offers a tailored in-room entertainment and information system for hotels, cruise ships, and apartment complexes.

Pronto Group currently employs 25 people. The main office is located in Norway, but Pronto also has offices in the UK, the Netherlands, Dubai, and Abu Dhabi. At start-up, Pronto won a contract for the cruise ship "The World". This was thus the first installation of Pronto. Their first hotel installation was in Leeds, England. The target market today is primarily hotels, while Pronto also sees opportunities in spas and private hospitals.

Pronto TV has recently started the process of forming a strategic alliance with a UK company selling and leasing TVs and other electronic equipment. This is a well-established and well-known company in the UK, and it has a support department, service cars, and employees who can make electronic installations.

For this strategic alliance, the UK company made the initial contact, wanting to investigate the potential for collaboration. The alliance is still in an early phase, and the formal contract has not yet been signed. In this alliance the UK partner would supply all the hardware (TVs, servers, set-up boxes, cables). Once the alliance is established, Pronto will supply the software and be responsible for keeping the software stable and updated, and providing content and software support. This strategic alliance is ideal for Pronto, as the UK partner complements Pronto well; they have service cars and personnel close to the installations; they have knowledge about the British business culture; and they are well-known in the market. In taking on the financial costs of installation they also reduce Pronto's risk.

Established in 2000, **Netlife** has become one of the market leaders in software for the digital photofinishing industry in the Nordic region. Their system offers a complete solution for managing digital images on the internet, including features such as viewing, organising, editing, storing, sharing, and printing. The firm has 12 employees and has recently opened a UK subsidiary. Netlife is pursuing market opportunities in the Baltic states and Switzerland as well.

In December 2003 Netlife established the UK subsidiary Netlife Internet Solutions Ltd. and hired a person to permanently represent Netlife in the UK. The firm is currently searching for the proper partner(s) to represent Netlife in the British market. The British market was selected because of its size, and because a large client here will be a valuable reference in the future internationalisation process.

5. Findings and Discussion

Six criteria related to partner selection were expected to be of importance. Each of these possible major factors, expected to be important for partner selection, is discussed below:

5.1 The most Important Partner Selection Criteria

5.1.1 Trust between management teams (personal chemistry)

When analysing the interviews, it became evident that trust was strongly interrelated with two different aspects: personal chemistry and perceived similarities in firm cultures and ambitions. Personal chemistry is important, because usually only one or a few persons are responsible for handling the partnership. These people will meet every now and then, and they need to agree on the details of the operation; they need to be able to cooperate. Both IKT Interactive and Pronto emphasize the importance of personal relations/chemistry with representatives of the partner firm, and IKT Interactive even says that personal chemistry helps them choose partner firms.

Furthermore, a sense of having something in common may be beneficial. IKT Interactive sees itself as a young and funky company and prefers to cooperate with other companies with a fairly young staff and a trendy image. Having these characteristics in common may increase the likelihood that the partners are able to share the visions of the Born Global. Both IKT Interactive and Pronto believe it is important that the partner understands their product, the potential of the product, and the vision of the firm. This will be reflected in a willingness to work hard and a belief in success.

Based on the interviews, personal chemistry, as well as a sense of having something in common and sharing the vision, will create a fairly strong relationship, and seems to have a strong influence on trust between the firms. As such, trust is a very important criterion for the Born Global entering international partnership agreements.

5.1.2 Relatedness of partner business, complementary resources

The three case firms have all seen the possible benefits of finding partners with complementary resources. In the UK, IKT Interactive has partners functioning both as subcontractors and co-developers. IKT Interactive believes that these partnerships are very beneficial, and they will look for similar companies to expand, both in the UK and in other markets.

Pronto is considering finding a partner that is offering a low-end product as a complementary product to their own, so that they can continue developing Pronto TV as a high-end product. They are also partners with Forbes, which offers TVs, installation, and service. This is complementary to what Pronto may provide, namely the technology and technical support.

Theory on selection criteria and Born Globals indicates that this complementarity is especially important for Born Globals because of their resource gaps. Both Pronto and IKT Interactive seem to have, more or less consciously, recognised this in their choice of partners in the UK. Thus, the findings give support to the assumption that complementarity is important.

More specific, the partner's capacity for sales and marketing has been emphasised by all three case firms. Interactive's strategy in the UK is to let partners handle all sales. Also, Pronto has a partner that is responsible for all marketing and sales. Netlife has seen the benefits of this in other markets, and one of the criteria the firm sets for new partners is that they should have the resources necessary for successful marketing and an existing customer base.

5.1.3 Access to links to major buyers, networks and distribution channels

The Born Global is likely to have a limited professional network in the new market. Since building a network requires considerable time and resources, finding a local partner with an already established network can potentially cut the Born Global's time to access the market considerably (Glaister, 1996).

All three case firms stress that building a network in the UK market is of utmost importance to succeed. Both Interactive and Netlife stress that as an unknown firm it is difficult to find customers and partners and to build relations without a network. All three case firms also emphasise that building a reputation and securing clients to a large extent happens through word-of-mouth. Meeting the right people is more likely to happen when the firm has a partner with an established network. Both Interactive and Netlife stress that this would improve their chances of finding clients and partners.

McDougall et al. (1994) stated that one of the main challenges faced by Born Globals was their lack of networks. Born Globals were found to lack access to proper networks where they could acquire information and support and get in touch with key people when entering new foreign markets. Meeting the right people, and getting to know them and establishing trust and a relationship takes substantial effort over a period of time, but it is essential for success. All the case firms seem to agree on the importance of building a network in order to be able to build a reputation and to get partners and customers. However, building a network without having a network is difficult. The firms therefore all emphasised that finding a partner with a local business network is important for success. The case firms' success of locating partners largely depended on their UK representatives being able to utilise all arenas for building networks.

Interactive has established partnerships with firms that already have an established customer base that is in the target segment of Interactive. If Interactive were to approach customers on its own, it would need to pass many gatekeepers before reaching the right person. And even then they would have a hard time getting the person's interest. On the other hand, when using the partner's network, they expect to have easier access to customers and increased sales opportunities. Netlife is also looking for partners who have a relevant, established customer base. Finding local partners with an established network and customer base thus seems to increase the probability of obtaining quick sales, in turn facilitating for a rapid market entry. Pronto stresses that having a partner who is located close to their customers is important in order to quickly assist them and provide after-sale services.

Mohr and Spekman (1994) suggest that a partnership with a local firm will enable a firm to better disseminate their products and services and better serve their customers than can the firm alone. The distance between Norway and England is large enough that customers are better served through using local partners in some instances. A product like that of Pronto would need to be serviced on site if a problem should occur. It is not surprising that Pronto deems finding a partner close to the customer as important in order to give service quickly. Pronto has also mentioned that they have spent a considerable amount of money travelling back and forth between Norway and England. Hence, reduced travelling expenses are also a key argument for using local partners.

5.1.4 Access to local market knowledge

None of the firms have any significant market knowledge regarding the UK market. The firms have therefore been looking for potential partners with local market knowledge. Interactive has found two partners who already have established customer bases within the SME segment, which is Interactive's target segment. Having served this segment for a while, it can be assumed that both partners have knowledge about customers, as well as about both the level of technology and technology acceptance among many of its customers. Furthermore, they have found a distributor who has specialized in technology sales, and a certain amount of knowledge about competitors, potential customers, and level of technology can thus be expected. Pronto has also stressed the importance of collaborating with a local partner who is close to the customers. They found a partner who has a long history in the marketplace. Netlife is looking for established partners who have market knowledge.

The knowledge barriers a firm has to consider in a foreign market entry are often more easily handled when forming a strategic alliance with a local firm (Oliver, 1990). All three case firms stressed that they did not have such knowledge. Furthermore, they do not have a sales division, nor do they intend to establish one. Thus, they do not have much experience in obtaining market information either, and they would be expected to use both significant time and resources to engage in sufficient pre-entry activities, such as market research, if they were to do this alone. Finding a local partner who has operated in the market for a period of time therefore seems to be both time and cost saving. This also facilitates for a rapid market entry and the possibility of reaching their market goals, since it would be reasonable to assume that partnering firms already possessing such competences would be able to find customers for the case firms more easily.

Based on the case studies, the expected importance of access to local market knowledge through partnership agreements was supported.

5.1.5 Reputation

All three firms stated that engaging in strategic alliances with firms that have a well-known name and reputation in the market would lead to increased legitimacy. Interactive does not focus on building a strong brand; instead they focus on the benefit of selling through their partners' brand name. Netlife emphasises that, being a new and unknown firm, they will have a hard time trying to gain customers by themselves. Therefore, they have been looking to form an alliance with a large firm with a large marketing budget. Netlife has experienced benefits in relation to having a large chain as their partner in Norway, Sweden, and Finland, in that these partners have strong brand names, extensive networks, and marketing power. Furthermore, these firms have involved Netlife in large projects generating profits for Netlife. Pronto states that their partner has been in the market for many years, and is regarded a serious and trustworthy actor in the marketplace. Thus, Pronto has experienced that being associated with another firm through a partnership increases their reputation in the marketplace and serves as a great reference for them.

In order to improve their reputations and images firms have been found to cooperate with organisations whose legitimacy is perceived to be considerably higher than that of the focal firm (Oliver, 1990; Baum and Oliver, 1991). Wiewel and Hunter (1985) found this to be especially important for new firms. All three case firms were found to emphasise that the reputation and image of their partner was important in order for them to enhance their legitimacy. When Interactive let its partners use their own brand name this was because their partners had a better-known name, and using the brand of a better known firm would ease sales. Furthermore, both Pronto and Netlife gained legitimacy through their partners. Both firms are cooperating with well-established firms with a good reputation. Since larger and more profiled firms are more likely to attract customers, outsourcing sales and marketing to such firms benefits both Pronto and Netlife. Moreover, using their larger and better known partners as a reference increases the legitimacy of both Pronto and Netlife.

It can therefore be argued that for these case firms, combining their core competencies and their technology with the reputation and sales and marketing organisation of their partners created synergy effects. Their partners did not have the technology to sell, and the case firms had neither the reputation nor the sales organisation. These complementarities of resources in the alliance are creating synergies for both partners. This supports Ohmae's (1989) findings that strategic alliances allow partners to achieve results they could not have achieved as single entities.

5.1.6 Financial status and the sharing of financial risk

Sharing costs related to entering the new foreign market was found to be a motive for finding a partner for Pronto. Pronto stated they were looking for partners that could assume most of the financial costs and risks related to their projects. They emphasised their partner's financial resources as being very important. By freeing up this capital they would have more money to spend on hiring new staff and investing in more equipment. Pronto emphasised minimising financial risk as an important motive for forming strategic alliances, together with the motives of achieving sales and focusing on product development. Furthermore, Pronto mentioned that sharing the risk with a partner serves as an incentive to create more sales. Another motive given by Pronto was that by engaging in strategic alliances, financial expenses decrease and the risk of diluting investors' shares in a re-financing process was decreased.

Neither Interactive nor Netlife emphasised sharing financial risk as a significant motivation the same way Pronto did, and there may be several explanations for this. First, the motivation for sharing financial risk may be product related. Pronto has considerable up-front costs associated with sales in relation to the hardware used for providing the video-on-demand system. Interactive and Netlife both provide software systems. The cost of adding an additional customer to the system is minimal after the system has been adjusted for the new market. Therefore, financial risk for the latter two firms more or less involves merely employment costs of using personnel to plan and carry out the market entry activities. Hence, sharing financial risks would not be as important for Interactive and Netlife.

Another reason may be that Pronto is the only company of the three with external investors. Investors want low risk and high return on their investments. Reducing financial expenditures in an already pressed economy may therefore keep investors from getting increasingly nervous. Through outsourcing marketing and sales, Pronto keep costs associated with market entry to a minimum. If Pronto were to undertake the entire process of market entry by themselves, including marketing and sales, further rounds of equity investment would be necessary. Hence, by using strategic alliances Pronto decreases the risk of its investors' shares being diluted in a comprehensive equity reinvestment.

In total, the case studies illustrate that both product characteristics (influencing market operation cost) and investor relations/preferences may have an impact on the importance of financial status/sharing of financial risk.

5.2 The less Important Partner Selection Criteria

Partner selection criteria related to firm size, access to technological knowledge, international experience, and the ability to negotiate with local government was not expected to be of importance for Born Global firms.

Providing for transfer of knowledge and skills is strongly recommended in the available literature (Prahalad and Hamel, 1990; Hamel, 1991). Hamel et al., (1989, p.134) even stated that "Successful companies view each alliance as a window on their partners' broad capabilities. They use the alliance to build skills in areas outside the formal agreement and systematically diffuse new knowledge throughout their organisations." However, none of the case firms focused on internalising their partners' knowledge and skills. It is possible that when the case firms acquire sufficient resources to support learning and knowledge transfer, these activities will be carried out. It seems just as likely, however, that the firms remain extremely focused on resource constraints, and do not want to allocate any of their limited resources to learning processes.

It was assumed that the size of the partner firm was not an issue in itself, as long as trust, reputation, and financial status were acceptable. Pronto has benefited from having a small partner in the UK; team spirit is strong, and it is possible to remain flexible and change plans whenever necessary. Netlife, on the other hand, has benefited from having large partners. Interactive did not comment on firm size as being an issue.

The criteria concerning favourable past experiences with the partner and the potential for new technology development were not mentioned by any of the case firms. Being a young firm that has not been in business for decades, the Born Global will have had limited experience with cooperating with other firms, and this was found to be the true for the case firms as well.

Furthermore, none of the firms mentioned the potential for new technology development as a motivation. Technology is the core competence of these companies, and is what the entrepreneurs want to continue developing and commercialise. At an early stage in the life of the Born Global it is thus reasonable to assume that there firm does not have enough resources available to both develop its own technology and to develop new technology in collaboration with a partner.

6. Implications and Further Research

In total, the case studies support the expectation that criteria 7-16 in Table 1 was of limited importance for Born Global firms. For the six criteria expected to be more important, the expectation was supported, with the exception of financial status/sharing of financial risk. Both product characteristics (influencing market operations cost) and investor relations/preferences may influence the importance of this factor. For managers, these results have important implications.

Managers of small exporting firms have to be extremely aware that the technology of the firms is often their core competency and the most critical resource they have to contribute in a partnership. In order to survive in the marketplace, managers must ensure that the firm stays competitive and that it is not outdistanced by its competitors. Managers must therefore make sure that sufficient resources are committed to product development. However, a foreign market entry is an expensive process, and a short product life cycle and threat of imitation calls for a rapid market entry. In order to rapidly enter a new foreign market while at the same time engaging in product development, managers should thus consider using partners for marketing and sales activities instead of the firm developing these skills itself. Born Globals usually lack local market knowledge and have limited resources to spend on market research, as well as little experience in obtaining market information. Thus, finding a local partner that has operated in the market for a period of time can be beneficial, and may help the firm obtain the necessary local market knowledge more rapidly. Furthermore, travelling back and forth between Norway and the new market can cause the firm to incur extensive costs in the long run. Hence, if on-site support for customers is necessary, managers should evaluate whether a partner can perform such support in order to save time and money. This implies that by using partners for marketing and sales activities, resources become available for product and technology development, which may also provide for a more rapid market entry. Another finding from the case studies was that adapting the product to suit the new market was time consuming. This implies that when firms emerge with an international perspective from the beginning, managers should request that the product's functionality, if possible, be designed in a way that provides for easier adaptation.

Based on the case studies, the recommendation is for firms to handle the process of searching for and selecting partners themselves, instead of applying external consultants. Searching for partners is a process that may be misconceived as being more complex and time consuming than it really is. The most demanding part of the search process is to gain initial contact with potential partner firms, while the rest of it is a fairly standard procedure (Tonning, 2004a). The firms in this case study have been found to partly conduct partner searches themselves, ad partly using Innovation Norway. There are several reasons for managers to conduct partner searches themselves. First of all, as previously mentioned, it is not a particularly demanding process, and managers can thus save the costs of hiring consultants. Second, managers know their products better than any hired consultants, who only spend a day or two learning this and the firm's needs. Third, even when using a consultant, managers need to spend time on preparing the search; the only difference is that they are guided by the consultants. Fourth, managers will gain additional information about potential partners and their competitors and customers by conducting the search themselves. This information may play a part when selecting a partner. Fifth, performing the search gives valuable learning for later partner searches and reflects a long-term perspective. It is thus recommended that managers perform the entire search process of finding a partner themselves.

In order to find a suitable partner, it is necessary to be aware of the firm's resource gaps. These resource gaps will, to a large extent, represent the qualities to look for in a potential partner. Formalising a set of partner selection criteria will increase the chances of finding a suitable partner (Nijssen et al., 1999). Several other benefits can also be seen from this; it will make firms more aware of which criteria are most important; it will facilitate for the evaluation of potential partners; it will offer some clues as to where to search for partners; and it will increase what a firm takes away from the process, seeing that it is documented. Managers are encouraged to formalise the process of searching for partners. This may be achieved by creating a fairly straightforward strategy, including points such as where to search for information, how much information to obtain about each firm, and how many firms to investigate. Creating such a process has also been shown to be beneficial in other empirical studies (Nijssen et al., 1999).

Obtaining information about potential partners is demanding, and it is important for managers to utilise accessible, low cost sources. The case firms conducted internet searches, interacted with people at trade shows, and accessed information through their network. In addition to being a source of information, the network may act as a door opener. This is one of the reasons why building a network is so important for Born Globals. As unknown, small, foreign firms, their network can provide credibility and act as an introduction to potential partners or customers.

The criteria related to trust, relatedness, and reputation were ranked the highest by the case firms and have also been found to be important in previous research. If the parties engaging in a strategic alliance trust each other, they will be more willing to provide the joint venture with their core competencies and strategic knowledge, without being afraid of the partner acting opportunistically. When people feel they can trust each other, share knowledge, experiences, and talk freely, chances are motivation increases, and they are better able to utilise each other's skills, thus increasing the flexibility and efficiency of the alliance. Trust is as important for Born Globals engaging in alliances as it is for any other firm. Born Globals have limited resources and their strategic knowledge and core competencies are critical assets. The more the partners share, the more successful the strategic alliance will be, as long as none of the partners act opportunistically. Born Globals should thus emphasise trust above all other partner related factors.

The high ranking of the criterion of relatedness is also understandable. Different firms have different ways of operating and conducting business. Also, business sectors vary in terms of conducting business; the value chain and distribution chain may differ, as well as who the customers are and how one best can serve them. When firms have a certain degree of relatedness they are better able to understand each other. They can better relate to each other's problems that need to be addressed and each other's operations. Hence, they will have a platform of communication and understanding.

Reputation is important and Born Globals should be aware of the importance of this criterion. Many firms go through a time-consuming and costly process when trying to gain reputation in the market. Industrial customers, through which firms can secure large and valuable contracts, have strong demands related to such things as: Just-in-Time delivery, ethics, and fulfilment of international standards, in addition to product quality. Many small firms experience that even though they have competitive products or services they do not get introductory sales. Hence, partnering up with a firm that has a good reputation in the market could decrease the magnitude of this problem. Furthermore, a potential partner'a reputation when it comes to former partnerships is important to consider. If a firm has reputation of being a trustworthy partner and has previously participated in successful partnerships, this might be a sign of a partner that knows how to utilise the advantages of cooperation and to create a good and fertile climate for an alliance.

A major finding of this case study is that the most important partner selection criteria for Born Global firms are similar to observed important partner selection criteria in empirical studies focusing on large, multinational firms engaging in joint ventures. Large-scale empirical studies are needed to verify these case-based results. A related and significant area for further research is the partner selection process. In accordance with Nijssen (1999), this paper suggests that formal and thorough procedures for partner selection has a clear impact on the success of finding a suitable partner. Additional research is recommended to establish the degree to which a formal partner selection process correlates with successful partner choices.

In order to understand the process from partner search to selection and the formation of strategic alliances, additional research is needed on Born Global firms and partner negotiations. Even though numerous studies on international business negotiations exist, evidence to how Born Globals approach negotiations for potential alliances is limited. One argument is that thorough preparations before negotiation will lead to a higher probability of alliance success, and investigations into whether this argument holds should be conducted. According to findings in this paper, key research issues will be to investigate how trust, bargaining power, cultural differences, and the use of different information sources influence the negotiation process and alliance performance.

All the managers interviewed in this study, emphasise the importance of partner agreements in order to succeed in international markets. This is regarded a key issue, due to the firms' resource gaps and need for rapid international entry. It should be noted that all managers state that it is impossible to succeed without establishing some form of partnership agreement with firms operating in the export market. For researchers, this indicates the need for both in-depth case studies and broad empirical studies in order to increase our understanding of these important and complex processes.

References

Baum, J. A. C., and Oliver C. (1991). Institutional linkages and organizational mortality. *Administrative Science Quarterly*, 36, 187-218.

Bell, J. (1995). Internationalization of Small Computer Software Firm. *European Journal of Marketing,* 29 (8), 16-75.

Bleek, J., and Ernst, D. (1991). The Way to Win in Cross-Border Alliances. *Harvard Business Review,* Nov.-Des, 127-135.

Burgel, O., and Murray, G.C. (2000). The International Market Entry Choices of Start-up Companies in High-technology Industries. *Journal of International Marketing*, 8 (2), 33-62.

Cavusgil, S. T., and Evirgen, C. (1997). Use of expert systems in international marketing. An application for co-operative venture partner selection. *European Journal of Marketing*, 31 (1), 73-86.

Contractor, F. J., and Lorange, P. Why should firms cooperate? The strategy and economics basis for cooperative ventures. In *Cooperative Strategies in International Business,* F.J. Contractor and P. Lorange, eds., Lexington Books, Lexington, MA, 1988, 3–30.

Doutriaux, J. (1992). Emerging high-technology firms: how durable are their comparative start-up advantages. *Journal of Business Venturing.* 7 (4), 303-322.

Eisenhardt, K. M. (1989). Building Theories from Case Study Research. *Academy of Management Review*, 14 (4), 532-550.

Geringer, M. J. (1991), "Strategic Determinants of Partner Selection Criteria in International Joint Ventures", 22 (4), pp. 41-63.

Glaister, K. W. (1996). UK-Western European Strategic Alliances: Motives and Selection Criteria. *Journal of Euro-marketing,* 5 (4), 5-36.

Glaister, K. W., and Buckley, P. J. (1997). Task-related and Partner-related Selection Criteria in UK International Joint Ventures. *British Journal of Management,* 8, 199-222.

Hamel G. (1991). Competition for competence and interpartner learning within international strategic alliances. *Strategic Management Journal*, 12 (1), 83-103.

Hamel, G., and Prahalad C. K. (1989). To revitalize corporate performance, we need a whole new model of strategy. *Harvard Business Review*, May-June 7(3), 63-76.

Jones-Evans, D., and Westhead, P. (1996). The high technology small firm sector in the UK. *International Journal of Entrepreneurial Behaviour*, 2 (1), 15-35.

Krubasik, E., and Lautenschlager, H. Forming Successful Strategic Alliances in High-Tech Businesses. In *Collaborating to Compete,* J. Bleeke and D. Ernst, eds., John Wiley & Sons Inc., New York, 1993.

Lei, D., and Slocum Jr. J. (1991). Global Strategic Alliances: Payoffs and Pitfalls. *Organizational Dynamics,* 19 (3), 44-62.

Lindquist, M. (1991). Infant Multinationals. *Institute of International Business.* Stockholm School of Economics, Sweden.

Mahoney, D., Trigg, M., Griffin, R., and Putsay, M. (2001). *International Business; A managerial perspective* (2nd edn). Pearson Education, Australia.

McDougall, P.P., Shane, S., and Oviatt, B.M. (1994). Explaining the Formation of International New Ventures: The Limits of Theories from International Business Research. *Journal of Business Venturing.* 9 (6), 469-487.

Mitchell, W., and K. Singh (1996). 'Survival of businesses using collaborative relationships to commercialize complex goods'. *Strategic Management Journal*, 17(3), pp. 169-195.

Mohr, J., and Spekman, R. (1994). Characteristics of Partnership Success: Partnership Attributes, Communication Behaviour, and Conflict resolution Techniques. *Strategic Management Journal,* 15 (2), 135-152.

Mowery, D. C., I. E. Oxley., and B. S. Silverman (1996). Strategic alliances and inter-firm knowledge transfer. *Strategic Management Journal*, Winter Special Issue, 1**7**, 77-91.

Nielsen, B. B. (2003). An Empirical Investigation of the Drivers of International Strategic Alliance Formation. *European Management Journal,* 21 (3), 301-322.

Nielsen, B. B. (2003). An Empirical Investigation of the Drivers of International Strategic Alliance Formation. *European Management Journal,* 21 (3), 301-322.

Nijssen, E. J., Douglas, S.P., and Calis, G. (1999). Gathering and using information for the selection of trading partners. *European Journal of Marketing,* 33 (1/2), 143-162.

Ohmae, K. (1989). The Global Logic of Strategic Alliances. *Harvard Business Review,* 67 (2), 143-155.

Oliver, C. (1990). Determinants of interorganizational relationships: Integration and future directions. *Academy of Management Review*, 15, 241-265.

Prahalad, C. K., and Hamel, G. (1990). The Core Competence of The Corporation. *Harvard Business Review,* (May-June), 79–91.

Rickne, A., and Jacobsson, S. (1996). New technology-based firms – An exploratory study of technology exploitation and industrial renewal. *International Journal of Technology Management*, 11 (3/4), 238-259.

Root, F.R. (1987), *Entry Strategies for International Markets,* D.C. Heath and Company, USA.

Ryen, A. (2002). Det kvalitative intervjuet. Fra vitenskapsteori til feltarbeid. Bergen; Universitetsforlaget.

Strauss, A., and Corbin, J. (1990). *Basics of qualitative research: Grounded theory procedures and techniques*. Sage Publications.

Tonning, A. (2004). *Doing Business in the UK – British Business Culture. Seminar Presentation*. London, Innovation Norway, April 29.

Varis J., Kuivalainen O., and Saarenketo S. Partner Selection for International Marketing and Distribution in Corporate New Ventures. *Journal of International Entrepreneurship*, 3 (1), 19-36.

Wiewel W., and Hunter A. (1985). The Interorganizational Network as a Resource: A Comparative Case Study on Organizational Genesis. *Administrative Science Quarterly*, 30 (4), 482-496.

Note

Note 1. An ERP (Enterprise Resource Planning) system is designed to integrate the firm's software for economy and accounting, CRM (Customer Resource Management), e-Commerce, content management, project management, e-mail, file sharing and calendar, etc.

Table 1. Classification of Partner Selection Criteria

		Partner selection criteria
Important	1)	Trust between top management teams (personal chemistry)
	2)	Relatedness of partner business, complementary resources
	3)	Access to links with major buyers, networks, and distribution channels
	4)	Access to local market knowledge
	5)	Reputation
	6)	Financial status, sharing of financial risk
Some importance	7)	Firm size
	8)	Past experience with partner
	9)	Access to local cultural knowledge
	10)	Access to product-specific knowledge
	11)	Access to local regulatory knowledge
	12)	Access to technology
	13)	Access to materials/natural resources
	14)	Access to labour
	15)	International experience
	16)	Government negotiation ability