Understanding IJV performance in a learning and conflict mediated context

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A R T I C L E   I N F O

A B S T R A C T

Determinants of international joint venture (IJV) performance are examined within the context of cross-border learning. Using a structural equation model, we test the multifaceted interactions among strategic goal congruency, national culture differences, learning and conflict. Cross-border learning is recognized as a kernel variable which is influenced by matching strategic motives, national culture differences, and conflicting relations, and which affects the performance of IJVs. In particular, we hypothesize that interpartner goal congruency and national culture differences have an indirect effect on IJV performance through cross-border learning and conflict; previous studies established their direct relationship. The test results show that congruent strategic motives and cultural similarity had a positive effect on cross-border learning, which was reinforced by learning capacity, and which in turn led to better performance. Conflicting relations between partners and heterogeneous cultural backgrounds were shown to discourage cross-border learning.

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1. Introduction

The formation of interfirm alliances is a ubiquitous phenomenon in almost all industries today in the age of alliance capitalism (Contractor & Lorange, 2002; Dunning, 1995). Typically firms derive 15–20% of their revenues, assets, or income from alliances (Ernst & Bamford, 2005). International joint venture (IJV), where partner firms from different countries contribute resources and create a new entity, is one of the most popular and significant alliance types. Despite their high incidence, however, much of the literature on the performance of alliances including IJVs reports that their success rate stands only at 50% or so (e.g., Bamford, Ernst, & Gubini, 2004).

The question then may arise: why is IJV success so hard to achieve? The aim of this paper is to investigate determinants of the performance of IJVs from the perspective of cross-border learning. The influence of strategic motives or goals between IJV partners which expedite learning and in turn affect IJV performance will be highlighted. The importance of strategic goals has been recognized (Hamel, 1991; Hamel, Doz, & Prahalad, 1989; Inkpen, 2000), but the effect of strategic harmony on learning has rarely been analyzed. Researchers have examined other factors that influence the performance of IJVs from the perspective of learning by local partners (Lane, Salk, & Lyles, 2001; Lyles & Salk, 1996), cross-cultural difference (Hennart & Zeng, 2002; Li, Lam, & Qian, 2001), and cooperative (Luo, 2002) or conflicting (Steensma & Lyles, 2000) relations. Gaining local market knowledge by forming partnerships with local firms was also shown to improve IJV performance (Makino &

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Delios, 1996; Tsang, 2002). Emerging economies were the target of these previous studies, with the exception of Hennart and Zeng (2002), who analyzed Japanese–US IJVs in the US. On the methodology side the authors relied mainly on regression analyses, with the exception of Steensma and Lyles (2000) who used a two-step structural model, but their research was limited by partially incorporating multifaceted interactions of variables. Accordingly, the existing studies did not show consistent results on the determinants of IJV performance (Yan & Zeng, 1999).

We approach this perennial topic in management with a more rigorous approach focusing on cross-border learning and national culture. Most researchers have tested the relationship between IJV performance and culture from the simplistic view that the national culture of partner firms directly affects the performance of IJVs (Barkema, Shenkar, Vermeulen, & Bell, 1997; Hanvanich, Miller, Richards, & Cavusgil, 2003; Kim & Park, 2002; Park & Ungson, 1997; Pothukuchi, Damanpour, Choi, Chen, & Park, 2002) and their findings turned out to be contradictory. We posit that interpartner national culture differences, along with goal congruency between partners, first determine the level of learning and conflict in IJVs, which in turn affect the performance of IJVs.

Using a structural equation analysis, we simultaneously considered the procedural relationships between congruent strategic goals, national culture differences, and learning, and the negative relations between conflict and cross-border learning, and performance. In the process, the relation between cross-border learning and IJV performance was accentuated. Positive interaction between matching strategic motives and cross-border learning, which in turn led to better IJV performance, was shown. We were able to demonstrate the negative influence of conflicting relations on learning but not on performance. Using a survey of 100 manufacturing-industry IJVs formed between multinational enterprises (MNEs) and local/Korean firms, this paper expands our knowledge base about the determinants of IJV performance in an emerging economy from organizational learning- and relation-based perspectives.

In the following we will first build up hypotheses that will show the interactions among the variables. A methodology section will follow. A discussion of the results which compares and contrasts our test findings with the extant literature will complete the paper.

2. Theoretical development

2.1. Strategic goal congruency on learning and conflicting relations

Glaister, Husan and Buckley (2003) identified two kinds of learning in IJVs: learning from partners' technology and skills, and learning how to manage IJVs, i.e. their formation and operations. In this paper we focus on the former in which we are more interested since the performance implication of the latter is more long-term and indirect (Barkema et al., 1997).

Hagedoorn (1993) examined the various strategic motives that led firms to form different types of technical alliances. Hamel (1991) found both that the strategic intent for competence building was crucial for learning partners' core competences, and that asymmetry in collaborative intent prevented systematic mutual learning. Tsang (2002) also showed that MNEs with a learning intent acquired local market knowledge through active management involvement (e.g., deployment of human and supporting resources). Thus, the significance of strategic motives for learning in alliance relations has already been acknowledged. Our investigation goes one step further, examining the strategic fit between IJV partners (i.e., congruency of strategic goals) and its influence on learning. We examine learning and conflicting relations that would affect performance as the links between strategic motives and performance, while Homburg, Krohmer and Workman (1999) and Boateng and Glaister (2002) showed the direct influence of strategic consensus on performance.

Strategic motives for alliance formation in IJVs between partners can be different as Dong and Glaister (2006) found in their study of IJVs in China. An alliance relationship may create tension between partners due to underlying competitive and cooperative intentions for learning (Hamel et al., 1989). Between the alliance's intended exploitation or exploration objectives (Koza & Lewin, 1998; March, 1991), strategic goal congruency may play a modifying role, lessening internal tensions. When partners share the same strategic imperatives such as learning, reducing risk, and/or utilizing each other's management skills, they may share managerial priorities and agree on resource sharing, internalization of know-how and commitment to alliance success (e.g., Kale & Singh, 2007). Understanding the strategic context of the partner's goals and motives for alliance formation reduces uncertainty about the partner's future behavior (Ariño & de la Torre, 1998). All these findings indicate that goal incongruence is detrimental to the performance of IJVs since it may cause uncertainty, tension, and conflict. Building on these, we saw goal congruency as an initiator forming social trust and shaping behavioral control within the IJV relationship (e.g., Das & Teng, 2001), instead of testing the direct relationship between goal congruence and the success of IJVs (Boateng & Glaister, 2002). In the same line of argument the negative association between goal congruency and conflicting relations is hypothesized as 1a.

Hypothesis 1a. The higher the degree of goal congruency between partners of an IJV, the less conflicting relations will be built up between them.

Khanna, Gulati and Nohria (1998) showed how tension between alliance partners affected the dynamics of learning. They suggested that asymmetric incentives between partners of an alliance would affect resource commitment and allocation, which would create tension with respect to learning. The rent that partners can generate through knowledge sharing in IJVs depends on whether or not incentives for partners can be aligned (Dyer & Singh, 1998) and trust between partners can be formed on the basis of the perception of equity by increasing overall goal congruency (Madhok, 1995). When there are more