



How long will the marriage of Sino-Foreign JVs in China last? A theoretical and empirical investigation



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ABSTRACT

This paper studies the factors affecting the longevity of international joint ventures (IJVs) in China and investigates the strategic interactions of the players in an IJV (foreign parent, local parent and IJV management) by adopting game theory and using empirical analysis based on national perceptions of time horizons. The theoretical part shows equilibria for the games played by the parents. The empirical evidence, based on a sample of Chinese-US and EU IJVs, as well as Chinese-Japanese and South Korean IJVs, is consistent with the propositions derived from our theoretical models. Our empirical findings show that the longevity of an IJV is affected by senior management control. Access to local knowledge is also a crucial factor affecting longevity. Furthermore, the degree of long-term orientation (LTO) of the parents influences the longevity of Sino-Foreign IJVs. The contributions made by both foreign and local parent firms are also found to influence the longevity.

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1. Introduction

Over the last thirty years, since China initiated economic reforms and an open-door policy, the country has been transformed from a poor nation almost entirely isolated from the global economy to the second largest economy in the world (Zhang & Liu, 2009). China's dynamic transition and integration into the global economy has also brought fundamental changes in the way it conducts business (Tung, Worm, & Fang, 2008). One feature of this change has been reflected in how to manage international joint ventures (IJVs) (Luo, Shenkar, & Nyaw, 2001). However, despite two decades of an intense East–West relationship through different forms of international collaboration, and despite intensive research on Chinese international joint ventures (Buck, Liu, & Ott, 2010; Demir & Söderman, 2007; Fey & Beamish, 2001; Li, Karakowsky, & Lam, 2002; Luo, 1998; Puck, Holtbrügge, & Mohr, 2009; Roy, 2012; Shenkar, 2001; Yao, Yang, Fisher, Ma, & Fang, 2013), there is still a lack of consensus on the factors contributing to the longevity of Sino-Foreign JVs. In particular, underexplored areas are the inter-relationship between senior management control from different nationalities and resources contributed by parent firms.

Prior research on the longevity of Sino-Foreign JVs has mainly focused on equity ownership, knowledge acquisition, cultural distance and contributions by parent firms (Barkema & Vermeulen, 1997; Fey & Beamish, 2001; Hennart & Zeng, 2002; Kaufmann & O'Neill, 2007; Li et al., 2002; Lin & Germain, 1998; Park & Ungson, 1997; Roy, 2012; Shenkar, 2001; Yao et al., 2013). However, most existing studies have examined these factors independently, and this offers an incomplete account of the reasons behind the longevity of Sino-Foreign JVs. In addition, empirically-driven studies dominate the existing literature, and few papers have offered theoretical models to formalize the inter-play between foreign and local partners (Ott, 2006). The strength of a game-theoretic approach is that it does not analyze the impact of independent factors on IJV longevity in isolation, but it reveals the combined effects of multi-player decision-making by taking into account the interconnectedness of multiple players' strategies and objectives. Compared to previous work which looked into contracting, signaling and repeated games (Ott, 2006, 2013; Zhang & Rajagopalan, 2002), we are using simultaneous and sequential move games and apply them to the longevity of IJVs. The game-theoretic approach to IJV longevity has thus been underexplored, and this represents an important research gap.

Extending previous research on Sino-Foreign JVs, this paper aims to examine the multiple factors affecting the longevity of Sino-Foreign JVs by applying the game-theoretic approach. In particular, we focus on the impact of senior management control in Sino-Foreign IJVs and the contributions made by both local and

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foreign parent firms on the longevity of Sino-Foreign JVs as well as the strategic interaction between management control and the contributions from local and foreign parents. In the context of Western and Asian partners, and so-called East–West and East–East IJVs, we also conduct theoretical modeling and empirical tests on whether one distinctive dimension of national culture, i.e. long-term orientation (LTO), interacts with senior management control and affects the longevity of Sino-Foreign JVs.

This paper proposes two contributions to the literature. First, we go beyond the empirically dominated literature by constructing a theoretical model which formally represents the relationship between the characteristics of IJV partners and the longevity of IJVs. Hence, we offer a unique contribution by formalizing the factors contributing to the longevity of IJVs. A game theoretic approach enables us to theorize about the factors identified in the empirical literature and helps to provide new insights into the longevity of Sino-Foreign JVs. Our research thus complements prior studies based on empirical tests (Fey & Beamish, 2001; Hennart & Zeng, 2002; Li et al., 2002; Luo, 1998; Roy, 2012; Shenkar, 2001).

Second, unlike previous research (Buck et al., 2010; Kaufmann & O'Neill, 2007; Park & Ungson, 1997), which either considers management control and contributions from parent firms in isolation or only examines the impact of cultural distance on IJVs' longevity, we simultaneously analyze the interdependence of these factors, including senior management control, different degrees of LTO and contributions from parents. Such an approach enables us to consider not only the direct impact of senior management control and resource contributions on the longevity of Sino-Foreign JVs, but also the inter-play between senior management control with different degrees of LTO and contributions from parent firms. Makino, Chan, Isobe, and Beamish (2007) found that IJVs with strategic asset-seeking purposes last longer than those which are formed for resource, capital and market-seeking purposes. Our findings complement their findings by showing that high-tech IJVs with knowledge access purposes tend to last longer. Findings from this study help to enrich understanding of the factors determining the longevity of IJVs in China and generate significant theoretical and managerial implications.

2. Literature review

This research focuses on exploring the conditions which lead to the longevity of Sino-Foreign JVs in China. A Sino-Foreign JV is jointly owned by a local Chinese company (as local parent) and at least one MNE from the USA, Europe, Japan or any other Asian country (as foreign parent) (Luo, 1998). The formation of the IJV and the management affect the duration and stability of a joint venture, as well as the partner relationship, the interaction between the partners and the ownership shares. Based on the definition of IJV (Ott, 2006), the parent relationship is seen in light of an IJV (as the child of both companies) and the partner relationship is referring to the relationship between the parent companies. This is similar to a family in which the parents are seen in relation to the child, whereas they are partners when it comes to their own relationship. Extensive research into factors affecting the survival of IJVs found that, in China, the uncertainty of environmental factors, cultural issues, knowledge acquisition and access, and contributions by parent firms are the main factors (Child & Yan, 2003; Cuypers & Martin, 2010; Inkpen & Beamish, 1997; Li et al., 2002; Lin & Germain, 1998; Makino et al., 2007; Roy, 2012; Zhang & Rajagopalan, 2002). In this section, we systematically review the existing literature based on the factors affecting IJV survival and provide the theoretical foundation to our study.

2.1. Cultural distance of partners

Cultural distance has always been a notable feature in IJVs and affects conflict resolution within IJVs as well as survival (Barkema & Vermeulen, 1997; Buck et al., 2010; Fey & Beamish, 2001; Hennart & Zeng, 2002; Li et al., 2002; Li, Xin, Tsui, & Hambrick, 1999; Lin & Germain, 1998; Luo, 1998; Park & Ungson, 1997; Roy, 2012; Shenkar, 2001). The relevance of cultural distance with regard to the choice of partners (Luo, 1998) and entry modes (Kaufmann & O'Neill, 2007) was a key research element for the setting-up stage of IJVs in China.

Lin and Germain (1998) proposed that cultural closeness benefited conflict resolution, and this benefit increased with IJV longevity. They argued that IJV longevity results in familiarity which not only produces an open, problem-solving approach to conflict resolution, but also a greater willingness to support a partner's desired course of action. Another reported benefit of longevity is that partners would be less likely to rely on written agreements in conflict resolution than they would in short-term relationships. However, Hennart and Zeng (2002) proposed that the mixed findings concerning the impact of cultural distance and closeness on IJV survival are due to the fact that some of these studies did not control for external factors (rate of growth of country, industry changes and exchange rate volatility). More importantly, Makino et al. (2007) found that cultural distance between the IJV partners is a source of misunderstandings and that smaller IJVs tend to face greater liability. The longevity of IJVs is, thus, a matter between the relationships of the players due to organizational and cultural complexity.

Park and Ungson (1997) and Hennart and Zeng (2002) showed that the cultural mix of IJV partners affects the longevity of an IJV. Park and Ungson (1997) found that US-Japanese JVs survived longer than US-US JVs, whereas the latter showed that Japanese-Japanese JVs survived longer than US-Japanese JVs. These findings are consistent with the possibility that the level of LTO of the partners has an influence on longevity. Buck et al. (2010) adopted the concept of LTO and examined whether foreign partners in Sino-Foreign JVs with different levels of LTO affected enterprise strategies. They established a link between partners' different levels of LTO and strategic human resource management decisions taken by Sino-Foreign JVs. In terms of working relationships in Sino-American JVs, Walsh, Wang, and Xin (1999) highlighted the fact that the views of American and Chinese managers in the same JV differed and this impaired their collaboration and activities which was evidence of cultural differences and their impact on the management of IJVs.

Lu and Xu (2006) investigated the growth and survival of Sino-Japanese JVs in China by focusing on the local parent and 'decompartmentalized' local advantage. Their findings helped to explain the legitimacy aspect of growth and survival connected to the local parent's age and size. Li et al. (2002) compared the effect of cultural diversity and cultural distance between the Sino-Japanese and Sino-Western JVs in China and argued the benefits of joint management for longevity in comparison with overseas partners' dominance in IJV management. They postulated that the effect of cultural distance disappears the more advanced the firms are in international expansion. Their results showed that cultural distance affects transaction efficiency, the selection of location and the sharing of firm resources.

However, Hanvanich, Richards, Miller, and Cavusgil (2005) found a different rationale and proposed that the preference of an IJV as ownership strategy occurs when national culture differences are high, since in the long-term an MNE ought to acquire the local partner's share of the equity JV. They argued that the increase in national culture differences mean increased unfamiliarity of local knowledge for MNEs. This would lead to the need of a local partner

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