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Partner nationality, market-focus and IJV performance: A contingent approach

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ABSTRACT

This study examines how Taiwanese firms engaging in various types of international joint ventures (IJVs) have performed in China, and how different types of market-focus affect IJVs' performance. Based on the IJV classification scheme suggested by [Makino S., & Beamish P. W. (1998). Performance and survival of joint ventures with non-conventional ownership structures. *Journal of International Business Studies*, *29*(4): 797–818], this study outlines and examines three categories of IJVs, according to partner nationality: Taiwan-Taiwan (T-T) JVs, Taiwan-Local (T-L) (China) JVs, and Taiwan-Foreign (T-F) (third-country) JVs. We propose two hypotheses, with associated sub-hypotheses, to examine the major effects of partner nationality on performance, as well as the moderating effects of local market-focus on the relationship between partner nationality and performance. Through the analysis of 236 Taiwanese JVs in China, we find that (1) T-L JVs perform better than T-T JVs and T-F JVs; (2) T-L JVs focusing on the local market do not perform better than those focusing on foreign markets; and (3) T-F JVs focusing on foreign markets perform better than those focusing on the local market.

1. Introduction

The globalization of markets has led to an increasingly risky and competitive business climate, making it imperative that firms aggressively seek foreign market opportunities as a means to improve the chances of their success. Mode of entry is a key issue in international business research because it has a significant impact on performance (Pangarkar & Lim, 2003). Previous studies have argued that, in risky contexts, firms often choose entry modes other than wholly owned subsidiaries (Chan, 1995). International joint ventures (IJVs) are frequently used by foreign firms when entering host markets, owing to the critical importance of timing and the numerous risks (e.g., political, economic, competitive) inherent to engaging in international operations—especially in emerging economies such as China. When it comes to joint ventures, there is a notable lack of research taking emerging or transitional economies as the sole focus of study (Mjoen & Tallman, 1997). Although foreign companies are increasingly establishing wholly owned subsidiaries, JVs with local firms remain the dominant mode of operation in China (Mohr, 2006). This study examines the performance of Taiwanese firms employing various types of JVs in China.[3]

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[3] Because we focused on Taiwanese firms doing business in China, this study defined "the" China market as the local market and Chinese partner firms as the host country partners in IJVs.

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China, the host country chosen in this study, is the largest emerging economy with the greatest inflow of FDI in the world (UNCTAD, 2006). At the same time, Taiwan, the home country of the investors chosen in this study, is an active investor in China. According to reports from the Department of Statistics, Ministry of Economic Affairs, Taiwan, ROC, in 2006, forty percent of Taiwan-to-China foreign direct investment (FDI) in manufacturing industries occurred through joint ventures. Seventy percent of the FDI coming out of Taiwan was directed toward China.

The roles of developing countries or emerging economies are becoming increasingly important in global economies. This phenomenon is reinforced by the success of firms based in newly industrialized countries such as South Korea, Taiwan, and Singapore (Aulakh, Kotabe, & Teegen, 2000). Despite the fact that Taiwan and China share a similar culture and language, Taiwanese firms encountered the same environmental uncertainty and challenges (Filatotchev, Strange, Piesse, & Lien, 2007) as Western firms do when entering China. Therefore, understanding the Asian models (e.g., Taiwan, Singapore, and South Korea) of doing business in China may provide the insight for Western firms as they are enthusiastic for engaging business in China as well. From the theoretical aspect, taking samples from an NIE (e.g., Taiwan in this study) helps to examine the application of theories developed in the context of developed countries (Filatotchev et al., 2007). Ramírez-Alesón and Espitia-Escuer (2001) concluded that most of the studies have focused on firms from leading developed countries and the evidence on this relationship for more recently developed countries does not yet exist. These latter countries have a significant growth potential, and therefore it would be interesting to analyze the effect of their international strategies on performance. Hence, practically and theoretically, examining international joint ventures in China (an emerging economy) from the perspective of Taiwan (a newly industrialized economy) is a worthwhile endeavor.

Traditionally, an IJV is defined by its ownership structure, with a certain percentage of ownership shared across foreign and a local company. With regard to the typologies of IJVs, we have chosen to adopt the classification scheme suggested by Makino and Beamish (1998), which has also been used in other studies, such as Beamish and Kachra (2004) and Hanvanich, Miller, Richards, and Cavusgil (2003). Based on this scheme, we developed three categories of IJVs in China, according to partner nationality: Taiwan-Taiwan joint ventures, Taiwan-Local (China) joint ventures, and Taiwan-Foreign (third-country) joint ventures.

Firms seeking IJVs must expend resources in finding appropriate partner. The risks of choosing an inappropriate partner are borne by both the local agent, as well as the multinational corporation's (MNCs) parent (Pangarkar & Lim, 2003). Good partnerships are critical to successful IJVs and cultural distance has been found to impact this relationship. Scholars have recently begun to explore the relationship between partner nationality and performance (e.g., Hanvanich et al., 2003; Makino & Beamish, 1998) and move away from the existing assumptions about nationality and traditional IJVs. Previous studies have arrived at inconclusive results when it comes to the impact of cultural distance (Pangarkar & Lim, 2003). On the one hand, some researchers (e.g., Luo, 1997; Pangarkar & Lim, 2003; Park & Ungson, 1997) have found that cultural distance has a positive effect on performance because its presence is accompanied by the acquisition of complementary resources. On the other hand, other researchers have observed that cultural distance negatively affects IJVs' performance, due to the uncertainty caused by distinct norms of behavior and the associated difficulties in communication (e.g., Makino & Beamish, 1998; Parkhe, 1991). Partners of the same nationality typically perform better than international partners (Hennart & Zeng, 2002; Hanvanich et al., 2003). Although some studies have revealed that partner nationality does influence the performance of IJVs, either positively or negatively, we make a different argument altogether: that traditional IJVs perform better only if they serve local markets; performance does not improve in international markets. We hypothesize that market-focus moderates the relationship between partner nationality and performance. In other words, access to local markets through local partners is advantageous to some IJVs. However, for those IJVs that do not focus on the local market, performance may be improved through collaboration with foreign partners.

There have been some studies examining partner nationality and IJV performance. To our knowledge, however, less attention has been paid to the moderating effect of market-focus. This study investigates the interplay between three variables by exploring the relationship between partners' nationalities and IJV performance, as well as by examining the moderating effects of market-focus on the relationship between partner nationality and IJV performance.

This study contributes to the literature in two ways: (1) In addition to examining traditional IJVs (i.e., Taiwan-China JVs), we shed some light on the nature of other types of IJVs (i.e., Taiwan-Taiwan JVs and Taiwan-third-country JVs), and examine whether similarity/differences in nationality of partners has performance implications. (2) We examine the moderating effect of market-focus on the relationship between partner nationality and IJV performance, and discuss the implications of any relationship (or lack there of) for theory and practice.

The remainder of this paper is organized as follows. First, we define the types of IJVs by partner nationality. Second, we develop our hypotheses, based on our theories. Third, we describe the research methodology. Fourth, we demonstrate the empirical results and suggest topics for discussion. Lastly, we provide our conclusions and our suggestions for future research.

2. Literature review and hypotheses

2.1. IJV typology based on nationality

Early studies, which often used the database of the Harvard Multinational Enterprise Project (Curhan, Davidson, & Suri, 1977), typically categorized IJVs as either minority-owned, co-owned, or majority-owned (Curhan et al., 1977). These studies usually define IJVs as composed