



Contents lists available at ScienceDirect

Journal of Business Research



Performance measurement choices in international joint ventures: What factors drive them?

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ARTICLE INFO

Article history:

Received 17 April 2014

Received in revised form 1 July 2015

Accepted 4 July 2015

Available online xxx

Keywords:

Nordic international joint ventures

Performance measurement

Non-financial measure

Financial measure

ABSTRACT

How to evaluate performance of an organization and what factors influence the choices of performance measurements have remained unclear. The question is even more complicated for jointly managed organizations like international joint ventures (IJVs). This research investigates the determinant factors of performance measures used by Nordic firms in their IJVs. We tested our hypotheses with 89 IJVs established by Nordic firms. The results show that firms' motives, level of trust and cultural distance between foreign and local firms all have a strong influence on the choice of performance measures used. Furthermore, firms choose performance measures depending on the stage of the unit in the IJV life cycle. Interestingly target country experience influenced the choice of performance measurement, but previous IJV experience did not influence the measures used. The study offers several implications for managers to choose appropriate measures for their IJV performance evaluation as well as opportunities for further research.

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1. Introduction

Performance measurement has for a long time been one of the crucial issues among scholars and business managers (Buhovac & Groff, 2012; Jusoh, Ibrahim, & Zainuddin, 2008; Richard, Devinney, Yip, & Johnson, 2009). Similarly in international business, organizational performance measurement is an increasingly important topic (Bititci, Garengo, Dörfler, & Nudrupati, 2012; Gerschewski & Xiao, 2015; Hult et al., 2008) and it is even more important in the case of international joint ventures (IJVs) (Arino, 2003; Geringer & Hebert, 1991; Glaister & Buckley, 1998a; Ozorhon, Arditi, Dikmen, & Birgonul, 2011). An IJV in this study is regarded as a separate entity formed by two or more partners with an expected proportional share of dividend as compensation (see e.g. Beamish & Delios, 1997:104; Contractor & Lorange, 1988) through either greenfield investment or partial acquisition (Hennart, 2009). Adopting a suitable performance measurement is very important because performance evaluation is essential for revealing the true situation of subsidiaries' activities (Schmid & Kretschmer, 2010). However, "managers of parent firms are constantly faced with the challenge of selecting the most appropriate indicators to measure performance of their IJVs" (Chong, 2009: 81). Sushil and Sagar (2013) state that there is very limited research dealing with the performance measurement framework and this has become a major challenge for firms. Furthermore, the issue is very complicated as there are contradicting views

on how to measure IJV performance (Osland & Cavusgil, 1996; Parkhe, 1993) and there is relatively limited consistency in IJV performance measurement findings.

Some researchers suggest that performance of firms may vary depending on the measure used (Christoffersen, Plenborg, & Robson, 2014). Abdel-Maksoud, Asada, and Nakagawa (2008) argue that traditional accounting measures do not provide clear information of the effectiveness and competitiveness of an organization. Similarly, Ratnatunga and Montali (2008) insist that financial performance measures are inadequate when firms start to focus on shareholder value as the primary long-term objective of the organization. Other researchers point out that there are positive correlations between objective measures and subjective measures (e.g. Glaister & Buckley, 1998b). Mohr (2006: 248) points out that no study has properly analyzed the differences that exist in the way partner firms measure the performance of an IJV. Although there is a great deal of research focusing on international business performance (Hult et al., 2008), and some hundred studies that focus on IJV performance (see e.g. Robson, Leonidou, & Katsikeas, 2002; Larimo, 2010), there are only a few studies that really analyze how firms select their performance measures.

Schmid and Kretschmer (2010) state that "...influencing factors on performance evaluation remain mostly unclear...". Researchers suggest that future research should focus on alliance performance measures (Geringer, 1998) and factors that affect managers' decisions on the use of different performance evaluation methods (Abdel-Maksoud et al., 2008). Aiming to fill this research gap and to solve the research puzzle above, we will analyze how different factors affect foreign parent firms' preference of IJV performance measurement in choosing between

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financial and non-financial measures. Evaluation of IJV performance can be considered from different perspectives (Yan & Gray, 1995): from the viewpoints of foreign parents, local parents, IJV management team, or other stakeholders of IJVs such as shareholders, and/or local political actors. However, researchers (e.g. Geringer & Hebert, 1991) have found that there is significant correlation between the parent's evaluation of IJV performance and that of their partners and also with that of the IJV's management team. Buchel and Thuy (2001) found that there is no difference in the performance evaluation between foreign firms and local firms. In order to be able to go more deeply into the analysis of determinant factors of performance measures, this study will focus only on the viewpoint of the foreign parent firm.

The findings of our study will advance our knowledge on how various factors – firm, target country, and investment related factors – impact on the preference of firms for different performance measures. This knowledge is important for both theorists and managers in the field of IJV management in several ways. In terms of theory, this study is one of very few studies offering a framework of determinants of performance measure choice that could be further tested to develop a stronger theory of IJV management with empirical data from other countries. Our study also extends previous empirical IJV studies as we test our hypotheses with a sample of Nordic firms, whereas previous studies have tested their hypotheses mostly with IJVs established by MNEs based in the US (e.g. Chong, 2009; Geringer & Hebert, 1991; Hatfield, Pearce, Sleeth, & Pitts, 1998), the UK (e.g. Glaister & Buckley, 1998a), Japan (e.g. Lu, 2008) or Germany (Mohr, 2006; Rygl, 2012). The study will also have benefits for managers who need to select the right performance measures for their IJVs.

In terms of practice, managers can use our study as guidance for the decision making related to the choice of measures for their IJVs. This is crucial for firms, as the unsuitable use of performance measures can lead to role conflict between partners (Mohr, 2006; Rygl, 2012). Our study also gives support to the view that managers should consider the use of various measures of performance measurement at different stages of IJV development.

We first review previous studies on IJV performance measurement. After that we discuss our hypotheses which show how different factors influence the preference of IJV performance measurement. Then, we discuss our methodology including research approach, data collection and our sample. We finally discuss our results and conclude with implications as well as the limitations and opportunities for future research.

2. Prior research on IJV performance measurement

A performance measurement system is important for firms when they develop strategic plans, evaluate the achievement of their objectives, and reward their managers (Jusoh et al., 2008). However, the concept and measurement of organizational performance have been controversial topics (Yan & Gray, 1995) and cannot be applied across organizations (Schmid & Kretschmer, 2010; Tatoglu & Glaister, 1998). Moreover, measurement of performance in the international business context is particularly difficult because of cross-border variations in accounting standards, the nature of firm boundaries, and the geographic scope of operations (Hult et al., 2008). In addition, IJVs are not always formed to achieve conventional business goals such as profit and market share, but they are set up for qualitative objectives such as organizational learning, co-opting or blocking competition (Contractor & Lorange, 1988). Therefore, the performance of IJVs should be looked at from different perspectives (Ghauri, Cave, & Park, 2013). According to Anderson (1990), parent companies have their own objectives in creating IJVs, and thus a venture's performance should be measured against these objectives. Key earlier studies of performance measurements in IJVs are summarized in Table 1.

With regard to performance measurement in the IB field, one of the key studies is the one made by Zou, Taylor, and Osland (1998). In their

study, they identified three dimensions of export performance which are financial performance, strategic performance, and satisfaction with export ventures. In our focus field of IJVs, perhaps the most well-known study focusing on performance measurement is the one by Geringer and Hebert (1991). In their study, however, they use the researchers' viewpoint of IJV performance measures; there are objective measures like survival, duration, instability of ownership. These kinds of measures may be helpful for researchers to conduct their research, but they are far from reality for managers. Moreover, the study by Geringer and Hebert (1991) actually focuses more on finding out if the performance of an IJV differs depending on the measures that researchers used to measure that performance. Using a sample from UK international alliances, Glaister and Buckley (1998b) find that correlations between objective and subjective measures of performance will be stronger when parent firms are from dissimilar national (or corporate) cultures. Similarly Lu (2008) finds that there are significant correlations among various performance (economic, strategic, behavioral, learning) measures. But he found support that the correlations were stronger between partners and IJV general managers' measurements of IJV performance in IJVs involving parents with similar national cultures.

To deepen the knowledge of IJV performance measurement, Yan and Gray (1995) raise three important questions: 1) Performance from whose perspective? 2) Performance based on what indicators? 3) Are different measures needed at different times? Different streams of works have tried to answer these questions. The first stream of works (e.g. Ali & Sim, 2001; Hatfield et al., 1998) tried to prove that different performance measures are positively related but they measure different phenomena, and they are not interchangeable (López-Navarro & Molina-Morales, 2002). As a result, these studies confirm that the perception of IJV performance can be different depending on the measures used. A second stream of works (e.g. Arino, 2003; Buchel & Thuy, 2001; Jain & Jain, 2004; Lu, 2008; Ozorhon et al., 2011) has tried to find out what are the most appropriate performance measures for IJVs. They all suggested that performance of IJVs should be measured in different dimensions. A third stream of works deals with the question of whether there are differences in partners' perception of IJV performance. Buchel and Thuy (2001) found that there were no differences in the perception of performance between Vietnamese and foreign managers. However, Mohr (2006) and Rygl (2012) found the opposite i.e. there were differences in the evaluation by German and Chinese partners of their IJV performance. Also Chong (2009) found differences in the evaluations between US and Chinese partners in IJVs. Differences in cultural and political factors at home and in the host country were found to be the main explanations for the differences in the evaluations. Regarding the location of IJVs of previous studies of performance measures of IJVs (see Table 1), we can notice that most of these studies have their IJVs located in Asian countries such as China, India, South Korea, and Vietnam.

In short, prior studies of IJV performance measures have produced conflicted results and have ignored the relation between influencing factors and the choice of different performance measures. Moreover, the prior studies have not really focused on how parent firms select IJV performance measures at different stages of the IJV lifecycle. Taking the standpoint of managers and results in previous studies (i.e. Schmid & Kretschmer, 2010) we categorize IJV performance measures into two main groups. The first category is financial measures of performance including a variety of traditional indicators such as profitability, growth and cost position (e.g. Killing, 1983; Zou et al., 1998). Financial measures are based on the reliance on cost information and financial data which are short-term in nature (Jusoh et al., 2008), and on information about sales such as sales volume, ratio of foreign sales to total sales, and sales growth (Gerschewski & Xiao, 2015). They provide guidance to effective performance for firms in their aim to reach their targets and are a direct reflection of current profitability and operating efficiency, and future earning potential (Spencer, Joiner, & Salmon, 2009).

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