



The effect of parental opportunism, IJV's autonomy and tacit knowledge on IJV instability: A comparison of multi-variate regression and fuzzy-set qualitative comparative analysis[☆]



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ABSTRACT

This study uses an agency theory perspective to examine how the factors that influence principal (IJV parents) and agent (IJV) relationship may affect IJV instability in China. The study proposes a framework that bridges knowledge-based theory (of tacit knowledge) and agency theory (of parental opportunism) by incorporating reactance theory (of autonomy). By comparing the empirical results of fuzzy-set qualitative comparative analysis (fsQCA) and multiple regression analysis, using a sample of 203 Chinese-foreign IJVs, the study adds further evidence to growing methodological consideration regarding complexity theory. The results from multiple regressions show that parental opportunism and IJV's autonomy have a positive effect on IJV's instability, and that the interaction of autonomy and tacit knowledge moderates the effect of parental opportunism on IJV instability. However, fsQCA uncovers more causal paths than findings from multiple regression analysis.

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1. Introduction

The determinants of international joint venture (IJV) instability receive growing attention in the literature (Fang & Zou, 2010; Yan & Zeng, 1999). This study adopts the view of Fang and Zou (2010) and Yan and Zeng (1999) and defines an IJV as a venture that experiences conditions such as contract re-negotiation, changes the relationship between partners, has the potential for unpredictable and premature termination, and which others perceive as having instability. The majority of the research into IJV instability, however, discusses the determinants of instability from a parental perspective (Fang & Zou, 2010; Nakamura, 2005) while ignoring IJV's perspective. This fact represents a notable research gap in IJV instability.

To address this research gap, this study investigates three key factors of IJV instability from an IJV perspective: (1) Agency theory of parental opportunism, that is, the opportunism that arises from a parent (principal) toward an IJV (agent); (2) reactance theory of autonomy, that is, the degree to which an agent can use its capabilities to pursue some goals without consent by other party (Barber & Martin, 1999), and

(3) knowledge-based theory of tacit knowledge (TK), that is, the knowledge that one cannot codify and transmit by prescription (Polanyi, 1958). Parents' opportunism toward the IJV is sometimes more harmful for both parents and IJV due to wrong norms and expectations, thus causing distrust and suspicion (Hoenen & Kostova, 2015). According to agency theory (Jensen & Meckling, 1976), and considering the parents as the principal and IJV as the agent, principal opportunism may arise when the principal seeks unilateral gains from the agent (Lado, Dant, & Tekleab, 2008; Yan, Zhu, & Hall, 2002). TK is a key concern in the IJV literature that plays a significant role in IJV instability (Inkpen & Beamish, 1997). Particularly, this study seeks to develop an approach to solve a significant IJV puzzle: How do tacit knowledge, parental opportunism, and autonomy influence IJV instability?

This study chooses China as the research context for the study because China has a more uncertain and unpredictable institutional environment (Burgers & Padgett, 2009; Fang & Zou, 2010), and is the largest FDI recipient (Peng, 2006). The Chinese market provides a unique environment for IJV and an excellent research context to capture the complexity of IJV instability. This research provides new insights on IJV instability in emerging market multinational corporations (MNCs); China offers the perfect scenario to examine the effects of parental opportunism, IJV autonomy, and IJV tacit knowledge's influence on IJV instability.

This study contributes theoretically to the existing literature on IJV instability by integrating the agency-, reactance-, and knowledge-based views to examine the factors that influence a firm's propensity

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to IJV instability in China. In addition, this study contributes methodologically by comparing the empirical results of fuzzy-set qualitative comparative analysis (fsQCA) and multiple regression analysis using a sample of 203 Chinese-foreign IJVs, which adds further evidence to the growing methodological consideration regarding complexity theory. Regarding the contribution on practice, IJV instability in China is a significant and growing economic phenomenon that is of timely concern to managers.

2. Conceptual framework and hypotheses

Several studies examining IJV instability exist. The determinants of IJV instability depend on the interactions and combinations of numerous factors; a single theory cannot explain their existence and behaviors (Calvet, 1981). This study adopts a multi-theoretic view by drawing on elements of agency-, reactance-, and knowledge-based views to formulate a more holistic perspective to examine IJV instability in China (see Fig. 1 for the theoretical framework). Agency theory stresses the role of principal opportunism, which refers to the opportunism that arises from a principal with respect to an agent (Lado et al., 2008), which indicates the inharmonious relationship between parents and IJV. However, knowledge-based view (KBV) theory suggests that a firm can acquire, transfer, and embed context-specific knowledge via inter-firm cooperation (Grant & Baden-Fuller, 1995). Some studies posit that transferring tacit knowledge is a key factor in a cooperative parents' relationship, which may also play a significant role in IJV instability (Inkpen & Beamish, 1997). Indeed, reactance theory focuses on the autonomy in cooperative relationship, which is useful to discuss the relationship between an IJV's autonomy and instability.

This interdisciplinary approach reveals how various categories of factors affect emerging economy's IJV instability.

2.1. Agency theory (of parental opportunism) and IJV instability

Because of divergent interests between principal and agent, inharmonious situations and conflicts often exist (Yan et al., 2002). Agency theory literature suggests that the appearance of principal opportunism is a sign of disharmony between principal (parents) and agent (IJV) inharmonious (Foss, Foss, & Nell, 2012; Yan et al., 2002). This disharmony can affect principal-agent relationship stability. Opportunism may influence the trust between principal and agents, which can frustrate the development and maintenance of value-enhancing relationships (Lado et al., 2008). Under these circumstances, parents may wish to renegotiate their IJV contract, change the equity shares in the IJV, or terminate the contract.

Hypothesis 1. Parental opportunism has a positive impact on IJV instability.

2.2. Knowledge-based theory (of IJV tacit knowledge) and IJV instability

KBV theory literature suggests that TK is a strategic important resource and can be a source of competitive advantage (Kogut & Zander; Teece, 1982). The rarer and more valuable the TK that a firm has, the greater the chances that a firm can become a success (Arend, Patel, & Park, 2014). Because of the nature of the TK—complex and difficult to codify or transfer systematically (Polanyi, 1958; Zander & Kogut, 1995)—once an agent establishes a high level of TK, the agent becomes very powerful and has strategic importance for the principal (Mudambi & Navarra, 2004).

When an IJV has a high level of TK, to not lose the TK, the parents will be less likely to cause instability in the IJV because instability such as unpredicted and premature termination leads the parents to lose the IJV's TK. If termination of the IJV is in the original plan, the parents prepare the transfer of TK to themselves before termination. To not lose TK, the parents avoid the IJV's premature termination before successfully transferring TK.

Hypothesis 2. IJV's tacit knowledge has a negative effect on IJV instability.

2.3. Reactance theory (of IJV autonomy) and IJV instability

In principal-agent relationship, an agent's autonomy influences the relationship because an autonomous agent can be very powerful and reject principal's order (Mudambi & Navarra, 2004). Principal, therefore, cannot ensure the achievement of its goals through the agent. Thus, the principal is likely to re-examine, adjust, modify, and improve the current condition of the agent to ensure the achievement of their goals, which may lead IJV to instability. The above explanation of the relationship between IJV's autonomy and instability draws from reactance theory (Brehm & Brehm, 1981). Reactance theory suggests that, in a cooperative relationship, the degree of autonomy restriction increases the controlled party's (parents) psychological reactance, which results in raising the controlled party's (parents) motivations to withdraw autonomy (Homburg & Prigge, 2014). Therefore, IJV instability occurs.

Hypothesis 3. IJV's autonomy has a positive impact on IJV instability.

2.4. Interaction of autonomy and tacit knowledge moderates the effect of parental opportunism on IJV instability

When an IJV has higher levels of autonomy and tacit knowledge, parents are less likely to let opportunism hurt the IJV. In addition, when an IJV has higher levels of autonomy and tacit knowledge, even though parents may act opportunistically, they are less likely to make

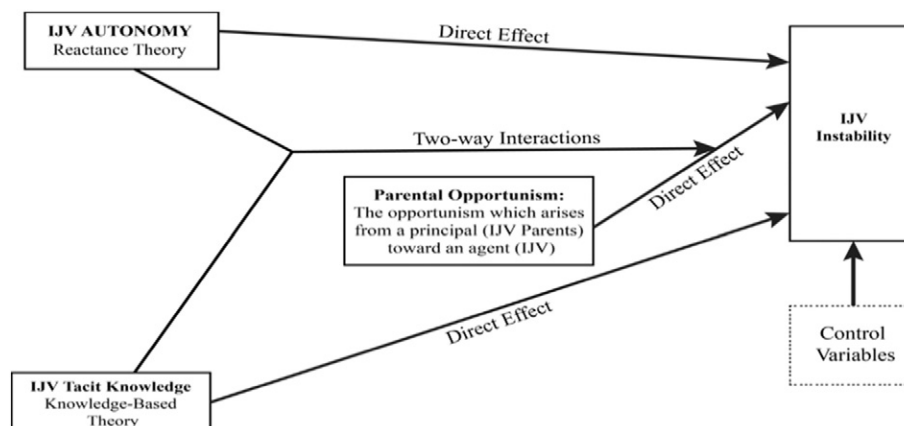


Fig. 1. Theoretical framework for IJV instability.

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