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Partner Conflicts in International Joint Ventures: A Minority Owner Perspective

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ABSTRACT

Partnering through international joint ventures (IJVs) is heralded as a key for smaller firms to gain access to resources and knowledge and expand into new geographic markets. Although it is well-known that IJVs rarely survive over an extended time, little attention has been given to partner conflicts as a source of IJVs terminating. The present article approaches partner conflicts in IJVs with unequal equity ratio and argues that being a minority partner in an IJV requires certain precautions. The authors report on a longitudinal case study of how conflicts emerged, grew, and exploded in an IJV that operated from 2005 until 2014 by identifying ten critical events that occurred and conditions that exacerbated the partners' conflicts and the IJV's demise. The authors conclude by discussing how companies entering an IJV as a minority owner can proactively use the insights gained and by providing suggestions for future IJV research.

Vignette

> I'm going to put this plainly, since you obviously don't understand the Swedish subtle way of expressing criticism. I cannot see any more important meeting for you to attend in the whole universe at this moment than the bank meeting on Monday. (…) If the president of the IJV does not prioritize that, the person is not the president of the company. (…) The IJV is in default since 12 months back, and the people we will meet on Monday have the authority (and by the day, a growing willingness) to send the company into bankruptcy. If you want to keep the little confidence I have left for you, I suggest you get on your f****** phone and rebook your flight tickets home and show up, well shaven, well prepared for the meeting on Monday.
>
> (Email from the president of an IJV minority owner to the IJV president)

1. Introduction

Many companies form international joint ventures (IJVs) to develop their company by using their own or their partner's resources and core competencies effectively (Bamford, Ernst & Fubini, 2004; Alcantara, Mitsuhashi & Hoshino, 2006). Fey and Beamish (1999) defined an IJV as a unit created by two parties located in different regions. In the face of globalization

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and technology (Ariño & De La Torre, 1998; Liu, Vredenburg & Steel, 2014), IJVs have become a tool for companies to enter new markets (Acquaah, 2009; Barden et al., 2005; Makino et al., 2007). Small companies in particular find it difficult to operate independently in new or foreign markets without support from partners that are more specialized in the region and the market. This is one reason that small- and medium-sized enterprises (SMEs) have shown increased interest in being involved in IJVs (Argente-Linares et al., 2013; Lopez-Perez et al., 2013). SMEs' limited resources, however, give them fewer options; thus, they tend to become involved in the IJV as minority owners with larger firms as the majority owners (Tong et al., 2008).

It is widely recognized that IJVs rarely survive over an extended time (Makino et al., 2007), and studies have examined termination through the lenses of cultural differences, inefficiencies, and differences in strategic aims among partners (Barkema & Vermeulen, 1997; Das & Teng, 2003; Peng & Shenkar, 2002). In addition, it is well-known that partner conflicts, referring to partners' difficulties in reconciling competing interests, preferences, and practices (Das & Teng, 2003), may be a prevalent source of IJV termination. Power asymmetry, which occurs in IJVs when equity is not shared equally, is also a factor that creates instability in joint ventures (Inkpen & Beamish, 1997). Notably, the phenomenon of partner conflicts cannot be understood thoroughly through quantitative methods, particularly not questionnaires. Conflicts between IJV partners constitute one of those dynamic and complex phenomena in international business that warrants qualitative methods. Indeed, using traditional quantitative methods in international business research and the sensitive nature of partner conflicts may have contributed to the scarcity of empirical research on this topic. Little research demonstrates how conflicts can emerge, grow, and eventually explode in IJVs with unequal equity.

With full access to longitudinal data on a partner conflict in an IJV with unequal equity, the present study observes how partner conflicts may thrive when safeguarding is minimal, opportunistic behaviors are rampant, and trust degrades over time. This study takes the perspective of the minority owner; in doing so, it focuses on issues important for understanding the problems of entering an IJV with an unequal equity ratio as a minority owner. Drawing on Tsang's (2013) typology of theorizing from cases, the present study uses an interpretive sensemaking approach. This implies a stronger emphasis on contextualizing conflicts between IJV partners than on developing theory. In doing so, the present study calls for greater scholarly attention on the widespread, significant phenomenon (e.g., Hambrick, 2007) of IJV conflicts, particularly conflicts arising between partners with unequal equity shares.

The present paper proceeds as follows. We begin with a brief literature review on joint venture partner conflicts, from which we conclude that very little scholarly attention has focused on the conflicts that may arise in IJVs with an unequal equity ratio. Next, using longitudinal data, we show how partner conflicts emerged in an IJV that lasted from 2005 until 2014 and analyze why the conflicts arose. We then discuss theoretical contributions, general managerial insights, and provide suggestions for future research.

2. Literature review

2.1. Unequal equity and partner conflicts

In collaborations between organizations, conflicts often arise because the firms are interdependent (Mohr & Spekman, 1994). Fey and Beamish (2000) demonstrated that collaborations between organizations, such as IJVs, may result in conflicting desires in the relationship and for autonomy. The parties form the IJV because they see a benefit to cooperating, but they do not want to lose their independence completely. This typically becomes the root of partner conflicts.

Approaching partner cooperation in general, Das and Teng (2003) pinpointed how partner conflicts are both common and central for developing cooperation. They identified two main types of partner conflicts: those arising from unproductive differences and those arising from maximizing private interests. Unproductive differences between parties may include dissimilarities in strategic direction, technology systems (Das & Teng, 2003), goals (Das & Teng, 2003; Steensma et al., 2008), organization culture, risk perception, and each party's leadership. Cultural differences may appear between the IJV's culture and the partners' cultures of origin within each organization (Das & Teng, 2003; Fey & Beamish, 1999; Fey & Beamish, 2000). Organizational differences may arise in each firm's perception of risk, management styles (Das & Teng, 2003), and forms of governance (Fey & Beamish, 2000; Lee & Cavusgil, 2006; Steensma et al., 2008). Maximizing private interests may include disagreeing how to distribute resources, engaging in opportunistic behaviors, imitating knowledge, and competing in downstream markets (Das & Teng, 2003).

Maximizing private interests may occur through deceitful behaviors, something for which Das (2005) provided a typology. Based on the degree of relational risk (i.e., how likely it is that the partner will not cooperate fully) and the deceit horizon, Das (2005) identifies four types of deceitful behaviors between partners. Type 1 and 2 behaviors both have a short deceit horizon, with Type 1 characterized by low relational risk (e.g., not adhering to the implicit/explicit governance principles) and Type 2 characterized by high relational risk (e.g., breaking of rules to gain unfair advantage). Type 3 and 4 behaviors both have a long deceit horizon, where Type 3 has low relational risk (e.g., incomplete disclosure of information), and Type 4 has high relational risk (e.g., distorting information and willful deception).

It is important to understand how partner conflicts emerge and how to manage them, because this impacts the partnership's outcomes (Mohr & Spekman, 1994). Lin and Germain (1998) described four general strategies to manage conflicts in joint ventures: problem-solving, compromising, forcing one's position, and adopting a legalistic strategy. Problem-solving refers to openly discussing concerns and searching for a solution that satisfies both parties. By compromising, both parties meet in the middle such that no one wins or loses (Swierczek, 1994). Forcing one's position occurs when one party tries to dominate the decision making