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Knowledge creation through joint venture investments: The contingent role of organizational slack

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ABSTRACT

Drawing on the literature on joint venture learning, we propose that a parent company's investment in joint ventures (JVs) is central to understanding knowledge learning and the firm's consequent performance. This study suggests that there is an inverse U-shaped relationship between the number of JV investments and knowledge creation. Moreover, a parent company's absorbed slack, unabsorbed slack and experience with JVs suppress the negative effects of higher JV investments on knowledge creation. Poisson, negative binomial and generalized two-stage least squares regressions are used to test the hypotheses in a panel data of 2734 firm-year cases. The findings support our predictions.

1. Research background and purpose

To accumulate knowledge, many organizations have turned to external activities for alliances, joint ventures (JVs), mergers and acquisitions, and corporate venture capital investments (Schildt et al., 2005; Wadhwa and Kotha, 2006). Investments in JVs have been an important research topic as a means for parent companies to learn new technologies and knowledge, and past research has identified numerous strategic benefits of JV investments, such as accessing and profiting from new markets, knowledge, capabilities, and other resources (Beamish and Lupton, 2009).

The importance of JVs in the global economy indicates that management scholars have diverse perspectives. When JV strategic partnering is established and managerially viable, JV relationships can add credibility and complementary technologies to the innovator (Teece, 1986). Therefore, performance remains an issue of importance beginning with the strategic rationale for entering a JV and continuing throughout the partnering process (Griffith et al., 1998). Performance has been a persistent research theme in the alliance literature. However, despite more than three decades of work on JVs, there is no consensus on a measurement of JV performance (Beamish and Luton, 2016; Ren et al., 2009), though recent research has emphasized the role of JVs as conduits of knowledge creation for parent companies. This research theme centers on a JV's knowledge learning or flow from parent companies, and on existing knowledge among parent companies and from JVs to parent companies. This literature asserts that JV investments are important opportunities for parent companies' knowledge creation.

Some scholars argue attribute the benefits of the number of JV investments to the assimilation of non-codified knowledge, the reduction of cognitive capabilities, the avoidance of interest and opportunism and the sharing of experiences and learning (e.g., Ahuja and Katila, 2001; Bowen, 2002; Cohen and Levinthal, 1990; Inkpen, 1995a, 1995b; Kogut, 1988, 2000; Kogut and Zander, 2003; Lane and Lubatkin, 1998; Wadhwa and Kotha, 2006); others see the negative impact of increased JV investment activities due to coordination difficulties, bounded rationality, resource constraints and transaction costs (e.g., Gong et al., 2007; Keil et al., 2004; Luo,

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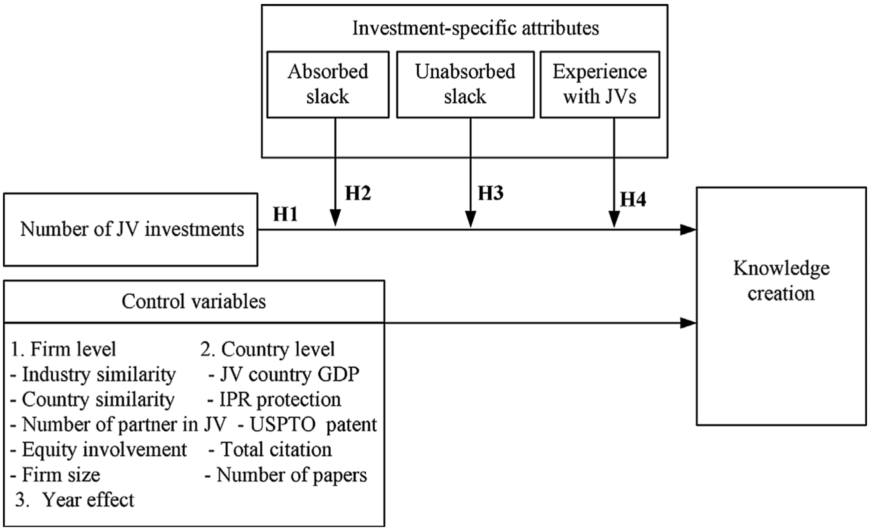

Fig. 1. Research Framework.

2007; March and Simon, 1958; Richard and Yang, 2007; Williamson, 1985). Accordingly, this study proposes that the number of JV investments has a curvilinear effect on knowledge creation.

In addition, this study addresses the issue of leveraging organizational slack resources and experiences with JVs to support the selected JV investment approach. Organizations with both slack and experience are believed to make wise use of both in their strategic decisions. Building on this idea, a large and important body of literature has explored the consequences of organizational slack (e.g., Bowen, 2002; Bourgeois 1981; Bromily, 1991; Chen et al., 2012; Cyert and March, 1963; Lai and Weng, 2014; Liu et al., 2014; Natividad, 2013; Nohria and Gulati, 1996; Singh, 1986; Su et al., 2009) and experience with JVs (Anand et al., 2016; Chiles and McMackin, 1996; Gavetti and Levinthal, 2000; Goerzen, 2005; Goerzen and Beamish, 2005; Hoang and Rothaermel, 2005; Kumar and Nti, 1998; Li et al., 2017; Richard and Yang, 2007; Schilke and Goerzen, 2010). However, little is known about the moderating effects of organizational slack and experience with JVs or the amount of resources and experiences of a parent company on the discretionary uses of management. Organizational slack and experience could be used to explore and experiment on new investments in knowledge creation as sufficient available slack resources and experience encourage parent managers of JVs to innovate. In this study, we follow the contingency approach and adopt a multi-component concept to propose that absorbed slack, unabsorbed slack and experience with JVs have moderating effects on the number of JV investment and knowledge creation link. Accordingly, this paper addresses not only the importance of the non-linear effect of the number of JV investments strategy but also the moderating role played in the strategy-performance link by organizational slack and experience with JVs.

Therefore, this study is based on the notion that the number of JV investments affects the main determinants of knowledge creation. The conceptual framework of this study is presented in Fig. 1. Two research questions answered using the conceptual model are as follows. If one firm decides to strengthen its knowledge creation capacity, in how many JV approaches should the firm invest? How can parent organizations leverage their organizational slack and experience with JVs to improve the learning effects of the JVs in which firms invest? Therefore, the curvilinear relationship (Hypothesis 1) and the moderated relationship (Hypotheses 2, 3 and 4) are hypothesized in this study to focus on the role of investment-specific attributes in moderating the curvilinear relationship between the number of JV investments and knowledge creation.

The rest of the proposal is structured in the following way. Section 2 reviews the literature and presents the hypotheses of this study. Section 3 presents the methodology for the study, with an overview of the empirical results in Section 4. Section 5 discusses the conclusion and policy implications. Finally, limitations and future research are presented in Section 6.

2. Literature review and hypotheses

2.1. Research and theory on joint ventures

2.1.1. Research on joint ventures

There are three kinds of strategic alliance: non-equity (contractual), equity, and JVs (Barney, 1997). JVs result from the combination of the resources of two or more parent companies. As such, JVs are effective mode for transferring and integrating tacit knowledge, aligning the strategic goals of partners to minimize cheating, and developing a long-term relationship (Williamson, 1975, 1985; Kogut, 1988, 2000; Kogut and Zander, 1993; Hennart, 1988, 1991). The literature on JV investments has received tremendous attention in international business and management research (Beamish and Lupton, 2016). Thus, the determinants and factors influencing JV performance have been examined from four perspectives: investment motives, partner selection, ownership and management, knowledge learning and flow.