

**Market Entry and Expansion through International Joint Ventures:
A Multi-causal Analysis of International Joint Venture Performance**

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Abstract

International joint ventures (IJVs) are important modes for entering foreign markets. Yet, research shows that IJVs are volatile, difficult to manage, and often fail, especially when the joint venture is located in a developing country. Many studies look at a range of different factors behind IJV success or failure, and a few longitudinal studies have shed light on some of the complex management processes within IJVs. Many researchers have concluded that the high rate of IJV failure is due to internal tensions that are inherent to IJVs, but viable solutions for practitioners are rare. In the absence of a model that adequately explains the longitudinal aspects and determinants of IJV performance, we see firms electing to stay in underperforming IJVs, even though more profitable modes of entry into foreign markets exist. In this thesis I analyze market entry and expansion through IJVs using a multi-causal analysis of IJV performance. I begin with a critical evaluation of the IJV literature. I then develop a process-oriented model that may explain why firms persist with failing IJVs. Finally, I draw several important conclusions that have valuable implications for practitioners and for future research.

1 Introduction

Internationalizing business operations and internalizing markets can be viable ways for firms to add and sustain economic value in the face of globalization (Contractor, 2007). This is reflected in the remarkable growth of what researchers call multinational corporations or multinational enterprises (Bartlett & Ghoshal, 1995; Buckley & Casson, 1976; Stopford & Wells, 1972; UNCTAD, 2006). Bartlett and Ghoshal (1995: 2) define multinational enterprises (MNEs) as enterprises with “substantial direct investment in foreign countries” that are “engaged in the active management of these offshore assets” and point to their emergence throughout the last century, especially since the end of World War II. Today, “[t]he world’s largest 500 companies are all multinational enterprises” (Moore & Rugman, 2005: 27), and many more MNEs are expected to follow (UNCTAD, 2006).

There are diverse explanations in the international business literature for the existence of MNEs. Buckley and Casson (1976) argue that MNEs are created to internalize imperfect markets for intermediate products, e.g., know-how and raw materials, across national borders. Hennart (1977, 2001) proposes that MNEs arise if the transaction costs between interdependent agents located in different countries can be reduced through corporate control. Because full control over transactions may be neither economically desirable, nor indeed feasible under certain conditions (Buckley & Casson, 1998), firms may opt for joint control or internalization. Joint internalization implies the establishment of a joint venture (JV), and may be the consequence of double market failure for complementary products held by foreign and local firms (Hennart, 1988). Whereas a foreign firm that wants to exploit its difficult-to-transact assets, e.g., tacit knowledge, by complementing them with local, easy-to-transact inputs will fully internalize the local inputs by simply acquiring them and building a wholly-owned subsidiary (WOS), a foreign firm that wishes to exploit its difficult-to-transact assets by complementing them with local, difficult-to-transact inputs, e.g., land where there are no property rights, has to build a JV (Brouthers & Hennart, 2007). JVs, more specifically international JVs (IJVs), are often formed by these means when entering

less developed countries such as Brazil, Russia, India, or China, i.e., BRIC countries, or post-communist countries within Central and Eastern Europe, i.e., CEE countries, because in such countries property rights protection is often weak, but local resources and markets attract foreign firms that want to exploit their firm-specific advantages. For instance, IJVs were the preferred form of market entry into China in the 1980s and 1990s (Child & Tse, 2001; Meschi & Cheng, 2002; Oman, 2002; Pan & Chi, 1999; Walsh, Wang, & Xin, 1999), and are still popular modes of entering that market (Luo & Tan, 2003; Luo & Park, 2004; Luo, 2005).

While there are significant advantages to forming IJVs, and their use is widespread, they are nonetheless a challenging organizational form. IJVs are inherently cooperative modes and as such are prone to a number of internal tensions (Das & Teng, 2000a; de Rond & Bouchikhi, 2004).¹ The objectives of the partners may be incompatible, even conflicting (Walsh et al., 1999), and as a result they may end up competing for resources rather than exchanging them (Hamel, 1991). A recent example of this is the conflict between Danone and its Chinese IJV partner who simultaneously partnered with other firms to sell similar products in the same market (Economist, 2007).

Such tensions often make IJVs highly unstable (Das & Teng, 2000a) and consequently prone to failure (Yan & Zeng, 1999). Many studies look at the high rate of IJV failure (e.g., Beamish & Delios, 1997; Hambrick, Li, Xin, & Tsui, 2001; Hill & Hellriegel, 1994; Kogut, 1988), especially when the IJV is located in a developing country such as China (e.g., Li, Xin, Tsui, & Hambrick, 1999; Osland & Cavusgil, 1996; Vanhonacker, 1997; Sim & Ali, 1998; Zhu, Speece, & So, 1998). Despite such evidence, some researchers have found that IJV parent organizations continued to invest in underperforming IJVs, although more profitable options for exploiting a specific foreign market existed (e.g., Delios, Inkpen, & Ross, 2004; Inkpen & Ross, 2001).

This leads to three important research questions. First, why do so many IJVs fail? Second, why do managers persist in supporting failing IJVs? Third, are these phenomena linked to host country differences?

¹ It is a prevailing opinion that JVs are the most popular forms of strategic alliances (e.g., Reuer, 2004) and, in fact, “have been the object of most alliance research to date” (Salk & Vora, 2006: 381). Therefore, many findings that are primarily related to strategic alliances also apply to JVs.

There is a steadily growing stream of research that looks at management issues and their implications for IJV performance (e.g., Nippa, Beechler, & Klossek, 2007; Parkhe, 2004, 2006). With few exceptions, this research uses large-scale empirical analyses to look at the relationship between independent variables, such as value or performance drivers, and IJV profitability or survival as dependent variables (Parkhe, 2006). In terms of Parkhe's (2006) typology, this type of research can be described as theory-testing rather than theory-generating.² For example, researchers have attempted to form normative conclusions, as to optimal timing strategies for entering foreign markets through IJVs (e.g., Isobe, Makino, & Montgomery, 2000; Li, Lam, & Qian, 2001), ideal levels of structural and personal attachment between IJV partners (e.g., Luo, 2001, 2002a), and optimal levels of ownership of, and control over, IJVs (e.g., Isobe et al., 2000; Luo, Shenkar, & Nyaw, 2001).

IJV performance research has been described as vast (Buckley & Glaister, 2002; Parkhe, 2004), voluminous (Robson, Leonidou, & Katsikeas, 2002), non-cumulative (Buckley & Glaister, 2002), and even inconsistent (Robson et al., 2002). Indeed, while there have been some significant findings and meaningful insights, it is fair to say that IJV performance research is inconclusive at best, and at times, contradictory. As a result, it is hard for researchers to grasp what is actually known about IJVs, to advance new theories, or to propose managerial practices that might enhance IJV management and performance.

The remedy for this kind of situation is to periodically evaluate all the contributions to the field. This kind of taking stock should include a survey of the literature, a focused synthesis that includes critical elements drawn from research in the field, and an effort to integrate empirical findings on relationships between various dependent and independent variables (Boddewyn & Iyer, 1999). There have been surveys of the literature (Parkhe, 1993a, 2004, 2006) and/or integration of empirical findings (Larimo, 2003; Robson et al., 2002) on IJV performance. Parkhe (1993a, 2004, 2006) gives an integrative framework for core IJV concepts, and concludes that the research to date has failed to appropriately account for the performance implications of "soft" variables, e.g.,

² Whereas the first type of research (i.e., theory-testing) uses deductive/objective/nomothetic/quantitative/outsider-oriented approaches, the second type of research (i.e., theory-generating) applies inductive/subjective/ideographic/qualitative/insider-oriented methodologies.

trust and forbearance. The reviews by Larimo (2003) and Robson et al. (2002) show the diversity and heterogeneity of the success factors that have been invoked to account for IJV performance.

Nevertheless, these reviews suffer from a number of limitations. First, they all fail to set up a procedure to include high quality papers only (for an exemplary review see Brown & Eisenhardt, 1995). Second, the Larimo (2003) and Robson et al. (2002) reviews are not firmly grounded in theory nor try to build new theory (cf. Boddewyn & Iyer, 1999). Third, all reviews are incommensurate with an attempt to capture the longitudinal effects of factors and decisions on IJV performance. Fourth, there has been no review that shows how same success factors have varying impact across different environments, e.g., in different host countries. Of course, all four limitations, especially the latter two, can be ascribed to deficiencies of the body of IJV research itself, on which the reviews are based.

Nonetheless, it is these gaps in the IJV performance literature that I aim to fill in this thesis. First, I provide a literature review that is grounded in theory and that analyzes how the impact of success factors varies across different contexts. Second, I provide a foundation for theory advancement regarding a longitudinal perspective of IJV performance.

In Part One, *State-of-the-art: Reviewing Success Factors for International Joint Venture Performance*, I present a comparative review of the literature on the contributing factors for successfully establishing and managing IJVs focusing on the case of IJVs in China. More explicitly, I compare China-specific IJV success factors, findings, and theories with those identified in other contexts and develop a framework for IJV success factors which is grounded in theory, thereby fulfilling the first objective of the thesis.

In Part Two, *Deficiencies of International Joint Venture Research: Focusing on Research Gaps and Opportunities*, I build on the literature review of part one and shed light on important deficiencies in IJV performance research. In the first section, I critique success factor research in general, showing that it has neglected important phenomena such as the multi-causality and reflexivity of factor-performance relationships (cf. March & Sutton, 1997) and then apply this critique to IJV success factor research using Sino-foreign IJVs as an example. In the second section, I extend

the critique to include IJV research as a whole and look at whether the deficiencies I uncovered might be due to the fact that academic journals, by definition, have more of a theoretical, as opposed to practical, bent (Vermeulen, 2005). Both sections explicitly show the shortcomings of the existing literature and open the door to developing a foundation for theory advancement regarding a longitudinal perspective of IJV performance.

Part Three, *New Directions: Building and Fostering Multi-causal and Longitudinal Perspectives of International Joint Ventures*, again consists of two sections. I address in both of them the critique that IJV performance research regularly fails to account for reflexivity effects, i.e., positive or negative feedback effects, and thus fails to account for IJV performance dynamics. In the first section, I use the notion of path dependency to explain why firms stay in underperforming IJVs. I argue that increasing returns, i.e., augmenting positive feedback effects, may lead firms to invest excessively in their IJVs so that sunk costs and termination costs significantly delay their exit from underperforming IJVs. I develop a perspective based on managerial decisions and events that fills in a major gap in IJV performance research. However, because path dependency reasoning explains only past decisions and paths, and because that rationale cannot explain why firms persist in supporting failing IJVs in the absence of positive feedback, I broaden the scope in the second section by accounting for IJV persistence in light of superior alternative modes of internationalization. I develop, and build on, a rigorous economic model that argues that such persistence is generally inconsistent with rational decision-making and can only result from the bounded rationality of individuals. This implies that firms support failing IJVs only if decision-makers do not fully account for termination costs, or if they fail to calculate the fair value of future returns when performing an economic cost-benefit analysis. Furthermore, I propose that this faulty managerial decision-making happens primarily when assets are highly intangible and, therefore, difficult to evaluate, and if there are cognitive decision biases. Overall, my contribution lies in providing a more realistic and comprehensive understanding of organizational decision-making processes when pursuing IJVs (cf. Ghertman, 1988).

I summarize these points again in the conclusion, derive implications for managers, and suggest directions for future research.

**Part I: State-of-the-art: Reviewing Success Factors for International
Joint Venture Performance**

2 Success Factors for Managing International Joint Ventures: A Review and an Integrative Framework

This paper was published in *Management and Organization Review*, vol. 3, iss. 2, pp. 277-310 (co-authors: Michael Nippa and Schon Beechler). An extended version was published in *Freiberger Forschungshefte*, D226. The paper is based on two previous reviews which were presented at conferences of AoM in 2003 and of IACMR in 2004.

2.1 Abstract

International joint ventures (IJV) are an important organizational mode for expanding and sustaining global business and have been of special relevance for the emerging Chinese market for decades. While IJVs offer specific economic advantages they also present serious management problems that lead to high failure rates, especially in developing countries. Because of the strategic relevance of IJVs and corresponding management challenges, research on success factors for managing IJVs in China has received broad attention, resulting in a variety of studies. However, there are no conceptual syntheses of the literature to date and further development in the field is hampered by both a lack of consolidation of what is known and identification of viable avenues for future research. We address this gap by building on existing concepts in the field, developing them further and synthesizing them into an integrative, theory-based framework of IJV success factors. We use this framework to systematically depict the results of both empirical studies related to Sino-foreign IJVs and to IJVs in general. Finally, we draw important implications from the research and propose potential paths for future study.

2.2 Introduction

International joint ventures (IJVs) are separate legal organizational entities partially held by parent firms originating from different countries (Shenkar & Zeira, 1987: 547) that are extensively used in a world of globalized markets and competition. In addition to other economic benefits, IJVs promise coordination cost advantages, improved knowledge flows, shared risks and access to complementary resources (Contractor & Lorange, 2002). Due to these advantages, and influenced by governmental interests, IJVs have been a preferred form of market entry and governance structure in China since the mid-1980s (e.g., Walsh et al., 1999). Although China's entry into the World Trade Organization (WTO) led to a major increase of wholly foreign-owned enterprises, joint ventures still play a major role in post-WTO China (e.g., Meschi & Cheng, 2002; Pan & Chi, 1999).

Despite their widespread use, IJVs, like other entry modes (Delios & Beamish, 2004), do not guarantee economic success. Research shows that many IJVs – particularly in developing countries (Beamish, 1988; Killing, 1983; Sim & Ali, 1998) – suffer from unsatisfactory performance and serious management problems. Consequently, a high percentage of IJVs are terminated before accomplishing the goals pursued by their partners (e.g., Vanhonacker, 1997). An important stream of research centers its attention on factors that influence IJV performance (e.g., Luo, 1997; Park & Ungson, 1997). However, because these studies examine different factors, abstain from re-testing, and involve a number of countries, industries, and methodologies, researchers and practitioners alike are confronted with conflicting results and a vast number of unconsolidated recommendations. Therefore, it is difficult to discern what conclusions are warranted and to make recommendations to direct future research.

This paper generates a theory-based framework that allows for systematic analysis of the IJV research. We apply this model to studies published in leading management journals during the last 15 years. In order to examine the success factors for managing IJVs in China and to isolate possible host country effects, we compare the results for Chinese IJVs with those from non-China studies. Consequently, the paper proposes a roadmap for future research on China, as well as for the IJV field more generally.

2.3 A Comprehensive Model of IJV Performance and Success Factors

In order to avoid arbitrary, unsystematic conclusions and to identify significant overlaps, differences and research gaps, it is necessary to use a theory-based, conceptual framework. Although the great majority of empirical IJV studies do provide problem specific literature reviews (e.g., Delios & Beamish, 1999; Li et al., 2001), they neither develop nor refer to a comprehensive framework. Furthermore, even the four relevant reviews on this literature apply different approaches. For example, Larimo (2003), who summarizes the IJV research in the Asian region, does not use a conceptual framework at all. Osland and Cavusgil (1996), who use contingency theory to derive a basic model for their exploratory research and literature synthesis of Sino-US joint venture (JV) performance, do not include a number of elements and linkages that are frequently studied. Parkhe (1993a, 2004), on the other hand, develops an integrative framework based on reviews of the IJV literature and respective theories. It consists of four interrelated dimensions, namely ‘motives for IJV formation’, ‘partner selection/characteristics’, ‘IJV stability/performance’ and ‘control/conflict’ (Parkhe, 1993a). Additionally, the lifecycle stage model of joint ventures (Parkhe, 2004: 80) emphasizes the importance of process related variables such as partner screening, selection, monitoring, and organizational learning. Finally, the review of factors influencing IJV performance by Robson et al. (2002) proposes an advanced model derived from and used for organizing the various success factors found in a broad range of previous studies. In this paper we build on these reviews and propose an integrative, theory-based framework.

In our approach we assume that, independently of special phenotypes, IJVs are basically cooperative, organizational arrangements that involve three entities – at least two founding parents from different countries and the JV itself (cf. Contractor & Lorange, 2002; Shenkar & Zeira, 1987). Therefore, these three organizational entities and their linkages constitute the primary focal point of our model. Our conceptual framework (in Figure 2.1) is deduced from prominent organizational and economic theories frequently used in IJV research. It builds particularly on insights from: (i) the resource-based view of the firm; (ii) organizational economics; (iii) institutional perspective and industrial organization economics; and (iv) contingency theory.

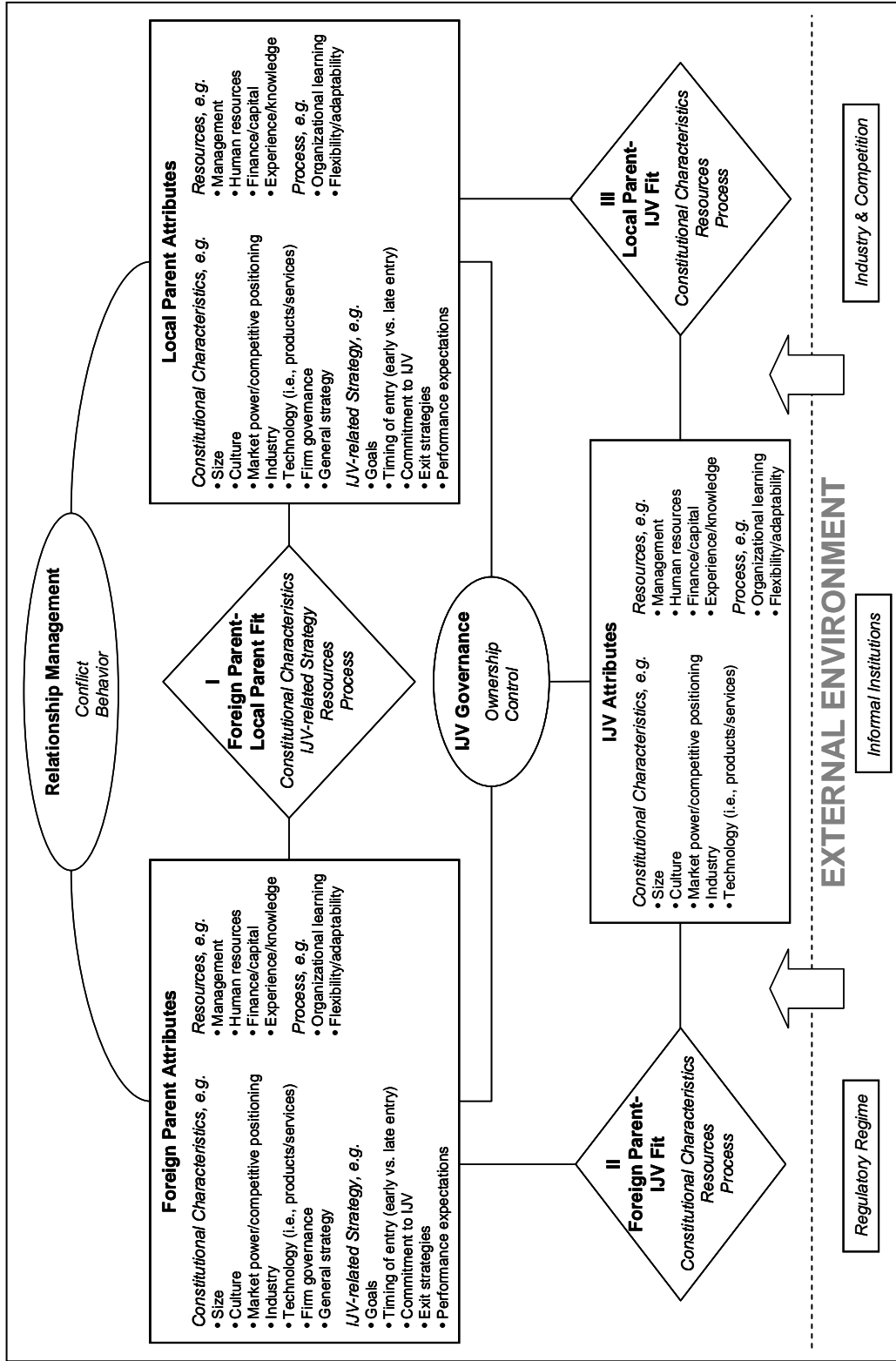


Figure 2.1: Conceptual Framework of factor performance in Sino-foreign and non-China IJVs

According to the resource-based view of the firm (e.g., Barney, 1991), combining complementary resources in order to create competitive advantages for the founding partners is a major reason for forming IJVs (Contractor & Lorange, 2002). In addition, the resource-based view (RBV) directs research interests to tangible or intangible resources as main drivers of IJV success. RBV has received special attention among IJV researchers with regard to motives, partner choice, management, control, and performance (Buckley & Glaister, 2002). Applying RBV reasoning, the resources of the parent firms and the IJV, whether tangible or intangible, are relevant success factors. Therefore, we assign ‘*resource*’ categories for the three organizational entities (founding parents and the IJV itself) of our model. As parent organizations are unable to generate all the resources necessary to go it alone, they enter into transactions with organizations that can supply the required resources. At the same time, they seek to minimize their dependence on others for critical resources and maximize others’ dependence on them, particularly through organizational control and coordination mechanisms. Hence, applying resource dependency reasoning sheds light on organizational decisions arising from non-overlapping interests of the IJV partners and their stakeholders, as well as the impact of crucial resources and conflict management on the performance of IJVs and their parent firms.

Recent studies in the IJV literature address process related issues and analyze, for example, the conflict resolution strategies pursued by partners (Lin & Germain, 1998). Hence, we explicitly incorporate the category *relationship management* that emphasizes conflict and interpartner management issues. This is of special interest for research on IJVs in China due to the highly relationship oriented culture – represented for example by the importance of *guanxi* (i.e., the social and political connections required to make business run smoothly in China; Vanhonacker, 1997: 131).

Another theoretical umbrella often applied in studies of success factors of IJVs is organizational economics. Transaction cost theory (e.g., Williamson, 1996), in particular, is used to propose and verify the economic rationale embedded in different entry modes such as licensing, contractual or equity joint ventures and wholly foreign owned subsidiaries (e.g., Delios & Beamish, 1999). In contrast, principal agent theory (e.g., Jensen & Meckling, 1976) focuses on problems and risks inherent in delegation due to interest divergence, asymmetric information and opportunistic behavior. In order

to reduce or eliminate these inefficiencies, agency theory proposes different means such as goal alignment or imposing control structures. With regard to successfully founding and managing an IJV, organizational economics clearly emphasizes the need for appropriate control and governance structures. Accordingly, we summarize these respective variables dealing primarily with ownership and control issues into a discrete category of *IJV governance*.

In addition to internal factors, a comprehensive model of IJV performance has to account for the influence of external determinants, i.e., variables that can neither be fully governed by the IJV nor by its parent firms (e.g., Robson et al., 2002). The institutional perspective (e.g., DiMaggio & Powell, 1983) and industrial organization economics (e.g., Porter, 1980) are the most prominent and applied theoretical approaches which are relevant for identifying the external factors of IJV success. Given the strategic relevance of external factors and their frequent use in research studies (e.g., Delios & Beamish, 1999; Yiu & Makino, 2002), we incorporate the concepts of '*regulatory regime*', '*industry and competition*', and '*informal institutions*' into the category of *external environment* into our model.³

Finally, contingency theory offers a well-accepted conceptual approach which postulates that the 'fit' between internal and external elements of organizations leads to superior performance and success (e.g., Donaldson, 2001). For example, Park and Ungson (1997) show that compatibility of IJV partner firms and their organizational attributes affect the dissolution of IJVs. Our framework addresses all the fit linkages (see Figure 2.1). However, because of a lack of studies testing for external impacts, we explicitly depict only three 'fit' clusters: (i) *foreign parent-local parent fit*; (ii) *foreign parent-IJV fit*; and (iii) *local parent-IJV fit*.

To reduce the level of complexity of the model we use identical sub-categories across the three parent and IJV fit categories. For example, we apply '*constitutional characteristics*' (e.g., size, culture, industry, technology), '*resources*' (e.g., human, financial, knowledge), and '*process*' to all organizational entities as well as to the 'fit' categories (cf. Figure 2.1). At the same time, as JVs are founded and maintained to

³ As pointed out by an anonymous reviewer while no success factors in the literature have emphasized the category 'informal institutions', informal institutions have an important impact on IJV performance and that future studies should not ignore these factors.

allow parent organizations to achieve specific goals (e.g., Hill & Hellriegel, 1994; Robins, Tallman & Fladmoe-Lindquist, 2002; Shenkar & Zeira, 1987), the sub-category ‘*IJV-related strategies*’, which includes frequently analyzed variables such as goals, exit strategies and performance expectations, must be distinguished with regard to the foreign and local parents. IJV-related goals and the strategic intents of the parent organizations should be as complementary as possible, i.e., should ‘fit’, in order to reach a “strategic win-win match between the two partners” (Lorange & Roos, 1992: 30).

Our model, although still simplifying the real world of IJVs, offers a comprehensive framework based on a multi-theory perspective. In the following section we apply the framework to review the success factor studies of Sino-foreign IJVs as well as non-China IJVs to identify research overlaps, discrepancies and gaps.

2.4 Method

Due to methodological problems of meta-analyses that stem from the application of varied operationalizations and statistical methods within the studies under review (e.g., Lipsey & Wilson, 2001), we present a qualitative review of the empirical studies of the success factors in IJVs. We draw upon procedures that have been used in comparable and widely acknowledged reviews that analyze, for example, success factors of product development (Brown & Eisenhardt, 1995) and base our review on seven top-ranked, empirically oriented journals (*Academy of Management Journal*, *Administrative Science Quarterly*, *Journal of International Business Studies*, *Journal of World Business*, *Management International Review*, *Organization Science* and *Strategic Management Journal*). Our review of these journals spans from 1991 to 2005, covering the height of research on IJVs (Robson et al., 2002). Both the concentration on peer-reviewed, high quality research and the time span we chose assures a comprehensive reflection of the state-of-the-art in this field of research.

A major methodological problem faced by almost any review paper is to accurately single out relevant studies based on clear selection criteria. The more ambiguous central terms are, the greater the risk of wrongly including studies and, consequently, of deriving incorrect conclusions from messy data. With regard to our research subject such problems arise mainly from three sources. First, the central term ‘international

joint venture' has different meanings in the literature (cf. Yiu & Makino, 2002) and terms such as 'strategic alliances' or 'foreign direct investment' are sometimes used as synonyms. Therefore, only studies that clearly refer to the terms 'joint venture (JV)', 'international joint venture (IJV)', 'equity joint venture (EJV)' and/or 'contractual or cooperative joint venture (CJV)' were included in our study. Studies that use terms such as 'strategic alliances' or 'foreign direct investment' without further specification (e.g., Luo & Park, 2001: 147) had to be excluded from our sample. For similar reasons we had to exclude studies that examine general success factors of foreign market entry without distinguishing between entry modes (e.g., Nitsch, Beamish, & Makino, 1996; Woodcock, Beamish, & Makino, 1994).

Second, one has to carefully ascertain whether a study is exclusively based on China as the host country of investment, which we will further refer to as the China group, or explicitly excludes Chinese IJV partners, i.e., the non-China group, in order to compare results between distinct samples. In order to generate highly homogenous China and non-China samples and avoid confounding the results we excluded studies that do not distinguish between these groups – for instance, Makino and Beamish (1998) or Delios and Beamish (2001, 2004). With regard to the non-China sample, we included studies that either do not focus on China or those where Chinese IJVs were marginal (less than 6 percent of the total sample).

Third, we include only studies that analyze interrelations between independent variables, (i.e., success factors), and dependent variables, (i.e., performance indicators) based on quantitative data, develop and test hypotheses, and use statistical analyses. This includes the problem of distinguishing between direct and indirect success factors and various performance measures. IJV performance comprises financial performance and survival/mortality of an IJV as their dependent variable whether measured objectively or subjectively. Direct success factors are independent variables with a direct impact on the dependent variable (i.e., performance), whereas indirect success factors exert an indirect effect on the dependent variable through moderating direct success factors.

As a consequence of the above complexities, a pure keyword-based search and selection process was inappropriate. Therefore, we analyzed full titles, key words and abstracts of

a total of 4,473 articles based on both computerized and manual procedures. We found a total of 248 articles that study IJVs at large. Using the selection criteria noted above we identified 16 studies that examine success factors of Sino-foreign JVs and 25 studies that focus on success factors of IJVs in countries other than China. The studies assigned to the China and non-China groups are listed in the note to Appendices I and II, respectively. With regard to our selection, it is worth noting that Hennart and Zeng (2002), Park and Ungson (1997), and Reuer and Leiblein (2000) use a mixed sample of both domestic and international joint ventures. Given that the sample size of IJVs outnumbers domestic ones, we decided to include these studies in our analysis.

2.5 Results

As it is impossible to thoroughly trace all issues and insights related to the contributions in the 41 papers reviewed, our objective is to provide the reader with a systematic overview that allows for a purposeful consolidation of the literature. Although research on success factors for managing Sino-foreign IJVs is our focus, comparing respective data and results with the non-China group offers additional insights, helps to identify possible host country features and leads to new research opportunities.

2.5.1 Empirical Foundation of Studies

The sample sizes of empirical studies of success factors for managing Sino-foreign IJVs range from 68 (Meschi & Cheng, 2002) to 898 observations (Li et al., 2001), indicating statistically reliable results. The average sample size of China-related IJV studies is 230, similar to those of non-China studies at 228.⁴ With regard to industrial sectors, the majority of Sino-foreign studies are based on the manufacturing industry (11 of 16 articles, i.e., 68 percent). Two articles include both manufacturing and service industries, one article looks at IJVs from the manufacturing, service and retail sectors (Wang, Wee, & Koh, 1999), and two articles do not explicitly specify the industry (Luo & Park, 2004; Luo & Tan, 2003). Similarly, most non-China studies analyze IJVs within the manufacturing sector (76 percent), while only six studies additionally include

⁴ This number does not include the study of Dhanaraj and Beamish (2004) because of their extraordinary sample size of 12,984 IJVs.

the service industry (Beamish & Kachra, 2004; Delios et al., 2004; Glaister & Buckley, 1999; Lane et al., 2001; Lyles & Baird, 1994; Steensma & Lyles, 2000).

2.5.2 Performance Measures Applied

China-focused studies use various methods to assess and measure IJV performance. Some studies apply objective performance indicators such as return on investment (RoI) or return on assets (RoA), market share or sales only (e.g., Li et al., 2001; Luo, 2001). Other studies rely on subjective performance measurement, i.e., assessments of managers who were asked to evaluate and classify the success of foreign entities (e.g., Luo, 2002b). In total, eight articles use objective performance measurement and eight studies conduct subjective assessments. Almost all studies apply multidimensional performance constructs (e.g., Luo & Park, 2004). In comparison, non-China articles rely to a higher degree on subjective performance assessments (15 studies) than on objective measures (nine studies) or a mixture of both measurements (Pothukuchi et al., 2002).

2.5.3 Theoretical Foundation

Only a few empirical studies, independent of their country focus, seriously adopt and apply organizational or economic theories and even fewer provide conclusions regarding theory development. The majority of studies substantiate a few hypothesized relationships in light of a selected theory. Hence, not surprisingly, both China and non-China related studies primarily refer to the currently most popular theories such as transaction cost economics (TCE), the resource-based view of the firm (RBV), and organizational learning (see Table 2.1).

Table 2.1: Theoretical foundation of the studies under review

China IJV Studies	Theory	Non-China IJV Studies
Luo (2001) Luo (2002c) Luo & Tan (2003) Luo et al. (2001)	<i>Internalization Theory / Transaction Cost Economics</i>	Beamish & Kachra (2004) Dhanaraj & Beamish (2004) Makino & Delios (1996) Merchant (2005) Merchant & Schendel (2000) Mjoen & Tallman (1997) Park & Ungson (1997) Robins et al. (2002)
Isobe et al. (2000) Li et al. (2001) Luo (1997) Luo (2001) Luo (2002b)	<i>Resource-based View</i>	Beamish & Kachra (2004) Choi & Beamish (2004) Makino & Delios (1996) Robins et al. (2002) Steensma et al. (2005)
Isobe et al. (2000) Luo (2001)	<i>Organizational Learning / Knowledge-based View</i>	Dhanaraj et al. (2004) Lane et al. (2001) Lyles & Salk (1996) Steensma & Lyles (2000) Steensma et al. (2005)
Luo (2001) Luo (2002c)	<i>Social Exchange Theory</i>	Steensma & Lyles (2000)
Li et al. (2001)	<i>Institutional Theory</i>	
Gong et al. (2005)	<i>General Systems Theory</i>	
Luo (2005)	<i>Loose Coupling/Procedural Justice Theory</i>	
	<i>Contingency Theory</i>	Hill & Hellriegel (1994) Park & Ungson (1997)
	<i>Bargaining Power Theory</i>	Mjoen & Tallman (1997)
	<i>Real Options Theory</i>	Reuer & Leiblein (2000)
	<i>Internationalization Theory</i>	Makino & Delios (1996)

For example, based on a few fundamental assumptions and rationales, recently summarized in the context of international entry strategies by Zhao, Luo, and Suh (2004), TCE reasoning has been used as the prominent theoretical explanation for entry mode choices and IJV success alike. According to TCE, management has to choose the organizational mode that minimizes transaction costs. Specific environmental conditions in China, including both formal and informal institutional factors, may induce corresponding IJV modes and contracts that aim to ensure efficient governance and cooperation (e.g., Luo & Tan, 2003; Luo 2002c). Similar arguments hold for non-China studies (e.g., Beamish & Kachra, 2004; Mjoen & Tallman, 1997). A recent study

provides some evidence that TCE-enhanced entry mode choices lead to superior performance (Brouthers, Brouthers, & Werner, 2003). Following their arguments, future research may profit from combining different theoretical approaches as well as from dynamic analyses of significant institutional changes on transaction costs and resources. However, it will have to take into account that the appropriateness of TCE reasoning has been questioned both for developing or transition economies like China (e.g., Luo et al., 2001: 56) and for intermediate organizational modes, i.e., IJVs in general, as important moderating effects are neglected (Zhao et al., 2004).

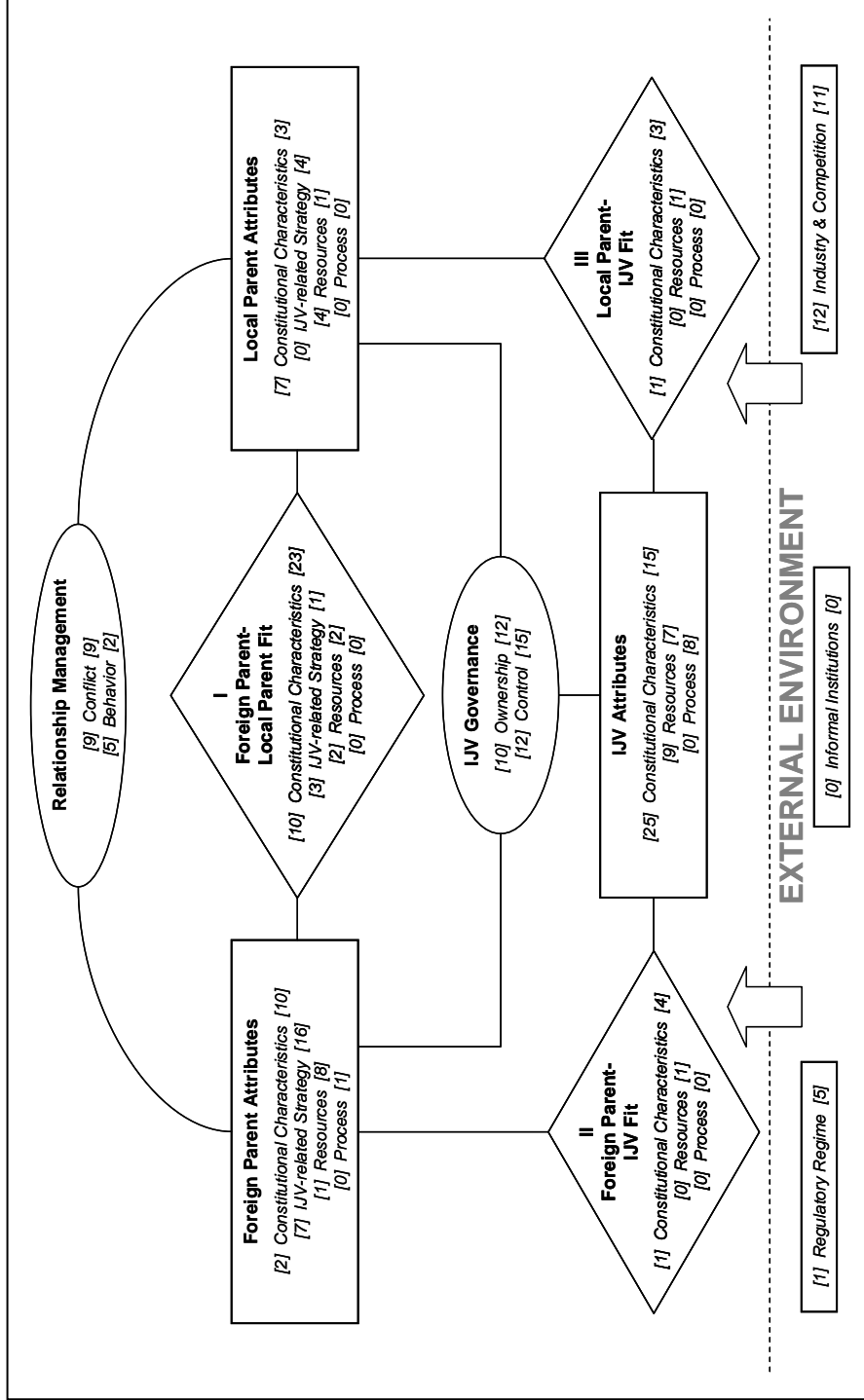
Turning to the resource-based view (RBV), the applicability of RBV reasoning in China related studies has been justified both for exploiting and exploring distinct resources. Luo (2002b), for instance, offers evidence that exploiting existing capabilities through product diversification in China may increase economic returns. With regard to exploration, he shows that IJVs can enable firms in an emerging market such as China to leverage their current resources or to pre-empt new opportunities by developing their resources in a dynamic context. Furthermore, combining advanced production technologies and intangible resources such as brand name or process know-how with cheap labor and growing demand in emerging economies, including China, promises competitive advantages for foreign companies (Isobe et al., 2000: 470).

While an organizational learning perspective has only been implicitly used by studies in the China sample (Isobe et al., 2000; Luo, 2001), it is an important foundation of non-China studies (for references see Table 2.1). These studies assume that the success of an IJV is substantially influenced by its learning capability so structural and process-related factors that foster or prevent organizational learning are operationalized and tested empirically. Consequently, organizational learning capabilities of the foreign parent firm, measured for instance as knowledge about the local market (Beamish & Kachra, 2004; Makino & Delios, 1996), are addressed. As the organizational learning approach and the knowledge-based view of the firm offer alternative explanations for IJV formation (Steensma & Lyles, 2000) and fill obvious gaps with regard to important process variables which are not analyzed in the China sample, applying this theoretical perspective to the Chinese context seems to be a promising approach for future research.

Regarding social or relational issues, social exchange theory (SET) is of special interest within the traditional Confucian Chinese context as it considers the greater importance of socially embedded coordination mechanisms and implicit contracts compared to institutional arrangements such as explicit contracts (Luo, 2002c). The findings of Lin and Germain (1998) suggest, for instance, that implicit collaboration outperforms explicit, legalistic contracts and, thus, support Luo's (2002c) arguments. The findings of Steensma and Lyles's (2000) study of Hungarian IJVs indicate that social embeddedness is of immediate relevance in other cultures as well. For example, they show that balanced management control of the venture fosters social exchange and reduces counterproductive conflicts. Intensifying applications of SET, especially in the Chinese context, is another promising research stream as it emphasizes conflict resolution strategies (Lin & Germain, 1998) and is in line with a recent call for more behavioral explanations of IJV success (Parkhe, 2004).

2.5.4 Factors Determining IJV Performance

Across the 16 empirical studies on IJV performance in China and the 25 non-China articles, a total of 82 different China and 141 different non-China direct success factors are distinguished and analyzed in 127 and 196 factor performance tests, respectively. Additionally, 50 China and 81 non-China factor performance relationships are moderated by 32 and 66 indirect success factors, respectively. Appendix I provides the detailed information on all factor performance tests for Sino-foreign IJVs and Appendix II provides the same information for other (non-China) IJVs. These numbers shed light on a phenomenon that is striking: current research is characterized by a tendency to add new factors rather than re-test existing factors in different samples and over time. Thus, important questions such as 'Do success factors of the early investment period still apply?' or 'How generalizable are certain success factors?' cannot yet be fully answered. However, aggregating success factor clusters based on our conceptual framework reveals research areas that appear to be covered either intensively, i.e., 'research accumulation', or sparsely, i.e., 'research gaps', in the current literature of Sino-foreign studies versus non-China studies. The number of tests for each type of IJV is provided in brackets in Figure 2.2, next to each category.



Notes: The numbers in brackets on the left side indicate the number of significant and not significant factor-performance tests in Sino-foreign IJV studies (for details refer to Appendix I) and the numbers in brackets on the right side indicate the number of significant and not significant factor-performance tests in non-China IJV studies (for details refer to Appendix II). Absolute numbers in brackets are based on different sample sizes, i.e., 16 Sino-foreign IJV studies and 25 non-China IJV studies. Thus, in order to value emphases and gaps relative numbers have to be additionally taken into account. Partner attributes which are not specifiable to whether a parent is foreign or local are not shown in this Figure but may be derived from Appendices I and II.

Figure 2.2: Applying the framework: Factor performance relationships in Sino-foreign and non-China IJVs

Reflecting on the distribution of direct success factors studied in Sino-foreign JVs *IJV attributes* receive the most attention. The focus is on ‘*constitutional characteristics*’ such as ‘size’, ‘location’ (e.g., whether coastal or not), ‘length of operation’ or ‘industry.’ These factors account for approximately 20 percent of all factor performance tests in our sample, while variables focusing on ‘*resources*’ are rare and variables focusing on ‘*processes*’ are absent from research. Issues and factors related to *IJV governance*, i.e., ‘*ownership*’ and ‘*control*’ (approximately 17 percent), and *foreign parent-local parent fit*, especially ‘cultural distance’ and ‘goal congruity’ (ca. 12 percent) have received major research interest. With regard to *foreign parents attributes*, research focuses on ‘*IJV-related strategy*’ issues and determinants, while ‘*constitutional characteristics*’ and ‘*resources*’ dominate research on *local parent firms*.

Whereas non-China studies cover all major categories of variables (i.e., *attributes*, *fit*, *relationship management*, *governance* and *environment*) to a broader extent than do the China studies, some categories obviously attract more research interest than others. About one fifth of all factor performance tests can be subsumed under the category *foreign parent attributes* (18 percent),⁵ and about 14 percent focus each on *foreign parent-local parent fit*, *IJV attributes* and *IJV governance*. On the other hand, *local parent attributes* (4 percent) and *foreign- and local parent-IJV fit* (about 2.5 percent each) have received relatively little attention. In the following sections we analyze important findings within each category.

IJV parent attributes. Success of Sino-foreign IJVs depends on the resource base of the local parent firm (e.g., size, market power, and experience) and on the strategic importance of the IJV for the foreign parent (esp. Luo 1997; Isobe et al., 2000). With regard to China the commonly held assumption of a first mover advantage, i.e., early entry (e.g., to achieve a quasi-monopolistic rent or a stronger brand loyalty), receives only partial support. Whereas Isobe et al. (2000) confirm the competitive advantage of early entry, Li et al. (2001: 128) find support for a late entry strategy. However, more research is necessary to substantiate these findings. This becomes particularly apparent if one considers the results of the larger number of non-China studies. In the non-China

⁵ In addition, another 31 factor-performance tests can be partially assigned to this category because it is not possible to specify whether these are solely concerned with foreign or local parents (see ‘parent attributes’ category in Appendix II).

studies a variety of success factors related to *parent attributes* have been tested but only a few show unequivocal results (e.g., foreign parent support). In addition, opposite to the findings in the China studies (e.g., Luo, 1997) the size of local parent firm shows a negative impact on IJV performance (Merchant, 2000, 2002) and the ‘country of origin’ seems to be irrelevant (e.g., Choi & Beamish, 2004, Pothukuchi et al., 2002) in the non-China studies. In addition, there is some evidence that IJVs with foreign parents originating from newly industrialized countries outperform those with foreign parents from developed countries (Lee & Beamish, 1995).

Longitudinal research approaches should also be fostered as certain success factors (particularly constitutional characteristics) may gain or lose relevance over time. For example, while Luo (1997) reports a significantly positive impact of ‘state-ownership’ on IJV performance, this result vanishes in Luo’s later study (Luo, 2002b), probably as a result of recent economic reforms including the decentralization of state-owned firms and the increasing similarity of FDI policies among different provinces of China. Overall, our brief and selective analysis of *IJV parents’ attributes* highlights the need for: (i) retesting of single findings; (ii) adoption of more differentiated variables found in non-China studies; and (iii) longitudinal success factor studies with regard to the performance of IJVs in China.

IJV attributes. Interestingly, research results indicate that with the exception of ‘length of operation / age’, variables frequently tested under ‘*constitutional characteristics*’ generally show no correlation with performance measures. The commonly held hypothesis that governmentally privileged coastal regions in China offer competitive advantages over locations elsewhere in China has not been confirmed. Even more, Meschi and Cheng (2002: 124) find that IJVs located inland outperform those located in coastal regions. However, because the authors used stock price reactions as their performance measure, included only a small number of inland investments (9) compared to coastal locations (57), and did not test for industry effects, further research is required to substantiate the impact of IJV location in China.

‘Size’ of Sino-foreign JVs has been studied frequently, but shows no significant relationship with performance (e.g., Luo, 2001, 2002b; Luo et al., 2001). This slightly contradicts results of non-China studies that show IJV ‘size’ to have a mixed impact on

performance (e.g., Dhanaraj & Beamish, 2004; Hennart & Zeng, 2002). A possible explanation for this discrepancy will be provided below, but future research is certainly warranted. While ‘length of operation/age’ shows mixed results in non-China studies, it is strongly related to performance in China studies. Before concluding that this proves a China-specific success factor, a potential survival bias has to be ruled out. Since different variables of IJV ‘resources’ have been tested by only one study so far (Luo, 1995), we must be cautious in drawing any conclusions.

‘Fit’-categories. Independent variables that consider (dis)similarities as relevant predictors of IJV success are mainly tested with regard to the *foreign parent-local parent fit* in both the China- and non-China-sample. ‘Fit’ – measured for instance through ‘product relatedness’ or ‘goal congruity’ – has been shown to determine success of IJVs in China, while the picture based on non-China studies is ambiguous. Although ‘cultural distance’ between foreign and local parents is the single most empirically tested fit factor in both samples, findings regarding correlations between cultural distance and performance are mixed in both samples. With regard to China, one study shows some positive correlations when high cultural distance is present (Li et al., 2001), while other studies find no relationship (e.g., Luo, 2002b; Luo & Tan, 2003) or negative correlations with IJV performance (e.g., Lin & Germain, 1998; Luo, 2002a; Luo & Park, 2004). While at least some of the inconsistent results may be explained by moderating variables such as technology transfer (Li et al., 2001), there is clearly a need for further empirical tests or a new conceptual approach in order to understand the reasons behind these inconsistent results regarding cultural distance. All other ‘fit’ relationships, i.e., whether the characteristics of parent organizations match those of the IJV or whether IJV characteristics match external requirements, are neglected in the existing empirical research (except interparent and IJV-parent ‘cooperative behavior’ in Luo & Park, 2004).

Relationship management. Research results indicate that personal relationships, trust, and cooperative decision making are important predictors of IJV success in both China and non-China IJVs. Success is significantly affected by various conflicts of interest of the organizations and persons involved in a venture. Accordingly, both China and non-China studies show a similar focus on factors that are related to ‘conflict’ or ‘behavior’ taking place between IJV actors. In the China subset of firms, Lin and Germain (1998),

for example, investigate the effectiveness of different conflict resolution strategies and find that problem-solving is the most appropriate approach in Sino-foreign JVs. In a similar vein, cooperative behavior has generally been shown to pay off for partners involved in Sino-foreign JVs (e.g., Luo, 1997, 2002c). In addition, significant positive results on performance are obtained for 'relationship age' in IJVs outside China (e.g., Glaister & Buckley, 1999; Pothukuchi et al., 2002) as well as in Sino IJVs (Lin & Germain, 1998). When it comes to *relationship management* it is striking that research on Chinese IJVs puts relatively more emphasis on this predictor (14 out of 127 factor performance tests or 11 percent in China studies vs. 11 out of 196 or 5.6 percent of non-China studies). Given the high number of significant correlations found in the research, as well as the under-representation of relevant theories (e.g., bargaining power theory), this area appears to be a fruitful avenue for future research (Parkhe, 1993a, 2004).

IJV governance. Success factors related to different forms of IJV 'ownership', in particular equity status, and IJV 'control', have been frequently tested within Chinese (22 of 127 factor performance relationships) and non-Chinese settings (27 of 196). The dominance of economic theories which centre on efficient institutional and organizational arrangements may partially explain the fact that within the China subset alone nine out of 16 studies measure the direct or indirect performance impact of different equity stakes held by foreign parents, although the findings are ambiguous. While few studies find that substantial equity ownership by the foreign partner has a positive impact on IJV performance (Luo, 1997, 2002b; Meschi & Cheng, 2002) others find no correlation at all (Li et al., 2001; Luo & Tan, 2003) or mixed results (Luo, 2001). At the same time, results with regard to the exercise of IJV 'control' predominantly support the hypothesis that tight control – in particular by foreign parents – has a significant positive impact on IJV performance, although the need for further differentiation is articulated (Luo et al., 2001: 55):

While overall control executed by a foreign parent is important to its satisfaction with IJV performance, overall control is not associated with Chinese firm's satisfaction. Chinese partners seem to attach greater value to acquiring knowledge and skills from foreign partners than to overall control of IJV operations.

As there is an obvious connection to the factor 'foreign partner's high commitment to technology transfer' as well as to the notion that foreign dominant control in China is

risky (Osland & Cavusgil, 1996), it might be fruitful to combine these perspectives in future research in order to identify possible moderating effects. Additionally, future work could examine a possible China-specific effect in favor of a dominant control position held by the foreign parent in the light of similar findings in non-China studies (e.g., Dhanaraj & Beamish, 2004).

External environment of the IJV. Given the unique and changing political situation in China, one would expect a rich variety of studies of independent variables related to the external environment of IJVs, particularly regulatory and institutional determinants. Surprisingly, only one study tests an IJV performance effect of the ‘*regulatory regime*’ (Luo, 2002b). The author finds that high ‘institutional deterrence’ significantly negatively impacts IJV performance, especially for those IJVs that are more dependent on governmentally controlled resources and infrastructure. While ‘institutional deterrence’ has not been tested in other countries so far, similar approaches, e.g., ‘local ownership restrictions’ (Makino & Delios, 1996), have also been shown to have a negative impact on performance. While these findings may be interpreted as supporting institutionalization theory, additional studies are needed, given the small empirical foundation. Interestingly, studies of non-China IJVs do not find a correlation between political risks, political openness and social openness on IJV success.

Findings regarding success factors related to industry and competition characteristics in the Chinese and non-Chinese contexts generally show expected results, such as the finding that industry growth has a positive impact on IJV performance. Comparing non-China and China studies, we find that while studies in China report significant, positive impacts of ‘industry growth’, ‘supporting infrastructure’ and ‘industry opportunities’ on performance (e.g., Isobe et al., 2000; Luo, 2002b), factors examined in non-China studies are quite heterogeneous and the results are inconsistent. There is no study on ‘*informal institutions*’ in both types of IJV studies.

2.6 Discussion

We emphasize the following key points in this section: (i) the consequences of research gaps that are apparent while applying our framework; (ii) the evidence of important consistencies and inconsistencies of findings published in both the China and non-China

sample; and (iii) methodological problems related to IJV success factor research more generally. We conclude this section by identifying some implications for future research.

2.6.1 General and China-specific Research Gaps

Not surprisingly, IJV success factor research in other countries reveals a similar picture to what we find in Sino-foreign IJV research. This is probably due to the fact that non-China studies are primarily conducted in emerging countries, such as Hungary (Lane et al., 2001), India (Pothukuchi et al., 2002) or Bangladesh (Sim & Ali, 1998) that have similar levels of risk and uncertainty. Consequently, the research gaps are similar. While structural determinants of IJV success have been studied extensively, process-related factors have been widely neglected, at least in our top quality journal research sample. Factors such as organizational learning, knowledge generation and flow, information and communication policies, trust building measures or organizational and individual adaptability have been hypothesized to influence IJV performance (e.g., Luo, 2001), but hardly tested empirically (except for studies such as Lane et al., 2001 in the non-China group). Building on the basic assumption that acquiring relevant knowledge and skills constitutes a critical rationale for forming and keeping a JV (e.g., Kogut, 1988) extending process-related insights within this research field will significantly contribute to theory building (e.g., organizational learning, cf. Doz, 1996).

Independent of the countries under study, there is a research gap regarding success factors that focus on ‘fit’ between foreign or local parents versus IJV or on environmental ‘fit’. As the regulatory regime should have a major influence on IJV performance in emerging economies like China (e.g., Osland & Cavusgil, 1996) we propose that researchers put more emphasis on independent variables such as economic/tax incentives or political instability/risk (e.g., Robson et al., 2002). Moreover, while cultural distance between IJV parent organizations, IJV governance (esp. control issues) or regulatory regime have been examined as independent factors, their interdependencies have been neglected. Apparently, it makes a difference with regard to performance whether the IJV of culturally different parents is located in one or the other country. Future research should focus on the manifestation of cultural norms

and values in different institutional forms which in turn constitute the national and/or regional competitive environment of an IJV. Finally, changes within this environment and its impact are of special interest. The early stages of the market development within China have been characterized by a high degree of uncertainty and risk. Accordingly, theories, concepts, and factors that draw upon organizational and institutional measures to manage uncertainty have been a primary area of focus. Consequently, changes in China may lead IJV researchers to turn to other theories and test different variables in the future. However, in order to prove whether and which IJV success factors change over time, either longitudinal success factor studies or surveys that build on past conceptualizations are needed.

Turning to China-specific research gaps, ‘*process*’ variables are widely neglected whereas they have received some attention in non-China studies. The latter show the relevance of ‘IJV knowledge acquisition from foreign parent’ (Lyles & Salk, 1996) or, more generally, ‘IJV learning’ (Steensma & Lyles, 2000). Drawing on research in this area, future IJV research would benefit from examination of the impact of process variables within the competitive environment of China. *Foreign parent attributes* and especially ‘*IJV-related strategy*’ are other examples that are relatively understudied in China. However, instead of deriving related, but slightly different success factors, researchers focusing on Sino-foreign JVs should consider replicating existing studies from other countries in order to generate even more valuable insights. Additionally, such an approach would be appropriate to prove a potential ‘host country effect’ with regard to certain success factors in China.

2.6.2 Consistencies and Discrepancies between Sino-Foreign and non-China IJV

Findings

There have been calls for comparing relevant findings of both Sino-foreign and non-China groups in order to identify significant differences and similarities, and to control for frequently assumed host country effects (e.g., Lee & Beamish, 1995; Makino, Isobe, & Chan, 2004). However, several trends run counter to such an attempt. First, IJV performance studies in both groups show a small rate of replication, implying that most authors attempt to study distinctive success factors rather than repeating and re-

examining prior research. Rare exceptions are ‘cultural distance’ and different measures of ‘size’ (in both groups) as well as ‘IJV location’, ‘equity status owned by foreign parent’ and ‘industry/sales growth’ (in the China group only). Second, even in the rare cases where variables are denoted by the same label, such as ‘size’, various studies use different measures for the same construct.⁶ This problem increases as constructs become more opaque and complex (e.g., ‘forbearance’, ‘experience’, ‘commitment’). Even if one success factor shows significant positive correlations with regard to one country and significant negative correlations with regard to another country, the results may simply be due to measurement differences. One solution is to conduct comparative studies of IJV success factors across multiple host country environments. To date, however, such comparative studies are rare in the China sample (e.g., Li et al., 2001) as well as in the non-China sample (e.g., Hennart & Zeng, 2002). With these caveats in mind we will highlight selective findings that appear to show certain consistencies and inconsistencies across the two sample groups.

Some evidence of consistent findings. ‘Cultural distance’ has been frequently studied in both samples; however, in both cases there are mixed results (see also Zhao et al., 2004). In addition, in accordance with RBV reasoning, studies show that a strong strategic commitment and resulting resource allocations by foreign and local parent organizations have an important impact on IJV success regardless of the country of investment.

Furthermore, studies from both samples indicate that ‘prior experience with IJVs’ has only a marginal impact on IJV performance (Luo & Park, 2004; Merchant, 2005). This contradicts common wisdom as well as findings in a broader context of foreign subsidiary performance (Delios & Beamish, 2001, 2004).⁷ Although Delios and Beamish (2001: 1036) argue that the discrepancy may be explained by the location of different countries’ positions on the learning curve, their latter and even more advanced study (Delios & Beamish, 2004) extensively elaborates the impact on performance for

⁶ For example: “number of employees” (e.g., Luo & Park, 2004) or “log of sales volume in the previous year” (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004).

⁷ Both studies are not included because their samples do not distinguish between China and non-China results. Nevertheless they offer interesting insights and in particular advanced methodologies for improving our knowledge about the performance of IJVs compared to WFOE.

different subsidiary exit measures and proves the need for further and more fine-grained research approaches.

Consistent findings showing significant positive relationships between ‘length of operation’ or ‘age of the IJV’ and IJV performance may be due to a survival bias: because the IJV was – for whatever reason – successful, it still exists and grows old (‘age’). Although the relevance of a survival bias has been highlighted (e.g., Isobe et al., 2000), the majority of IJV studies we reviewed ignored or neglected it in their analyses. Exceptions such as Luo (1997) and Pan and Chi (1999) show a way to avoid or reduce the survival bias by including failed or terminated IJVs in their surveys. Hence, a closer look at these studies and additional research applying organizational learning theories is needed.

Additionally, the ‘people factor’, i.e., variables that centre upon interpersonal acquaintance, trust, and cooperative behavior, are of great relevance for the success of IJVs, regardless of country. In addition to simply testing the almost certain relevance of these variables, researchers should be encouraged to analyze the preconditions, factors, and processes that foster trust building, cooperation, and personal reliability. Finally, with only a few exceptions, ‘control’ issues have consistently been found to impact IJV success. Findings from both samples indicate that IJV success is not a matter of either dominant foreign or dominant local parent control, but a matter of implementing adequate control mechanisms.

Some evidence of inconsistent findings – the search for China-specific success factors. Due to the inherent methodological problems across the studies, it is difficult to clearly identify systematic inconsistencies across the China and non-China samples that might indicate a host country effect. However, we do find that while IJV ‘size’ has a mixed impact on performance in non-China studies (e.g., Hennart & Zeng, 2002), it shows almost no correlation with success of Sino-foreign IJVs (e.g., Luo & Park, 2004). As there is no apparent explanation for this discrepancy besides the different operationalization of IJV ‘size’, future research should examine this phenomenon more deeply, for instance through adopting multiple measures for IJV ‘size’ in the same study. Additionally, surveys in China prove, with the exception of ‘cultural distance’, that more ‘fit’ variables between foreign and local parent organizations predict IJV

performance than do non-China studies. Whether this might be due to a greater emphasis on equal partnerships in China or to other reasons is awaiting confirmation by future studies.

With regard to all other direct success factors that have been studied either in Sino-foreign or in non-China studies, we have not been able to identify clear distinctions of major relevance and validity across the two samples. This is by no means proof of any absence of differences or the existence of China-specific success factors, nor does it support the belief of general success factors of IJV management. It may instead be the consequence of different operationalizations and methodological considerations of the field in general.

2.6.3 Methodological Considerations

The comparison of China- and non-China-related studies shows no relevant differences with regard to their principle empirical validity or reliability. Recently, however, writers have raised issues regarding research difficulties and methodological problems such as probability sampling, government controls, lack of reliable secondary data, survey instrument design and survey implementation (Roy, Walters, & Luk, 2001: 203). While some difficulties are obviously bound up with China-specific conditions, others appear to be of a more general nature.

Relevance of China-specific research conditions. Purely secondary data have been used by about one third of all IJV performance studies we analyzed (China: 4 of 16; non-China: 10 of 25). While four studies of the China sample and one study of the non-China sample rely on a mixture of primary and secondary data, half of the China studies and 56 percent of the non-China studies base their empirical tests on primary data. In the China studies problems may stem from the use of official data obtained and provided by governmental institutions which may dress up the data (Malhotra, Agarwal, & Peterson, 1996). In the future, it would be optimal to follow strategies for collecting primary data to avoid bias problems, notably by involving local, i.e., Chinese, researchers or governmental research organizations. At the same time, obtaining primary data may lead to other methodological problems such as respondent biases. For example, relying solely on responses from either foreign parents or local parents may

limit the generalizability of findings (e.g., Lee & Beamish, 1995). Especially with regard to China, language difficulties and a ‘losing face’ bias are highlighted by Roy et al. (2001), who propose using more differentiated scales (i.e., 10-point Likert scales) instead of traditional five- or seven-point Likert scales and to increase back-translating and/or pilot testing of survey instruments. At the same time, Chinese management researchers already seem to be aware of the need for back-translation (e.g., Luo, 2001, 2002c) and pilot testing (e.g., Lin & Germain, 1998; Luo, 2002b; Wang et al., 1999).

General problems of empirically based success factor research. China-specific methodological problems such as the lack of external validity or low generalizability of samples and findings (e.g., Roy et al., 2001) reveal many fundamental problems in this field. These include the small sample sizes, time frames that may not be up-to-date, country biases and other reasons. These problems are openly admitted by researchers with regard to China (e.g., Isobe et al., 2000; Lin & Germain, 1998; Luo, 2001, 2002a,b,c) and other countries (e.g., Barkema, Shenkar, Vermeulen, & Bell, 1997; Hennart & Zeng, 2002; Lane et al., 2001). Hence, researchers often recommend re-testing findings in other emerging economies (Li & Atuahene-Gima, 2001) but, as our comparative review clearly shows, this recommendation has been widely neglected thus far.

The practical and scientific usefulness and generalizability – even of statistically strong significant correlations between indirect and direct success factors and IJV performance – is doubtful because of the inconsistent operationalization of independent and dependent variables (e.g., Lin & Germain, 1998), survival biases (e.g., Isobe et al., 2000) or an oversimplified cause and effect logic (e.g., Luo, 2001). A telling fact is that no two studies in our sample used the same measure for IJV success. Corresponding agreements among scholars and a broader use of multidimensional performance measures (e.g., Luo, 2001) are obviously needed.

Almost every study derives its independent variables from literature reviews and hence admits to building on ‘approved’ concepts. However, with few exceptions (e.g., Luo, 2001) underlying assumptions with regard to unidirectional cause and effect chains or interdependencies are neglected. March and Sutton (1997), for example, generally challenge the frequent use of unidirectional causal links as reflexivity effects, learning

dynamics, and the difference of short- and long-term performance goals are fundamentally ignored.

Finally, methodological problems culminate in a fundamental criticism of the current, mainly quantitative IJV success factor research. Parkhe (1993a: 229 et seq.), for instance, complains about the overuse of quantitative methods and its limited potential for theory advancement. Unfortunately, our review shows that his pessimistic evaluation still holds, more than 10 years after he first made this observation. Less than half of the studies we reviewed use a sound theoretical foundation and almost no study offers suggestions with regard to substantive theory improvement. Many analyses seem to use organizational theories purely for justification purposes and offer unidirectional cause-effect models. Although sophisticated statistical methods and tests are frequently applied, most studies do not, for instance, test the impact of past success on success factors and present IJV performance (for a related limitation see Luo, 2001: 199) and thus fail to contribute considerably to theory development within the field of IJV management. Quite obviously, research aimed at identifying generic success factors of IJVs – whether in China or elsewhere – falls prey to the general criticism of organizational performance or success factor research (e.g., March & Sutton, 1997) which points to the fundamental methodological deficits and problems of the approach and the lack of utility for practitioners. Taking this perspective, our review of this literature confirms above all the great difficulties for scholars and practitioners in deriving a secure and unambiguous basis for future decisions and actions from the existing findings.

2.7 Implications for Future Research

The primary objective of this paper was to appraise the present research status of key success factors for managing IJVs in China in order to enhance its value for practitioners and scholars, and to direct future research and theory development. To this end we developed a conceptual framework based on relevant organizational theories which helped to systematically review the emphases and findings of studies published in leading management journals and to compare data related to Sino-foreign JVs with non-China IJVs. Our review shows that Chinese management research published in top

journals in general, and quantitative Sino-foreign JV performance studies in particular, meets high academic standards. Although researchers overwhelmingly abstain from contributing to theory building, they at least use organizational theories to justify their selection of independent variables and increasingly apply adequate methods to solve China-specific research challenges. The result is an impressive range of independent and dependent variables tested in the existing literature.

Reflecting on this broad range of findings, we tried to answer important research questions: Where are apparent research accumulations and gaps? Are there China-specific success factors that corroborate results regarding host country effects? What theories are most appropriate to explain FDI and IJV management within China? In order to answer these questions we additionally screened and included the corresponding IJV literature conducted in countries other than China. However, problems inherent in current quantitative approaches to identify generic success factors for managing IJVs do not allow for simple, straightforward answers. Instead, our analyses and critical discussion elaborate two different research avenues for the future.

The first, more conservative research direction may abstain from debating the general usefulness and appropriateness of success factor research (March & Sutton, 1997) and focus on apparent gaps and deficits highlighted throughout our paper as well as on the selective replication of certain success factors. By doing so, an evolutionary perspective on IJV performance – which is of special interest in the context of China due to major institutional changes – could be established. To shed more light on host country effects, i.e., country-specific success factors, researchers may additionally conduct comparative inter-country research. In order to facilitate replicative and comparative studies and increase the generalizability and value of findings, the development and publication of consistent research standards (e.g., definitions, operationalizations, and measures) should be considered. Furthermore, developing a research framework, whether based on the one we propose or another, may help to discern what conclusions are warranted to direct future research and especially to foster theory building.

The second, more progressive research avenue derives from March and Sutton's (1997) criticism mentioned above. It calls for an adjustment and major redirection of the IJV research. Although theory development in the field has been demanded by previous

writers (e.g., in Parkhe's 1993a seminal work), it is not evident in most of the empirical success factor studies in the literature. Given the complexity and dynamism of prevalent theories, the field may gain from more authors specializing in certain theories. Consequently, they may be better able to test relevant aspects and interpret findings with regard to consequences for the further development of the respective theories. Such a redirection may also fruitfully foster alternative research approaches such as case studies instead of, or in addition to, purely quantitative methods.

2.8 Conclusion

The field of IJV research has advanced dramatically in the past decade yet this review highlights a number of areas where future research and theoretical developments are warranted. The burgeoning research focus on Sino-foreign IJVs is generally of high quality and offers a number of interesting insights for both scholars and practitioners. At the same time, as we have argued, it is important to take stock of what we know in this field and begin to place the findings in comparative perspective and attempt to provide a unifying framework to understand the important phenomenon of IJV performance. While this paper is an effort at this synthesis and unification, there are still many questions left unanswered, providing fertile ground for additional research in the future to enhance our knowledge in this important field of international strategic management in general and Chinese management in specific.

2.9 Appendices

2.9.1 Appendix I: Success factors for Sino-foreign IJVs (N=16)

Category*	+	-	0
Foreign parent attributes			
<i>Constitutional characteristics</i>			
Country of origin of investment (6)	1		
Number of prior IJVs in China (15)			1
<i>IJV-related strategy</i>			
Strategic importance of IJV (2)	1		
Timing of entry (early!) (2,3)	1	½	½
Commitment to technology transfer (2,3)	1 ½		½
IJV announcement (pre) (15)	1		
IJV announcement (post) (15)			1
<i>Resources</i>			
Experience with IJVs (12)			1
Local parent attributes			
<i>Constitutional characteristics</i>			
Local parent formalization (1)	1		
Organizational form (state-owned) (6,9)	1		1
Organizational form (private-owned) (6,9)			2
Size (i.e., number of employees) (6)	1		
Market power (6)	1		
<i>Resources</i>			
Foreign experience (6)	1		
Absorptive capacity (6)	1		
Market experience (6)	1		
Experience with IJVs (12)			1
Parent attributes (not specified if foreign/local)			
Partner selection (various criteria) (16)			<i>Not specifiable</i>
Local partner selection (5)			1
<i>IJV-related strategy</i>			
Superior parent organizational competencies (14)	½		½
Export orientation (3,8,11)		½	2 ½
EJV strategy (14 variables) (16)			<i>Not specifiable</i>
FIT between foreign and local parent			
<i>Constitutional characteristics</i>			
Cultural distance (3,4,8,9,11,12,13)	½	2	4 ½
Structural attachment (8)	1		
Product relatedness (6,9)	2		
<i>IJV-related strategy</i>			
Goal congruity (8,9,13)	3		
<i>Resources</i>			
Resource complementarity (9)	1		
Relative power derived from resources (4)	1		

Category*	+	-	0
IJV attributes			
<i>Constitutional characteristics</i>			
Size (5,7,9,12,13,14)	1		5
Coastal location of IJV (3,7,8,9,11,15)	½	1	4 ½
Length of operation / age (1,5,7,8,11,12)	5	1	
Sector / industry (3,7,15)	½		2 ½
Investment size (8,11,15)		1	2
Past performance (11)	1		
<i>Resources</i>			
Within-IJV HR (5 criteria) (1)		1	
(Technical) quality of products (5)	1		
High price (5)		1	
R&D intensity (5)	½	½	
Advertising (5)	½		½
Sales force expenditure (5)	1		
Growth rate of domestic accounts (credit granting) (5)	1		
Project category (5)			1
Category of products (5)			1
FIT between foreign parent and IJV			
<i>Constitutional characteristics</i>			
Foreign parent and EJV management cooperation (12)	½		½
FIT between local parent and IJV			
<i>Constitutional characteristics</i>			
Local parent and EJV management cooperation (12)	½		½
FIT between parent and IJV (not specified if foreign/local)			
<i>Resources</i>			
Relational (interface) HR set (4 criteria) (1)	1		
Relationship management			
<i>Conflict</i>			
Conflict resolution strategy (4)			
Problem-solving strategy	1		
Compromising strategy			1
Forcing strategy			1
Legalistic strategy		1	
Cooperative decision making (10)	1		
Foreign and local parent cooperation (12)	1		
Parent introduction/familiarity (12)	1		
Relationship age (4)	1		
Collaboration before IJV / previous cooperation (6)	1		
Relationship between partners (16)			<i>Not specifiable</i>
<i>Behavior</i>			
Personal attachment (7,8)	2		
Shared procedural justice (11)	1		
Unilateral procedural justice, foreign (11)			1
Unilateral procedural justice, Chinese (11)	1		
IJV governance			
<i>Ownership</i>			
Equity status owned by foreign par. (3,6,7,8,9,13,15)	3		4
IJV or not (3)			1

Category*	+	-	0
Majority equity stake (12)	1		
Equity vs. non-equity (11)			1
<i>Control</i>			
Foreign parent control over IJV (2,16)	1		1
Foreign parent overall control over IJV (14)	1		
Foreign parent specific control over IJV (14)	1		
Local parent overall control over IJV (14)			1
Local parent specific control over IJV (14)	1		
Contractual design: Term specificity (10,13)	1 ½		½
Contractual design: Contingency adaptability (10,13)	1		1
Contractual design: Issue inclusiveness (13)			1
Contract completeness (1)	1		
External environment			
<i>Regulatory regime</i>			
Regulatory/institutional deterrence (9)		1	
<i>Industry & competition</i>			
Industry (sales) growth (5,6,8,14)	3	½	½
Availability of supporting local infrastructure (2)	1		
Structural opportunities in industry (9)	1		
Structural/market uncertainty (11,12)			2
Environmental turbulence/dynamism (13)			1
Environmental complexity (13)			1
Environmental hostility (13)		1	
Industry asset intensity (13)			1

Notes: In this table, only direct performance impacts are listed. Factor-performance relationships read as follows: For example, the higher the structural attachment, the higher IJV performance. Results are indicated as follows: “+” = significantly positive correlation, “-” = significantly negative correlation and “0” = no correlation. We assign a ‘1’ for any correlation, if the study identifies a significant relationship with all investigated dependent measures. In the case of significantly positive (negative) correlation for some dependent variables but no significance for others we assign “½”. We sum up the results from different studies if applicable, thus leading to higher numbers than 1.

* Numbers in brackets stand for studies assigned to the China group of findings: (1) Gong, Shenkar, Luo, and Nyaw (2005), (2) Isobe, Makino, and Montgomery (2000), (3) Li, Lam, and Qian (2001), (4) Lin and Germain (1998), (5) Luo (1995), (6) Luo (1997), (7) Luo (2001), (8) Luo (2002a), (9) Luo (2002b), (10) Luo (2002c), (11) Luo (2005), (12) Luo and Park (2004), (13) Luo and Tan (2003), (14) Luo, Shenkar, and Nyaw (2001), (15) Meschi and Cheng (2002), (16) Wang, Wee, and Koh (1999).

2.9.2 Appendix II: Success factors for IJVs in other countries than China (N=25)

Category*	+	-	0
Foreign parent attributes			
<i>Constitutional characteristics</i>			
Country of origin of investment (19,23,24)			3
Industry risk (20)			1
Size (12,16,20)	3		
Firm-level competition in foreign firms core business (16)			
Low		1	
High			1
Foreign partner is private-owned (14)	1		
<i>IJV-related strategy</i>			
Strategy alignment with environment: Prospector (13)			1
Strategy alignment with environment: Analyzer (13)	1		
Export orientation (12)	½		½
Overall resource provision (24)	1		
Contribution of strategic resources (21)			1
Contribution of operating resources (21)			1
Management support by foreign parent (9)	1		
Training by foreign parent (9)			1
Explicit knowledge transferred from the foreign partner to the IJV (5)	1		
Tacit knowledge transferred from the foreign partner to the IJV (5)		1	
Investment in an IJV from a risk reducing viewpoint (20)		1	
Relative intensity of foreign expatriate employment (10,12)		1	1
R&D rate/intensity (12)	½		½
IJV formed with at least one local partner (12)	1		
JV motive is strategic (as opposed to efficiency) (15)	1		
<i>Resources</i>			
Recoverable organizational slack resources (20)	1		
Multinationality (i.e., international experience) (20)			1
Previous domestic JV experience (16)			1
Previous IJV experience (15)			1
Prior learning (9)			1
Current knowledge (9)	1		
Length of past host country experience (1,12)	½		1 ½
<i>Process</i>			
Decision influence (8 items) (24)			1
Local parent attributes			
<i>Constitutional characteristics</i>			
Size (14)		1	
Firm-level competition in local firms core business (14)	1		
State-owned or not (15)	½		½
<i>IJV-related strategy</i>			
Contribution of local labor (21)		1	
Contribution of local marketing resources (21)	1		
JV motive is strategic (as opposed to efficiency) (15)			1
JV motive is efficiency (as opposed to strategic) (15)			1
<i>Resources</i>			
Previous IJV experience (14)			1

Category*	+	-	0
Parent attributes (not specified if foreign/local)			
<i>Constitutional characteristics</i>			
Number of subsidiaries internationally (3)			1
Size (3,4,7,15)		2	1
Net income of parent firm (3)			1
<i>IJV-related strategy</i>			
Contribution involves technology transfer (18)		1	
Each partner being most influential in the functional area of its own distinctive competence (8)	1		
Number of executives from both partners involved in IJV (19)	½	½	
Multiple market venture (18)		1	
Multiple product venture (18)			1
Differentiation strategy of IJV (9)	1		
Functional role (13,14,15,16)			
R&D	2		1
Manufacturing		1	2
Marketing	1		2
Formal goals (9)			1
Relative contribution (17)	1		
IJV export orientation (9,22,24)	1		1
Integration of alliance (6)	½		½
Change in capital invested (3)			1
Advertising intensity (4)	1		
R&D intensity (4)	1		
<i>Resources</i>			
Bargaining power in the negotiation process (17)	1		
Other long term relationships (6)	½		½
Parents' JV experience (2,22)	1		
FIT between foreign and local parent			
<i>Constitutional characteristics</i>			
Cultural distance (1,6,7,9,14,15,16,17,18,19,25)	2	2	7
Organizational cultural distance (19)		½	½
Difference between partners' (relative) size (16,18,22)	1		2
Difference in parents' multinationality (22)			1
Business relatedness (15,16)	½		1 ½
US-Japanese rather than US-US JV (18)	1		
Psychic distance (22)			1
Similarity in partners' age (18)			1
Partners are direct competitors (18)		1	
Similarity of parents' industry (25)		½	½
<i>IJV-related strategy</i>			
Similarity in strategic scope of partners (18)			1
<i>Resources</i>			
Complementarity of partners' distinctive competencies (8)		1	
Parents' Resources Complementarity (22)	1		
IJV attributes			
<i>Constitutional characteristics</i>			
Size (2,3,4,5,12,19,24)	4	½	2 ½
Length of operation / age (1,2,4,7,24,25)	2 ½	½	3
IJV partner need (resource dependence) (25)		1	

Category*	+	-	0
IJV performance (3)	½		½
<i>Resources</i>			
HR development (21)	1		
HRM practices based on host culture characteristics (25)	1		
Quality performance (21)	1		
Training competence of IJV (9)	1		
JV technological sophistication (22)	1		
Satisfied employees rather in IJVs than in WOE's (10)	1		
Length of host country experience (12)	1		
<i>Process</i>			
IJV flexibility & adaptability (9,10)		1	1
IJV knowledge acquisition from foreign parent (11,24)	1		1
IJV learning (23)	1		
Magnitude of problems (10)			1
Influence of JV management (10)			1
EIJV operation according to clearly stated objectives (25)	½		½
FIT between foreign parent and IJV			
<i>Constitutional characteristics</i>			
High level of overlap in product-market scope between IJV and parent (18)		1	
Operational overlap (18)		1	
Business relatedness (9,16)	1		1
<i>Resources</i>			
Relatedness of parent and IJV's rent-yielding strategic resources (17)			1
FIT between local parent and IJV			
<i>Constitutional characteristics</i>			
High level of overlap in product-market scope between IJV and parent (18)		1	
Operational overlap (18)		1	
Business relatedness (14)	1		
<i>Resources</i>			
Relatedness of parent and IJV's rent-yielding strategic resources (17)			1
FIT between parent and IJV (not specified if foreign/local)			
<i>Constitutional characteristics</i>			
Parents' horizontal linkage to the JV (22)	½		½
Parents' vertical linkage to the JV (22)			1
Parents' relatedness to the JV (22)			1
Relationship management			
<i>Conflict</i>			
Prior relationship / relationship age (6,18,19)	2	½	½
Previous in-depth analysis of partner (6)	½		½
Partner views/attitudes to management of alliance (6)			1
Parental conflict (23)		1	
Frequency of contact between partners (19)	1		
Cooperation between parents (22)	1		
Competition between partners (6)			1
<i>Behavior</i>			
Trust between IJV's parents (9)	1		

Category*	+	-	0
Behavior performance of partner (6)	1		
IJV governance			
<i>Ownership</i>			
Equity status owned by foreign parent (4,15,16)	2 ½		½
Equity status owned by local parent (5,24)	1 ½		½
Equity vs. non-equity (6)			1
Satisfaction of EIJV parents with equity distributions (25)	1		
Actual equity share (1,14,19)		½	2 ½
50/50 two-partner IJV (18)		1	
Shared ownership / control better than dominance (8)	½		½
<i>Control</i>			
Local parent control over IJV (14)	1		
Parent's overall control over IJV (parent rather from developing than from developed country) (22)	1		
Parent's overall control over IJV (17)	1		
Parent's specific control over IJV (17)			1
IJV autonomy in all functional areas (8)	1		
IJV autonomy over operational areas (22)			1
Assistance from foreign partner (10)	1		
Foreign parents influence in decision making (10)		1	
Domestic parents influence in decision making (10)	1		
Split control IJVs perform better than all other IJVs (2)	1		
Shared control IJVs perform better than MNE-/ local-partner-dominant IJVs (2)			1
Number of foreign partners involved (3)	1		
Multiple partners (4)	1		
All foreign partners from one country (4)	1		
Number of partners (1)	½		½
External environment			
<i>Regulatory Regime</i>			
Local ownership restrictions (12)		1	
Political risk in host country (14,15,16)	½		2 ½
Political openness (4)			1
<i>Industry & competition</i>			
Social openness (4)			1
High presence of subsidiaries in host country (3)	1		
Number of subsidiaries in an industry (3)			1
Host country exposure (4)		1	
Sector/industry (1,4,6,18,23,24)	2	½	3 ½
Industry (sales) growth (15)	1		

Notes: In this table, only direct performance impacts are listed. Factor-performance relationships read as follows: For example, the higher the structural attachment, the higher IJV performance. Results are indicated as follows: "+" = significantly positive correlation, "-" = significantly negative correlation and "0" = no correlation. We assign a '1' for any correlation, if the study identifies a significant relationship with all investigated dependent measures. In the case of significantly positive (negative) correlation for some dependent variables but no significance for others we assign "½". We sum up the results from different studies if applicable, thus leading to higher numbers than 1.

* Numbers in brackets stand for studies assigned to the non-China group of findings: (1) Beamish and Kachra (2004), (2) Choi and Beamish (2004), (3) Delios, Inkpen, and Ross (2004), (4) Dhanaraj and Beamish (2004), (5) Dhanaraj, Lyles, Steensma, and Tihanyi (2004), (6) Glaister and Buckley (1999), (7) Hennart and Zeng (2002), (8) Hill and Hellriegel (1994), (9) Lane, Salk, and Lyles (2001), (10) Lyles and Baird (1994), (11) Lyles and Salk (1996), (12) Makino and Delios (1996), (13) Merchant (2000), (14) Merchant (2002), (15) Merchant (2005), (16) Merchant and Schendel (2000), (17) Mjoen and Tallman (1997), (18) Park and Ungson (1997), (19) Pothukuchi, Damanpour, Choi, Chen, and Park (2002), (20) Reuer and Leiblein (2000), (21) Robins, Tallman, and Fladmoe-Lindquist (2002), (22) Sim and Ali (1998), (23) Steensma and Lyles (2000), (24) Steensma, Tihanyi, Lyles, and Dhanaraj (2005), (25) Zeira, Newburry, and Yeheskel (1997).

Part II: Deficiencies of International Joint Venture Research: Focusing on Research Gaps and Opportunities

3 Success Factor Research – Pathfinder or Cul-de-Sac? A Review of the Criticism Based on the Example of International Joint Venture Formation in China

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3.1 Abstract

Research on success factors, in particular if quantitative and empirically-based, is very popular among management scientists and economists. Studies focusing on empirically testing inter-correlations between firm success and various independent variables appear to dominate the most reputed academic journals. Although critical comments have been raised time and again, criticism increased recently. Quantitative research on success factors is blamed for its insufficient theoretical foundation, inherent obsolescence, methodological flaws, inconsistency, and finally its uselessness for practitioners. So far this criticism is either ignored or dismissed as unsubstantiated. Thus, the dispute whether research on success factors is a promising road or a dead end street remains virulent. Previous contributions are most often abstract and prove their arguments and counter-arguments with selective examples rather than considering one definite example. In order to evaluate the usefulness or uselessness of success factor research we apply the criticism to research on success factors of international joint ventures in the People's Republic of China. After depicting and categorizing the generic criticism regarding the research on success factors, we will analyze to what extent the various arguments apply with regard to our example. Based on a discussion of the results and their theoretical and practical implications we finally indicate areas for future research.

3.2 Introduction

Effectiveness, efficiency, and performance are terms of central interest and relevance for both management scientists and managers (Meyer, 1991).

On the one hand, they are objective, purpose, and yardstick for organizational and management researchers, i.e., allow for evaluations of organizational alternatives or conflicting norms and recommendations. Scholars need them to distinguish between appropriate and less appropriate organizational structures, processes, and management behavior. Effectiveness, efficiency, and performance are preconditions of success in comparison with competing organizations, institutions, or even persons.

On the other hand, they are objective, purpose, and yardstick for practitioners, namely managers and other stakeholders of an organization. They are necessary with regard to planning, coordinating, and assessing organizational systems or are used as benchmarks in comparison with other organizations. Practitioners use them, for instance, to evaluate strategic decisions, absolute and relative success, and the effort and achievement of responsible managers. In order to increase organizational performance and success, performance-oriented incentive systems have been implemented.

Both the fact that complex organizations show different levels of success compared to reference organizations and over time (i.e., performance variations) and the inherent drive to outperform rivals lead to a search for factors that influence organizational success and explain obvious variations. Whereas the search for success factors of rivaling organizations seems to exist in practice since human beings have formed organizations, its reflection within the scholarly and scientific research community developed incrementally around different approaches.

The PIMS (Profit Impact of Market Strategy) project (e.g., Buzzell & Gale, 1987; Buzzell, Gale, & Sultan, 1975), starting in the early 1960ies, undoubtedly initiated and further fuelled the research on success factors. Main objectives of creating a comprehensive database of strategic business units (SBUs) of major corporations were to extract factors that determine SBU performance and profits, to identify 'laws of the market place', and to derive general principles for firm success. In order to achieve these objectives, the regularly supplemented database is used for regression analyses between return on investment (ROI), as a main measurement of SBU success, and

independent variables such as market growth or rate of innovation (cf. Schoeffler, 1977, 1983). Results are assigned to so called 'look alike' and promise to explain why some SBUs outperform others, thereby providing action plans for the management (cf. Buzzell & Gale, 1987: 211 et seqq.). Based on the PIMS database, investment intensity, productivity, relative market share, rate of market growth, relative quality, rate of innovation, vertical integration, and customer profile explain 70% to 80% of all variations of SBU profits (Müller-Stewens & Lechner, 2001: 245-246).

Entwined with the emergence of business applications of information technology, the idea of designing management information systems (MIS) that aggregate and compress manifold business data through the organizational hierarchy and lead to better management decisions unfolded. In order to manage the complexity from the perspective of the decision maker, it has been recommended to concentrate on a handful of success factors: "[I]n most industries there are usually three to six factors that determine success; these key jobs must be done exceedingly well for a company to be successful." (Daniel, 1961: 116) Daniel's recommendation was widely ignored by the IT-industry, which led to failure of centralized, hierarchical MIS at the end of the 1970ies. Then, however, the idea was picked up by Hofer and Schendel (1978) who elaborated 'key success factors' as means for strategic advantage, and more specific by researchers at the M.I.T. who considered three to six 'critical success factors' elementary for organizations and the design of MIS (Bullen & Rockart, 1981; Rockart, 1979). The critical success factor concept and method were further elaborated by other scholars and consultants such as Leidecker and Bruno (1984).

Beside these two mainstreams of success factor research one might mention a third incident that gave momentum for the increased popularity of success factor research among scholars. Initiated by the long lasting success of Japanese firms competing within the U.S. the publication market was quite receptive for straight forward explanations of underlying success factors in the 1980ies. Examples are the study of the automotive industry (Womack, Jones, & Ross, 1990) or the bestseller 'In Search of Excellence' (Peters & Waterman, 1982). Although – especially in the latter example – more qualitatively-based, these success stories smoothed the way for scholars and academic journals that focused more and more on simple cause and effect explanations of business success or failure instead of complex theories.

Qualitative and increasingly quantitative research on success factors started to dominate sub-disciplines such as ‘Business Policy’ or ‘Strategic Management’ (March & Sutton, 1997: endnote 2; Meyer, 1991: 825; Nicolai & Kieser, 2002: endnote 6). Empirically-based research on success factors became presentable first and later on a warrant for serious considerations for peer-reviewed, highly regarded academic journals. Not surprisingly, criticism concerning the success factor research increased significantly, too. Whereas critical comments at the end of the 1980ies and at the beginning of the 1990ies (e.g., Frese, 1985; Grabner-Kräuter, 1992, 1993; Jacobs, 1992; Parkhe, 1993a; Wohlgemuth, 1989, 1990; Yan & Gray, 1994) often focused on methodological constraints and the appropriateness of quantitative versus qualitative research, more recent critics (March & Sutton, 1997; for Germany: Haenecke, 2002; Nicolai & Kieser, 2002) question the scientific approach in general. However, Nicolai and Kieser (2002) state that the ground-laying work of March and Sutton (1997) has been hushed up by the scientific community as it almost has not been cited according to ISI web of Science. Therefore, the question arises why the criticism falls on deaf ears. Beside some obvious answers one might argue that the criticism has not been proven with regard to a definite example. Using a meta-study of a given subject of success factor research might show whether and to what extent different aspects of the general criticism hold. In order to fill the gap mentioned above and to answer respective questions, we will use an own meta-study of success factors of international joint venture (IJV) formation in the People’s Republic of China we recently presented (Nippa & Klossek, 2004a).

On the one hand, IJVs in general – and in particular if established in the People’s Republic of China – are organizations widely used with regard to the market entry of foreign firms but, on the other hand, show remarkable variations regarding their success. A great number of IJVs fail, do not reach the expectations of one or both partners, and are liquidated (Beamish, 1993; Hill & Hellriegel, 1994; Miller, Glen, Jaspersen, & Karmokolias, 1997; Vanhonacker, 1997). Thus, not surprisingly, numerous studies and publications emphasize and analyze factors that determine the success of IJVs. Such studies belong to the most enduring research questions in the field of international management, according to a recently published review by Werner (2002: 285). Furthermore, they form a clearly distinguished and topical example that can be perfectly used to review the general criticism on the research of success factors.

To accomplish our objective, i.e., to provide answers to the question whether research on success factors is a pathfinder or a cul-de-sac, we apply the criticism to the current research on success factors of IJVs in the People's Republic of China. We will first have to depict and categorize the generic criticism regarding the research on success factors based on a comprehensive literature review. Secondly, we will analyze to what extent the various arguments apply with regard to our example and will offer explanations. Based on a discussion of the results and their theoretical and practical implications we will finally indicate areas for future research.

3.3 Outlining and Categorizing the Criticism

In general, any study that attempts to explain the success of an organization through pinpointing certain strategies, structures, processes, or human behavior, especially in contrast to other organizations, can be defined as success factor research. Therefore, one has to distinguish between qualitative success factor research, especially best practice research, and quantitative success factor research that builds on empirical tests such as regression analyses in order to identify a correlation between organizational success and distinguishing characteristics. Albeit both research streams show great similarities, criticism mainly focuses on empirically-based, quantitative success factor research.

When reviewing this criticism one has to distinguish between scholarly contributions that centre their attention to elaborate various deficits of success factor research (March & Sutton, 1997; Nicolai & Kieser, 2002) and studies that discuss possible problems or limitations of applying success factor analyses with regard to their main topic (e.g., Fritz, 1990; Grabner-Kräuter, 1992; Hilger, 2001; Jenner, 2003). In order to outline and categorize the criticism it is necessary to start with a brief summary of empirically-based success factor research (cf. Daft & Buenger, 1990). Focal point and main objective of respective success factor studies is to explain observable, real variations in performance (i.e., success) through identifying single factors that appear to cause these variations (e.g., Meyer, 1991) in order to give support to practitioners who are confronted with similar problems. Hypotheses concerning success-success driver relations are derived either from previous studies or other sources. Likewise dependent variables, i.e., indicators of success, independent variables, e.g., trust, knowledge, etc.,

have to be defined and operationalized. Depending on the chosen variables and their operationalization either secondary data, e.g., published ROIs, or primary data gained through questionnaires are analyzed. Finally, statistically significant correlations are discussed with regard to scientific and practical implications.

A closer look at the criticism reveals that it aims mainly at three aspects. First, the approach is questioned fundamentally, i.e., conceptual and scientific deficits and flaws are emphasized. Second, methodological deficits and problems are pinpointed. Third, its usefulness for and use by practitioners are doubted. Additionally, some authors complain about a self-reinforcement process which results from the fact that scientists and scholars have to prove their performance through publishing research results in highly regarded journals (March & Sutton, 1997; Nicolai & Kieser, 2002). These journals make use of peer review systems to select high quality research. In general, the more peers accept success factor research the more likely is an increased submission and acceptance of respective studies, too. As we believe that the latter complain holds for any given theory or concept which turns out to become a scientific paradigm, we will solely focus on the three key problems mentioned above.

3.3.1 Theoretical and Conceptual Deficits

Missing theory and simple models. First, research on success factors is often criticized to lack a theoretical foundation rather than to assume that firm success or organizational performance are directly caused by variations of certain determinants. Without sound and well-defined theoretical frameworks a solid foundation for empirically-based theory-building is missing (Brown & Eisenhardt, 1995: 353; Haenecke, 2002: 176-178).⁸ References to theories such as transaction cost theory or the resource-based view of the firm are frequently used, but are mainly employed to justify the choice of variables or to prove scientific rigor. Thus, questioning the assumption of one-dimensional causal links between independent success factors and organizational performance is a focal point of critical comments. From a conceptual perspective two

⁸ According to Brown and Eisenhardt (1995: 353), a major drawback of the research on success factors is its failure “to take the next theory-building step. For example, Zirger and Maidique (1990) found that entry into large, growing markets improves a project’s performance. However, this result is not theoretically integrated with existing research that warns of first-mover disadvantages (Lieberman & Montgomery, 1988) or describes the power of imitation strategy (Bolton, 1993).”

aspects have to be highlighted: difficulties and problems related (a) to the constructs ‘performance’ or ‘success’, and (b) to the causation model.

(a) How to define performance? Beside the methodological problems, which we will address later, success and performance are clear constructs at first sight only. A closer look reveals ambiguity and hidden interdependencies. Even the term ‘success’ bears a need for clarification. How can firm success be defined? Is a firm successful, if it survives? Related to what time-span? How to control for lucrative and economical reasonable mergers and acquisitions? Is there a measurement for absolute success or does success always require a reference point, e.g., the past, competitors, or industry average? Similar problems and questions emerge with regard to often used indicators of organizational success such as performance, effectiveness, or efficiency. Surprisingly, the latter terms, albeit widely analyzed and discussed in the 1980ties (e.g., Quinn & Rohrbaugh, 1983), are often used by success factor studies in a simplistic and confusing way. Mintzberg (1983) emphasizes that effectiveness is a subjective measurement that cannot be objectively evaluated, as ‘Doing the right things’ (Drucker, 1974) will have a different meaning from the perspective of different firms, even when operating in the same industry. ‘Doing the things right’, i.e., efficiency or performance, measures output to input relations. Using performance measures just pushes the problem a bit further. What are the ‘right’ or ‘objective’ measures? Is it earnings, return on investment, return on assets, discounted cash flow, economic value added, or return to shareholders? Finally, do clear norms exist that ensure results free of subjective interpretations and valuations? Furthermore, one has to take into account that the use of different performance measurements effects strategic decisions and success factors equally. Vertical integration might turn out as a success factor as long as ROI determines firm success but vanishes if success is measured, for example, by market share. One has to admit that these problems are rarely discussed in studies that aim to identify and statistically prove success factors.

(b) Causality – simple enough? March and Sutton (1997: 700) elaborate on several problems associated with the assumption of unidirectional causal effect chains:

Most interpretations of organizational performance are built on elementary causal conceptions, sometimes encased in multiple regression or analysis of variance models, at other times embedded in less formal historical speculations. Theories are characteristically specified in terms of a

causally 'dependent' variable to be predicted and several explanatory variables imagined to be causally antecedent.

The prototype of a success factor analysis derives explanatory variables from literature reviews and/or logical reasoning, offers a simple, frequently illustrated cause and effect model, and then starts to operationalize its variables. As models represent a small part of the complex reality chosen by their creators and authors, they are at the same time easy to criticize (e.g., missing moderating or control variables) as well as unassailable as authors will refer to their assumptions. Additionally, many success factor studies ignore the fact that prior studies might suffer from poor operationalization and measurement, too, and nevertheless rely on them. Beside the reproach of underlying quite arbitrary models, March and Sutton (1997) especially challenge the frequent use of unidirectional causal links that miss reflexivity over time, i.e., positive or negative feedback effects of former performance, and to consider learning dynamics and differences in short-term versus long-term success.

Survival bias and other blind spots. Another argument used by critics of success factor research refers to the fact that as a rule, studies of success factors predominantly focus on successful organizations, i.e., survivors, and do not include organizations that have been liquidated due to poor performance or other reasons mentioned above (Golder & Tellis, 1993). Although often considered a methodological problem (e.g., Nicolai & Kieser, 2002) – because it could be generally solved through including unsuccessful organizations in an appropriate way in future studies – we suggest an additional conceptual flaw. By definition, success factor research attempts to identify factors that explain relative success within a given sample. Only under the assumption that a success factor equally leads to failure, if not managed well, i.e., a failure-success continuum, success factor research provides comprehensive recommendations. If one thinks of factors that prevent failure or underperformance of an organization, but do not enable success, i.e., out-performing, one might end up with a different concept. Consequently, it should not be assumed that factors leading to business failure are in any case 'naturally' correlated with factors leading to superior business performance (cf. Mitchell, 1991). Such an advanced concept would also moderate the criticism that refers to the inherent erosion of success factors (March & Sutton, 1997: 699 et seqq.; Nicolai

& Kieser, 2002: 585 et seqq.). Factors that lead to organizational failure but do not ensure success should not erode due to knowledge diffusion.

Limitations imposed by existing paradigms of the research context. Some conceptual flaws of success factor research might also be attributed to the way research is conducted (e.g., conditions deriving from short-term-oriented research funds or from reputation building and signaling processes; cf. March & Sutton, 1997: 702 et seqq.).

On the one hand, there is a strong interest of management scholars and economists, especially dominating positivists, to provide and rely on controllable and replicable analyses and results. Quantitative, empirically-based studies seem to meet this requirement much better than qualitative research:

Qualitative research does not often satisfy the positivist's concern that science should generate generalizable knowledge based on systematic, observation and measurement which can be replicated by others, so that single case studies where the insight of the researcher is the primary research tool do not often make persuasive contributions to the body of knowledge the positivist deems scientific. (Morgan, 1985: 65 et seqq.)

On the other hand, research is urged to be innovative and to create new insights. Reputation building within the academic systems requires ideas, concepts, and results that are “exceptional in one or more of the areas of theory, evidence, methodology, or innovation” (Beamish & Killing, 1996: vii). As a consequence, an exclusiveness of the problems approached, of the determinants analyzed, and of the resulting research insights are mandatory, especially with regard to the likelihood of gaining increased acceptance within the respective peer-group.

The combination of both requirements can be regarded as a major cause for additional shortcomings of the research on success factors. Once a new success factor linkage is initially introduced – for example, success factors of M&A efficiency – following researchers exploit the new field by adding new and testing more hypotheses and explanatory variables. The “unique selling proposition” distinguishes following studies from existing ones, which increases the chance to get respective articles accepted by peer-reviewed reputed journals. Replication of existing success factor models and linkages in order to confirm the results are neglected. The respective success factor research becomes increasingly fragmented and inconsistent. Based on a review of

different success factor fields, Nicolai and Kieser (2002), for example, interpret the emergence of meta-studies as a proof of this research life cycle.

(a) *Poor replication rate.* Empirical replication of existing analyses and results should be mandatory in order to prove generalization through falsification (Haenecke, 2002; Lamal, 1991; Reynolds, 1971; Rungtusanatham, Forza, Filippini, & Anderson, 1998):

A good rule is: Replicate all studies. This does not mean literal duplication of studies. Indeed the word replication means doing additional studies based on the same problems and variables but with minor, sometimes major, variations. For example, the measurement instrument of the original study may have been found wanting. A replication of the study done with another sample and an improved instrument and similar results would be compelling evidence of the empirical validity of the original results. (Kerlinger, 1986: 593)

With regard to the success factor research, critics complain about “the fact that many studies were conducted in isolation, with little regard for the findings of previous research” (Robson et al., 2002: 386). Yet, replication has to rely on information provided by previous studies. According to critics, success factor studies often lack important data. As a result, according to Fritz (1990: 103), universal scientific research results may only hardly be derived from the so far deficient and heterogeneous success factor research.

(b) *Meta-analyses run idle.* In order to bring together separate studies, to integrate their findings, to identify robust correlations, and to derive a comprehensive framework meta-analyses are conducted (e.g., Dalton, Daily, Certo, & Roengpitya, 2003). With few exceptions these meta-analyses can only categorize and cluster the variety of variables, due to the fact that almost no duplications of linkages exist. Even the meta-analytical assignment of single variables to different categories⁹ remains subjective and, thus, suffers from certain problems of differentiation (e.g., Krüger, 1988: 28; Robson et al., 2002: 400). This might result in losing important information, for example, regarding the quality of the studies (Nicolai & Kieser, 2002: 582). Furthermore, the probability that a study becomes published depends on the statistical significance of its results. Studies with no or “wrong” statistical significance tend to be tucked away in researchers’ file drawer and, thus, remain unconsidered in meta-analyses (ibid.).

⁹ See categories created by prominent success factor research studies (e.g., Peters & Waterman, 1982).

3.3.2 Methodological Deficits

As mentioned above, empirically-based success factor research has high demands on the statistical methods used. A bulk of criticism reveals unexpected but serious methodological flaws in many success factor studies. Methodological deficits are mainly seen with regard to the samples selected, to the operationalization of variables, to the data ascertainment, and to the statistical methods and tests used. Yet, unlike most conceptual problems, these methodological deficiencies can be smoothed by applying advanced methods. Therefore, the use of sophisticated analytical approaches such as structural equation modeling is recommended (Robson et al., 2002: 412).

Insufficient samples. The selection of appropriate, representative samples is of major importance for success factor studies, especially with regard to the significance of tests and to the robustness of the derived practical implications. However, many studies are criticized that they even not meet basic requirements. Beside the survival bias already mentioned above, success factor studies often lack representative samples with regard to the number of organizations involved and/or with regard to the sample quality, according to critics. Moreover, the varying and heterogeneous composition of the research samples restricts the comparability of the studies (Grabner-Kräuter, 1992: 1080). This may lead to controversial findings as in the case of the PIMS project. While the PIMS-data showed a significant positive correlation between market share and firm profitability (Buzzell et al., 1975: 97, 102 et seqq.), an opposed correlation has been found in other studies that researched different industry sectors (cf. Schendel & Patton, 1978; Schwalbach, 1988).

Confusing operationalization of variables. Empirically-based research on success factors has to define and to operationalize independent and dependent variables to enable data capturing from different sources. Beside the general problems with operationalizing success and performance as discussed above, methodological implications derive from the choice of certain performance indicators (e.g., Chakravarthy, 1986). Albeit objective performance indicators such as after-tax profits, return on investment, or sales are widely used (e.g., Buzzell & Gale, 1987), subjective measures (Geringer & Hebert, 1991) such as the public image of firms (e.g., Goldsmith & Clutterbuck, 1984), expectation fulfilment (e.g., Anderson, 1988), or management

satisfaction (e.g., Anderson, 1990) exist, too. Some authors also apply multidimensional constructs (e.g., Eisele, 1995).

(a) Objective versus subjective measures. While objective measures can often be retrieved from published sources (e.g., annual reports, bureau of statistics) that allow third parties to reconstruct findings, subjective measures are based on questioning informants (e.g., managers). The latter data-base – although not inaccessible per se – is practically out of reach for third parties. Beyond this retrieval problem management researchers discuss the superiority of objective over subjective measures controversially. Dess and Robinson (1984: 270), for instance, argue in favor of objective criteria and measurements, whereas others like Pan and Chi (1999) defend their preference for subjective assessments by pinpointing to obvious shortcomings of the first approach. In referring to respective sources, Chen (1999: 161) proposes to cut off the void dispute: “Previous studies have found a strong correlation between subjective assessments and their objective counterparts (Dess & Robinson, 1984; Geringer & Hebert, 1991).” Either this insight or applying both measures simultaneously, which could probably lead to a broader database for correlation tests and could also produce findings with a greater validity, might solve the problem (Pothukuchi et al., 2002: 258). Albeit this statement applies to independent success factors equally, it is rather unlikely that various predictor variables will have objective measures. Therefore, questionnaires are widely-used.

(b) Far from operationalization standards. Primarily due to the high complexity of potential success factors embedded in multidimensional concepts (Geringer & Hebert, 1989: 250) the same success factors are conceptualized and operationalized differently by different authors. Especially success factors that are of a ‘soft’ nature, like cultural or social attributes, are difficult to operationalize and, thus, suffer from idiosyncrasies that cannot be fully abandoned by applying even sound methodologies. For example, according to Allaire and Firsirotu (1984: 209), analyzing effects of organizational culture on performance has to consider other important aspects of management (e.g., organizational structure), too. Therefore, applying multidimensional rather than onedimensional operationalizations might offer a solution. Nevertheless, especially if additional variations among performance measures show up, the research results have to be carefully interpreted (Geringer & Hebert, 1989: 250).

Garbage in, garbage out. Critics refer to problems of getting and collecting data that is reliable. They doubt that (a) managers will be free of perceptual errors, that (b) questionnaires can represent and grasp all relevant aspects of a given success factor, and that (c) time effects can be neglected.

(a) *Informant and response biases.* For the case of studies using questionnaires or interviews to attain statements and assessments regarding their issue under study, results are dependent on the accurateness and objectivity of the respondents and informants, respectively. Critical literature challenges the naivety or stubbornness regarding the belief that informants are free of perceptual errors or personal interests. According to Brown and Eisenhardt (1995: 353), a lot of studies rely on single informants and, “thus, the research results are likely to suffer from a host of attributional and other biases, memory lapses, and myopia, which are associated with subjective, retrospective sense-making tasks.” As a result, a so-called ‘key informant bias’ (Kumar, Stern, & Anderson, 1993: 1633-1634; Nicolai & Kieser, 2002: 584) may arise from dissimilarities such as differences related to informants’ varying organizational roles (Kumar et al., 1993: 1634). Additionally, ‘response/respondent biases’ (e.g., Mathews & Diamantopoulos, 1995) may result from cultural peculiarities inherent in the single informants (Culpepper, Zhao, & Lowery, 2002: J1; Dossett, 1988: 96). Yet, such biases will cause serious problems (Eisele, 1995; Ernst, 2001; Kumar et al., 1993; March & Sutton, 1997) such as misinterpretations of the research results (Campbell & Fiske, 1959) or even no reliable interpretations because of lacking construct validity (Ernst, 2003: 1249).¹⁰ One possible solution to reduce both errors is to use multiple informant reports (Kumar et al., 1993: 1645). However, “at times reliance on key informants may be the only realistic, feasible way to get the information desired (Huber & Power, 1985), and ‘the practical utility of same-source self-report measures makes them virtually indispensable in many research contexts’ (Podsakoff & Organ, 1986: 540)” (Parkhe, 1993c: 810).

(b) *Inappropriate data mining.* One might assume that complex constructs and models of organizational performance and relevant predictor variables as well as their representation in questions need extensive dialogues between researchers and their

¹⁰ Construct validity is defined “as the extent to which an operationalization measures the concept it is supposed to measure (e.g., Cook & Campbell, 1979)” (Bagozzi, Yi, & Phillips, 1991: 421). According to Ernst (2003: 1249), the informant bias averages at least 30% of the overall variance of the statistical models employed.

informants. Rockart (1979: 85) emphasizes the need for long-lasting interviews and discussions with CEOs in order to derive relevant and reliable critical success factors. Yet, most success factor studies rely on questionnaires that can be distributed and returned easily rather than on interviewing informants.

(c) Uncommonness of iteration loops. Critics stress the need for longitudinal studies and complain that only few success factor studies are based on repeated data collections that might reduce contingencies (Hilger, 2001: 119-120; Pearce, 1997: 219). Without longitudinal studies or an integration of data from previous periods and, possibly, previous managers, significant retrospective biases (Fischhoff & Beyth, 1975) are more likely to occur. Furthermore, success factors are only evaluated against the background of present knowledge and consciousness (Geringer, 1991: 60) and do not represent relevant information of organizational evolution through multiple life-stages (Robson et al., 2002: 411).

Inadequate statistical methods and tests. Additional methodological concerns arise with regard to the use of appropriate statistical analyses and tests within success factor research (Nicolai & Kieser, 2002: 584). Although the need for multivariate regression analyses or path analyses like LISREL has been frequently articulated in order to reflect dynamics and multi-causalities appropriately (Robson et al., 2002: 412; Wohlgemuth, 1989: 108), critics still complain that statistical tests used within success factor research are inadequate. Statistical methods should be able to represent reinforcing interdependencies and feedback loops (e.g., success breeds success, vicious circles) and the impact of indirect success factors, i.e., factors that influence direct success factors. Yet, like the demand to control for other contingencies through respective control variables, these proposals may increase critical concerns regarding the transparency of the methods used (March & Sutton, 1997: 701).

3.3.3 Practical Deficits

A major part of the criticism centers upon the question whether success factor research is of any use for practitioners. One might wonder why it is questioned at all as success factor research seems to be obliged to generate solutions practitioners can use instantly. But critics refer to several barriers. Beside the superficial fact that managers most

probably do not read scientific journals it might be difficult for them or anyone else to put together all puzzle stones of scattered success factor studies published in various journals (Robson et al., 2002: 385). Additionally, access to the most relevant studies will not eliminate the problems practitioners will face with regard to inconsistencies in empirical findings of different success factor analyses. Furthermore, many results would be of such a general nature that they tend to be tautological – ironically put: “[I]s it surprising that better products are more likely to be successful or that well-executed processes are likely to produce more successful products?” (Brown & Eisenhardt, 1995: 353)

A puzzle for decision makers. Due to inherent academic mechanisms mentioned above such as the need for exclusiveness success factors studied and respective findings will diverge. As there is no generic research framework or plan it is almost impossible for practitioners to grasp a comprehensive insight.

Even meta-analyses provided by scholars in later stages of the success factor life cycle are in many cases not very useful. On the one hand, difficulties to find an appropriate level of abstraction for a statistically sound meta-analysis arise from the strong heterogeneity of the theoretical and empirical procedures of the studies reviewed (including heterogeneous research samples). On the other hand, organizational theory increasingly tends towards a more differentiated and selected exploration of success factors (cf. Haenecke, 2002: 177-178). As a result, practitioners face great difficulties to identify studies that match their specific situation and provide unambiguous and comprehensive findings that can be transferred easily.

Whereas the previous paragraph addresses the problem of finding and arranging the pieces of the puzzle, the following deficit bears even greater problems for practitioners. Using the same analogy one has to acknowledge that the pieces do not fit together, i.e., research findings are frequently inconsistent and even conflicting. Shall the decision maker rely on significant causal linkages only, although there is not much duplication or replication? How can s/he decide which of the dozen success factors is of most relevance for her/his business? How can s/he find out which of the dozen success factors impact each other and in what direction?

The generalizability dilemma. It is of major interest for both scholars and practitioners to what extent results of success factor studies can be applied easily to any given organization or firm (Müller-Hagedorn & Greune, 1992: 124). Scholars are interested to identify most general ‘laws of organizational success’ whereas practitioners seek firm-specific solutions. The tendency of some success factor researchers to find generic factors or a single recipe for success and superior performance is characterized by Ghemawat (1991: 11) as “the ill-considered medieval hunt for the philosopher’s stone, a substance that would transmute everything it touched into gold.”

Several aspects prevent or impede generalizations of success factors. Due to different samples (e.g., different industrial sectors or regions; cf., e.g., the varying and industry-dependent results in Schendel & Patton, 1978: 1616) or heterogeneous conceptions of the respective analyses (Grabner-Kräuter, 1992: 1080) studies and their findings cannot be compared easily. Additionally, due to the fact that success factors, as a rule, focus on the past (Hilger, 2001: 124) and disregard contextual externalities (Robson et al., 2002: 386) intra- and extra-organizational changes might not be represented appropriately. Consequently, critics question the usefulness of pre-determined success factors derived from past experiences within dynamic environments (Ghemawat, 1991: 6-7).

A denial of any attempt to generalize findings (Link, 1997: 102) would challenge one of the most enduring and fundamental goals of management science in general, i.e., to investigate the logics and causalities that lead to business success (March & Sutton, 1997: 699). Obviously, this dispute stretches beyond a simple criticism of success factor research.

Fleetingness of success factors. Some critics justify their refusal of research on success factors with its inherent, in-built obsolescence through a diffusion of knowledge and an erosion of marginal advantages:

The basic idea is that any feature of organizational practice that might provide major competitive advantage is ordinarily adopted by all competitors. ... In this way, successes at understanding performance differences are self-destructive. As knowledge spreads, factors that previously distinguished high performers from low performers tend to disappear; and the more powerful the explanatory mechanism [e.g., a meta-analysis] is believed to be, the faster diffusion of knowledge about it. (March & Sutton, 1997: 699)

Hence, according to March and Sutton (1997), the widespread use of published and well-known success factors obstructs the existence of outperforming firms in

comparison to others. Consequently, the intention of the success factor researcher to identify and to publish rules for success turns out to be useless because it eliminates the precondition for sustained competitive advantage (ibid.; Nicolai & Kieser, 2002).¹¹

3.4 Applying the Criticism on Success Factor Research of IJV Formation in China

In order to evaluate the criticism on success factor research and to prove its substance we will apply it to research on success factors of IJV formation in China.

IJVs of firms based in different countries are of major interest for both practitioners and management researchers. IJVs are a preferred organizational mode of managing global businesses but depend on complex and fragile organizational structures and processes. Thus, they show significant variations with regard to their performance and success. Not surprisingly, IJV managers seek advice how to manage them successfully and researchers have conducted many success factor studies and analyses. One of the most important markets with regard to foreign direct investment, especially IJVs, is the People's Republic of China (see e.g., State Administration of Foreign Exchange, 2003). However, failure rates of IJVs in this market are higher than elsewhere. A study of Anderson Consulting (1995), for example, reports that only 44% of Chinese-foreign joint ventures (JVs) obtained their profit goals; other studies report even higher rates of failure and termination (e.g., Li et al., 1999; Zhu et al., 1998). Therefore, research on success factors of IJVs in China is very popular (e.g., Baird et al., 1990; Luo, 1996; Osland, 1994; Osland & Cavusgil, 1996; Yan & Gray, 1994). It ranges from purely scientific papers to practice-oriented studies (e.g., Ayala & Lai, 1996; Vanhonacker, 1997) and management advisers (e.g., Chung, 1995; Tang & Reisch, 1995; Zinzius, 2000), which leads to heterogeneous reports, solutions, proposals, and suggestions.

As this heterogeneity equally holds for empirically based success factor research studies, we focused our qualitative review on articles published in highly regarded

¹¹ Competitive advantages arise “by implementing strategies that exploit their [i.e., the firms] internal strengths, through responding to environmental opportunities, while neutralising external threats and avoiding internal weaknesses” (Barney, 1991: 99). Then, sustainability is created by maintaining the durability of both the attributes and the capability gap underlying a competitive advantage (Coyne, 1986: 58). According to the criticism mentioned by March and Sutton (1997) and Nicolai and Kieser (2002), publishing SWOTs that significantly affect organizational success denies to establish sustained competitive advantages at all.

scientific management journals¹² (Nippa & Klossek, 2004a), following similar review studies in the field (e.g., Brown & Eisenhardt, 1995; Peng, 2001; Peng, Lu, Shenkar, & Wang, 2001; Robson et al., 2002; Werner, 2002). Thus, our analysis is restricted to empirical studies that statically test their results by using quantitative methods which are regarded as ‘classical’ success factor research studies by Nicolai and Kieser (2002). Within these studies success is used as a dependent variable (March & Sutton, 1997) and is measured either by subjective – e.g., satisfaction – or objective measures of performance – like return on investment (ROI).

Our study (Nippa & Klossek, 2004a) quickly showed the need to distinguish between direct and indirect success factors. Independent predictor variables that directly affect the success of a firm are defined as ‘direct success factors’. Luo (1997), for example, explicitly examines the direct impact of the construct ‘partner selection’ on the performance of IJVs. Because prominent studies about success factors have shown the existence of other causal links between independent variables and success (e.g., Brown & Eisenhardt, 1995), we name those variables that either mediate direct success factors or moderate their link towards performance ‘indirect success factors’ (cf. Hildebrandt & Trommsdorff, 1989: 17). An example is provided by Parkhe (1993b) who analyzes the impact of partner nationality on the structure-performance relationship of strategic alliances (i.e., hypothesis 2, *ibid.*: 309). Partner nationality influences the alliance structure which in turn directly affects the performance of the alliance (*ibid.*: 320). Through the use of indirect success factors the explanatory power of direct success factors can increase. Yet, it complicates both the practical application of the respective success factors and the intended scientific generalization.

We used this differentiation of success and success factors with regard to the selection of relevant studies. Articles that include at least one direct success factor have been included in our review, which spans the time period from 1991 until 2001. Finally, 15 articles have been identified that meet the selection criteria (see Table 3.1) from which seven include indirect success factors, too. These 15 studies represent the sample we will use to review the substance of the criticism on success factor research.

¹² These were *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *Journal of International Business Studies*, *Journal of World Business*, *Organization Science* and *Strategic Management Journal*. These journals were analyzed within the period of time from 1991 to 2001.

Table 3.1: Overview of the 15 core articles

Study	Sample	Data ¹	Period of analysis	Country of origin of foreign investors; interviewees	Industrial sector	Survival Bias	Reliability ²	Key Measures Performance ³	Key Success Factors
Chen (1999)	127 WFOEs in Asia	P (20.6%)	1986-1993	127 from Taiwan; Taiwanese top executive managers from foreign parent	n.s.	Potentially given, n.s. further	n.s.	S	Marketing-oriented strategies, Entry modes (high control)
Isobe et al. (2000)	220 EJVs in PRC	P (14.4%)	-1996	220 from Japan; Chinese CEOs or presidents from IJV	Manufacturing industry	Given, study points that out	n.s.	S	Commitment to technology transfer, Entry timing (fast entry)
Li & Atuahene-Gima (2001)	184 „New Technology Ventures“ in PRC	P (36.8%)	Age <8 years, n.s.	n.s.; CEOs, F&E managers, technical managers or marketing managers from IJV	Different sectors (>10)	Potentially given, n.s. further	Yes	S	Product innovation strategy
Li et al. (2001)	898 IJVs in PRC	S	-1996	265 from overseas China, 27 from Great Britain, 146 from Japan, 275 from the USA ⁵ ; ---	Clothing and electronics industries	Potentially given, n.s. further	---	O	Industry, Cultural similarity (nationality) of parent companies
Lin & Germain (1998)	74 IJVs in PRC	P (74.0%)	1990; n.s.	74 from the USA; North-American and Chinese general and division managers from IJV	Manufacturing industry, service providers	Given, study points that out	Yes	S	Age of IJV, Conflict resolution strategy, Cultural similarity (nationality) of parent companies, Relative power
Luo (1997)	116 IJVs in PRC	S	1988-1991	Developed country or otherwise, n.s. further; ---	Manufacturing industry	Not given	---	O	Absorptive capacity, Local partner's foreign/market experience, Market power, Local partner's organizational form, Product relatedness

Study	Sample	Data ¹	Period of analysis	Country of origin of foreign investors; interviewees	Industrial sector	Survival Bias	Reliability ²	Key Measures Performance ³	Key Success Factors
Luo (1998)	162 foreign firms (EJVs, CJVs, WFOEs) in PRC	S	1980-1992	n.s.; ---	Light industry sector	Potentially given, n.s. further	---	O (Risk, ROI, sales, asset turnover)	Entry timing (fast entry)
Luo (2001)	282 EJVs in PRC	P/S (35.3%)	-1996	n.s.; general managers, deputy general managers or senior managers from IJV	Different sectors	Potentially given, n.s. further	Yes	O/S (ROI / Satisfaction*)	Personal attachment
Luo & Park (2001)	113 foreign firms (55 WFOEs, 49 EJVs, 9 CJV) in PRC	P/S (22.6%)	-1997	7 from Australia, 10 from Germany, 7 from France, 9 from Great Britain, 12 from Hong Kong, 8 from Italy, 17 from Japan, 18 from the USA, 25 from other countries (n.s.); Foreign and Chinese general managers or deputy general managers from IJV	n.s.	Potentially given, n.s. further	Yes	S (ROA, sales, compet. posit.)	Strategic alignment with local environment, Strategic orientation
Luo & Peng (1999)	108 foreign firms in PRC	P (21.6%)	-1996	n.s.; general and deputy general managers from IJV	Manufacturing industry	Potentially given, n.s. further	Yes	S (ROE, ROS, sales, compet. position)	Experience (intensity, diversity)
Luo et al. (2001)	295 EJVs in PRC	P (38.8%)	-1999	n.s.; CEOs and general managers from IJV	Manufacturing industry	Potentially given, n.s. further	Yes ⁹ n.s. ⁹	S (Satisfaction**)	Overall and specific control of foreign partner, Specific control of local partner
Makino & Beamish (1998)	737 IJVs in Asia	P/S (n.s.)	1986-1991	737 from Japan; n.s.	Manufacturing industry	Potentially given, n.s. further	n.s.	O (Financial perf., survival)	Ownership structure of IJV
Pan & Chi (1999)	859 foreign firms (110 WFOE, 667 EJVs, 82 CJVs) in PRC	P (80.6%)	1988-1994	n.s., from Hong Kong, Japan, Taiwan, USA, other Asian or European countries ⁶ ; Foreign general managers from foreign parent	Manufacturing industry	Not given	n.s.	S (Profitability)	EJV mode, Location-specific factors, Fast entry, Local sales vs. exporting

Study	Sample	Data ¹	Period of analysis	Country of origin of foreign investors; interviewees	Industrial sector	Survival Bias	Reliability ²	Key Measures Performance ³	Key Success Factors
Pan et al. (1999)	14,466 foreign firms (2,532 WFOEs, 10,362 EJV's, 1,608 CJV) ⁴ in PRC	S	-1995	n.s.; ---	Manufacturing industry	Given, study points that out	---	O (Market share, ROA)	Duration of market leadership, Firm efficiency, Firm size, Concentration of product segment, Entry mode (EJV), Fast entry
Wang et al. (1999)	132 EJV's in PRC	P (17.6%)	-1996	132 from Singapore; Foreign and Chinese top managers ⁷ from foreign parent and IJV	Different sectors (>10)	Potentially given, n.s. further	Yes n.s.	S (Satisfaction)	Partner relationship, EJV strategy, Level of control of foreign part.

Notes: IJV = International Joint Venture, EJV = Equity Joint Venture, CJV = Contractual Joint Venture, WFOE = Wholly Foreign-Owned Enterprise

¹ P = Primary data, S = Secondary data; in case of primary data, representativeness is denoted in brackets.

² "Reliability" refers to 1. "proof-reading" by experts and to 2. "back-testing" of translated questionnaires.

³ S = Subjective performance measures, O = Objective performance measures.

⁴ The numbers don't result in 14,466 investigated firms; however, no reason is given.

⁵ The numbers don't result in 898 investigated firms; within the pre-sample there are 1,379 firms, therein 548 from Hong Kong, Macao and Taiwan, 391 from the USA, 172 from Japan, 90 from Singapore, 42 from Great Britain, 29 from each Canada and South Korea, 10 from France, 9 from each Germany, Australia, Austria and 1 from North Korea.

⁶ Within the pre-sample there are 1,066 firms, therein 626 from Hong Kong, 55 from Japan, 215 from Taiwan, 61 from the USA, 21 from other Asian countries and 37 from European countries.

⁷ In the study of Wang, Wee, and Koh (1999: 292), there are mentioned many designations.

⁸ In the study of Lin and Germain (1998: 184-185), there is used "standard blind translation" by Brislin, Lonner, and Thorndike (1973) instead.

⁹ The English as well as the Chinese version of the questionnaires have been tested by two bilingual professors in management.

* (1) Management, (2) Technological development, (3) Product design, (4) Quality control, (5) Labor productivity, (6) Marketing, (7) Distribution, (8) Customers service, (9) Cost control, (10) Organizational Reputation.

** (1) Sales, (2) Market share, (3) Profitability, (4) Cost leadership, (5) IJV Management, (6) Technological development, (7) Product design, (8) Quality management, (9) Labor productivity, (10) Marketing, (11) Distribution, (12) Customer service, (13) Reputation, (14) Involvement of partner, (15) General performance.

3.4.1 Theoretical and Conceptual Deficits

Missing theory and simple models. According to Robson et al. (2002: 387-392), studies on IJVs mention and/or employ several theoretical paradigms such as transaction cost economics (e.g., Hennart, 1988; Kogut, 2002; Ramanathan, Seth, & Thomas, 1997), agency theory (e.g., Contractor & Kundu, 1998; Kumar & Seth, 1998; Reuer & Miller, 1997), resource-based view (e.g., Das & Teng, 2000b; Eisenhardt & Schoonhoven, 1996; Mjoen & Tallman, 1997), behavioral perspective (e.g., Eroglu & Yavas, 1996; Inkpen & Currall, 1997), organizational learning/knowledge-based view (e.g., Inkpen & Crossan, 1995; Inkpen & Dinur, 1998; Lyles & Salk, 1996), political economy (e.g., Lecraw, 1984; Lee & Beamish, 1995; Yan & Gray, 1994), and strategic management (e.g., Harrigan, 1988; Lyles & Baird, 1994; Millington & Bayliss, 1997).

In analogy of the reviews provided by Robson et al. (2002) or Kogut (1988), our review reveals that most studies (8 out of 15) show no sound theoretical framework: Of these eight studies, three (Lin & Germain, 1998; Pan, Li, & Tse, 1999; Wang et al., 1999) abstain from building on solid theoretical paradigms, two studies (Isobe et al., 2000; Pan & Chi, 1999) just mention well-known representatives of theoretical paradigms: For example, Isobe et al. (2000: 469) state that technological knowledge can serve as a source of competitive advantage and may also be difficult to transfer. One might assess this comment as a proof that the authors implicitly refer to the resource-based view of the firm and to the theory of organizational learning or the knowledge-based view, albeit they do not explicitly mention it, except for one prominent source, i.e., Barney (1991).

Furthermore, three (Luo, 1997; Luo et al., 2001; Makino & Beamish, 1998) out of the eight studies that lack a solid theoretical groundwork seem to mention explicit theoretical paradigms only for justification purposes: For example, although Luo et al. (2001) refer to the transaction cost theory and possible moderating effects such as “‘transactional variations’, namely uncertainty, transaction frequency and asset specificity” (ibid.: 46), they do not further apply these moderators in their model.

Yet, seven out of fifteen studies use sound theoretical frameworks, i.e., they not only mention theoretical concepts but apply and refer to them in order to derive research questions and hypotheses.

As a result, one has to state that a great number of success factor studies we reviewed miss an explicit theoretical or conceptual foundation. In most cases the selection of analyzed predictor variables is made without explicit regard to economic or organizational theories. In other cases one gets the impression that references to theories just fulfil justification purposes with regard to expectations of peer-reviewers. Robson et al. (2002: 392) point out that difficulties of drawing clear lines between single theoretical approaches might also be responsible for the lack of explicitly mentioned theoretical foundations.

(a) How to define performance? The 15 studies under review support concerns about using the right success, efficiency, or performance indicators and measures. Only few studies (Luo, 2001; Luo & Park, 2001; Makino & Beamish, 1998; Pan & Chi, 1999) mention possible difficulties and resulting limitations with regard to the interpretation of their findings. Although studies like Geringer and Hebert (1991: 258) find evidence that objective survival-based measures for IJV success are strongly correlated with subjective performance measures, this does not indicate a significant correlation of objective survival-based measures with other objective performance measures. Geringer and Hebert (1989: 250), for example, warn that “due to variations among, and weaknesses of, prior measures of IJV performance, many conclusions from these previous studies have to be interpreted with some degree of caution”.

(b) Causality – simple enough? All reviewed studies derive their success factors from extensive literature reviews. Most studies (12) use operationalizations and measurements that showed ‘high’ reliability in prior studies. Although this increases the likelihood of building on approved concepts, it bears the problem of repeatedly relying on insufficient operationalizations.

Only one study of our sample explicitly tested for possible interdependencies. In order to identify reverse causalities Luo (2001: 198) applies path analysis and suggests to further analyzing reciprocal effects:

What remains unclear is how structural attachment and personal attachment influence each other in international networks. Parties with different cultural backgrounds may undertake and configure these two attachments differently. Another research question is whether conditions in foreign environments modify such configurations.

Moreover, he additionally “tested several alternative specifications (reverse causalities) in the structural equation model and found that those alternative specifications were not significant.” (ibid.)

Survival bias and other blind spots. According to the relevant literature, attention should be paid to the survival or failure of the venture: “[I]n fact, Beamish and Delios (1997) reveal that an average of two in five IJVs is perpetual strugglers or outright failures” (Robson et al., 2002: 386). Similar, Lin and Germain (1998: 191) state that “from a practitioner’s perspective, a comparison of failed IJVs to successful ones could provide valuable guidelines”. Yet, only two out of 15 studies avoid the survival bias by including failed or terminated IJVs in their investigation (Luo, 1997: 654; Pan & Chi, 1999: 368; see Table 3.1). Other studies like Isobe et al. (2000: 480), Lin and Germain (1998: 191) or Pan et al. (1999: 99) explicitly mention limitations of applying their results due to the survival bias, whereas the majority of our reviewed studies does not refer to this limitation (see Table 3.1). In one case researchers frankly admit that the survival or survivor bias has a great impact on their research question and findings (Isobe et al., 2000), but obviously fail to respond to it: With regard to the development of the hypothesis “that early movers, if they survived, would have better performance on the average than late entrants” (ibid.: 471), the authors refer to studies that “have argued that entry order effects are significantly moderated by factors such as survivor bias” (ibid.: 470). However, when discussing the limitations of their findings, Isobe et al. (2000: 480) admit the disregard of the survivor bias in their study.

Makino and Beamish (1998: 810), who are the only researchers in our sample that use IJV survival as a measure of success, report that “significant differences in both the performance and survival likelihood were found among the four JV ownership structures”. Their results support the idea to differentiate the failure-success continuum, i.e., to separate ‘success’ factors that lead to extraordinary business performance – but not to termination – from ‘failure’ factors that initiate or prevent business failure – but do not cause outperforming IJVs. Therefore, differences stemming from survival-based performance measures should be analyzed further (cf. Luo & Park, 2001: 154).

Limitations imposed by existing paradigms of the research context. Criticism regarding the tendency to choose new, additional success factors instead of duplicating and re-

testing existing success factors holds for most studies of our sample. Direct and indirect success factors analyzed in the 15 articles turn out to be very heterogeneous and exclusive. Only three out of a total of 35 direct success factors have been analyzed in more than one study. “Entry timing” is the success factor that has been studied most (four times). It deals with hypotheses whether IJVs shall enter the Chinese market as first, second or late movers. Other determinants that were studied more than once are “market entry mode”, addressing the issue whether entries based on minority, partly-owned, or majority IJVs are more successful and whether IJVs should be the preferred entry modes compared, for example, to licensing or wholly foreign-owned subsidiaries. Finally, the success factor “cultural similarity of the parent companies” has been analyzed for two times.

Independently from our sample of articles, which includes quantitative studies only, we did not find many studies that use qualitative research methods to investigate successful IJVs within China. One of the few exceptions is the study of Yan and Gray (1994: 1479) who used “a comparative case study approach to re-examine the relationships among bargaining power, control, and performance”. In doing so, the study tries to provide detailed explanations that quantitative survey methods miss as well as to identify changes over time (ibid.). Two reviewed studies (Isobe et al., 2000: 480; Pan et al., 1999: 85) refer to a supplementary, brief case study within their practical implications and, thus, provide at least some qualitative reasoning. Another study points out the necessity of encouraging the increased use of such methods: “Multiple methods, such as case analysis and post study interviews, would be helpful in validating further the findings” (Lin & Germain, 1998: 191).

The existing overuse of quantitative methods within the empirical success factor research on the management of IJVs is complained by Parkhe (1993a: 229-230), too:

Such empirical research, however, may be constrained by methodological barriers, which in turn limits the potential for theory advancement. As Bettis observed, ‘Current norms of the field seem strongly biased toward large sample multivariate statistical studies. This leads to a large database mentality, in which large-scale mail surveys and ready made databases such as Compustat, CRSP and PIMS are often favored. ... Qualitative studies do appear in the journals but they are the exception’ (1991: 316).

In order to develop sound theories, research has to be rather “inductive/theory-generating/idiographic” than “deductive/theory-testing/nomothetic” and, as a

consequence, should use rather “qualitative research (such as case studies or participant observation) that may permit deeper understanding and sharper delineation of concept domains, and ... ‘joint’ research (combining qualitative and quantitative approaches)”, according to Parkhe (1993a: 228). But, what has rather emerged instead is an inchoate fund of diverse and unconnected research studies without any “connective tissue” like a coherent theoretical framework (ibid.: 232).

(a) Poor replication rate. The inclusion of foreign IJV partners from different countries and other than Chinese-foreign JVs (i.e., Asian-foreign JVs) shows inherent problems with regard to replications. While studies like Luo and Park (2001) or Pan and Chi (1999) analyze foreign partners from more than seven other countries, several other studies (e.g., Chen, 1999; Wang et al., 1999) limit their sample to one foreign country, whereas others (e.g., Li & Atuahene-Gima, 2001; Luo, 1998, 2001) do not specify the respective foreign countries of origin at all. This might cause considerable problems for interpretation as well as for replication, especially if success factors like cultural distance are analyzed – sometimes even without further specifying the investor’s nationality, as it is the case with most reviewed studies that employ cultural attributes in the form of control variables or indirect success factors (cf. Luo, 2001; Luo & Peng, 1999; Luo et al., 2001 – refer to Table 3.1). According to Luo (1997: 655), “country of origin of investment affects the cultural distance between home and host countries (Shan, 1991)” and, therefore, at least has to be controlled.

A similar lack of information becomes evident regarding the assignment of analyzed firms to industrial sectors or detailed specification of industries involved. Most studies just refer to the generic term “manufacturing industry” (Isobe et al., 2000; Lin & Germain, 1998; Luo, 1997; Luo & Peng, 1999; Luo et al., 2001; Makino & Beamish, 1998; Pan & Chi, 1999; Pan et al., 1999). Yet, restricting a study to specific industrial sectors could considerably affect their results and reduce the chance of replication (cf. Chen, 1999: 167; Luo, 1998: 397; Luo et al., 2001: 49). In China, for example, the consumer goods industry is characterized by tremendous competition that makes it difficult for foreign investors to achieve high market shares or sales (Pan et al., 1999: 88).

We identified a serious inconsistency – to some extent even hypocrisy – within the research studies we reviewed. While some authors frequently call for intensified replication of – their – success factors and findings in the conclusions of their papers (e.g., Li & Atuahene-Gima, 2001: 1131), they fail, as well, to provide necessary information (i.e., country of foreign investor, industrial sectors) as to act upon their own advice.

(b) Meta-analyses run idle. We experienced severe problems while conducting qualitative meta-analyses of success factor studies of IJVs (Nippa & Klossek, 2003, 2004a), starting from identifying relevant studies, to comparing definitions and constructs used, which are often not specified, choosing appropriate categories, and aligning their findings. In a similar vein, Robson et al. (2002: 413) emphasize the inappropriateness of a meta-analysis due to the fact that “exact *p*-values resulting from testing for the effects of factors on IJV performance were in many cases undisclosed”.

Major problems are bound up with any attempt to categorize various variables used by different authors. It can be questioned, for example, whether Wang et al.’s (1999) success factor “(harmonic) relationship between partners” and Luo’s (2001) predictor variable “personal attachment” should be subsumed under “partner characteristics” or better under “joint venture governance” due to the relevant compensating effect that certain partner characteristics might incorporate (Nippa & Klossek, 2004a).

3.4.2 Methodological Deficits

Insufficient samples. All studies – with the exception of Lin and Germain (1998), who employ a sample size of 74 IJVs – are based on extensive sample sizes ranging from more than 100 (Luo & Park, 2001) to almost 15,000 observations (Pan et al., 1999). However, the representativeness of the samples used is somehow jeopardized because of the disregard of failed IJVs. Additionally, the fact that only IJVs in certain industries – sometimes only one – have been analyzed has a major impact on the findings and possible generalizations (Chen, 1999: 167; Luo, 1998: 397; Luo et al., 2001: 49). For example, some studies often add more vagueness by not thoroughly specifying the generic term “manufacturing industry”. Pan et al. (1999: 99), for instance, argue that the product sectors investigated in their study “may be too broadly defined”. Therefore, the

different samples, sample contexts, and examination periods indicated must be taken into account when interpreting the reported results of every study. Thus, the criticism concerning sample heterogeneity can be confirmed with regard to our example.

Confusing operationalization of variables. (a) Objective versus subjective measures. With regard to the success measures used the reviewed studies appear to be rather heterogeneous. This seems to be predominantly caused by differing objectives and the uniqueness of IJVs (cf. Harrigan, 1986: 16). However, almost half of the reviewed studies (seven) apply general assessments of the financial success of IJVs in China. Luo (2001: 194) reports a positive relationship between personal attachment and process performance as well as ROI. Furthermore, this is the only study in our review sample that measures both objective and subjective performance (see Table 3.1).

Most studies use more than one indicator or measure of IJV success. However, we did not find any studies that use exactly the same measure of success, even if same authors are involved (e.g., Luo, 2001 compared with Luo et al., 2001; see Table 3.1). This deficit may especially be relevant with regard to IJVs, where “attempts to make any two joint ventures work under identical constraints in time, size, profitability, and so on will probably yield very different results” (Harrigan, 1986: 192). By using multidimensional subjective performance measures studies like Luo (1997), Luo (2001), or Luo et al. (2001) manage to provide “convergent and discriminant validity”¹³ of their performance construct (Luo, 2001: 191). This is necessary as many performance measures may have moderating effects on each other (e.g., Hilger, 2001: 107).

(b) Far from operationalization standards. Due to only a few overlaps in success factors used and analyzed as mentioned earlier, this criticism cannot be reviewed substantially. Beside inconsistencies concerning the basic definition of IJV, we found that success factors that are used by several authors such as ‘entry timing’ or ‘entry mode’ have not been defined unanimously. Makino and Beamish (1998: 811), for instance, conclude that “the conventional ownership measure cannot fully capture the performance and survival implications of JVs formed with a third-country based firm”. Instead of applying uni-dimensional operationalizations of the ownership structure of an

¹³ According to Ariño (1999: 2), “*Convergent validity* is ‘the degree to which two or more attempts to measure the same concept ... are in agreement’ (Bagozzi & Phillips, 1982: 468). ... *Discriminant validity* is ‘the degree to which measures of distinct concepts differ’ (ibid.: 469)”.

IJV, Makino and Beamish's (ibid.) "results generally suggest that nationality of JV ownership does matter in predicting both the performance and survival likelihood of JVs". They therefore conclude that using the conventional definition of IJV ownership structure (i.e., two-partner JVs between local and foreign firms) might cause distortions in this particular field of success factor research (ibid.: 809-810).

Garbage in, garbage out. (a) Informant and response biases. Informant biases may occur especially in those studies that solely rely on evaluations of managers of a certain hierarchical level, for example, on CEOs or general managers of the IJV (e.g., Isobe et al., 2000; Luo et al., 2001; this applies to 7 out of 11 studies that use primary data). However, we also found studies that include managers from different hierarchical levels, thus using multiple informants (cf. Li & Atuahene-Gima, 2001; Wang et al., 1999). Furthermore, six studies attempt to reduce the "response bias" resulting from including and questioning only Chinese managers or foreign managers. Isobe et al. (2000: 474), for instance, improve interpretative reliability by comparing separate answers of both Japanese and Chinese IJV managers. Thus, the use of multiple informants is not just seen as desirable (cf. Lin & Germain, 1998: 191; see also Kumar et al., 1993: 1646), but is also frequently implemented.

Regarding the respective criticism one has to admit that success factor researchers are increasingly aware of the problem and use advanced methods to reduce it. Because that seems not to be common practice so far, the existence of informant and response biases has to be confirmed.

(b) Inappropriate data mining. Eleven out of 15 studies base their analyses and findings on primary data sources. All of them use questionnaires to gain information rather than conducting intensive interviews with various experts from the IJVs and their parent companies. Especially with regard to this complex research field, one has to admit that critical comments concerning doubtful data quality do not lack substance. Thus, in order to ensure validity and generalizability of their surveys, most studies that rely on primary data – with the exception of Li and Atuahene-Gima (2001: 1131) – use randomly selected samples. In order to improve data quality, only seven studies state that questionnaires have been proof-read by an expert. However, only four studies strive to

exclude translation biases through “back-testing” their questionnaires, although this has been proposed for performing cross-cultural research (cf. Brislin, 1970; see Table 3.1).

(c) Uncommonness of iteration loops. With regard to the period of investigation, many authors themselves emphasize the negative consequences of mining and generating data which is out-of-date (Li et al., 2001: 128-129; Luo, 1997: 660; also refer to Table 3.1). Reflecting on the dynamics of the Chinese market, they furthermore see the need for iterations, for example, through longitudinal analyses (e.g., Chen, 1999; Luo, 1997). The deficit is most virulent to researchers that analyze market entry timing as a success factor for Sino-foreign JVs (Isobe et al., 2000; Luo, 1998; Pan & Chi, 1999; Pan et al., 1999).

Taking into account that none of the studies reviewed applies longitudinal analyses or tries to grasp and deal with feedback effects or other forms of reflexivity, one has to confirm the criticism addressed.

Inadequate statistical methods and tests. Surely influenced by peer-review processes of the well regarded journals from which we extracted our sample, statistical methods and tests applied are highly sophisticated. In order to signal reliability and validity of the methods and models used, many studies apply reliability tests like Cronbach’s alpha or communality estimates (e.g., Chen, 1999; Luo, 2001; Luo & Peng, 1999; Luo et al., 2001). One study (Li & Atuahene-Gima, 2001: 1131) admits that the construct used to measure “environmental turbulence” suffers from a low Cronbach’s alpha and, therefore, has to be restudied. With regard to the statistical methodologies applied for validating the success factor-performance relationships, mainly multivariate methodologies such as regression analyses (e.g., Luo, 1997) or structural path analyses such as LISREL (e.g., Lin & Germain, 1998) are employed. In accordance with that, Isobe et al.’s (2000: 481) statement can be applied to almost all reviewed studies:

[O]n a methodological note, this study assessed the identification of the system of equations (not a widespread, yet an important, practice in management, marketing, and strategy applications of LISREL) to safeguard the interpretation of the findings. It also illustrates how the calibration of a model clarifies the relative importance of various input variables. This process adds specificity and insight to the important, albeit limited, testing of hypotheses.

Furthermore, linkages and correlation between different indirect and direct success factors and impacts of heterogeneous test surroundings seem to be considered well. Ten

out of fifteen articles employ control or dummy variables in order to exclude noise, i.e., disruptive factors from cause-and-effect relationships studied, and to avoid misinterpretations. Li and Atuahene-Gima (2001: 1131), for example, stress the importance of sophisticated methodologies for producing reliable insights. In their study, the authors admit that due to the lack of including the control variable “form of the alliance” important moderating influences have not been eliminated or abolished (ibid.).

Overall, all studies we reviewed applied thorough statistical procedures. However, the impact of previous IJV success on current IJV success is only mentioned in a single study (Luo, 2001: 199) which explicitly emphasizes the need to investigate the effect of previous success on success factors and current success.¹⁴

3.4.3 Practical Deficits

A puzzle for decision makers. Even with regard to our small sample of studies published in highly regarded management journals we can confirm the puzzle reproach. It seems to be practically impossible or at least inconceivable that managers retrieve all relevant studies, fit them together in order to get the bigger picture, grasp significant and relevant findings, and base their future decisions on it. Beside the facts that the research field is vast and that the language of the scientists in most cases does not match the language used by managers, practical implications, obligatorily revealed by authors in their articles, appear not to be of much help for practitioners. With regard to the reviewed studies, practical implications seldomly exceed more than half a page, except for the studies of Pan and Chi (1999) and Wang et al. (1999), whereas the latter formulates practical guidelines. Practical advice might also derive from employing qualitative methods like case studies. As mentioned earlier, at least two studies of our sample (Isobe et al., 2000: 480; Pan et al., 1999: 85) refer to a case study.

Our review reveals that the research on success factors of IJVs, even restricted to the People’s Republic of China, produces heterogeneous and exclusive findings. Only three out of 35 different direct success factors have been studied more than once. Of these

¹⁴ But, more and more studies address the feedback effect caused by earlier successes (e.g., Chen, Hu, & Hu, 2002; Lyles, von Krogh, & Aadne, 2003).

three variables, two have been tested with almost similar results regarding their influence on performance: “Fast entry” as an expression of “entry time”, which has been tested in four studies, has a strong positive impact on success, except for one performance indicator, i.e., ROI, in one single study (Luo, 1998). Despite this correlation, Pan and Chi (1999: 373) argue that further research is needed in order to ensure these findings. All three studies that analyzed the impact of variations of “entry modes” on IJV success report significant positive results for “equity joint ventures” and “high control”, respectively. In contrast, “cultural similarity of parent companies” was tested significant and positive by one study (Lin & Germain, 1998) and significant and negative by another one (Li et al., 2001).

Thus, one has to conclude that findings are, at least to some extent, inconsistent and contradictory. Furthermore, research results cannot easily be retrieved and understood by practitioners. Consequently, the criticism of insufficient practicability and practical relevance of success factor research can be confirmed.

The generalizability dilemma. According to several limitations within the studies reviewed, the generalization of results may suffer from abstaining to control for potential contingency factors as these are considered to probably moderate the impact of certain success factors (e.g., ownership structure) on performance or survival (Makino & Beamish, 1998: 810). Additionally, several studies (Isobe et al., 2000: 480; Lin & Germain, 1998: 190; Luo, 1997: 660; Makino & Beamish, 1998: 810) state voluntarily that the generalizability of their results remains doubtful or unknown due to the limitation of their data, for example, to a single home country (Isobe et al., 2000: 480) or to Japanese JVs in East and Southeast Asian manufacturing sectors (Makino & Beamish, 1998: 810; also refer to Table 3.1). Li and Atuahene-Gima (2001: 1131), too, admit that the non-random sampling procedure they applied limits the generalizability of their results.

In our opinion, success factor studies face a serious dilemma. If they respond to the call for more control variables to identify or exclude hidden contingencies, they might fall prey to the criticism which refers to the increased obscurity of statistical tests and procedures resulting from it (cf. March & Sutton, 1997: 701).

Our study confirms the existence of important restrictions and deficits regarding the application and implementation of research findings by practitioners. As this will be the case for many research results published within academia, the problem refers to a more general debate of applicability and practical focus of management research and will not be addressed further here.

3.5 Discussion

As depicted throughout the paper, many critics of success factor research complain about missing or inappropriate theoretical foundations, sophisticated research settings, elaborate methodologies, and so forth (e.g., Fritz, 1990; Robson et al., 2002; etc.). As a résumé of our comprehensive review and comparison, mixed results have been determined. With regard to the soundness of scholarship one has to acknowledge that all authors comply with high academic and research standards. A profound theoretical foundation is demonstrated by at least half of the studies. With regard to conceptual and methodological issues the survival or survivor bias becomes more and more known and first attempts are undertaken to solve the problem. A main body of the criticism focuses on the fact that researchers pretend to produce insights for practitioners, but fail in delivering them. This concern is strongly supported by our review.

March and Sutton (1997: 699) and Nicolai and Kieser (2002: 586) argue that aiming to produce and publish information about successful businesses and underlying reasons for it, i.e., success factors, is completely useless and senseless. They substantiate their argument by referring to the fact that knowledge transfer erodes competitive advantages and by referring to the complexity of core competencies embedded in an organization. Our study shows that information revealed by the specific success factor studies is limited to selective determinants of sustained competitive advantage. Practitioners will seek in vain for advices how to achieve better performance. Moreover, the will of outperforming firms to uncover their success factors is much in doubt. Rather than broadcasting it clearly they will protect and cultivate ambiguities:

Ambiguity in business actions and outcomes creates a barrier to competitive imitation. The height of the barriers and their rate of decay are determined by the aggressiveness of the competition and the degree of ambiguity. Sustainability of advantage arises from the maintenance of barriers. To

achieve this, reinvestment in the sources of ambiguity (tacitness in skills, complexity in skill and resource interaction, specificity of assets) is required. (Reed & DeFillippi, 1990: 100)

While *information* about resources and capabilities are one important precondition for establishing and sustaining competitive advantage, imitators must have both the *opportunity* and *ability* to obtain and to use relevant resources and capabilities (Das & Teng, 2000b). Thus, even significantly tested correlations between success factors and success are not sufficient to establish and maintain a competitive advantage.

Insights provided by various success factor studies should therefore not be seen as a perfect recipe for creating extraordinary business success but rather as preliminary information regarding possible elements which are needed in order to *establish* a sustainable competitive advantage (cf. Grant, 1998: 76, 174). Furthermore, critics should not address the question *whether* exploring success factors is mutually exclusive for the establishment of competitive advantage, but rather *how* interdependencies between both concepts may be exploited further. In practice, the publication of success factors may only provide a good starting point that still needs refinement, due to the superficiality of most success factor studies (cf. Brown & Eisenhardt, 1995: 353).

Success factor research in general is challenged by another important reason. Assuming that competition will become even more dynamic in the future, the durability and relevance of success factors, and especially critical success factors as proposed by Rockart and his colleagues, is to be questioned. Yet, according to Jenner (2003: 203): “Past success seems to become an obstacle for strategic change and therefore limits the potential for future success”. Furthermore, from his point of view “there exists a paradoxon in the discipline of strategic management, whose main interest lies in the explanation of enduring success” (ibid.). Because of an increasingly dynamic environment, the identified success factors should merely be considered as being necessary requirements that are essential for having sustained success by establishing other sufficient requirements (ibid.: 204) – just like the establishment of a sustained competitive advantage.

What may be also derived from the latter reasoning with regard to situational drawbacks is a need for studies which account for developing situational frameworks that distinguish the level of impact of certain success factors with regard to an organization’s

performance (Fritz, 1990; Varadarajan, 1989). This demand has been also raised “to the limited extent that the planning context was considered” (Pearce, Freeman, & Robinson, 1987: 671). Thus, in order to conduct sound research “a clear specification of the context and the use of situational analysis to deduce the sources of the outcomes observed” (Kamath, Rosson, Patton, & Brooks, 1987: 403) is required. Yet, in order to achieve this purpose, quantitative research might not be appropriate:

The contextual approach is not concerned with the notion of causality, which underlies positivist epistemology, because it becomes impossible to find a point at which causal forces begin. The nature of interaction and feedback between elements within a contextual field is such that there are always causes, which cause causes to cause causes (Wilden, 1972: 39). The beginning of systemic wisdom lies in an awareness that relationships change in concert and cannot be reduced to a set of determinate laws and propositions, as positivist epistemology would have it. ...

In manipulating ‘data’ through sophisticated quantitative approaches, such as multivariate statistical analysis, social scientists are in effect attempting to freeze the social world into structured immobility and to reduce the role of human beings to elements subject to the influence of a more or less deterministic set of forces. ... The large-scale empirical surveys that dominate much social research stand as examples of the principal types of method operating on assumptions characteristic of the objectivist extreme of our continuum. Once one relaxes the ontological assumption that the world is a concrete structure, and admits that human beings, far from merely responding to the social world, may actively contribute to its creation, the dominant methods become increasingly unsatisfactory, and indeed, inappropriate. ... The requirement for effective research in these situations is clear: scientists can no longer remain as external observers, measuring what they see; they must move to investigate from within the subject of study and employ research techniques appropriate to that task. (Morgan & Smircich, 1980: 496-498)

In order to provide both theoretical soundness *as well as* situational consideration, promoting quantitative *in addition* to qualitative methods such as case studies is seen as favorable (Yan & Gray, 1994: 1479) and is proposed by many authors (e.g., Meredith, 1998; Meredith, Raturi, Amoako-Gyampah, & Kaplan, 1989; Parkhe, 1993a; Robson et al., 2002; Rossman & Wilson, 1984).

3.6 Conclusion

In this paper, we reviewed the criticism addressed to success factor research. We systematized important critical arguments and assigned them to generic categories. The systematization is used to apply the general criticism to a relevant example of recent success factor research, namely IJVs within the People’s Republic of China. Thereby, we reviewed the relevance and substance of the more general criticism. Figure 3.1 summarizes the main results of our study.

Generic category	Main criticism	Results
Theoretical and conceptual deficits		
Missing theory and simple models	Studies do not build upon accepted paradigms and do not use sound theoretical frameworks.	≈
<i>How to define performance?</i>	From a conceptual point of view, the use of performance measures within studies is inconsistent. The resulting effects are discussed insufficiently.	✓
<i>Causality – simple enough?</i>	From a conceptual point of view, studies use cause-effect models that are inappropriate and are discussed insufficiently.	≈
Survival bias and other blind spots	Samples lack failed or terminated businesses. Thus, doubts arise that factors leading to business failure are identical with factors leading to superior business performance.	✓
Limitations imposed by existing paradigms of the research context	Due to reputation effects, researchers mainly rely on quantitative studies as well as on heterogeneous samples and exclusive success factors (“unique selling proposition”).	✓
<i>Poor replication rate</i>	With regard to the replication of studies, research often lacks indications about important data.	✓
<i>Meta-analyses run idle</i>	Assignment of applied variables to different categories and statistical comparison suffer from various problems.	✓
Methodological deficits		
Insufficient samples	Studies are not representative, use different samples, rely on various sample contexts, and examination periods.	≈
Confusing operationalization of variables		
<i>Objective versus subjective measures</i>	From a methodological point of view, the use of performance measures within studies is inconsistent and heterogeneous and may lead to questionable results.	✓
<i>Far from operationalization standards</i>	From a methodological point of view, studies use cause-effect models and construct operationalizations that are inappropriate and too heterogeneous.	✓
Garbage in, garbage out		
<i>Informant and response biases</i>	Biases might appear because studies miss conducting surveys with multiple informants (e.g., from different hierarchical levels).	✓
<i>Inappropriate data mining</i>	Procedures to collect and gain data are inadequate.	≈
<i>Uncommonness of iteration loops</i>	The use of static data and the lack of longitudinal analyses prevent researchers from analyzing feedback effects.	✓
Inadequate statistical methods and tests	Studies do not use sophisticated analytical research methods and lack to account for dependencies like earlier successes.	≈
Practical deficits		
A Puzzle for decision makers	Practical use and application of findings by practitioners is impossible due to very heterogeneous and manifold success factors, publication in scientific journals, and severe problems to derive a ‘big picture’.	✓
The generalizability dilemma	Beside serious problems of generalization, generalization itself conflicts the practical demand for firm-specific solutions	✓

Notes: ✓ = Applies ≈ = Partly applies

Figure 3.1: Summary of main results

Reflecting the results, most aspects of the criticism can be confirmed. While there is evidence that some conceptual and, in particular, methodological flaws and deficits are increasingly addressed by respective researchers and reduced by applying advanced concepts and methods, the principle criticism regarding the practical usefulness and use of success factors as raised especially by March and Sutton (1997: 699) and Nicolai and Kieser (2002: 586) cannot be neglected. Yet, we doubt that the latter criticism is limited to success factor research. It refers to a much broader debate of appropriate relationships of academia with practice and objectives of research and science.

Based on our study we propose to distinguish between “failure factors” and “success factors” in order to advance future research on factors that predict either under- or outperformance. Instead of assuming a continuum ranging from “unsuccessful” to “successful” for all predictor factors, we suppose that some factors will prevent firms from termination but cannot establish success in relation to a peer group, i.e., industry, while other factors lead to success but have no impact on failure, analogous to Herzberg’s (1959, 1968) theory of motivation. According to him, “hygiene factors” prevent dissatisfaction among employees but cannot satisfy and motivate them, whereas “motivators” lead to motivation and satisfaction but cannot prevent dissatisfaction. Thus, becoming less dissatisfied does not mean to become satisfied. Identifying and managing “failure factors” may thus enable an organization to survive, but even more investment and engagement in these factors will most likely not lead to outperforming the competitors. Distinguishing between failure and success factors will affect the criticism expressed with regard to the inherent obsolescence as discussed earlier in this paper. In accordance with a similar argumentation by Jenner (2003), we assume that accounting for factors preventing business failure, i.e., achieving a *necessary* condition, is elementary for achieving extraordinary business success, i.e., a *sufficient* condition.

Future research and future debates on objectives of management research is needed and desirable. Firstly, additional studies could add additional reliability to our work by including more contributions to success factor research. Secondly, future research may analyze the intervening and moderating effects of indirect success factors as well as the control variables in use. Thirdly, in order to add more clarity with regard to the practical applicability of the success factors investigated within the sampled studies, the

empirical replication of these factors would be promising. Finally, future research should analyze whether propositions about a failure-success continuum might hold.

4 Prevalent Theories in International Joint Venture Research: A Critical Perspective

This paper is under review at Critical Perspectives on International Business.

4.1 Abstract

Purpose – The theory-based literature on international joint ventures is varied and vibrant, yet large and fragmented. Moreover, there are concerns that this research, although rigorous, is also relevant to practitioners. Thus, in this article, the burgeoning theory-based literature on international joint ventures is organized into three major streams of research, i.e., economic, resource- and capability-based, and relational perspective, and is critically evaluated regarding rigor and relevance.

Methodology/approach – This review is based on prominent review papers that have been conducted most recently and mainly consists of studies published in major top journals. Only studies with a clear theoretical focus are included. The review also includes practitioner-oriented journals in order to analyze the practical relevancy of findings.

Findings – The study reveals that theory-based IJV research is brimming with rigorous studies that mainly rely on quantitative empirical surveys but, at the same time, is haggard with regard to qualitative studies and practitioner-oriented work.

Originality/value – This study accounts for respective calls proposing to both consolidate and critically evaluate a particular field of research from time to time. Moreover, and as a first attempt, this work applies Parkhe's (1993a) "multimethod, eclectic program of IJV theory development" to investigate the current state of IJV research and to draw research implications.

Keywords – International joint ventures, Relevance, Rigor, Theory development

Paper type – General review

4.2 Introduction

Within the past decades, research on international joint ventures (IJVs) has developed into one of the major and dominant fields in international business (Kogut, 2004; Peng & Zhou, 2006). A plethora of theories, approaches, methodologies, and findings led to a vast field where several review studies on alliances or joint ventures in general (Kogut, 1988; Osborn & Hagedoorn, 1997; Weisfelder, 2001) and IJVs in particular (Buckley & Glaister, 2002; Nippa et al., 2007; Parkhe, 1993a, 2004, 2006; Reus & Ritchie, 2004; Robson et al., 2002) have given a general overview of the area. According to both studies that relate to alliances and interorganizational relationships in general (cf. Osborn & Hagedoorn, 1997) and studies that relate to IJVs in particular (cf. Parkhe, 2004), the whole field must still be seen as chaotic, without showing any discernible, systematic development and an apparent overuse of certain theories and methodologies, whereas certain other, more exotic ones seem to be used only rudimentarily (Parkhe, 2006).

However, contemporary management research seems to suffer from a more fundamental shortcoming: the problem of rigor *and* relevance. Whereas much research that has been done in management research uses strong and rigorous methodological approaches to test hypotheses, it often lacks “[a]sking questions that are of importance to reality” (Vermeulen, 2005: 979); research is – too – frequently based on “simple models of complex worlds” (March & Sutton, 1997: 700). One obvious and major reason that justifies the huge popularity of IJV research during the last decades can be put down to its high relevance for managers and decision makers (cf. Robson et al., 2002: 386). It is not clear, however, whether IJV research has indeed tackled this challenge so far and created research that is both rigorous and relevant (Nippa & Klossek, 2004b).

Building on previous reviews and critiques, this paper seeks to provide a comprehensive and structured overview, to highlight the field’s theory development and employment over the decades, and to evaluate the challenge of rigor and relevance. It is not the purpose of the paper to provide a holistic view, but to emphasize main theory streams used in the field and to provide a critical view of the theories and methodologies used. This work will thereby consider respective calls to both consolidate and critically evaluate a particular field of research from time to time (Boddeyn & Iyer, 1999).

The paper starts by structuring the theory-based IJV literature into three main parts: *economic, resource- and capability-based*, as well as *relational perspective*. Each stream is analyzed according to a tripartite and ideal type of scientific approach, namely, conceptual work, inductive exploratory qualitative research, and deductive confirmatory quantitative research. Moreover, a fourth cluster containing practitioner-oriented publications is added to the structured overview in order to analyze whether conceptual and empirical work “actually matters”, thereby accounting for a related question raised by Vermeulen (2005: 979) as well as other recent claims (Ferraro, Pfeffer, & Sutton, 2005; van Aken, 2004). In the second part of the paper, the streams are compared regarding main theoretical foci and methodologies applied. Afterwards, the paper elaborates on the issue of “rigor and relevance” and proposes future avenues for enhancing structured approaches to analyze IJVs that are both rigorous and relevant. Finally, the paper ends with a conclusion of main findings.

4.3 Main Theory Streams within IJV Research

IJVs are essentially defined as market entry modes which are found by at least two partner firms not belonging to the same nationality (Shenkar & Zeira, 1987). Motives to form IJVs include but are not limited to cost and risk sharing motives (Harrigan, 1986), local managers’ competencies (Lorange & Roos, 1990), or pre-determined governmental restrictions (Mowery, 1988; Vanhonacker, 1997; for other motives see Buckley & Glaister, 2002, or Contractor & Lorange, 2002). In tight connection to these underlying motives, different theories have been applied to explain the emergence, management, and survival of IJVs. A comprehensive review¹⁵ of IJV research reveals three major theory streams: *economic, resource- and capability-based*, and *relational*.¹⁶ The three streams are summarized along key dimensions in Table 4.1 (a comprehensive

¹⁵ This review is based on prominent review papers that have been conducted most recently (Nippa et al., 2007; Osborn & Hagedoorn, 1997; Parkhe, 1993a, 2004, 2006; Reus & Ritchie, 2004; Robson et al., 2002), mostly consisting of studies published in major top journals in order to enhance quality control (cf. Newbert, 2007). Only studies with a clear theoretical focus have been included. The review also included practitioner-oriented journals (i.e., *Academy of Management Executive (now Perspectives)*, *California Management Review*, *Harvard Business Review*, *McKinsey Quarterly*, and *Sloan Management Review*) because they are expected to publish research relevant for practitioners (cf. Kieser, 2002).

¹⁶ One could argue that resource-based views of the firm are also mainly based on economic rationale. However, due to its strong relatedness to capability- and learning-based views, we exclude it from the economic stream.

map can be derived from the Appendix) and are briefly discussed regarding main conceptual, empirical (i.e., inductive and deductive), and practitioner-oriented work that appeared in each line of thought in the following section.

Table 4.1: Comparison of the three research streams

Concepts	Economic Perspective	Resource- and Capability-based Perspective	Relational Perspective
Key Idea	IJV opposed to substitutional modes of market entry, extent of ownership and control	IJV as a mode to exploit and/or (jointly) develop resources and capabilities	IJV as network or tie that generates (social) bonding which leads to uni- (power) or multi-directional (trust) dependencies
Theories Predominantly in Use	Internalization, TCE, Agency Theory, Game Theory, Real Options Theory	RBV, Organizational Capability, Organizational Learning, KBV	Social Exchange Theory, Bargaining Theory, Resource/power Dependence Theory
Major Theoretical Foundation	Alchian & Demsetz (1972), Black & Scholes (1973), Buckley & Casson (1976), Coase (1937), Merton (1973), Williamson (1975, 1985)	Barney (1991), Penrose (1959), Peteraf (1993), Wernerfelt (1984)	Blau (1964), Lecraw (1984), Pfeffer & Salancik (1978), Schelling (1956), Thibault & Kelley (1959)
Sample IJV Studies			
<i>Conceptual Work</i>	<i>Anderson & Gatignon (1986), Beamish & Banks (1987), Buckley & Casson (1988), Hennart (1988)</i>	<i>Khanna, Gulati, & Nohria (1994, 1998)</i>	<i>Das & Teng (2002a), Inkpen & Beamish (1997), Inkpen & Currall (2004)</i>
<i>Inductive Work</i>	---	<i>Doz (1996), Hamel (1991)</i>	<i>Brouthers & Bamossy (1997), Lyles & Reger (1993), Yan & Gray (1994)</i>
<i>Deductive Work</i>	<i>Gatignon & Anderson (1988), Hennart (1991), Parkhe (1993c)</i>	<i>Eisenhardt & Schoonhoven (1996), Simonin (1997, 1999a,b, 2004)</i>	<i>Gulati (1995a,b), Steensma & Lyles (2000)</i>
<i>Practitioner Work</i>	<i>Makino & Beamish (1999)</i>	<i>Inkpen (1998a,b), Si & Bruton (1999)</i>	<i>Ariño, de la Torre, & Ring (2001), Cyr (1999), Liker & Choi (2004)</i>
Dynamism of Factors Focused On	Static and dynamic	Static and dynamic	Dynamic
Main IJV Phases Focused	Entry/formation phase	Entry/formation phase, management	Negotiation phase, management, dissolution
Methodologies Applied and Progress of Perspective	Largely theoretical, almost no inductive work, plenty of deductive work; no translation to practice	Theoretical but also atheoretical, rather few inductive work, plenty of deductive work; few translation to practice	Largely theoretical, rather few inductive work, plenty of deductive work; few translation to practice

Notes: IJV = International Joint Venture; KBV = Knowledge-based View of the Firm; RBV = Resource-based View of the Firm; TCE = Transaction Cost Economics.

4.3.1 Economic Perspective

Conceptual work. There are four major theoretical strands that are based on economic rationale. These include internalization- and transaction cost-based logic, agency theory, game theory, and real options theory. Internalization theory (Buckley & Casson, 1976; Coase, 1937) has been used as a component of the eclectic paradigm (Dunning, 1980), after which firms will choose foreign direct investment (FDI) such as IJV when a few basic conditions are met (Lecraw, 1984). IJVs, thereby, “represent a compromise contractual arrangement that minimizes transaction costs under certain environmental constraints” (Buckley & Casson, 1988: 52) such as a moderate market size and volatility (Buckley & Casson, 1996). In extending this view, transaction cost economics (TCE) suggests that hierarchies or hybrids are formed not only when markets are uncertain but also when asset specificity and the frequency of transaction are high (Williamson, 1985). The frameworks thus provide a formal understanding of organizational integration, especially in the formation state of transactions.

IJV research based on agency theory (Alchian & Demsetz, 1972; Jensen & Meckling, 1976) is focused more on the patterns and configurations of control mechanisms between parents and IJVs or, at a macro level, between shareholders and parents. Agency problems within the parent-IJV-relationship may include risks that are related to interest divergence, asymmetric information, or opportunistic behavior (Nippa et al., 2007). These may occur between the partners or between partners and IJVs. However, concrete conceptual work is lacking. Woodcock and Geringer (1991), one exception, suggest a theoretical agency framework for IJV management mainly based on the influence of cross-national situational and cross-cultural values. A second major aspect within IJV agency theory focuses on the shareholder-parent-relationship. Even though empirical research has studied these effects (e.g., Cordeiro, 1993; Reuer & Miller, 1997), no pure conceptual work appeared in this field. Likewise agency theory, game theory (Oye, 1986) shows no conceptual application, thus offering a potential avenue for future research.

An economically-based concept which seems to grow in importance is real options theory (e.g., Reuer & Tong, forthcoming; see also the related discussion in *Academy of Management Review*, vol. 29, nr. 1). This theory has primarily been applied to empirical

IJV research (e.g., Folta & Miller, 2002; Kumar, 2005; Reuer, 2001; Reuer & Leiblein, 2000; Reuer & Tong, 2005) but is still in its infancies regarding its conceptual customization to IJVs (e.g., Kogut, 1991).

Inductive exploratory qualitative research. With one exception (Zhang & Rajagopalan, 2002), exploratory work in economic IJV research is barely known. Referring to game theory, Zhang and Rajagopalan (2002) argue “that a partner that controls some key specific areas has credible threats.” (ibid.: 474) Moreover, they add that “[w]hen inter-partner credible threat is present, both partners achieve balanced payoffs whereas when it is absent, partners’ relative control will determine their relative payoffs.” (ibid.: 457) TCE, agency theory, and real options theory is fully neglected within exploratory IJV research.

Deductive confirmatory quantitative research. TCE has been frequently applied to deduce and confirm hypotheses. Salient examples include Brouthers (2002), Brouthers et al., (2003), Delios and Beamish (1999), Erramilli and Rao (1993), Hennart (1991), Hennart and Reddy (1997), Luo (2002c), Luo et al. (2001), Merchant and Schendel (2000), Mjoen and Tallman (1997), Olk and Young (1997), Park and Ungson (1997), or Robins et al. (2002). For instance, Brouthers (2002) and Brouthers et al. (2003) prove that when applying TCE-enhanced models to entry mode decisions entry mode choices will more likely result in superior performance. Following their arguments, future research may profit from combining different theoretical approaches as well as from dynamic analyses of significant institutional changes on transaction costs and resources. In a similar vein, related economic theories like internalization or eclectic theory have been addressed by many studies (e.g., Agarwal & Ramaswami, 1992; Cordeiro, 1993; Dunning & McQueen, 1981; Luo, 1998; Nitsch et al., 1996; Reuer & Miller, 1997).

Regarding the core statements of agency theory, only a few quantitative studies can be discerned. The papers of Cordeiro (1993) and Reuer and Miller (1997) examine the impact of agency costs (e.g., represented by the wealth effects of shareholders of an IJV parent) on IJV internalization. For example, Reuer and Miller (1997: 436) “found that stock market reactions to IJV internalization decisions depend on the extent to which managerial and shareholder interests are aligned.” Many studies focus on the concept of

control, which is only roughly intertwined with agency theory (e.g., Gatignon & Anderson, 1988; Geringer & Hebert, 1989; Luo et al., 2001; Mjoen & Tallman, 1997).

Although according to Parkhe (1993c: 796), the IJV setting equals a game of prisoner's dilemma because "all parties involved have an 'inalienable de facto right to pursue their own interests at the expense of others' (Buckley & Casson, 1988: 34)", game theory has widely been neglected. However, partners' opportunistic behavior may be crucial for IJVs as this may result in higher levels of IJV instability (Kogut, 1989; Parkhe, 1993b).

By way of contrast, real options theory (ROT) is a growing stream in IJV research (e.g., Chi & Seth, 2002; Kogut, 1991). At first, Kogut (1991) adapted ROT to JVs in general thereby considering JVs to be mechanisms for mitigating high uncertainty. Folta (1998) as well as Folta and Miller (2002) conclude that in high uncertainty situations, partner firms tend to hold less equity in their actual JV than in low uncertainty situations. Moreover, this may motivate firms to stay in even poor performing JVs due to "the evaluation of the [anticipated] performance of the consortium." (Olk & Young, 1997: 872) Consequently, Kogut and Kulatilaka (2004: 108) observed "that organizations are sensitive to option considerations."

Practitioner work. Articles concerning issues relating to TCE (Makino & Beamish, 1999; Rossetti & Choi, 2005), ROT (van Putten & MacMillan, 2004), agency theory (Ariño & Reuer, 2004), and control in general (Bamford, Ernst, & Fubini, 2004; Bleeke & Ernst, 1991; Cyr, 1999; Das & Teng, 1999; Judge & Ryman, 2001; Kale & Puranam, 2004; Ohmae, 1989; Wright, Hoskisson, Filatotchev, & Buck, 1998) have been identified. Overall, however, the findings provide reasonable evidence for the widespread concern that economic theories like TCE have not received much practical attention (Ghoshal & Moran, 1996). Contrarily, it is surprising that ROT has not received more attention, which is probably attributable to the relative novelty of the concept to the area of IJVs.

4.3.2 Resource- and Capability-based Perspective

Conceptual work. In comparison to the economic perspective, which mainly emphasizes cost advantages, resource- and capability-based perspectives highlight utility advantages. Thus, according to the resource-based view of the firm (RBV), IJVs are

strategies to not only exploit but also explore a firm's existing pool of resources and capabilities (Eisenhardt & Schoonhoven, 1996). Market failure and, hence, internalization of market transactions through IJVs, does not occur because of the potential of opportunistic behavior of actors but rather because of the heterogeneity and uniqueness of firm resources and capabilities (see also Capron, Dussauge, & Mitchell, 1998; Madhok, 1997).

Knowledge- or learning-based views of the firm (e.g., Doz, 1996; Grant & Baden-Fuller, 2002; Gupta & Govindarajan, 1991, 2000; Inkpen, 1995; Inkpen & Crossan, 1995; Kogut & Zander, 1993; Westney, 1988) are also based on the previous logic. Then, IJVs are modes to access, transfer, and acquire tacit knowledge and new competencies through learning mechanisms (e.g., Glaister & Buckley, 1996; Gupta & Govindarajan, 2000; Khanna, 1998; Khanna, Gulati, & Nohria, 1994, 1998).

Inductive exploratory qualitative research. No theory-based case research regarding fundamental RBV issues in IJV settings has appeared so far. With regard to organizational learning theory, however, there are two major case studies that explore learning issues in IJVs (Hamel, 1991; Doz, 1996). Although learning processes are generally stimulated by evolutionary processes in alliances (Doz, 1996), learning may be hampered through inertial and imprinted initial conditions (ibid.) or through differences in the capability to learn or competition between partners (i.e., "learning races", cf. Hamel, 1991).

Deductive confirmatory quantitative research. Explanations based on the RBV have been extensively used as a theoretical groundwork in quantitative empirical IJV work (e.g., Eisenhardt & Schoonhoven, 1996; Isobe et al., 2000; Li et al., 2001; Luo, 1997, 2002b). For instance, studies distinguished between asset and capability seeking behavior by firms from developed vs. developing countries (Hitt, Dacin, Levitas, Arregle, & Borza, 2000) or between asset and capability seeking behavior between firms that are involved in scale vs. link alliances (Dussauge, Garrette, & Mitchell, 2000).

In general, Mowery, Oxley, and Silverman (1998) found evidence that learning can effectively take place through joining IJVs. Other studies focus on the importance of absorptive capacity (e.g., Lane et al., 2001) or the prior experience of partners (e.g.,

Simonin, 1997, 1999b) when analyzing learning through IJVs. Fueled by complaints of studies like Mowery, Oxley, and Silverman (1996) or Simonin (1999a) that empirical IJV research on learning suffers from reliance on anecdotes and assertions rather than on statistical evidence, some studies explicitly analyzed knowledge transfer between parent firms and/or parent firms and the joint venture (Simonin, 1997, 1999a, 1999b).

However, “technological capabilities may be no less important in alliance partner choice than the ‘social network’ factors emphasized by Gulati (1995a, 1995b).” (Mowery et al., 1998: 521) Similar views are held by Kogut, Shan, and Walker (1992) and Gulati (1993) who emphasize the social basis of alliance formation or find the “current alliance formation to be related to past alliance relationships.” (Eisenhardt & Schoonhoven, 1996: 137) According to the study of Inkpen and Tsang (2005), social capital can stimulate access to new sources of knowledge because “knowledge transfer is facilitated by intensive social interactions of organizational actors (Lane & Lubatkin, 1998; Yli-Renko, Autio, & Sapienza, 2000; Zahra, Ireland, & Hitt, 2000).” This is why a third stream, i.e., relational perspective, will be introduced after focusing on practitioner work that is related to the resource- and capability-based perspective, including organizational learning.

Practitioner work. Compared to the economic perspective, ideas that refer to the RBV have been taken up much more frequently by practitioner-related articles (Alvarez & Barney, 2001; Das & Teng, 1999; Dess & Lumpkin, 2005; Dyer, Kale, & Singh, 2004; Gomes-Casseres, 1989; Hamel, Doz, & Prahalad, 1989; Lei & Slocum, 1992; Newman, 1992). In addition, especially practitioner work that relies on key aspects of organizational learning or the knowledge-based view (Dyer, Kale, & Singh, 2001; Inkpen, 1998a, 1998b; Makri, 1999; Parise & Casher, 2003; Si & Bruton, 1999) “translates” scientific findings into practical reasoning. For instance, Dyer et al. (2001, 2004) clearly refer to Kale, Dyer, and Singh’s (2002) concept of the alliance function (i.e., capability) and Makri (1999) in an *Academy of Management Executive* research brief comprehensively explains Lane and Lubatkin’s (1998) findings on absorptive capacity and interorganizational learning published one year before in the *Strategic Management Journal*.

4.3.3 Relational Perspective

Conceptual work. From a relational perspective, IJV research deals with the interplay between IJV parents, mostly analyzed from social (i.e., social exchange theory, social capital), dependence (i.e., resource/power dependence theory), or bargaining behavior (i.e., bargaining power theory). Because economic or resource- and capability-based perspectives on IJVs may underestimate social action between the partners, more and more studies refer to a sociological or behavioral view of IJVs:

One sociological perspective that has been successfully applied to analyze interorganizational relations is based on social exchange theory (Cook, 1977; Levine & White, 1961). As compared to economic exchange, social exchange is voluntary, informal (i.e., not strictly based on contracts), covers a period of time, and contingent upon positive response (Blau, 1964). In this view, strategic alliances, as a particular type of interorganizational relations, may represent reciprocal exchanges among partner firms that cannot be explained by market-based, arm's length exchanges. (Das & Teng, 2002a: 440)

However, Das and Teng (2002a) argue that social exchange theory (SET) has not been systematically applied to alliances so far although it is well-known that alliances demand trust because “trust is essential for stable social relations” (Blau, 1964: 99). Moreover, SET is closely related to dependency and bargaining power perspectives in that it can be used to delineate “the relationship between IJV control structure and IJV outcomes” (Steensma & Lyles, 2000: 834) more fine-grained. The higher the expected outcome from a potential IJV relationship, the higher a partner's dependence on that relationship, compared to alternative ones (ibid.). Thoughts elaborated by dependence perspectives have therefore generally been used for theoretically explaining the impact of scarce resources and power on organizational modes and power mechanisms in general (e.g., Emerson, 1962; Pfeffer & Nowak, 1976; Pfeffer & Salancik, 1978) and on IJVs in particular (e.g., Björkman, 1997; Inkpen & Beamish, 1997). For example, it has been proposed that partner dependency can be eliminated when partners acquired sufficient knowledge and skills from the other partner(s) and could possibly lead to instability or even dissolution of the venture (Inkpen & Beamish, 1997). Here, also bargaining power theory (e.g., Inkpen & Beamish, 1997; Yan & Gray, 1994) comes into action, whereas “[b]argaining power refers to a bargainer's ability to favorably change the ‘bargaining set’ (Lax & Sebenius, 1986), to win accommodations from the other party (Dwyer & Walker, 1981; Tung, 1988), and to influence the outcome of a negotiation (Schelling, 1956).” (Gray & Yan, 1997: 64)

Inductive exploratory qualitative research. From a general viewpoint, Larson (1992) develops a process model of network formation that highlights the importance of reputation, trust, reciprocity, and mutual interdependence. “Prior relations” and “personal/firm reputation” may lead to “reduced uncertainty” and, thus, may enhance early cooperation by clarifying both expectations and obligations. This preconditional phase is followed by a second phase in which rules and procedures and trust is built and reciprocal effects take place. Finally, the “network dyad” may evolve from “operational/strategic integration” and “social control” (ibid.). With regard to *international* joint venture research, hardly any studies exist that explore the social exchange between partners or within ventures, except for Salk and Shenkar (2001) who investigate the emergence and consequences of social identities in IJVs.

One of the few case studies that go into detail with a dependency view is Lyles and Reger (1993). In their single case paper, they explore prerequisites (e.g., formal versus informal exchange between IJV and parent management) of IJV management autonomy.

With regard to bargaining power theory, the inductive analyses of Yan and Gray (1994) and Gray and Yan (1997) explored the impacts of the dynamics and consequences that shifts in bargaining power of parents will have on the dispersion of management control in IJVs. Based on their case studies, they propose that management control in IJVs largely remains unchanged (i.e., imprinted) “despite changes in the parents’ relative bargaining power” (Gray & Yan, 1997: 76) or “changes in the components comprising the bargaining power of both partners” (Yan & Gray, 1994: 1511). Another case study regarding bargaining power effects in IJVs (Brouthers & Bamossy, 1997) focused on the bargaining power of external stakeholders in the IJV negotiation stage and found “that transitional governments ... can change the balance of power in the negotiations” (ibid.: 285).

Deductive confirmatory quantitative research. There are only few studies that explicitly concentrate on social exchange theory (e.g., Luo, 2001, 2002c) and propose that cooperation that emerges through social exchange can be a more effective and less costly alternative to contractual design. This is mostly due to the underlying normative behavior which may operate as a self-enforcing safeguard and thereby may substitute

contractual safeguards (Luo, 2002c). Lin and Germain (1998) suggest that implicit collaboration outperforms explicit, legalistic contracts and, thus, further stress Luo's argumentation. A bulk of studies extensively analyzes factors and reasons for the existence of trust, which may be seen as a key element of social exchange (Das & Teng, 2002a). Factors analyzed include "continuity expectations", "flexibility", and "information exchange" between partners (Aulakh, Kotabe, & Sahay, 1997), "length of prior relationship", "risk", "forbearance", and "partner control" (Inkpen & Currall, 1997), or "complementarity", "cultural sensitivity", and "similarity" (Johnson, Cullen, Sakano, & Takenouchi, 1997).

In contrast to a trust- and social exchange-related perspective, articles on bargaining power and dependence mainly center on how parents use resources and capabilities to gain control of the IJV (Mjoen & Tallman, 1997). According to Blodgett (1991a, b), for instance, an IJV parent's bargaining power (and the dependence of the partner) can be predicted by its government suasion, the technology it contributes to the venture, its local knowledge, its marketing skills, and the financial capital provided for the IJV. A parent's bargaining power is thus dependent on the value of a particular contribution (e.g., technology) for another partner. Therefore, if the value of an important contribution declines, a formerly dependent partner may be incited to quit the venture. This is confirmed by Young and Olk (1994).

Practitioner work. Only few practically relevant studies concerning the relational perspective of IJVs were identified. As expected, there are more studies about the relevance of social ties in IJVs (Anand, Glick, & Manz, 2002; Ariño, de la Torre, & Ring, 2001; Hutt, Stafford, Walker, & Reingen, 2000; Liker & Choi, 2004) than studies that bring bargaining power theory (Cyr, 1999) and resource dependence perspectives (e.g., Bamford et al., 2004) into a practical context.

4.4 Comparing the Main Streams

In the preceding body of the paper, three major theory-driven streams that represent the evolving research on IJVs during the last decades have been described. In sum, TCE is one of the theories that have been applied and tested (at least in conceptual and quantitative research) very frequently, although resource-based and behavioral theories

have been aspiring to catch up the early economic train. The persistent popularity of economic approaches might be ascribed to the simplicity real world transactions are reduced to. The variety of human behavior is narrowed down through the use of simplifying assumptions (e.g., opportunism). Hence, real world transactions may be conceived much more easily and rigorously when theorizing or when empirically testing IJV settings. Therefore, besides comparing the streams regarding their theories the following section of the paper will also detail whether “certain methods are more compatible with particular theoretical approaches (e.g., case studies with organizational learning), than others (e.g., surveys with transaction cost)” (Parkhe, 2004: 86).

4.4.1 Economic vs. Resource- and Capability-based Perspectives

In IJV research, economic theories, while helpful, are often charged regarding their inadequate inclusion of strategic motives that may bolster an entry decision, although transaction cost calculations would suppose another, less cost intensive mode of internationalization: “the logic of transaction cost minimization does not capture many of the strategic advantages of alliances such as learning, creation of legitimacy, and fast market entry” (Eisenhardt & Schoonhoven, 1996: 137). A stream outlined above that incorporates such strategic viewpoints is the resource- and capability-based perspective. According to Peng (2001), the RBV – a major fundament of this perspective – firstly differs from transaction cost viewpoints as market failure does not occur because of opportunistic actors but rather because of the heterogeneity or superiority of firm resources (see also Capron et al., 1998, and Madhok, 1997). Then,

[j]oint ventures are ... a vehicle by which, to use the often-quoted expression of Polanyi (1967), ‘tacit knowledge’ is transferred. Other forms of transfer, such as through licensing, are ruled out – not because of market failure or high transaction costs as defined by Williamson and others, but rather because the very knowledge being transferred is organizationally embedded. (Kogut, 1988: 323)

Secondly, resource- or capability-based views not only focus on the actual exploitation and economization of assets but also study the exploration and development of resources and capabilities in IJVs (Madhok, 1997; Tsang, 2000) – often furthered in an organizational learning or knowledge-based perspective of the firm (e.g., Inkpen & Crossan, 1995).

A final major difference between TCE and RBV according to Ghoshal and Moran (1996) and Peng (2001) is that analyses based on TCE normally focus on the market entry point of time and therefore are based on a set of relatively static conditions, thus describing situations of static efficiency. Although RBV reasoning can focus on market entry situations, too, it also endorses a longitudinal view in that resources and capabilities of previous entries are used to decide about current entry situations (e.g., Chang & Rosenzweig, 2001).

4.4.2 Economic vs. Relational Perspectives

Another distinction is to be made when comparing the economic paradigm with relational or behavioral views in IJV research. It has been determined but also criticized that especially TCE perspectives tend to ‘undersocialize’ the complex relationships in dyadic or multidimensional organizational relationships like IJVs and therefore underestimate the long-term efficiency that may arise from social interaction through an IJV (Saxton, 1997). Trust may facilitate transactions and may increase efficiency if actors show trustworthy behavior (Das & Teng, 2002a). Moreover, make-or-buy perspectives generally lack the social effects that may arise from entering into multiple IJVs with the same partner over years (Gulati, 1995a). Although ignored in TCE analyses, these aspects play a major role in research on game theory in alliances and joint ventures where the “shadow of the future” (i.e., partners’ expectations of mutual reciprocal behavior in the future) characterizes games with multiple rounds (e.g., Parkhe, 1993c).

As mechanisms of social control, trust and reciprocity can be surrogates of formal control (Larson, 1992; Ring & Van de Ven, 1994). Although formal control like contractual safeguards seem necessary they can never fully “anticipate all future events, let alone deal adequately with them.” (Parkhe, 1998: 2) Moreover, “[s]trict contractual control may set off a vicious cycle of suspicion and retaliation via restrictions, which may stifle a relationship.” (Nooteboom, Berger, & Noorderhaven, 1997: 318) Therefore, from a relational point of view, formal contractual safeguards – although proposed by economic theory – might be relaxed the more “informal psychological contracts among parties are upheld and ... further affirmed” (Ring & Van de Ven, 1994: 105).

4.4.3 Resource- and Capability-based vs. Relational Perspectives

Both perspectives may be complementary on the one hand but also mutually exclusive on the other hand. On the one hand, resource and capability exploration or development may be facilitated through social exchange. Therefore, organizational learning and knowledge accumulation in alliances and joint ventures has been recently analyzed from a relational perspective, too (e.g., Inkpen & Tsang, 2005; Muthusamy & White, 2005). Inkpen and Tsang (2005: 147), for instance, propose that knowledge accumulation and transfer in general will be enhanced by the “repeated and enduring exchange relationships between the actors in the network”. The closer the personal contact (i.e., attachment) and the more intensive the social exchange, the more partners learn about each other’s resources, capabilities, and reliability (e.g., Balakrishnan & Koza, 1993; Gulati, 1995a, 1998), partly due to partners’ willingness “to refrain from instituting specific controls over knowledge spillovers.” (Inkpen & Tsang, 2005: 158) Trust may hence evolve from habituation and routinization between partners (Nooteboom, 2002) and will guide action “by suggesting behaviors and routines that are most viable and beneficial under the assumption that the trusted counterpart will not exploit one’s vulnerability.” (McEvily, Perrone, & Zaheer, 2003: 93)

Thus, on the other hand, this process may be hindered or even turn inefficient if partners behave opportunistically. In IJVs this has been termed “learning race” between partners (Khanna et al., 1994, 1998) which indicates that a steady “potential for conflict between alliance partners is inherent.” (Muthusamy & White, 2005: 416) Accordingly, Inkpen and Beamish (1997: 177) propose that “when partners of an IJV acquire sufficient knowledge and skills to eliminate a partner dependency and make the IJV bargain obsolete”, due to shifts in bargaining power between partners, instability or dissolution may occur. Therefore, research based on transaction cost theory proposed to alleviate the potential opportunistic behavior of actors “through appropriate contractual agreements or equity-based governance structures (Kogut, 1988) [that] ... are expected to create a ‘mutual hostage’ situation through *ex ante* commitments to an alliance.” (Muthusamy & White, 2005: 417) However, installing safeguards like appropriate contractual agreements or equity-based governance structures will lower or crowd out social exchange between partners (Parkhe, 1993c) and, hence, is mutually exclusive to building relational capital.

4.4.4 Methodological and Practical Considerations

When looking back to the first part of the paper (also see Table 4.1 and the Appendix), it becomes obvious that each of the three perspectives is dominated by deductive quantitative research. Contrarily, inductive exploratory research is largely ignored, especially in the economic perspective. However, it has been stated, for example, that qualitative research might best be suitable to accomplish real world observation (Parkhe, 1993a) and to thereby tackle the often stated problem of uncausality in multiple regression or analysis of variance models (March & Sutton, 1997). The assumption that qualitative research is an inherent part of IJV theory development (or of IJV real world predictions) can be dated back to Parkhe (1993a) who proposed “a multimethod, eclectic program of IJV theory development”. In his *Academy of Management Review* article he concludes that “[i]f as a consequence of this article some of the IJV empirical research is redirected or, at a minimum, a vigorous and cathartic debate is initiated, its purpose will have been well served.” (ibid.: 263) What he meant by a redirection of IJV empirical research is a change towards using more qualitative methods to study real world IJV phenomena. To him, the program of IJV theory development ideally should best run after the ideal pictured in Figure 4.1.

Most specifically, the model begins with some initial stages that include single- and multiple-case study research. Thereby,

the power of the case study method stems from its capacity to aid theory development beyond the immediate case at hand, not through *statistical* generalization (as in most quantitative studies), but through *analytical* generalization in which the researcher tries to generalize a particular set of results to a broader theory through induction (Robinson, 1951; Yin, 1984). (Parkhe, 1993a: 251)

IJV research so far shows an overwhelming mass of descriptive deductive large-sample quantitative studies, but largely lacks a solid ground laid by prescriptive inductive qualitative case studies. This lack is especially prevalent in the economic perspective. Hence, it has to be noted that the first steps proposed in the model of Parkhe (1993a) are generally lacking within IJV research, especially when analyzed from an economic viewpoint.

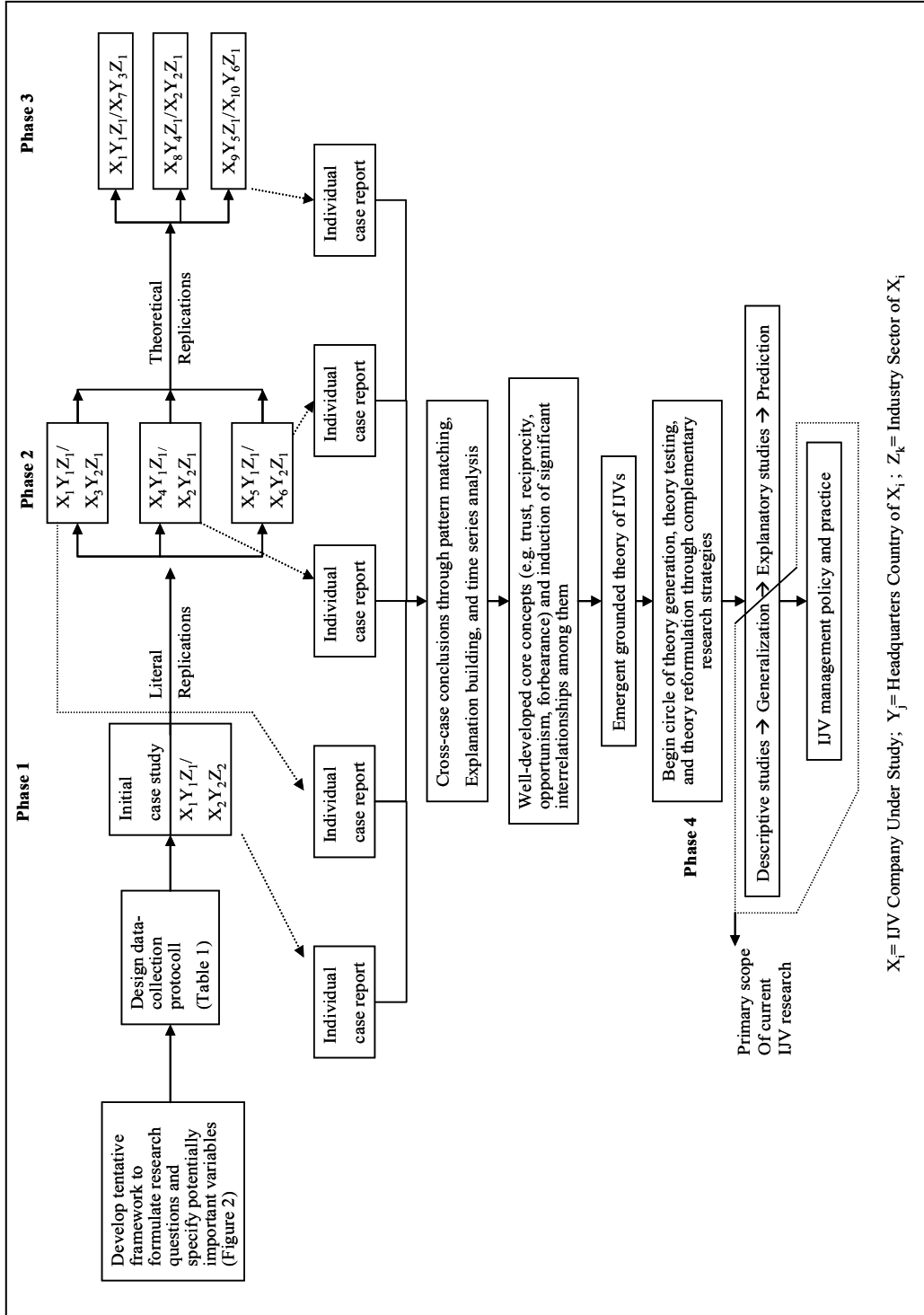


Figure 4.1: A multimethod, eclectic program of IJV theory development (source: Parkhe, 1993a: 252)

This finding may be stressed further when looking at the practitioner-stream of IJV research. It becomes obvious that the communication of the most important and significant theory-based findings to policy-makers is often lacking, especially in economic and relational perspectives. Hence, it seems that worries expressed by Daft and Lewin (1990) on the irrelevance of organizational research are still partly applicable to IJV research. To direct research to the needs of practitioners, however, is also a claim expressed by many leading journals. For instance, the editorial policy of the *Academy of Management Journal* states: “All articles published in the *Academy of Management Journal* must also be **relevant to practice**.” (http://aom.pace.edu/amjnew/contributor_information.html) In a similar vein, the “Aims and Scope” section of the *Strategic Management Journal* reads:

It is devoted to the improvement and further development of the theory and practice of strategic management and it is designed to appeal to both practising managers and academics. ... Overall, SMJ provides a communication forum for advancing strategic management theory and practice. (<http://www3.interscience.wiley.com/cgi-bin/jabout/2144/ProductInformation.html>)

Therefore, in the next section of the paper we focus on the question of relevance of prevalent IJV research. Moreover, we will discuss if research relevant to practitioners might suffer from a trade-off between high practical relevance and high scientific rigor.

4.5 Rigor and Relevance

4.5.1 Too Much Rigor, Too Less Relevance

Our literature review revealed three theory-based streams of IJV research, namely *economic*, *resource- and capability-based*, as well as *relational perspective*. Having described and compared each stream, it can be noted that the theories that were ascribed to each strand center on different stages of the IJV life-cycle and, thus, are more or less “dynamic” (see also Table 4.1). For example, while internalization- or TCE-related studies largely focus on the market entry point of time and on the related question of entry mode choice and, thus, can be characterized as being rather static (ROT and game theory might be seen as exceptions), social exchange or organizational learning theories generally focus on the IJV management process including, for instance, the building of trust, which is inherently needed to exchange knowledge (e.g., Inkpen & Tsang, 2005),

and, therefore, may be described as being rather dynamic. Because of the high staticism and the simplification of real-life settings, partly achieved through rigid assumptions about human behavior (i.e., opportunism, rationality, etc.), economic theories have been described as being both descriptive and prescriptive in nature, different from other social sciences which are primarily descriptive (Bazerman, 2005). Although prescription may be necessary for effectively influencing policy-making in “business and government” (ibid.: 26), prescriptions which are too rigid and too narrow may also give rise to what has been called the self-fulfilling prophecy of economic theories (Ferraro et al., 2005).¹⁷ This mechanism may make economic theories hence more dynamic than “they’d initially planned to be” (e.g., when deciding about market entry modes).

In IJVs, such a self-fulfilling mechanism may occur, for example, when harsh control mechanisms crowd out the emergence and development of trust between partners. As IJV-relationships evolve, partners are getting to know each other better and better over time. Hence, in dynamic settings like IJV relationships generalized assumptions about partners’ opportunistic behaviors might even become disastrous in that they might crowd out positive behavior that would have been otherwise occurred, i.e., without the ex ante prediction that the partner will behave opportunistically. To sum up:

Traditional economic theories emphasizing a rational approach to profit or resource maximization consistent with the partner focus tend to ‘undersocialize’ (Granovetter, 1985) complex relationships between market actors. This approach results in a static model of efficiency (Nooteboom, 1992) in which the importance of relationships is ignored. A dynamic model of interaction that goes beyond traditional transaction cost analysis will more completely capture the dynamic efficiency characterizing these relationships (Hill, 1990; Nooteboom, 1992). (Saxton, 1997: 444)

In order to become dynamic, economic theories like TCE would therefore have to account for the dynamic evolution of relationships where opportunism may be substituted for trust over time. According to Nooteboom et al. (1997: 331), “both trust and traditional factors from transaction cost economics are relevant”. Simple economic guidelines may undervalue that “operating overseas involves tentative steps into

¹⁷ According to Ferraro et al. (2005: 12), “[a] theory can become true to the extent that people, acting on its ideas and underlying assumptions, introduce practices, routines, and organizational arrangements that create conditions favoring the predictions made in the theory.” As an example for such a development, the authors refer to the study of MacKenzie and Millo (2003) which showed that the “success in the theory’s predictions of option prices ... resulted because people and organizations acted *as if* the theory were true, which made its predictions *come true*.” (Ferraro et al., 2005: 13)

unknown territory rather than a preliminary rational choice based on economic analysis (Björkman & Forsgren, 1997: 12).” (Weisfelder, 2001: 27-28) This is also why Kutschker, Bäurle, and Schmid (1997: 10) noted:

Even if Dunning (1973, 1979) is right with his OLI paradigm, is it useful for firms? Do you think that there is just one firm which chooses its market entry mode in accordance with Dunning? Put it differently: Must firms behave in accordance with Dunning in order to be successful? [*translated from German by the authors*]

TCE “is most relevant to static efficiency and routine situations.” (Eisenhardt & Schoonhoven, 1996: 136-137) As indicated above, however, economic theories may be more dynamic than “they’d initially planned to be”. Moreover, it is most likely that forming and managing an IJV in most cases is not a routine situation – for example, Eisenhardt and Martin (2000) refer to alliancing as a dynamic capability and Kale et al. (2002) point to an “alliance function” that takes time, effort, and knowledge to be built and installed in a firm. Accordingly, there are calls for extending economic theories such as TCE or agency theory:

These [i.e., studies like Bromiley and Cummings (1992) or Ouchi (1984), which study the reliance on trust within transactions] and other efforts exemplify the need and potential for a social-psychological enrichment of transaction cost economics and agency theory. As the uncertainty, complexity, and duration of economic transactions within and between firms increase, it becomes increasingly important for scholars and managers to understand developmental processes of how equity, trust, conflict-resolution procedures, and internal governance structures emerge, evolve, and dissolve over time. (Ring & Van de Ven, 1994: 113)

Although there have been attempts in IJV research to add a more dynamic view to TCE-based reasoning, for example, by adding social constructs like trust (e.g., Buckley & Casson, 1998), the fundamental assumptions about human opportunistic behavior are still upheld, but may not be adequate to account for real-life situations or developments. In this view, this deficiency is related to the finding of this study that theory-based IJV research is brimming with rigorous studies that mainly rely on quantitative empirical surveys, but is haggard with regard to qualitative studies and practitioner-oriented work. In fact, the tendency that economic approaches are overly simplistic and escapist may, at least in IJV research, be due to having leapfrogged a structured and one-by-one multi-method process of conducting research as proposed by Parkhe (1993a). More specifically, economic-based IJV research has largely jumped over conducting

qualitative research, which, for the case of applying game theory to IJVs, led Parkhe (1993c: 822-823) to propose:

Future studies should incorporate dynamic changes in ex ante and ex post deterrents occasioned by an evolving history and diminishing perception of opportunistic behavior through systematically replicated case studies (Parkhe, 1993a) or through a cross-sectional, time-series research design.

As this study's comprehensive literature review on IJV research shows, Parkhe's (1993a, c) claim over ten years ago has not yielded any noteworthy development towards achieving it. Especially (replicated) case studies are largely lacking in IJV research.

4.5.2 Achieving both Relevant and Rigorous IJV Research

Good theory should organize and communicate an image of the real world as good as possible in order to reduce complexity (Bacharach, 1989). In this respect, some would state that economic theories may better achieve this objective because they reduce complexity by posing rigid assumptions about human behavior (e.g., opportunistic behavior). Because of a considerable reduction of complexity, such studies are able to provide "rigorous research", often believed to be found in quantitative large sample studies. Why? First, because scholars (both researchers and reviewers) are aware of standardized, widely accepted, and, therefore, legitimized ways of conducting such analyses. Second, this kind of research seems to meet requirements expressed by dominating positivists much better than qualitative research:

Qualitative research does not often satisfy the positivist's concern that science should generate generalizable knowledge based on systematic observation and measurement which can be replicated by others, so that single case studies where the insight of the researcher is the primary research tool do not often make persuasive contributions to the body of knowledge the positivist deems scientific. (Morgan, 1985: 65 et seqq.)

Finally, there is less agreement of how to conduct highly qualitative case research:

Yin's (1989) position that case studies should start with a priori theoretical propositions obviously contrasts with Eisenhardt's (1989) argument that case studies should start with a clean theoretical slate so that researchers are less likely to be bound by preconceived theoretical notions. (Yan & Gray, 1994: 1480)

In order to develop further what has been called a dynamic view of IJVs (Weisfelder, 2001) and what seems to better account for real-life IJV settings, researchers are urged

to challenge pure quantitative approaches. In their study, Mendenhall, Macomber, Gregersen, and Cutright (1998), for example, reproach international business studies with relying on simple, linear cause-and-effect models in order to approximate dynamic, feedback-feedforward-systems that can be observed in reality. According to them, the nonlinearity of processes is impacted by iterative processes which, in turn, largely depend on the initial conditions that initiate processes. This can be best clarified using a metaphor:

To illustrate sensitive dependence on initial conditions, consider a billiard table with several balls scattered about on its surface (Ruelle, 1991). If we shoot a ball in a given direction, it impacts other balls, has its trajectory modified as a result, continues on until it rebounds off a rail, hits some more balls, and so on. If we change the initial direction of the ball very slightly, with an identical array on the table, the slight changes in initial angles of impact soon compound into quite a different trajectory for the second shot compared with the first one. The motion of the ball is deterministic on both shot one and shot two. The difference in trajectories, even if we are well within reasonable margins of measurement error, is sensitive to the evolving system's initial conditions. This phenomenon is one of the most important in the study of nonlinear systems. (Mendenhall et al., 1998: 9)

In IJV research, analyses focusing on subsequent, iterative effects stemming from initial conditions are rare but can be found, for example, in the learning and capabilities-based perspective (e.g., Doz, 1996; Hamel, 1991). In the relational perspective, Larson (1992) uses an inductive field study to analyze the development of social control in networks. There is no single case analysis, however, that attempts to corroborate the rigid assumptions and predictions upheld by the economic perspective with evidence from practice.

We acknowledge the difficulties of conducting rigorous qualitative research. However, one possible way IJV research could take would be to focus on micro- or individual-level processes within an IJV organization (e.g., Parkhe, 2004) – a view that has been largely ignored so far within international business research (Agndal & Axelsson, 2002). Many studies following a positivist approach primarily focus on the IJV or parent organizations from a macro or group level while neglecting the individual manager. Thus, even in research belonging to the relational perspective, it has been stated that “[n]o research has focused on JV management issues from the perspective of JV managers.” (Lyles & Reger, 1993: 383) Most “researchers have not yet begun to explore systematically the performance implications of management processes *within* the JV firm, an important deficiency in light of the widespread use of JVs (Anderson,

1990; Lyles & Reger, 1993; Parkhe, 1991; Zajac & Olsen, 1993).“ (Pearce, 1997: 204) With the exception of a few recent studies (e.g., Currall & Inkpen, 2002; Luo, 2001), this approach is still in its infancies. We believe that especially the economic perspective would benefit from a multi-level conceptualization like it has been done, for example, with trust in joint ventures (cf. Currall & Inkpen, 2002: 485).

4.6 Conclusion

We began this paper by noting that IJV research has become an important field in international business. This is mainly due to the overarching opportunity IJVs and strategic alliances promise to be for MNCs that strive for reducing costs and/or heightening profits by gathering competitive advantages. Regarding the research field as a whole, it is challenging to understand the findings of the related theoretical and empirical research because this literature is so fragmented and varied.

The article has several conclusions. One is that research on IJVs still equals a tremendous and growing body of research.¹⁸ That this is not our view alone can be discerned from a lot of recently published review articles like Glaister and Buckley (2002), Osborn and Hagedoorn (1997), Parkhe (1993a, 2004), Reus and Ritchie (2004), or Robson et al. (2002).

A second conclusion is that the prevalent theory-based IJV literature can be generally organized into three streams of research: economic, resource- and capability-based, and relational perspective. We have highlighted these three streams of research as well as key findings, methodologies applied, and potentials for furthering insights.

Third, we conclude that there are many research implications for the future. We developed a brief outline of potential research paths based on constructs, theoretical links, and methodologies that are fuzzy or less explored in IJV research so far. Overall, this article attempts to contribute an understanding of past literature and a vision for future research.

The biggest – yet unsolved – stumbling block to the generalizability of IJV research remains in its inherent dualities and antagonisms, which are best caught by the work of

¹⁸ Meanwhile, one has to recognize that our review can only depict the “tip of the iceberg”.

Osborn and Hagedoorn (1997: 274): “Alliances are older than firms, but they are still new to many firms. They are temporary mechanisms and long-lasting relationships. They are cooperative and competitive weapons. Each is unique, but they often share similar properties.” Probably the most challenging requirement for future research will be to handle these inherent dualities.

4.7 Appendix: The IJV Landscape

	Theoretical Groundwork	Inductive, exploratory research	Deductive, confirmatory research	Practitioner-oriented Research	Time Line
	<ul style="list-style-type: none"> IJV: Anderson and Gatignon (1986) ▪ Beamish and Banks (1987) ▪ Buckley and Casson (1988) JV: Hennart (1988) 		<ul style="list-style-type: none"> IJV: Gatignon and Anderson (1988) ▪ Geringer and Hebert (1989) ▪ Dunning and McQueen (1981) 	<ul style="list-style-type: none"> IJV: Ohmae (1989) 	80-89
	<ul style="list-style-type: none"> IJV: Buckley and Casson (1996) ▪ Buckley and Casson (1998) ▪ Tang and Yu (1990) ▪ Woodcock and Geringer (1991) JV: Blodgett (1991a) 		<ul style="list-style-type: none"> IJV: Agarwal and Ramaswami (1992) ▪ Contractor and Kundu (1998) ▪ Delios and Beamish (1999) ▪ Erramilli and Rao (1993) ▪ Hennart (1991) ▪ Hennart and Reddy (1997) ▪ Mjoen and Tallman (1997) ▪ Nitsch et al. (1996) ▪ Pan (1996) ▪ Reuer and Miller (1997) ▪ Woodcock et al. (1994) JV: Balakrishnan and Koza (1993) ▪ Cordeiro (1993) ▪ Parkhe (1993c) ▪ Folta (1998) ▪ Kogut (1991) ▪ Oik and Young (1997) 	<ul style="list-style-type: none"> IJV: Makino and Beamish (1999) ▪ Wright et al. (1998) JV: Cyr (1999) ▪ Das and Teng (1999) 	90-99
Economic Perspective	<ul style="list-style-type: none"> JV: Chi and Seth (2002) ▪ Tsang (2000) 	<ul style="list-style-type: none"> IJV: Zhang and Rajagopalan (2002) 	<ul style="list-style-type: none"> IJV: Brouters (2002) ▪ Gong et al. (2001) ▪ Kumar (2005) ▪ Luo (2002c) ▪ Luo, Shenkar, and Nyaw (2001) ▪ Makino and Neupert (2000) ▪ Merchant and Schendel (2000) ▪ Pak and Park (2004) ▪ Pan and Tse (2000) ▪ Reuer (2001) ▪ Reuer and Leiblen (2000) ▪ Reuer and Tong (2005) ▪ Robins et al. (2002) ▪ Steensma et al. (2000) ▪ Tse et al. (1997) 	<ul style="list-style-type: none"> JV: Ariño and Reuer (2004) ▪ Bamford et al. (2004) ▪ Judge and Ryman (2001) ▪ Rossetti and Choi (2005) ▪ Van Putten and MacMillan (2004) 	00-05

	Theoretical Groundwork	Inductive, exploratory research	Deductive, confirmatory research	Practitioner-oriented Research	Time Line	
				<ul style="list-style-type: none"> ■ <u>IV.</u>: Gomes-Casseres (1989) ■ Hamel et al. (1989) 	80-89	

R	<ul style="list-style-type: none"> ■ <u>IV.</u>: Tiemessen et al. (1997) ■ Tsang (1997) 	<ul style="list-style-type: none"> ■ Ariño and de la Torre (1998) ■ Gray and Yan (1997) ■ Hamel (1991) ■ Inkpen (1995) ■ Inkpen (1997) ■ Inkpen and Dinur (1998) 	<ul style="list-style-type: none"> ■ Barkema et al. (1997) ■ Crossan and Inkpen (1994) ■ Hennart (1991) ■ Makino and Delios (1996) ■ Mowery et al. (1998) ■ Park and Ungson (1997) ■ Shenkar and Li (1999) ■ Simomin (1999b) 	<ul style="list-style-type: none"> ■ <u>IV.</u>: Inkpen (1998a) ■ Inkpen (1998b) ■ Newman (1992) ■ Si and Bruton (1999) 		
	<ul style="list-style-type: none"> ■ Khanna (1998) ■ Khanna et al. (1994) ■ Khanna et al. (1998) ■ Koza and Lewin (1998) ■ Larsson et al. (1998) 	<ul style="list-style-type: none"> ■ Doz (1996) 	<ul style="list-style-type: none"> ■ Eisenhardt and Schoonhoven (1996) ■ Gulati (1995b) ■ Inkpen and Crossan (1995) ■ Lane and Lubatkin (1998) ■ Luo (1997) ■ Mowery et al. (1996) ■ Saxton (1997) ■ Simomin (1997) ■ Simomin (1999a) 	<ul style="list-style-type: none"> ■ <u>IV.</u>: Das and Teng (1999) ■ Lei and Slocum (1992) ■ Makri (1999) 	90-99	

		<ul style="list-style-type: none"> ■ <u>IV.</u>: Grant and Baden-Fuller (2002) ■ Inkpen and Currell (2004) ■ Tsang (2000) 	<ul style="list-style-type: none"> ■ Tsang (2001) 	<ul style="list-style-type: none"> ■ Chang and Rosenzweig (2001) ■ Chen and Hennart (2002) ■ Dussauge et al. (2000) ■ Hitt et al. (2000) ■ Isobe et al. (2000) ■ Lane et al. (2001) ■ Li et al. (2001) ■ Luo (2002b) ■ Simomin (2004) ■ Steensma and Lyles (2000) ■ Tsang (2002a) ■ Tsang (2002b) ■ Zahra et al. (2000) 	<ul style="list-style-type: none"> ■ <u>IV.</u>: Alvarez and Barney (2001) ■ Dess and Lumpkin (2005) ■ Dyer et al. (2001) ■ Dyer et al. (2004) ■ Parise and Casher (2003) 	00-05
			<ul style="list-style-type: none"> ■ Anand and Khanna (2000) ■ Kale et al. (2002) 			

**Resource- and
Capability-based
Perspective**

Theoretical Groundwork	Inductive, exploratory research	Deductive, confirmatory research	Practitioner-oriented Research	Time Line	
		<ul style="list-style-type: none"> IV: ■ Kogut (1989) ■ Lecraw (1984) ■ [Pfeffer and Nowak (1976)] 		80-89	

	<ul style="list-style-type: none"> IV: ■ Björkman (1997) ■ Blodgett (1991a) ■ Gray and Yan (1992) ■ Inkpen and Beamish (1997) 	<ul style="list-style-type: none"> IV: ■ Broothers and Bamossy (1997) ■ Gray and Yan (1997) ■ Lyles and Reger (1993) ■ Yan and Gray (1994) ■ Yan and Gray (1995) 	<ul style="list-style-type: none"> IV: ■ Aulakh et al. (1997) ■ Blodgett (1991b) ■ Gomes-Casseres (1990) ■ Gulati (1995a) ■ Gulati (1995b) ■ Inkpen and Curral (1997) ■ Johnson et al. (1997) ■ Lin and Germain (1998) ■ Mjoen and Tallman (1997) ■ Park and Ungson (1997) ■ Sarkar et al. (1997) ■ Vachani (1995) 	<ul style="list-style-type: none"> IV: ■ Cyr (1999) 	90-99
	<ul style="list-style-type: none"> IV: ■ Kumar and Nii (1998) 	<ul style="list-style-type: none"> IV: ■ Larson (1992) 	<ul style="list-style-type: none"> IV: ■ Kumar and Seth (1998) 		

	<ul style="list-style-type: none"> IV: ■ Das and Teng (2002a) ■ Inkpen and Curral (2004) 	<ul style="list-style-type: none"> IV: ■ Salk and Shenkar (2001) 	<ul style="list-style-type: none"> IV: ■ Kale et al. (2000) ■ Luo (2001) ■ Luo (2002c) ■ Steensma and Lyles (2000) ■ Zahra et al. (2000) 	<ul style="list-style-type: none"> IV: ■ Liker and Choi (2004) ■ Anand et al. (2002) ■ Ariño et al. (2001) ■ Bamford et al. (2004) ■ Hutt et al. (2000) 	00-05
		<ul style="list-style-type: none"> IV: ■ Inkpen and Tsang (2005) ■ Muthusamy and White (2005) 			

Relational Perspective

Part III: New Directions: Building and Fostering Multi-causal and Longitudinal Perspectives of International Joint Ventures

5 International Joint Venture Path Dependence

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5.1 Abstract

International joint ventures (IJVs) are often used as a transitional form of market entry. However, there are indications – both in research and in practice – that point to the danger of getting stuck to an initially formed IJV. Although internationalization process research, research on process issues in IJVs, and IJV post-formation research implicitly addresses this phenomenon, no theory or concept considers those events that may lead to IJV persistence in a comprehensive and explicit sense. Recognizing the scarcity of the application of path dependency theory in international business and IJV research this paper adopts a path-dependent view. Specifically, it asks how path-dependent effects might hinder MNEs from terminating IJVs and, hence, how they lead to prosecuting these ventures. The paper generates conceptual propositions based on economic and behavioral theories of the firm and outlines possible directions for future research.

5.2 Introduction

The motives to form international joint ventures (IJVs) are manifold. For instance, they offer multinational enterprises (MNEs) the opportunity to draw upon knowledge and capabilities from local partners or to share costs and risks of entering new markets (e.g., Glaister & Buckley, 1996; Harrigan, 1986). From an MNE's perspective, IJVs are often part of a portfolio of international arrangements. These range from more hierarchical international investment forms like IJVs or wholly foreign-owned enterprises (WFOEs) to more hybrid, contractual arrangements such as strategic alliances, franchising, licensing, or exporting partnerships. Each arrangement, thereby, is typified by different durability phases. More specifically, IJVs have often been characterized as transitional forms of organization (e.g., Gomes-Casseres, 1987; Harrigan, 1986; Reuer, 2000; Yan & Gray, 1994; Zaheer, 1995). Accordingly, there are many indicators showing that IJVs often are terminated soon after being installed in foreign countries. Among other reasons, two main motives why IJVs may be terminated by either one of the parents include, firstly, the parents' changing strategic foci and, secondly, the poor performance of many IJVs.

Concerning the first reason, IJVs in many cases are founded with the foreign partner's intention to use this investment as a toehold entry into new markets (Gomes-Casseres, 1987; Harrigan, 1986). This has been the case in emerging markets like the People's Republic of China (PRC) where inexperienced foreign firms aim for promising positions to enter the market (Xin & Pucik, 2003), for overcoming the 'liability of foreignness' (Zaheer, 1995), or for obtaining good relations to governmental institutions (Pan & Chi, 1999). However, in some cases, MNEs favor WFOEs, either as their mode of initial entry or as an appendage of a prior entry mode such as an IJV. According to Gomes-Casseres (1987), for instance, MNEs that follow globally integrated strategies are likely to switch to WFOEs if they initially chose IJVs. Accordingly, Reuer (2000) found that IJVs are terminated after an average of 6.7 years, 84% through acquisition by one of the parents.

The second reason why IJVs are frequently terminated relates to the poor performance that is often reported (e.g., Hill & Hellriegel, 1994; Kogut, 1988; Osland & Cavusgil, 1996). In many cases, this is attributed to difficulties in selecting the right partner (e.g.,

Luo, 1997; Makino & Beamish, 1998), to the management of inter-partner collaborative partnerships in general (e.g., Dussauge & Garrette, 1995; Tse et al., 1994), or to specific host country characteristics (e.g., Killing, 1983; Sim & Ali, 1998). Consequently, IJVs are often terminated by closure or divestiture (Mata & Portugal, 2000) rather than acquisition.

However, in any case there are indications that the decision to terminate an IJV may be prevented or at least delayed by certain factors (Delios et al., 2004; Inkpen & Ross, 2001; Olk & Young, 1997; Serapio & Cascio, 1996; Yan, 1998). These may include, for instance, high termination or sunk costs (Delios et al., 2004) or simply “initial conditions [that] may lead to a stable ‘imprinting’ of fixed processes that make alliances highly inertial” (Doz, 1996: 55). Considering four case studies, Inkpen and Ross (2001) have shown that some strategic alliances indeed persist beyond their economically useful life. An example is the case of McDonnell-Douglas Aircraft’s alliance in China where reinvestments lasted for more than twenty years – despite repeated delays, setbacks, and disappointments (ibid.). According to Delios et al. (2004), MNEs persisted in 75 percent of the alliances although they had not made profit in the preceding five years of their existence.

Taking into account each of these indications it seems that lock-in effects may occur at a certain point of time, restraining firms to leave an initially chosen investment. Although several authors indicated that the choice of market entry mode in subsequent investments can be constrained by path-dependent effects that, for example, result from prior experience (Chang & Rosenzweig, 2001; Eriksson et al., 2000; Guillén, 2003) no study explicitly explained how path-dependent effects may result in a lock-in to an already existing IJV (i.e., the evolution of a single IJV). Recent calls to integrate path dependency theory into international business research also give emphasis to this scientific lack (Buckley & Glaister, 2002; Eriksson et al., 2000; Guisinger et al., 2003).

Therefore, it is the overall objective of this study to explicitly integrate the path dependency theory into international business research. More specifically, path dependency theory in addition with prominent theories of the firm is used to explain IJV persistence. This will be accomplished by firstly illustrating existing research on the evolution or sequence of international market entry and expansion modes. Secondly, the

theory of path dependence will be applied to the context of the IJV. Thirdly, propositions based on path dependency theory and theories of the firm (i.e., resource- and capability-based view, organizational learning perspective, social exchange and network theory) will be developed. In conclusion, the paper will propose future directions for this promising field of research.

5.3 Literature Review

During the last decades, IJV research mainly focused on IJV formation-related, static issues whereas dynamic, process-related issues were often ignored (e.g., Doz, Olk, & Ring, 2000; Shenkar & Yan, 2002). For instance, studies frequently analyzed MNE decision alternatives regarding initial market entry modes (e.g., Anand & Delios, 1997; Brouthers, 2002; Mata & Portugal, 2000; Pan & Chi, 1999; Pan et al., 1999) or initial market entry timing (e.g., Isobe et al., 2000; Luo, 1998; Pan & Chi, 1999; Pan et al., 1999). In recent years, however, there has been a growing body of literature that widened the focus by adding process issues (as reviewed by de Rond & Bouchikhi, 2004) or post-formation perspectives of IJVs (e.g., Reuer, Zollo, & Singh, 2002). Additional process-related insights arise from literature on the internationalization process of the firm (e.g., Johanson & Vahlne, 1977). However, as will be shown in this review, path dependency theory has received only minor attention so far. Although implicitly or explicitly mentioned by some authors (e.g., Chang & Rosenzweig, 2001; Eriksson et al., 2000; Johanson & Vahlne, 1977), no attempt to appropriately integrate the concept into international business research exists.

5.3.1 Internationalization Process Research

In order to outline the pattern of the internationalizing firm, internationalization process theorists (e.g., Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Luostarinen, 1980) trace MNE expansion behavior in foreign markets. Specifically, Coviello and McAuley distinguish three individual schools of thought: “1) the economic school of Foreign Direct Investment (FDI) theory, 2) the behavioural school of Establishment Chain (Stage) models, and 3) the relationship school of the Network perspective.” (1999: 225)

In general, the internationalization path of a firm according to the economic school (e.g., Anderson & Gatignon, 1986) is mainly driven by cost assessments. Despite of attempts to reveal the underlying managerial decision-making process beyond pure rational analyses (e.g., Aharoni, 1966) the economic school takes up a rather static position. Contrariwise, the behavioral school proposes an incremental internationalization process (i.e., from market-near arrangements to sales or production-oriented investments), mainly driven by the firm's international market knowledge and commitment based on managerial learning (Chang & Rosenzweig, 2001; Jiang & Beamish, 2004; Johanson & Vahlne, 1990). The relationship school finally explains the internationalization process with the development and maintenance of relationships over time (Johanson & Vahlne, 1992, 2003), for example through drawing on theories of social exchange and resource dependency.

Apparently, few studies use path dependency-related explanations when elaborating on the relevance of the "history" of managerial experience, commitment, or network integration (e.g., Chang & Rosenzweig, 2001). However, these factors are mainly applied to explain subsequent FDI decisions. In this respect, the literature on alliance processes and post-formation IJV dynamics may additionally offer appropriate and valuable further insights concerning an IJV as an existing market entry mode an MNE already invested in.

5.3.2 IJV Process and Post-formation Research

A recent review by de Rond and Bouchikhi (2004) studied the usage of process-related perspectives within strategic alliance research. The four generic types of process theories (i.e., life-cycle, teleological, evolutionary, and dialectical) apply stage models (e.g., D'Aunno & Zuckerman, 1987), frequently emphasize the economic relevance of inter-partner learning processes (e.g., Doz, 1996; Doz & Hamel, 1998), explain the change of alliances as a continuous cycle of variation, selection, and retention, or as dialectical interchange (Das & Teng, 2000a). Yet, none of the studies mentioned relied on path dependency theory.

Concerning post-formation and exit-related issues factors leading to IJV instability (or stability) and internalization, termination, or survival have been highlighted. Yan (1998)

distinguishes between driving and restraining forces (i.e., structural inertia) for the structural reconfiguration of IJVs. It is proposed that political and legal constraints during the foundation period, the initial resource mix, the initial balance of bargaining power, and interpartner pre-venture relationship will impact IJV structural stability (ibid.); almost similar findings have been proposed in a case study by Gray and Yan (1997). However, although implicitly inherent in the structural stability or inertia concept, path dependency theory, again, is not explicitly mentioned or applied.

Also contributing to the stability paradox in IJVs, Delios et al. (2004: 458) propose to apply escalation logic (e.g., Staw, 1976) which “has identified a variety of factors that lead individuals and organizations to persist with failing courses of action.” The authors analyze a number of international strategic alliances and identify three specific factors (i.e., large number of alliance partners, large size of alliance, possession of few other subsidiaries in host country) that foster persistence despite an obvious failure of the particular alliance. Insights offered by Inkpen and Ross (2001) generally indicate that project, psychological, social, and organizational and contextual determinants may account for persistence in alliances. Although the factors mentioned by both studies are related to persistence, path dependency theory is not mentioned explicitly in either study.

Like IJV stability to instability, IJV survival or longevity may be seen as a dialectical antagonism to IJV termination. Studies that analyze the survival of IJVs identify cultural factors (e.g., Barkema & Vermeulen, 1997; Makino & Beamish, 1998), MNE strategic factors (e.g., Li, 1995; Mitchell, Shaver, & Yeung, 1992), network-related factors (e.g., Zahra, Ireland, Gutierrez, & Hitt, 2000), learning-related factors (e.g., Li, 1995; Steensma & Lyles, 2000), and control- and ownership-related factors (e.g., Delios & Beamish, 1999; 2004; Dhanaraj & Beamish, 2004; Makino & Beamish, 1998; Pan & Chi, 1999) to be crucial for IJV survival. However, no single study analyzing IJV survival considers paths, developments, or decisions that would limit the firm’s ability to terminate the venture or that would lead to its survival from a path dependency-based perspective.

Hence, to resume this comprehensive review, one has to assert that path dependency theory and an explicit focus on events (for a related proposal see also Ring & Van de

Ven, 1994) that might lead to this phenomenon is widely ignored within IJV research so far. Therefore, the next section will show basic assumptions of path dependency theory as well as specify its application to the IJV setting.

5.4 Path Dependency Theory

5.4.1 Basic Assumptions

The theory of path dependence primarily dates back to the work of Arthur (1989; 1994a) and David (1975; 1985) but has also been generally mentioned by earlier work (e.g., Cyert & March, 1963; March & Simon, 1958; Nelson & Winter, 1982). To David (1985: 332), “[a] path-dependent sequence of economic changes is one in which important influences upon the eventual outcome can be exerted by temporally remote events, including happenings dominated by chance elements rather than systematic forces.” Beside the well-known example of QWERTY (David, 1985) other historical developments like the success of MS DOS in the market for PC operating systems in the early 1980s have also been ascribed to the phenomenon of path dependency (Arthur, 1996).

Contrary to neoclassical reasoning, path dependency theory presumes a world without one single, predetermined optimal outcome that is aimed at by market actors and a world without full reversibility of decisions made (Schreyögg, Sydow, & Koch, 2003). Then, in a world of multiple equilibriums, interdependent decision-making and decision alternatives exist and the optimal outcome is not always actively aimed at. Hence, to Arthur (1994a), a process that becomes path-dependent is characterized by its (a) unpredictability, (b) inflexibility, and (c) potential inefficiency. Neither can the evolution of paths and the evolving state of a “lock-in” to a certain path be predicted nor can a locked-in state easily be overcome.

The occurrence of path dependence is therefore not dependent on the superiority of a process’s outcome but, rather, may result from a process or sequence of historic, imprinting decisions or events (i.e., “small events”). Through dynamics of “increasing returns” (i.e., self-increasing, self-reinforcing “positive feedbacks”), this sequence may become irreversible at a certain point of time, the “lock-in” state, and may lead to inferior or superior outcomes.

Positive feedbacks or increasing returns (i.e., the actual payoffs of an action) might contribute positively to an outcome of a process, but, however, could also turn negative at a certain point of time. If this occurs *before* the process has been locked-in, the process or path according to the theory might easily be departed or changed to reach a superior one. If this occurs *after* the process has been locked-in, then, contrarily, the inferior process or path can not be easily departed or changed because departing the path would impose certain costs of exit. The evolution of paths and the irreversibility of decisions that might lead to a lock-in to a certain path are visualized in Figure 5.1.

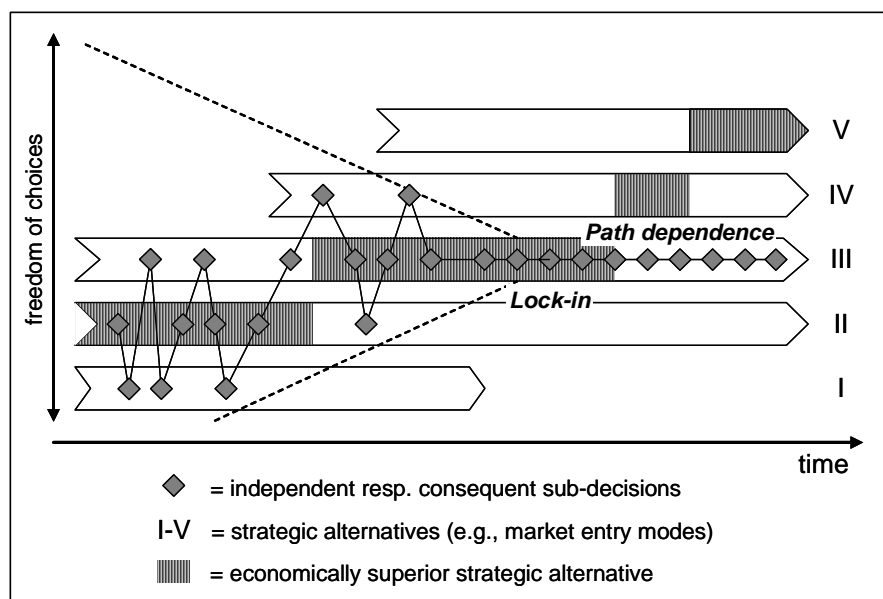


Figure 5.1: Constitution and development of paths

When beginning to decide about choosing one strategic alternative out of many (e.g., how to enter a foreign market), managers enjoy the largest freedom of choices between a couple of relevant strategic alternatives (e.g., market entry modes). This freedom of choices is mainly constrained by a manager's freedom to allocate a firm's scarce resources to follow a strategic alternative. Although this freedom of allocating scarce resources may be largest at the beginning of a project, neither decision will be completely ahistorical because "[a] firm's previous investments and its repertoire of routines (its 'history') constrain its future behavior." (Tece, Pisano, & Shuen, 1997: 522-523) Over time, however, a manager's freedom to choose between alternatives will decrease due to an ongoing allocation of resources (i.e., investments) to one or few

strategic alternatives. This allocation of resources is thereby mainly driven by the manager's anticipation of the superiority of an alternative compared to others. It will become further reinforced through the existence of increasing returns and positive feedbacks (i.e., the actual payoffs of an action). Then, the higher the anticipated superiority of an alternative and the higher increasing returns, the higher will be the probability of managers allocating large amounts of resources to this alternative and, thus, the higher will be the probability to getting locked-in to this alternative.

Anticipating the superiority of alternative investments *ex ante* will be constrained by a decision maker's bounded rationality so that over time other strategic alternatives might become or appear superior to the one followed. If large (re-)investments have been made to an alternative now inferior (i.e., induced by high increasing returns), then managers might be hindered from easily switching from this alternative to a superior one. This logic partly resembles the logic of sunk costs and other biases inherent in individual decision-making. According to Bowman and Hurry (1993: 766), for instance, organizational investment behavior might generally contain an element of inertia in that "[t]he presence of sunk costs (i.e., in existing investments) produces hysteresis – the spillover effect of past investment – creating a pressure on the organization to hold on to investments and to defer new investments, for some time." Moreover, it has been found that managers tend to procrastinate and to delay their risky decisions, allowing events to evolve, new factors to come to light, and time for new options to be developed (MacCrimmon & Wehrung, 1986).

5.4.2 Application to the IJV Setting

At any given time, an IJV should offer each parent at least three major options: (1) It might be continued (this might not lead to no changes at all, such as changes of the level of control or ownership, reorganization of the venture or of certain processes, and so forth), or it might be terminated by either one of the parents through (2) divestiture/closure or (3) buyout (i.e., internalization) (e.g., Gomes-Casseres, 1987; Mata & Portugal, 2000; Reuer, 2000). Both latter alternatives can result, for example, from an IJV's poor performance or from divergent strategic intents like moving into another market (for the divestiture/closure option) or initially having followed a

“toehold-strategy” (for the buyout option). However, firms may be hindered from easily terminating an IJV through either one of the options and continue the venture because of path-dependent effects. Having said this, it is of particular interest to identify those events and decisions that induce increasing returns, impose exit costs and, in turn, lead to the prosecution of an IJV (option 1) although other options (option 2 or 3) have become or appear to be superior for at least one of the parents.

Therefore, any reasoning based on path dependency theory must be based on the basic concept that leads to lock-in: increasing returns. However, in the case of IJVs, there is not necessarily an indication that positive returns or feedbacks must be “increasing” for continuing an IJV: It has been proposed by Yan (1998: 778), for example, that “[w]hen an IJV performs well, the interests of both partners are being served, thus providing incentives for both to keep the existing structure unchanged.” Moreover, an additional analysis of cost effects will help to elucidate those small events that may lead to increasing or positive returns because especially increasing returns might “occur due to three reasons: 1. High fixed costs and very low variable costs; 2. Network effects, that is, the value of a product increases with the number of users; and 3. High switching costs.” (Nachum, 2003: 220)

The analysis and proposition development will mainly focus on small events because according to Arthur (1994b: 14), “[o]ne way then to bring allocation under increasing returns within the bounds of analysis would be to make explicit these ‘small events,’ add them to the model, and examine in detailed ‘slow-motion’ the dynamic process by which they cumulate into an aggregate outcome.” The focus on small events will be helpful in understanding the occurrence of path dependence in IJVs because it integrates both organizational and individual levels of analysis (Ring & Van de Ven, 1994).

5.5 Indicators of Path-dependent IJV Decisions

In this paper, a multi-theoretical approach is followed in order to derive propositions and factors that can indicate path dependence in IJVs. Theories that will be used in this paper include resource- and capability-based views (e.g., Isobe et al., 2000; Li et al., 2001; Luo, 1997, 2002a; Makino & Delios, 1996), organizational learning perspectives (e.g., Doz, 1996; Hamel, 1991; Isobe et al., 2000; Khanna et al., 1994, 1998; Lane et al.,

2001; Luo, 2001), and social exchange and network theory (e.g., Das & Teng, 2001, 2002b; Luo, 2001, 2002c; Steensma & Lyles, 2000). Transaction cost (e.g., Anderson & Gatignon, 1986; Brouthers, 2002) and resource dependence rationales (e.g., Inkpen & Beamish, 1997; Shenkar & Yan, 2002) are considered, too. Similar theories have been applied in a recent comparable study (Villalonga & McGahan, 2005).

5.5.1 Resource-, Capabilities-, and Learning-based Perspectives

The resource-based view of the firm (RBV) explains both firm exploitive and explorative behavior in international investments (Eisenhardt & Schoonhoven, 1996). From the first point of view, a unique pool of resources and capabilities provides the setting for a firm's international expansion strategy by helping to overcome general disadvantages associated with global operations and by enabling the firm to achieve economies of scale by expanding the geographic business areas in which the firm can apply its resource pool (e.g., Nachum, 2003). In IJVs, this initial pool of resources and capabilities (e.g., routines) might have a lasting effect (Yan, 1998) that could further be reinforced by successive investments related to this pool (e.g., complementary assets).

From the second point of view, alliances can be seen as a possibility for extending a firm's pool of resources and capabilities (Eisenhardt & Schoonhoven, 1996). This notion is also being adopted by knowledge-based views of the firm (e.g., Inkpen & Crossan, 1995; Kogut & Zander, 1993), in which IJVs are organizational modes facilitating the transfer of tacit knowledge. In this case "[o]ther forms of transfer, such as through licensing, are ruled out – not because of market failure or high transaction costs as defined by Williamson and others, but rather because the very knowledge being transferred is organizationally embedded." (Kogut, 1988: 323) This transfer of knowledge might not only induce increasing returns through knowledge spill-overs to a partner or related subsidiaries (e.g., Furu, 2000; Shaver, Mitchell, & Yeung, 1997), but additionally might encourage the development of capabilities and routines within the IJV and/or partner organizations. Hence, capabilities or routines may also give rise to path-dependent effects because of their tendency to get over-exploited without losing value through depreciation (e.g., Chang, 1995).

Exclusively analyzing resources and capabilities at an abstract, organizational level would neglect or at least grossly underrate the existence and influence of the cognitive and social behavior of individual actors or, as Kogut and Zander (2003: 509-510) point out:

We are very skeptical that strategic theories of resources will advance in the absence of a more profound investigation of the cognitive *and* social foundations of knowledge. It is not simply enough to note, however belatedly, that strategies are cognitive; it is critical to understand that strategies are made in social communities located in institutional settings. Strategy is a situated practice, our European colleagues would conclude, and we agree.

An individualistic and behavioral view is presented by organizational learning theory. This individualistic view can add additional insights to the processes taking place within an organizational context and, thus, within IJVs. Consequently, an organizational learning perspective enhances the understanding of “how learning processes in alliances mediate between initial conditions and outcomes.” (Doz, 1996: 56)

In the following, concrete indicators that might explain the occurrence of small events leading to increasing returns and exit costs and, hence, constituting path dependency in IJVs are presented. These indicators stem from (a) the initial pool of resources (Yan, 1998), from (b) operational, and from (c) dynamic capabilities (Helfat & Peteraf, 2003).

Initial pool of resources. Structures, processes, and decision-making within firms are evidently influenced by the initial combination of resources at the time of their foundation (Scott, 1992; Yan, 1998). Sustained impacts of initial conditions on the development path of organizations are, for instance, supported by García-Canal, Duarte, Criado, and Llana (2002), Kogut and Zander (1993), and Madhok (1997). Similarly, Teece et al. (1997: 522-523) state that “a firm’s previous investments and its repertoire of routines (its ‘history’) constrain its future behaviour.” Initial conditions such as key persons, location of headquarter, or core technology may be seen as organizational “footprints” that may cause such inertia.

Although the decision to form an IJV and its unique characteristics (i.e., the initial pool of resources) do not sufficiently account for the emergence of path dependency, they evidently influence the likelihood of respective developments (i.e., increasing returns and costs). How can increasing returns emerge from the initial pool of resources and

how may these lead firms to reinvest into it and, thus, enlarge the initial pool of resources?

From a first point of view, IJVs are formed to exploit resources and, hence, to capitalize on economies of scale. Increasing or at least positive returns are likely to come into action if this initial aim is being achieved. From a second point of view, an IJV can be formed to explore resources, for instance, from a partner's network ties to governments, suppliers, customers, and so forth (e.g., Vanhaverbeke, Duysters, & Noorderhaven, 2002). Hence, an IJV partner may gain positive network effects when the IJV itself or the IJV partner carries a large stock of valuable ties. These positive network effects may be further amplified and increased if subsidiaries in a partner's own firm network also profit from these ties. Hence, in either case, the more a partner's profit is dependent on the exploitive or explorative function of an IJV, the more a partner will be willing to uphold and to continue benefiting from an IJV.

In general, however, forming and upholding an IJV may result in considerable costs that may have an enduring impact of an IJV's initial configuration of resources on subsequent decisions. The initial production or operation technology of an IJV requires specific inputs and leads to inflexibility with regard to changing the resource mix (Yan, 1998). Technological or operating reinvestment requirements (Harrigan, 1981) or contractual safeguards that assure the steady contribution of technology or investments from parent firms (Yan, 1998) may further amplify the specificity and, therefore, irreversibility of investments made in an IJV.

Asset specificity constitutes an important impediment to exit (Benito & Welch, 1997) because the higher asset specificity the less marketable or fungible and, hence, the less reversible are those assets (Rivoli & Salorio, 1996).¹⁹ Then, the higher the specificity of initial or ongoing IJV investments or contributions, the more difficult it becomes to call off these investments. This is further amplified by the capital intensity of those assets (Harrigan, 1981). Therefore, to Rivoli and Salorio (1996: 348), "the only way the firm

¹⁹ The reversibility of assets is also influenced by the type of asset, i.e., whether it is tangible or intangible (i.e., tacit). Tangible assets like machinery or plant comprise a major type of economic assets (Harrigan, 1981), whereas intangible assets are largely coupled with strategic intents of entering or expanding in a market. Although tangible and intangible assets obviously discourage exit decisions (Benito & Welch, 1997), sunk costs of intangible assets such as firm-specific know-how or human capital tend to lead to increased 'stickiness' (see also, for example, Mishina, Pollock, & Porac, 2004).

is likely to recover any of them [i.e., specific resources contributed and investments made] is to sell the investment as a going concern, complete with patents, trademarks, proprietary technology, etc.”

However, divesting or even internalizing a venture (i.e., a second exit option) could be hindered from a potential loss of the benefits that are coupled with the IJV or a particular partner. For instance, the higher the strategic (or profit) relevance of an IJV the higher will be a partner’s drive to keep an IJV or even to carry out subsequent specific investments in order to keep it. Otherwise a partner runs the risk of being locked out of an IJV’s or a partner’s valuable networks and ties and of losing important customers and distribution channels (Harrigan, 1981), thereby suffering from significant switching costs. Therefore, MNEs will pursue an even failing IJV if the following proposition applies:

Proposition 1: The higher asset specificity, capital intensity, and strategic relevance of initial resources for at least one of the parents, the more likely IJV lock-in effects will emerge.

Operational capabilities. Operational capabilities are high level routines (Winter, 2003) that are built from the knowledge and skills pool of an organization. This pool of knowledge and skills, in turn, builds on experiences of former and current organizational members and is based on individual and organizational learning, whereas three interdependent organizational processes influence the evolution of operating capabilities or routines: experience accumulation, knowledge articulation, and knowledge codification (Zollo & Winter, 2002). Accumulating experience by trial and error (i.e., repeated execution) and through a sequence of selecting, adapting, and retaining past behaviors can, for instance, “result in adaptive adjustments to the existing sets of routines” (ibid.: 342). How can even increasing returns emerge from continuously improving operational capabilities?

An example may illustrate this case: Project management skills and client-specific knowledge has been proven to significantly influence performance in the software industry (Ethiraj, Kale, Krishnan, & Singh, 2005). The more sophisticated project management skills and customer relationship management were, the better the

performance of software firms. However, specific investments in project management (e.g., methods, training) and in client relations not only improve efficiency and performance but also might induce higher strategic exit or “switching cost associated with repeat projects for a given client.” (ibid.: 38)

In IJV research, especially such experience and knowledge originating from the IJV partner(s) (e.g., Dhanaraj et al., 2004; Lane et al., 2001; Makino & Delios, 1996) as well as from the customers (e.g., Dyer & Singh, 1998; Ethiraj et al., 2005; Karim & Mitchell, 2000; Schroeder, Bates, & Junttila, 2002) are emphasized. The beneficial effect of experience and knowledge for the IJV itself is further amplified as it is also subject to positive spill-over effects to the parent companies and/or other subsidiaries owned by the parent companies (e.g., Furu, 2000; Inkpen & Currall, 2004; Peng & Wang, 2000; Shaver et al., 1997).²⁰ Then, knowledge transfers back home to the MNE and/or its firm network may be seen as positive returns that confirm decision-makers to reinvest in the IJV or to make specific investments in the MNE in order to further augment the beneficial effects of more efficient processes (Ethiraj et al., 2005). Such specific investments could include, for instance, an adjustment of IJV-specific organizational interfaces and boundaries (e.g., standardization of management or information systems) or an improvement of an MNE’s absorptive capacity in order to accumulate knowledge much easier.

Thus, the continuous process of accumulating, articulating, and codifying experience and knowledge will evidently lead to respective costs. In general, costs tend to increase the more operational capabilities are “embedded within the organizational context (Rumelt, 1987) such that their optimal deployment is contingent on the presence of other complementary assets (e.g., managers, culture, technology)” (Ethiraj et al., 2005: 27). It has been found, for instance, that parent firms that take a central lead regarding the strategic planning of their international R&D units are heavily constrained by the existing resources and capabilities within these units and tend to stick to those fields of R&D research originally initiated through the use of these existing resources and capabilities (Chiesa, 1996; Penner-Hahn, 1998; Taggart, 1998). This is of special relevance for IJVs because these organizational forms have to take into account

²⁰ This is also due to that, according to Perrow (1986: 11), “[o]rganizations must be seen as tools, as having bundles of all sorts of resources that people inside and outside can make use of and try to control.”

different organizational procedures and technologies contributed by parent firms. This may lead to highly specific complementary investments that are needed in order to execute and to further enhance operational capabilities held within the IJV.²¹

Finally, another cost-based argument has to be taken into account. Although it has been mentioned that IJVs are organizational modes that offer an economically superior transfer of explicit and especially tacit knowledge (Gupta & Govindarajan, 2000; Kogut, 1988) it has been also indicated that, due to possible opportunistic actions that might induce a “learning race” between partners (e.g., Khanna et al., 1994, 1998), a steady “potential for conflict between alliance partners is inherent.” (Muthusamy & White, 2005: 416)²² Therefore, research based on transaction cost theory proposed to alleviate the potential opportunistic behavior of actors “through appropriate contractual agreements or equity-based governance structures (Kogut, 1988) [that] ... are expected to create a ‘mutual hostage’ situation through *ex ante* commitments to an alliance.” (Muthusamy & White, 2005: 417) However, installing safeguards like appropriate contractual agreements or equity-based governance structures incurs costs and resource commitments by each parent involved in the venture and may thereby aggravate the danger of an IJV lock-in.

Proposition 2: The higher IJV dependence on capabilities contributed by a partner and the higher the need for complementary assets, the more likely IJV lock-in effects will emerge.

Proposition 3: The higher IJV partner dependence on capabilities contributed by the IJV or another partner and the higher the need for specific boundaries, the more likely IJV lock-in effects will emerge.

Dynamic capabilities. Whereas operational capabilities or routines are mainly “geared towards the operational functioning of the firm (both staff and line activities)” dynamic

²¹ Consequently, learning – which may generally induce cost savings due to increased input efficiency and improved product and process innovation and standardization (Luo, 1999) – has been noted as an important driver for IJV success but also for IJV failure if hampered by alliance initial conditions like existing incompatible routines (Doz, 1996).

²² Accordingly, Inkpen and Beamish (1997: 177) proposed that “when partners of an IJV acquire sufficient knowledge and skills to eliminate a partner dependency and make the IJV bargain obsolete”, then, due to shifts in bargaining power between partners, instability or dissolution may occur.

capabilities are “dedicated to the modification of operating routines” (Zollo & Winter, 2002: 340). This is especially crucial in highly dynamic and turbulent environments (e.g., with reference to market boundaries, changing customer needs, or aggressive competitors) because then the more flexible and adaptive firm capabilities need to be. Particularly knowledge- and evolution-oriented studies stress the fact that maintaining an adequate strategic and organizational flexibility becomes a sine qua non in dynamic and turbulent markets and environments (e.g., Grant, 1996).

From an RBV perspective, success and survival under such competitive conditions primarily depend on organizational capabilities that ensure an efficient generation of information, knowledge, and innovation (Hitt, 1998). High uncertainty regarding critical success factors, capabilities, and competencies erodes the economic efficiency of firm strategies and organizational measures that are focused on establishing and maintaining long lasting core competencies and routines (Leonard-Barton, 1992). Formal routines and operational capabilities as well as their incremental optimization (e.g., through providing complementary assets or through establishing specific boundaries) do not become obsolete; rather do dynamic capabilities show the need to acquire or develop new, situation-specific knowledge and to adjust the existing set of routines (Zollo & Winter, 2002). Therefore, any specific and capital intensive investment into acquiring complementary assets or into establishing process-specific organizational boundaries in order to incrementally improve an existing set of routines may prove disadvantageous when the environment of an IJV is highly dynamic and turbulent. Hence, MNEs which possess a set of valuable dynamic capabilities such as a subtle knowledge of how to effectively manage an IJV (or what is referred to as an alliance capability or function, see Kale et al., 2002) might be aware of the downside potential of extensive and highly specific investments into complementary assets or adaptive organizational boundaries and systems. Thus, we propose a declining effect of the probability of an IJV lock-in in case of an existing set of a highly subtle IJV function and in case of a highly dynamic and turbulent IJV environment.

Proposition 4: The more subtle an MNE's IJV function and the more dynamic and turbulent an IJV's environment, the less likely IJV lock-in effects will emerge.

Contrarily, it has also been proposed (Teece et al., 1997) and proven by several empirical studies (Medcof, 2000) that dynamic capabilities can be path-dependent. This is also why some authors indicated a path-dependent nature of experience and knowledge in general (e.g., Carlile, 2004): As long as contexts and actions to which knowledge is applied remain constant and known, the path-dependent nature of knowledge proves beneficial. When novelty increases, the path-dependent nature may have serious drawbacks and may result in negative returns “because the common knowledge used in the past may not have the capacity to represent the novelties now present” (Carlile, 2004: 557). Carlile (2004: 565) also points to the phenomenon that “actors tend to reuse knowledge even when novelty is present. This invested, path-dependent tendency is the source of the competency traps (Levitt & March, 1988) and the ‘curse of knowledge’ that generate mismatches between actors.”

Similarly, Nooteboom (1997) draws on human cognition, action, language, and brain functions in order to explain and predict path-dependent effects in the knowledge transfer within organizations. Through interacting with their environment, continuous learning, and habituation human beings develop schemata (Nooteboom, 1997) and routines (Arthur, 1994b). Routines that prove to be successful with regard to solving certain problems are positively reinforced and applied to similar contexts or problems in order to increase efficiency. This natural tendency to rely on solutions and routines that proved to be successful in similar contexts in the past may hence lead to “over-exploitation” effects (Arthur, 1994b; Groenewegen & Vromen, 1997) driven by the bounded rationality of individuals: According to Arthur (1994b), individuals do not know the distributions of rewards of a certain line of action in advance (i.e., *ex ante*) but may only anticipate them and, hence, may get caught in a trap of over-exploiting certain actions that paid off well in the past. Then, self-reinforcement and increasing returns that result from over-exploitation can give rise to path dependence, nonpredictability, and possible lock-in to an inferior choice (Arthur, 1994b).

This holds in particular for strategic decisions such as forming and maintaining an IJV. Dynamic capabilities like alliancing and strategic decision-making in general (Eisenhardt & Martin, 2000) that have proven successful several times (at least from individual managers’ perspectives) might get (over-)exploited in future decisions. Because dynamic capabilities shape, develop, deploy, and protect operational

capabilities and routines (Teece et al., 1997: 510; Zollo & Winter, 2002: 340, 348) deploying existing dynamic capabilities (e.g., the IJV function) without a necessary adaptation to environmental changes might result in a misallocation of resources and assets (e.g., establishment and incremental improvement of complementary assets or highly specific firm boundaries) to operational routines and practices that do not account for the novelty and that rather needed to be modified. Indeed, it has been found that “firms with greater alliance experience are more likely to choose alliances over divestitures” (Villalonga & McGahan, 2005: 1203). Hence:

Proposition 5: The more an MNE’s IJV function is subject to over-exploitation, the more likely IJV lock-in effects will emerge.

5.5.2 Social Exchange and Network Theory

Organizational learning and knowledge accumulation in IJVs has been recently analyzed from a social exchange and network perspective, too (e.g., Inkpen & Tsang, 2005; Muthusamy & White, 2005). Inkpen and Tsang (2005: 147) propose that knowledge accumulation and transfer is influenced by network types and will be enhanced by the “repeated and enduring exchange relationships between the actors in the network”. IJVs are related to various forms of networks. On the one hand, an IJV itself represents a network between partners in which social exchange leads to the emergence of ties and bonds over time (e.g., Das & Teng, 2001, 2002b; Luo, 2001; Steensma & Lyles, 2000). On the other hand, IJVs are embedded in internal (e.g., other subsidiaries) and external (e.g., governments, suppliers) networks of their parent firms (e.g., Gulati, 1998; Inkpen & Tsang, 2005; Vanhaverbeke et al., 2002; Walker, Kogut, & Shan, 1997; Yli-Renko et al., 2001).

In either case the characteristics and consequences of intra- and inter-organizational networks (e.g., their density) are highly determined by personal relationships and ties of individuals such as IJV managers (e.g., Inkpen & Tsang, 2005; Johanson & Vahlne, 1990). Especially in alliances where contracts are incomplete and reciprocal exchanges of resources take place, social exchange plays a central role (Das & Teng, 2001, 2002b) and contributes to the development of social capital which can be defined as “the aggregate of resources embedded within, available through, and derived from the

network of relationships possessed by an individual or organization” (Inkpen & Tsang, 2005: 151). Because social capital is highly relationship specific and depends on individual traits such as personal attachment and interpersonal trust (Luo, 2001; Portes & Mooney, 2002) it has been found that the emergence of social capital can directly lead to a lock-in between actors (Borgatti & Foster, 2003). Therefore, the subsequent paragraphs will focus on these constructs and their interplay.

Personal attachment (i.e., the degree of interpersonal social ties) relies on the collaborative relationship between IJV partners. Accordingly, various studies find significant impacts of prior relationships²³ on personal attachment between IJV partners (e.g., Luo, 2001; Seabright, Levinthal, & Fichman, 1992). Personal attachment, in turn, has been found to have a significant impact on the emergence and sustainability of trust in IJVs (Das & Teng, 1998; Inkpen & Currall, 1997), whereas trust contributes to building social capital and to enhancing a longitudinal relationship between actors (e.g., Gulati, 1995a; Luo, 2002a). For instance, the closer the personal contact (i.e., attachment) and the more intensive the social exchange, the more partners learn about each other’s resources, capabilities, and reliability (e.g., Balakrishnan & Koza, 1993; Gulati, 1995a, 1998), partly due to partners’ willingness “to refrain from instituting specific controls over knowledge spillovers.” (Inkpen & Tsang, 2005: 158) Trust may hence evolve from habituation and routinization between partners (Nooteboom, 2002) and will guide action “by suggesting behaviors and routines that are most viable and beneficial under the assumption that the trusted counterpart will not exploit one’s vulnerability.” (McEvily et al., 2003: 93)²⁴

The existence of both personal attachment and trust may thus not only facilitate learning but may also, in general, reduce exchange costs and raise joint productivity (Andersson, Johanson, & Vahlne, 1997). On the one hand, IJV research has found that personal attachment between IJV boundary-spanners can suppress opportunism, boost trust, and counter IJV dissolution (Inkpen & Beamish, 1997; Luo, 2001). On the other hand, trust-

²³ According to Saxton (1997: 444), for example, repeated exchanges or “the prior relationship between the firms engaged in a relationship (Gulati, 1995; Levinthal & Fichman, 1988) influence the willingness to ‘partner’.” Moreover, Villalonga and McGahan (2005: 1189) found that “[t]he number of prior alliances between the firm and the target (or partner) firm is positively associated with choice of alliances over both acquisitions and divestitures.”

²⁴ It has to be noted that “[a]ttachment differs from trust in that attachment reflects the status quo of social connections between parties, whereas trust concerns the intention to accept vulnerability (risk) based on positive expectations of the behavior of another party.” (Luo, 2001: 177-178)

worthy behavior and the “implied pledge of nondefection” (Parkhe, 1993c: 806) have been found to reduce opportunism and the extent of formal contracts (Larson, 1992), to induce desirable behavior (Madhok, 1995), to facilitate conflict resolution (Ring & Van de Ven, 1994), to lower transaction costs (Gulati, 1995a), and to improve efficiency and financial performance of alliances (Das & Teng, 1998; Yan & Gray, 1994).

Such positive or even self-reinforcing effects or returns will not only strengthen personal attachment, trust, and, hence, social capital but could also lead to increasing inertial forces that countervail pressures for change in the relationship (Blau, 1964; Inkpen & Beamish, 1997).²⁵ For instance, also a trusted partner may deliver several relationships to industrial partners (like suppliers or customers, for instance) or governments to its IJV partner, those network dynamics mainly emerge over time and, therefore, might become “cemented, strengthened, and become imbued with trust and affect” (Soda, Usai, & Zaheer, 2004: 893).²⁶ A loss of a trusted partner would then also entail a loss of its ties which, in turn, could lead to high exit (i.e., switching) costs. These exit costs’ extent is further reinforced the stronger an actor’s actions and outcomes of these actions depend on the network or other actors within the network (Gnyawali & Madhavan, 2001).

Apparently, IJV longevity and stability strongly depend on interpersonal trust, personal attachment, and corresponding social capital (e.g., Yan, 1998). Especially personal attachment results from a history of reinforcing social exchanges between IJV managers and tends to increase the resistance to change (Luo, 2002a: 170): “Since specialized investments lose value when applied to other relationships, the parties become locked into the existing relationship, facilitating continuity.”²⁷ Existing ties and social capital can directly lead to a lock-in between actors (Borgatti & Foster, 2003). Moreover, it has been found that network ties promote trust and familiarity and, thus, may avoid formal changes in alliances (Gulati, 1995a) and may cause partners to remain within the actual

²⁵ It has been indicated, for example, that network and tie building requires “years of costly activities before the partners have demonstrated their willingness and ability sufficiently to each other to be able to reap the benefits of their business relationship.” (Andersson et al., 1997: 72)

²⁶ Adding to this argument, Gulati (1995) and Gulati and Gargiulo (1999) found that prior ties between firms increase the probability of their interconnectedness in future. Moreover, Gargiulo and Benassi (2000) found that strong external networks can bind managers to one course of action.

²⁷ Additional evidence for the inertial forces of attachment and trust comes from Blau (1964), Inkpen and Beamish (1997), Ring and Van de Ven (1994), and Seabright et al. (1992).

alliance (Olk & Young, 1997). All these arguments might indicate an IJV with strong social ties between actors to be rather prosecuted than terminated in certain contexts.

For the case of strong trust between IJV partners, another cost-based argument may stress the potential for a possible lock-in. Trust evidently fosters social exchanges between individuals, which are by definition voluntary and reciprocity-based (Blau 1964; Das & Teng, 1998; Nooteboom, 2002). Social exchanges in turn are based on mutual expectations that the respective partner will take risks and return or pay back 'gifts' (e.g., information, support, or trust) in future interactions.²⁸ Then, the higher a particular partner's willingness to take risks, i.e., to make mutual specific, nonrecoverable investments into an IJV relationship, the more social exchange leads to the fulfillment of expectations about a counterpart's behavior and, hence, the higher will be the other partner's willingness to invest into this IJV relationship. Any particular action (i.e., expected behavior) may therefore be seen as a (potential) positive return that will increase the willingness to continue and to "re-invest" into the relationship. The higher (re)investments, the higher will be sunk costs and the higher will be the likelihood of a potential lock-in to the relationship.

Proposition 6: The higher the degree of social exchange (expressed, for example, through personal attachment and trust) between parties, the higher will be social capital and, ceteris paribus, the more likely IJV lock-in effects will emerge.

5.6 Conclusion and Further Research Directions

Several authors have proposed to incorporate a path-dependent view into such disciplines like strategic management (Lockett & Thompson, 2001), international business (Eriksson et al., 2000; Guisinger et al., 2003), and joint venture management (Buckley & Glaister, 2002). This conceptual research sheds light on events and decisions that may lead to a lock-in situation to an IJV operation. For providing a substantiated explanation of IJV path dependence, a multi-theory approach has been used (cf. Villalonga & McGahan, 2005).

²⁸ More specifically, trust might be enhanced through large specific investments into an IJV's resource pool. The higher the specificity of these investments (Parkhe, 1993a), the higher is the potential risk of hold-up and, hence, the higher is the need for trust between partners (e.g., Nooteboom, 2002).

5.6.1 Explanatory Power of Theories Applied

Firstly, resource-, capabilities-, and learning-based arguments explained the possible emergence of path dependence in IJV operations. Whereas initial pools of resources and operational capabilities and routines are likely to increase the probability of path-dependent effects in IJVs, the existence of dynamic capabilities can decrease the likelihood of an IJV lock-in situation when dynamism and turbulence in an IJV's environment is high. However, dynamic capabilities will increase the likelihood of an IJV lock-in if over-exploitation takes place and corroborates the often noted path-dependent nature of this type of capabilities.

Resource- and capabilities-based explanations are deeply rooted in an IJV partner's overall international strategic purpose and, thus, are deeply intertwined with the decision to place international investments (at least in the case of FDI). Therefore, resource- and capabilities-based illustrations explicitly contribute to explaining increasing returns through their focus on exploitive and explorative firm behavior and to explaining possible lock-in situations due to sunk and switching costs that are involved in effectively performing this behavior. By additionally focusing on learning processes the paper attempted to go a first step towards explaining how path dependence might occur in the routine-building process in IJVs and how over-exploitation mechanisms in human behavior could lead to deepening IJV-related routines. Through routinization and (over-)exploitation, learning may induce cost savings and, hence, increasing returns. Thereby, resource- and capabilities-based explanations were extended by adding a more behavioral view.

Secondly, the paper integrated a social exchange and network perspective. This particularly showed how ties and bonds might evolve in- and outside an IJV and how this can spur the enhancement of positive network effects and increasing returns, for example, through profiting from the IJV partner's role as a nodal point in interfirm networks. Over time, this could lead to high dependencies between the partners and, in turn, to the heightening of exit costs, at least for the partner who is more dependent on the other. Hence, social exchange and network perspectives facilitate translating the postulated existence of positive network effects to the IJV setting and, thus, add to the application of path dependency theory to IJVs.

5.6.2 Application of Alternative Theories

This work's focus on selected organizational theories to explain path-dependent effects in IJVs should not exclude the future application of other theories that have been widely adopted to the IJV field. A closely related theoretical stream that has been broadly used in IJV research and that has been referred to in part in this paper is bargaining power theory. Thoughts elaborated by bargaining power theory might, for instance, contribute negatively to the danger of a potential lock-in to an IJV through explaining how a bargainer is able to favorably change the 'bargaining set' (Lax & Sebenius, 1986), how (s)he is able to win accommodations from the other party (Tung, 1988), and how (s)he is able to influence the outcome of a negotiation (Schelling, 1956).

Yet another concept which seems to grow in importance and has been used in IJV research is real options theory (e.g., Kogut & Kulatilaka, 1994; Rivoli & Salorio, 1996). This theory has been already applied to empirical IJV research (e.g., Reuer & Leiblein, 2000) and may also add explanatory value to the research topic explored in this paper. Then, according to Kogut and Kulatilaka (1994), initial platform investments (as IJVs might be) are options on the future whereas the existence of sunk costs implies an option value of waiting and, therefore, alter the exit trigger prices (Dixit & Pindyck, 1994).

5.6.3 Focus on Single Factors

IJV research can offer a large pool of variables which, so far, have primarily been studied in static market entry points of time. For example, because it has been found that especially the initial or early events that take place in a historical sequence could matter (e.g., Doz, 1996; Mahoney, 2000; Yan, 1998), it would be of high interest to find out which of these initial factors could also be decisive for later path-dependent effects. Such factors might include, for instance, market entry timing or the decision of where to locate the IJV operation.

Market entry timing has been broadly studied so far regarding the optimal timing of an initial market entry (e.g., Isobe et al., 2000; Luo, 1998; Pan & Chi, 1999; Pan et al., 1999) but less broadly with regard to subsequent market entries (e.g., Jiang & Beamish, 2004). Recent research has found that the earlier the first market entry, the higher the

probability of a second entry (*ibid.*). This is partly due, for example, to the higher experiential knowledge attained by ‘learning-by-doing’ that early entrants gain compared to late entrants (*ibid.*; Luo, 1999).

The decision of where to locate an IJV has also received much broader attention in IJV research that concentrated on the point of time of the initial market entry (e.g., Pan & Chi, 1999; Shaver & Flyer, 2000). Earlier economic path dependence work (e.g., Arthur, 1994a: 49-67, 99-110) analyzed industry location patterns and the importance of history. More specifically, it “attempts to provide a sound basis for the dynamics of industry location under agglomeration economies” and to show how firms “sequentially choose locations in an order of choice that is subject to ‘historical accidents.’” (*ibid.*: 49)

5.6.4 Future Empirical Work

Concerning the next steps that should be taken empirically one might have a look at Parkhe’s (1993a: 252) “multimethod, eclectic program of IJV Theory Development” proposing to enter phase 1 and to conduct initial, longitudinal case studies (like, e.g., the studies of Büchel, 2002, or Doz, 1996). Tracing sequences of path-dependent outcomes like it has been done, for example, with regard to explaining the English industrialization (Mahoney, 2000) would probably be most interesting here. A comparable method is also proposed by Langley (1999) and Ring and Van de Ven (1994: 112) when stating that “researchers might use events as the unit of observation.”²⁹

5.6.5 Applying and Furthering Path Dependency Theory

This study made a first explicit attempt to apply path dependency reasoning to the international business and IJV setting. As has been shown in the literature review, several research streams already introduced the concept. However, these attempts have been implicit and/or focusing on subsequent entries. In internationalization process

²⁹ There already exists research that explicitly indicates small events in IJV learning processes (cf. Doz, 1996).

research, for example, a further concretion of path-dependent effects might be conducive to the question why and how an MNE's future international investments will be affected by its prior experience, its prior investment modes, its prior ties, and so forth. A focus on small events might again be helpful to accomplish an explicit application of path dependency logic. Furthermore and peu à peu, path dependency theory needs to be fully integrated into international business and IJV research. This implies to additionally involve "path breaking" and "path creating" point of views (cf. Garud & Karnøe, 2001; Schreyögg et al., 2003).

6 Valuation Biases and the Persistence of International Joint Ventures

This paper is in preparation for submission to *Journal of International Business Studies* (co-authors: Klaus E. Meyer and Michael Nippa).

6.1 Abstract

The transitional role of international joint ventures (IJVs) as internationalization modes has been frequently emphasized in the literature. However, recent research shows shortcomings of this role by indicating that parent organizations often stick to their initial IJV decision despite superior alternatives that have emerged, and even when facing substantial economic losses. Explanations based on concepts and theories such as escalation logic, organizational and structural inertia, strategic momentum, or path dependency show a certain incongruity. In particular, research is notably vague in defining such a persistence phenomenon and in explaining why firms' or managers' decisions deviate from decisions based on economic optimization. Therefore, in this study we define IJV persistence and propose a more rigorous model of strategic decision-making regarding alternative internationalization modes. This model will help to explain IJV persistence as an apparent deviation from pure economic rationale. We specifically show how existing explanations to form and to persist with an IJV can be integrated and how managerial distortion can hamper economic decision-making.

6.2 Introduction

Within the field of research on international business, the formation and management of different internationalization modes has received broad attention by both scholars and practitioners. Top management has to select the economically superior alternative from a limited set of organizational options, ranging from wholly foreign-owned enterprises (WFOEs) over international joint ventures (IJV) and licensing to exporting partnerships. Predominantly, such a decision is of strategic nature as relevant resources of the firm are allocated based on a long-term perspective in order to gain a sustainable competitive advantage. When internationalizing, decision-makers regularly face high levels of uncertainty. Under such conditions a strategic decision alternative that limits the initial financial engagement through risk sharing and that allows for adjustments once uncertainties have been reduced turns out to be economically superior. IJVs can offer such strategic flexibility as they are often used as transitional modes at different stages of the internationalization process (e.g., Gomes-Casseres, 1987; Kumar, 2005; Reuer, 2000).

The transitional nature of IJVs implies that they are terminated once their initial objectives have been achieved (Kumar, 2005). Termination can either mean buying out the partner(s) and establishing a WFOE, or exiting through divestiture or closure (Mata & Portugal, 2000; Reuer, 2000). However, recent research indicates that some multinational enterprises (MNEs) apparently stick to their initial IJV investment decision despite unaccomplished performance expectations, mounting losses, or obvious exploitation by their partner(s) (Delios et al., 2004; Inkpen & Ross, 2001). Different concepts and theories have been applied in order to explain such behavior which seemingly contradicts economic reasoning. For example, scholars use escalation logic (Staw, 1976; Staw & Ross, 1987) for arguing that firms pursue and even further invest into underperforming IJVs. From a different perspective, research on organizational inertia and imprinting argues that initial conditions may lead MNEs to restrain from necessary structural reorganizations of their IJVs (Doz, 1996; Yan, 1998).

Although these concepts and theories partly explain persistence in decision-making situations such as redeploying assets to IJV operations, they also show certain fuzziness. On the one hand, some researchers elaborate the phenomenon that decision makers

transfer experiences derived from market entry modes chosen in the past onto similar decision-making situations while neglecting significant changes. This kind of persistence is often termed as strategic momentum (Amburgey & Miner, 1992), path dependence of knowledge (Chang & Rosenzweig, 2001; Teece et al., 1997), or, simply, routinization (Nelson & Winter, 1982). On the other hand, researchers address and analyze persistence in terms of keeping to a decision alternative (e.g., strategic alliance with a certain partner) once chosen although doubts regarding its superiority arise. This phenomenon is described for example as organizational or structural inertia (Cyert & March, 1963; Hannan & Freeman, 1984), as escalation logic (Staw, 1976; Staw & Ross, 1987), or as a consequence of switching costs (Caves & Porter, 1976, 1977). A closer look reveals that, although both streams of research show important similarities, and, hence, are often used synonymously (Jansen, 2004), they focus on different subjects. For instance, whereas the concept of organizational or structural inertia refers to organizational stability resulting from organizational factors and conditions (Doz, 1996), strategic momentum emphasizes inertia that is linked to strategic decision-making (Miller & Friesen, 1980). Beside the fact that both conceptualizations of IJV persistence are frequently mixed up, the consequences of persistence are in most cases not made explicit. Many contributions seem to assume that IJV persistence is bad, i.e., management is sticking too long to an IJV. However, the fact that persistence may excite positive effects - for example because competitors give up - is often neglected. Additionally, for most studies are retrospective by nature, it is much easier to accuse management of persistence than determining an economically unfavorable persistence in the presence of significant uncertainties related to such strategic decisions. This premature research situation regarding an important practical and scientific field of international business calls for a systematic appraisal of what we already know, a clear definition of the phenomenon under study, and the development of a research agenda based on a rigorous model.

For a comprehensive understanding, it is of great importance to emphasize that we interpret IJV persistence in the prevailing, but narrow sense, i.e., management persists in perpetuating an existing IJV despite economically superior alternatives (e.g., WFOE, licensing, termination). With other words, our objective is to elaborate, why underperforming IJVs are evidently kept alive by the management of the parent firms.

Based on a critical review of the related international business research we substantiate a comprehensive definition of IJV persistence, develop an integrative model that focuses on the respective strategic decision-making process and submit first propositions that allow for empirically tests. Our conceptual analysis makes four contributions of major relevance to the field of international business research. First, it provides a clear definition of IJV persistence. Second, it develops and proposes a rigorous model of strategic decision-making regarding alternative internationalization modes. Third, by allowing for a decision-maker's bounded rationality, the study provides explanations for deviations from purely rational norms and decision-making procedures. Fourth, in order to explain valuation biases that might occur in decision-making situations the theoretical analysis mainly draws on the resource-based view of the firm, organizational learning theory, and cognitive theory among others.

The paper starts with a literature review that provides evidence of IJV persistence and shows that existing conceptual explanations are lacking consistency. Building on a comprehensive definition of negative IJV persistence we develop a basic decision-making model which integrates the fundamental characteristics of strategic decisions related to continuing or terminating an existing IJV. In the subsequent part of the paper, we explore our model and develop theory-based propositions regarding important reasons for managers to persist in an underperforming IJV. Finally, implications, conclusions, and directions for future research are drawn.

6.3 Contributions of Prevalent Concepts

6.3.1 Evidence of IJV Persistence

Prior research has identified evidence for phenomena that show the characteristics of persistence within general strategic decision-making situations (e.g., Staw & Ross, 1987). In the context of IJVs, the existence of persistence behavior has been addressed at times, too. Recently, Delios et al. (2004: 458) and Inkpen and Ross (2001: 132) have shown, for instance, that despite repeated setbacks, disappointments, and underperformance McDonnell-Douglas Aircraft continuously invested in numerous alliances over a time span of 21 years. The latter two studies additionally refer to Global One, an international strategic alliance (Deutsche Telekom, France Telecom, and

Sprint). Created in 1994, it was finally terminated in 2000 after years of losses, turmoil, and conflict. Similarly, Serapio and Cascio (1996: 62) emphasize the long lasting and costly attempts of General Motors and Daewoo Motors to revitalize their South Korean IJV in the final stages of their collaboration. Based on several interviews with top managers from multinational firms, we found evidence for IJV persistence, too. A major European steel company, for instance, upheld its Chinese 1.4 billion US\$ IJV even though it continuously did not meet profit expectations and even though the local Chinese partner founded a competitive IJV with a Japanese partner.³⁰

While each of these examples illustrates some form of persistence behavior, a closer look reveals the need for differentiation. Whereas persistence as in the example of McDonnell-Douglas Aircraft demonstrates that top managers continuously allocate scarce resources to an inefficient alliance (cf. Inkpen & Ross, 2001: 132) and even found more (unsuccessful) alliances, the other examples indicate that firms may persist with one specific alliance they have established in the past. Accordingly, we subsume respective studies and contributions under these two different streams of research.

6.3.2 Echoes of the Past – Choosing IJVs All Over Again

In this case, authors analyze whether management decisions regarding, for instance, entering a foreign market are impacted and biased by past decisions regarding market entries. They frequently find that managers repeatedly stick to the same decision alternative and perpetuate it. A decision that reasonably paid off in the past is likely to become re-adopted in a similar decision-making context. Accordingly, it has been found that organizations that possess experience with one specific type of merger are likely to choose the same type of merger in subsequent decision-making situations (Amburgey & Miner, 1992). With regard to IJVs, research has shown that firms that experienced and built knowledge from prior IJVs are more likely to choose IJVs over other market entry modes when deciding on how to enter a certain market (Chang & Rosenzweig, 2001; Yiu & Makino, 2002). Moreover, MNEs are likely to establish future or subsequent IJVs with partners they know well from prior partnerships (e.g., Goerzen, 2007). One explanation refers to the path dependency concept and argues that the

³⁰ Evidence from interviews conducted in May 2006.

internationalization process of firms tends to become path-dependent the more it relies on a firm's specific pool of experience and knowledge (Eriksson et al., 2000) and the more shows positive returns. Decision-makers frequently reuse know-how from past decisions with regard to subsequent market entries. Solutions and routines that proved to be successful in similar contexts in the past will be re-adopted (Carlile, 2004) or even over-exploited (Groenewegen & Vromen, 1997) which may lead to superior decisions, if important contingencies are neglected.

6.3.3 Stickiness of Decisions – Being Bound to an IJV

In this case, researchers focus on the phenomenon that managers stick to their past decision regarding a specific market entry mode (e.g., continuation of an IJV in China). Authors focusing on this phenomenon frequently refer to the retention of organizational structures and conditions, which may result in organizational stability and inertia (Cyert & March, 1963; Hannan & Freeman, 1984). In the field of IJVs, there are indications that initial conditions (Doz, 1996) such as capital, technology, or local marketing channels (Yan, 1998) may lead to inertia. Moreover, high levels of familiarity and emergence of trust among partners (Gulati, 1995a) could influence a manager to decide in favor of continuing an existing relationship rather than ending it. Accordingly, general research (Bowman & Hurry, 1993; Staw, 1976; Staw & Ross, 1987) and IJV-specific research (Delios et al., 2004; Inkpen & Ross, 2001) found evidence that decision-makers frequently adhere to formerly made decisions although the course of action is apparently failing. Bowman and Hurry (1993: 766), for instance, conclude that organizational investment behavior contains an element of inertia in that “[t]he presence of sunk costs (i.e., in existing investments) produces hysteresis – the spillover effect of past investment – creating a pressure on the organization to hold on to investments and to defer new investments, for some time”. Similarly, Delios et al. (2004) found that MNEs tend to persist in underperforming international alliances if alliance termination and sunk costs are high. This is also corroborated by Weiss and Anderson (1992) who showed that manufacturers did not terminate their relationships with local sales representatives despite growing dissatisfaction.

This paper focuses on the second stream of research. However, as already shown, our review reveals that even the latest research shows at least two major insufficiencies. First, there is no clear definition of “persistence”. Delios et al. (2004: 474), for instance, define persistence rather broadly as the opposite of the likelihood of exiting an IJV, while other authors abstain from any kind of definition (e.g., Weiss & Anderson, 1992) or remain notably vague (e.g., Inkpen & Ross, 2001). Second, research largely fails to consider the fundamental decision process, including the elaboration, evaluation, and integration of decision alternatives. While this is apparently not the case for research on switching costs (e.g., Benito, Pedersen, & Petersen, 2005; Weiss & Anderson, 1992), respective studies fail to explain why there should be any persistence if switching costs are considered by the decision-maker. In other words: What other barriers should prevent a rational decision-maker to exit the IJV, if it is an inferior decision alternative? This question can only be answered, if (a) one is clear about the definition of persistence, if (b) there is a clear understanding whether and when persistence is economically favorable or not, and if (c) one argues by referring to explicit assumptions and a rigorous decision model.

6.4 Applying a Basic IJV Decision-making Model

6.4.1 Towards a Definition of IJV Persistence

Since March and Simon’s (1958) seminal work, the organizational phenomenon of “persistence” has been defined rather broadly as the continuation of an existing course of action (Audia, 2005: 1-1). Institutional theorists, for example, refer to the “persistence of practices, beliefs, and structures that conform to normative expectations for legitimacy” (George, Chattopadhyay, Sitkin, & Barden, 2006: 347) and that may, for instance, lead to the emergence of organizational routines (Nelson & Winter, 1982). On the one hand, persistent decision-making may increase efficiency as it simplifies decision-making and helps individuals and organizations to gain efficiency through the foundation of routines (ibid.; Zollo & Winter, 2002). On the other hand, it may decrease efficiency as it suppresses necessary adaptation and change in novel situations (Hannan & Freeman, 1984; Teece et al., 1997), generates momentum (Amburgey & Miner, 1992), and signals inflexibility (Weiss & Anderson, 1992). In other words: persistence

may lead to success (“pertinacity pays”) or failure (“undiscerning stubbornness”). In the remainder of our paper we will focus on the latter form of persistence, i.e., negative persistence, which is that parent firms stick to their initial IJV decision and maintain it despite economically superior alternatives.

IJVs are separate legal organizational entities partially held by parent firms originating from different countries (Shenkar & Zeira, 1987: 547). As such they are part of a firm’s internationalization process which has been defined by Calof and Beamish (1995: 116) as a process of adaptation of a firm’s operations (i.e., strategy, structure, resource, etc.) to international environments which can also take the form of de-investment. Although IJVs have been characterized as transformational market entry modes, practical evidence shows that specific organizational mechanisms and characteristics of the decision-making process ostensibly detains the management of parent firms from choosing a superior internationalization mode. Our conceptualization exclusively addresses this kind of economically inferior persistence, i.e., perpetuating an existing IJV despite economically superior alternatives perceived by the decision-makers.

6.4.2 Model Development

In order to further clarify such a negative IJV persistence we apply a procedural decision-making model of an internationalizing firm that is based on two fundamental assumptions: First, we assume decision-makers who, though under the constraints of bounded rationality and uncertainty, evaluate costs and benefits of all decision alternatives and decide for the alternative that maximizes the profit of their firm at any given point of time. As a rule, such decision-makers should base their decision not only on the absolute but also on the relative economic performance of all existing internationalization modes (Benito et al., 2005; Gimeno, Folta, Cooper, & Woo, 1997). Second, we assume that decision-makers periodically reassess their initial decision as part of an ongoing process of allocating scarce resources. This may stem from predetermined strategic planning processes or from new information such as changes in the regulatory environment (Kogut & Kulatilaka, 2004). Under these assumptions, the decision to continue or to exit an IJV is considered to be based on a rigorous economic rationale.

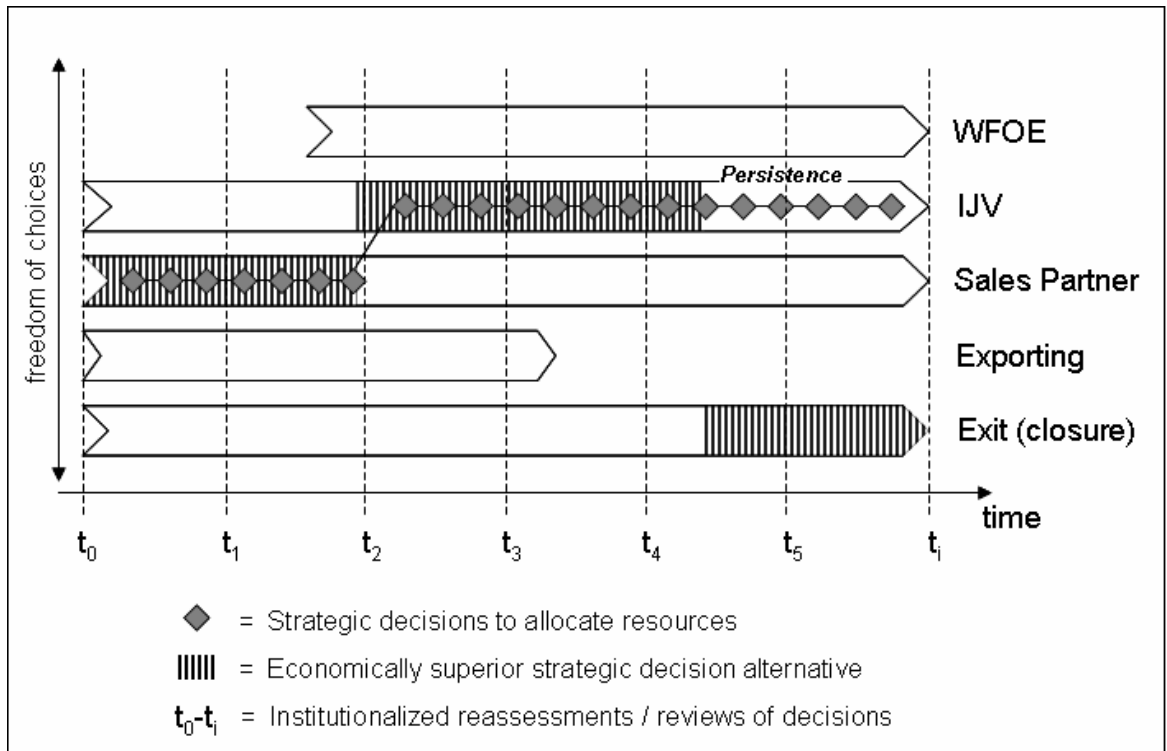


Figure 6.1: Persistence of internationalization mode decisions over time

We consider strategic decisions such as choosing and evaluating alternative internationalization modes as a sequence over time (see Figure 6.1). As a rule, top management initially has to choose the most appropriate organizational alternative with regard to entering or cultivating a certain foreign market. Under the given assumptions, top management will choose the economically superior strategic decision alternative. Accordingly, the strategic decision to form and pursue an IJV with one or more partners should be regularly traded off against other alternatives like exporting, licensing a sales partner, establishing a WFOE, or exiting, whether it is through divestiture or closure (Mata & Portugal, 2000). Furthermore, we assume that a decision-maker will initially choose, for instance, a sales partnership, if it is economically superior (e.g., in terms of anticipated net cash flows, cf. Bamford & Ernst, 2002: 32) to other internationalization modes (t_0 in Figure 6.1). Top management will periodically review and evaluate this decision according to the respective strategic planning process of the firm (Kogut & Kulatilaka, 2004). If the initial decision is still superior (t_1 in Figure 6.1), there is no need for a change and resources will be further allocated. If the review reveals that another internationalization mode (including exit) has become the best economic

solution (i.e., “IJV” in t_2 in Figure 6.1), rational decision-makers should act and should choose this economically superior alternative. If they do not, i.e., if management nevertheless sticks to the economically inferior alternative and probably continues to allocate resources to it, an unfavorable, negative persistence has to be stated (t_5 in Figure 6.1).

6.4.3 Contributions of the Model

First of all, our model is able to distinguish positive (“pertinacity pays”) from negative (“undiscerning stubbornness”) IJV persistence, a fact predominantly neglected by previous research. Furthermore, the model highlights the importance of the evaluation measures and methods applied by an MNE’s management. It clarifies that sunk and termination costs could only account for negative IJV persistence if they are not explicitly considered in the economic cost-benefit ratio. Tangible assets such as machinery or plant or contractual restrictions may pose switching or exit costs and may discourage exit (Siegfried & Evans, 1994), but may be accounted for by modern evaluation methods. However, even sophisticated evaluation methods only insufficiently value intangible assets such as goodwill, advertising and R&D intensity, or firm-specific human capital. Research also indicates that such assets are often neglected by managers (Inkpen & Ross, 2001; Weiss & Anderson, 1992). And even if they are considered, one has to be aware of manifold valuation leeways. In principle, strategic decisions such as the choice of the most efficient market entry mode are subject to high complexity, interdependencies and reflexivities, and particularly uncertainties regarding the development of relevant decision variables. Accordingly, our model implies that IJV persistence is fundamentally caused by the bounded rationality of decision-makers (Simon, 1959). Although widely neglected by previous research, determining and considering all alternatives with regard to internationalization mode decisions and all of their future economic consequences is basically not possible, especially *ex ante*.

Additionally, such investment decisions often have to consider societal and managerial ideologies or power relationships (Shrivastava, Mitroff, & Alvesson, 1987) which are difficult to evaluate, if at all. The threshold of the perceived inferiority of choices

therefore may differ across firms and individuals (Gimeno et al., 1997). Furthermore, decision-makers are systematically bound by individual biases or anomalies in decision-making such as escalating commitment (Staw & Ross, 1987), status quo bias (Samuelson & Zeckhauser, 1988), or dominant logic (Washington & Ventresca, 2004).

Thus, in order to enhance our understanding of IJV persistence, one has to refer to more realistic organizational decision-making processes (cf. Ghertman, 1988) than those that have been frequently applied so far. In particular, one has to account for (a) the fuzziness of actual exit costs and benefits and for (b) cognitive biases in managerial decision-making. Our basic decision model suggests that a negative IJV persistence may be caused by an overvaluation of benefits and/or undervaluation of costs related to the continuation of the existing IJV compared with other market entry modes. Additionally, cognitive biases may directly or indirectly lead to IJV persistence. Thus, research has to identify and analyze factors that constitute respective biases as exemplarily shown in Figure 6.2.

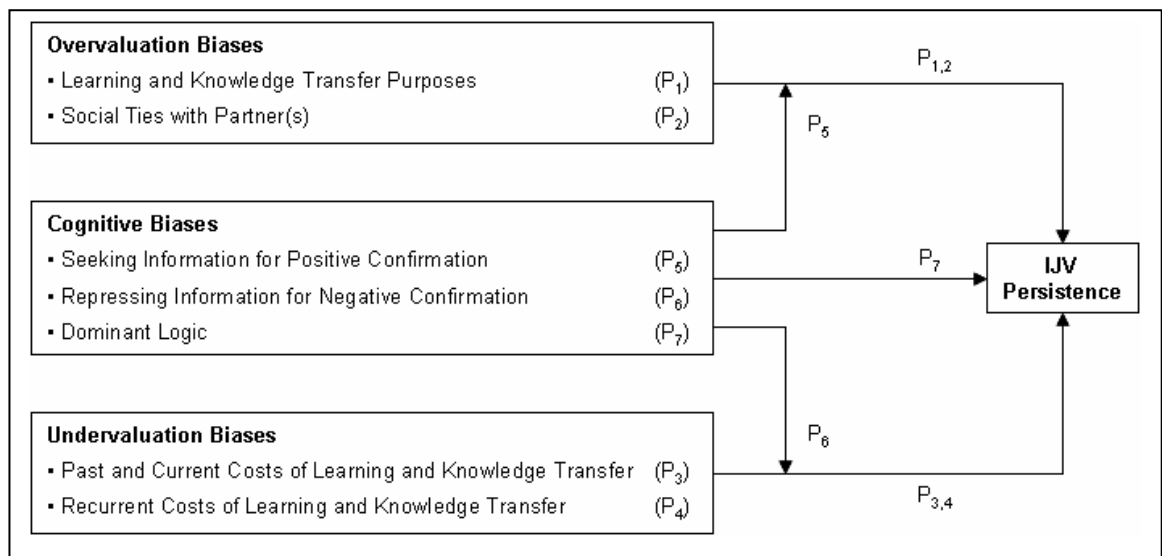


Figure 6.2: A conceptual model of the hidden causes of IJV persistence

6.5 Hidden Causes of IJV Persistence

6.5.1 Valuation Biases in IJV Decision-making

Strategic decisions in the course of a firm's internationalization, such as the decision to form an IJV, have to account for a variety of costs and benefits. Basically, the

management of an MNE has to consider initial set-up costs for establishing an IJV as well as recurrent costs to subsequently operate this IJV (Buckley & Casson, 1998; Yan, 1998). Benefits may include, for instance, access to new markets, access to new resources, or, simply, economies of scale (Eisenhardt & Schoonhoven, 1996; Kogut, 1988). Referring to our assumptions and model, a rational decision-maker will bear the costs of investing in and operating an IJV as long as current and future benefits are likely to exceed the respective costs and as long as no other market entry or internationalization mode is economically superior, i.e., offers a better cost-benefit ratio. However, as we have pointed out earlier, there is evidence that MNEs stick to their initial IJV decision despite accruing losses and despite the existence of economically superior alternatives such as exit or partner buyout. If irrational decision behavior is excluded, such IJV persistence has to be caused by systematic evaluation biases regarding costs and benefits as well as fundamental cognitive biases. More specifically, a decision-maker will tend to persist with an IJV if (s)he undervalues the costs and/or overvalues the benefits of pursuing the venture.

Overvaluation of benefits. Benefits from IJVs may result from several sources. According to the resource-based view and the organizational capability perspective, for example, IJVs are important vehicles for exploiting, but also exploring and developing, a firm's pool of resources and capabilities (Eisenhardt & Schoonhoven, 1996; Madhok, 1997), especially as they facilitate the transfer of tacit knowledge (Inkpen & Crossan, 1995; Kogut, 1988). IJVs thus are deemed adequate for transferring knowledge originating from sources such as the IJV's partner(s) (e.g., Dhanaraj et al., 2004; Lyles & Salk, 1996) or the IJV's customers (e.g., Dyer & Singh, 1998).

Despite the benefits of learning and knowledge accumulation, measuring and operationalizing or even quantifying and monetarizing such intangible assets is difficult. Although research has proposed (a) to measure respective benefits through the "*relative scope* of a firm *i* in an alliance *j*" (Khanna et al., 1998: 195), (b) to generally estimate knowledge transfer through capability building (Lyles & Salk, 1996), or (c) to operationalize the acquisition of technological capabilities through patents (Mowery et al., 1996), it remains virtually impossible to exactly measure and monetarize highly ambiguous tacit knowledge flows (ibid.: 83; Simonin, 1999a). Hence, although offering a "more realistic explanation of firms' market entry decisions" (Madhok, 1997: 57),

organizational capability perspectives generally suffer from the quantification of capabilities and competencies (ibid.; Newbert, 2007).

Determining, operationalizing, and quantifying the benefits from capability acquisition and improvement is difficult due to its subjective and qualitative nature. Financial measures simply cannot capture all intangible benefits of IJVs (Simonin, 1997). In a similar vein, Delios et al. (2004: 467) found that the likelihood of persisting with an alliance increases with “[t]he difficulty of alliance performance measurement”.

More specifically, decision-makers tend to overvalue the anticipated value of future knowledge transfers and stay in the venture, because they assume that “... the more tacit the knowledge, the greater the likelihood that the knowledge is valuable” (Inkpen, 1998a: 74; see also Dhanaraj et al., 2004: 430). Moreover, a decision-maker might see poor IJV performance as “an opportunity to delve into a situation and learn why performance is less than satisfactory.” (Inkpen, 1997: 361) Therefore, determining the optimal timing to exit an existing IJV may emerge increasingly as difficult if sufficient knowledge has been transferred. Thus, we propose:

Proposition 1: The management of a parent firm is more likely to persist with an IJV the more an IJV is expected to generate learning and knowledge transfer.

Many authors stress the importance of social ties and bonds when transferring knowledge (Dhanaraj et al., 2004; Inkpen & Tsang, 2005). For example, the closer the personal contact and the more intensive the social exchange, the more partners learn about each other’s resources, capabilities, and reliability (Gulati, 1995a). This is mainly caused by tacit knowledge which holds together mere information (Inkpen, 1997: 342).

However, despite of the positive effects of strong social ties, it has been emphasized that the whole process of trust development is subject to causal ambiguity due to its high complexity and situation-specificity (Dyer & Singh, 1998). Because causal ambiguity may deter managers from understanding the relationship between actions and outcomes (Reed & DeFillippi, 1990), causally ambiguous processes such as the development of social ties and trust may create and fortify an individual mindset of how the creation and existence of a trusted partner (i.e., the action) relates to the existence and improvement of organizational outcomes. This may also explain why many studies

found evidence that firms prefer partnering with firms they know from prior or present successful collaborations (e.g., Goerzen, 2007; Gulati, 1995a; Luo, 2002a; Saxton, 1997). Yet, not all research found evidence for positive performance impacts of joining an IJV with a formerly known partner (e.g., Goerzen, 2007; Saxton, 1997). Therefore, it might be assumed that much of the decision to join an IJV with a former partner may rest on wishful thinking, intuition, or gut feeling of a respective decision-maker. This would imply that an overvaluation of the familiarity with a current partner could lead a decision-maker to persist with an existing IJV, too. Indeed, it has been found that joint venturing with a formerly known partner has a negative impact on IJV dissolution (Park & Ungson, 1997). Therefore, we propose:

Proposition 2: The management of a parent firm is more likely to persist with an IJV the more knowledge transfer relies on strong social ties among partners.

Undervaluation of costs. The foundation and appropriation of benefits generated by an IJV incurs expenditures and costs. In order to establish efficient knowledge exchange, for example, partners are urged to invest substantial amounts into the creation of partner-specific complementary assets and structures, and interfirm boundaries (e.g., Dyer & Singh, 1998). The creation of partner-specific assets and structures may range from the adaptation of products, production systems, or processes over an adaptation of each other's business activities to the modification of partners' capabilities (Andersson et al., 1997). Hence, while Pucik (1988) states that firms aiming at learning from IJVs need to transform their human resource management system in order to support the learning process, Kogut (1988) and Westney (1988) refer to IJV-specific internal R&D facilities that might even parallel those held in the IJV.

On the other hand, the creation of partner-specific interfirm boundaries such as, for instance, absorptive capacity (Dyer & Singh, 1998; Kumar & Nti, 1998; Mowery et al., 1996), may motivate partners to steadily invest into building partner-specific absorptive capacity in order to avoid the danger of a so-called "learning race" (Khanna et al., 1998; Kumar & Nti, 1998). Moreover, there is evidence that firms may be prone to establish strong and cohesive network ties (e.g., Gargiulo & Benassi, 2000), but undervalue the danger of becoming locked-in to such relationships (Luo, 2002a), even if changeover or exit seems to be necessary and more attractive (cf. Seabright et al., 1992: 123).

Hence, although Dyer and Singh (1998) caution managers to consider the potential loss of flexibility at the outset, it seems not to be far-fetched to doubt that a manager is able to realize the density of a network and the respective costs to create and maintain this density (Adler & Kwon, 2002). Once partner-specific structures and ties have been created and established, however, it may be difficult and costly to readapt or to reverse-engineer such history-dependent resources to new fields of expertise (Dhanaraj et al., 2004), as they are for instance deeply rooted in a firm's pool of human resources and its set of complementary routines and processes (Mishina et al., 2004).

Moreover, measuring and accounting for such costs is even more difficult. For example, a recent attempt to measure "non-capital costs such as the sunk costs of routines, product-specific know-how, innovation-related knowledge and the cost to set up a skilled workforce" (Hölzl, 2005: 2433) shows a complicated and ambiguous way of approximation through interpreting "industry wide vertical integration as proxy of the average organizational capital stored in the routines of incumbent firms." It seems questionable, however, whether managers are capable of conducting such an approximation and of incorporating it into their strategic planning tools. Practical evidence refers, for example, to HR managers' difficulties to use and present such numbers in a credible fashion (Wolf, 1991).

Thus, direct and indirect costs associated with transferring and codifying knowledge (see Zollo & Winter, 2002) might not be easily measured and managers might fail to ascribe them fairly to an IJV investment. This might result in an undervaluation of the partner-specific costs associated with an IJV and might cause IJV persistence, leading us to propose:

Proposition 3: The management of a parent firm is more likely to persist with an IJV the higher the past and current partner-specific investments for enabling learning and knowledge transfer.

Another kind of costs that tend to be undervalued as they are difficult to foresee and quantify are oncosts resulting from the need to repeatedly invest in an IJV in order to maintain it or to make it competitive. Dyer and Singh (1998: 672) refer to this as "a cumulative (snowball) effect that is due to the interconnectedness of current relation-

specific investments with previous relation-specific investments.” According to Yan (1998), for example, an IJV’s inflexible production or operation technology may necessitate a steady contribution of initially granted resources. Compared to contractually fixed agreements such as the degree of technology transfer from one parent to another (ibid.), resource contributions that rest on an IJV’s production technology flexibility may not be easily foreseeable.

In the case of trust, recurrent costs are likely to emerge if reciprocal exchange of gifts or hostages occurs. According to the social exchange concept, investing into relation-specific assets demonstrates partners’ willingness to pursue a relationship and, thus, can be interpreted as a signal used by partners to express a certain level of trust (Das & Teng, 1998). This may lead to an amplification process of reciprocal relationship-specific investments, which contributes to IJV stability (Kogut, 1989). Hence, the more a parent’s management fails to foresee and quantify recurrent costs, the more likely IJV stability or IJV persistence emerges. Of special relevance are recurrent costs that are not or only partially determined and fixed in contracts. As, on the one hand, there is no enforced list of cost categories to be applied and, on the other hand, these costs are difficult to determine, management frequently tends to neglect and/or undervalue it. - Therefore, we propose:

Proposition 4: The management of a parent firm is more likely to persist with an IJV the higher the recurrent future partner-specific investments for enabling learning and knowledge transfer that are not or only loosely contractually fixed.

Future research on IJV-persistence has to consider that there is a need to distinguish between the fact that an IJV is currently underperforming and the expectation how it will perform in the future, as investment decisions have to take into account the capital value, i.e., the expected, discounted expenditures and incomes of alternatives. While the current valuation of the performance is based on historical data that are partially impacted by valuation problems mainly due to complexity, the more important valuation of the future performance is additionally and significantly affected by uncertainties. As we have shown above, there are indications that top managers from parent firms systematically overvalue the future benefits and undervalue the future costs

of an IJV under consideration. However, the phenomenon of IJV persistence may be impacted by more general aspects of the strategic decision making process.

Research mainly in the field of organizational decision making and human behaviour shows that decision-makers are subject to systematic cognitive biases such as the post rationalization of previously made decisions (Weiss & Anderson, 1992). This may be an explanation of the statement of some researchers that “even smart managers might end up adopting suboptimal alliance strategies.” (Khanna et al., 1998: 206). In the following, we will substantiate our assumptions and will firstly propose that the over- and undervaluation of benefits and costs is positively moderated by cognitive biases and secondly that cognitive biases exert a positive direct effect on IJV persistence, too.

6.5.2 Cognitive Biases in IJV Decision-making

On the impact of cognitive biases on the overvaluation of benefits. It has been suggested that managers can become persistent with their decisions and actions if they intermittently receive positive feedback (Staw & Ross, 1987). In general, decision making has to rely on heuristics (Tversky & Kahneman, 1974: 1125). Consequently, past decisions and respective behaviour are repeated and further optimized as long as success prevails. If profit erodes or other negative outcomes slowly and irregularly emerge the need to alter the course is difficult to determine and evidently delayed or neglected by decision makers (Staw & Ross, 1987).

Whereas delaying action may result from inertia that emerged through routinization, neglecting appropriate action can also be explained by ex post rationalization of previously made decisions (Weiss & Anderson, 1992) or the “hindsight bias” (Fischhoff, 1975). According to this bias, responsible managers may be prone to overvalue the decisions they previously made if the outcome of these decisions is positive. That is, even nonoptimal or wrong decisions that had been previously made may seem optimal and correct if favorable outcomes are related to it. Thereby, previously made decisions become “(over)confirmed”. This may make decision-makers also prone to a “prior hypothesis bias” in that they form simplified beliefs or hypotheses about the relationship between variables that do not hold, but lead them to rely on inappropriate cause-effect chains (Schwenk, 1984: 116).

The severeness of persisting with false courses of action and decisions may become further fueled by an “overconfidence bias” (Fischhoff, Slovic, & Lichtenstein, 1977) which may make decision-makers the more confident about their own decisions previously made the more they become sure of themselves (Erev, Wallsten, & Budescu, 1994). The continuous success of an investment may lead to this kind of self-affirmation and may make a decision-maker blind to new, possibly disconfirming information (Schwenk, 1984). Thus, continued success may pose a serious “confirmation trap” that reassures decision-makers to stay with old information, old decisions, and old investments, too (Horn, Lovallo, & Viguerie, 2006).

Referring to research on international business, Calof and Beamish (1995: 127) proved that continued good (poor) IJV performance resulted in some executives upwardly (downwardly) revising their estimates of market potential. Similarly, Tyler and Steensma (1998) studied the impact of executives’ prior alliance experience on their evaluation of the attractiveness of founding and pursuing an alliance. They find evidence for the fact that top managers are more likely to focus on opportunities (e.g., learning, exposure to related markets) than on possible costs and threats if the alliance is perceived as successful in the past. In accordance with cognitive dissonance theory (Festinger, 1957), these managers actively sought and overvalued opportunity-based information (e.g., market potential) and undervalued threat-based information (e.g., technology drain). Such a consonance-seeking or rationalizing behavior (Inkpen & Ross, 2001) may most likely prevent managers from seeking and accounting for dissonance-producing information and may thus prevent them from changing a certain course of action, even if it become unlikely that expected returns will ever be reached. Therefore, it can be expected that positive feedback regarding a past IJV decision may lead decision-makers to overestimate future opportunities and benefits and, thus, to persist in an IJV. Therefore, we propose:

Proposition 5: Seeking positive confirmation will make the management of a parent more likely to overvalue respective benefits and to persist with an IJV.

On the impact of cognitive biases on the undervaluation of costs. According to the concept of escalating commitment (Staw, 1976; Staw & Ross, 1987), persistence behavior is mainly due to a decision-maker’s recognition that a previously taken course

might be false and might directly lead to crisis. Individuals who suffer such a setback, which may not be easily revised, will immediately suffer from the psychological costs of such failure (Staw & Ross, 1978). In order to protect themselves from further psychological costs, individuals will justify their course of action by either following this course, despite its obvious failure, or by allocating even more resources to it (ibid.).

The need to justify one's behavior might thereby stem from the need for self-justification or from the need for external justification. Concerning the first need, Staw & Ross (1987: 70) argue that managers may perceive negative news or evaluations of their decisions regarding organizational actions as a personal failure fueling the need to protect and restore their self-esteem. Concerning the second need, strong external pressures such as those from powerful stakeholders may cause managers to justify their investment decisions (Nippa & Petzold, 2005; Staw, 1976; Staw & Ross, 1987). The natural drive for reducing cognitive dissonance and for achieving internal consonance may then again lead managers to "discard or mentally suppress information that indicates a past decision was an error (since such information would conflict with his or her self-image as a good decision maker)." (Samuelson & Zeckhauser, 1988: 39). Moreover, it can be assumed that the need to justify a failing project and, thereby, to remain the "status quo", may be the greater the more resources actually had been allocated to the particular project over time (ibid.: 37).

Although Kogut and Kulatilaka (2004) argue that frequent project reviews might help to "kill" such projects, project reviews might only be capable to avoid status quo biases or escalating commitment as long as heuristics, assumptions, and beliefs correctly account for risks and probabilities. There is, however, ample evidence to doubt that this will happen in real-life decision-making. It has been indicated that individuals tend to accentuate the positive (i.e., benefits) and to mentally discard the negative (i.e., costs) or, in other words, to behave "overoptimistic" (Lovallo & Kahneman, 2003). One explanation for such a behavior rests in managers' tendency to be "anchored to their original cost estimates" and to not "adjust them sufficiently to account for the likelihood of problems and delays" (ibid.: 60).

Hence, in line with escalation logic, research on cooperative interorganizational relationships proposes that partners' escalating commitments will contribute to the

length of the relationship (Ring & Van de Ven, 1994). Confirming the need for external justification, Delios et al. (2004) found that high alliance external visibility – as a precursor of a higher coverage in the business press (ibid.) – leads to a greater likelihood of escalation. Moreover, they postulated that senior executives tended “to become socially bound to their failing alliances” which “attained almost mythical status within” their companies (ibid.: 465). This behavior may also be interpreted as an attempt by senior managers to satisfy their need for self-justification.

Khanna et al. (1998: 207) expect that anchoring – being an important antecedent of behaving overoptimistic (Lovallo & Kahneman, 2003) – could make managers “susceptible to adopting suboptimal strategies in managing alliances”. By this means, a high level of trust with an IJV partner might act as an anchor that reminds one to the partner’s honesty and thus creates an illusion of consonance (McKnight, Cummings, & Chervany, 1998). As a result, negative feedback that would create dissonant cognition will be ignored and leads managers to adhere to failing IJVs (Delios et al., 2004). Thus, we suggest that this bias will amplify the likelihood that respective costs are undervalued and will lead to IJV persistence:

Proposition 6: Repressing negative confirmation will make the management of a parent more likely to undervalue respective costs and to persist with an IJV.

Cognitive biases affecting the general likelihood of IJV persistence. As we have previously shown, individuals might repress or ignore information that negatively confirms their beliefs and assumptions for several reasons. In terms of the mental processes that accompany such repression, individuals are tempted to “search their memories to find ways of explaining their existing beliefs” (McKnight et al., 1998: 484). On an organizational scale, these individual memories may become institutionalized once individual schemes and judgments have become social orders of groups (Yiu & Makino, 2002). Over time, this “cognitive inertia” or “set effect” (McKnight et al., 1998: 485) may develop into a “dominant logic” (Prahalad & Bettis, 1986) of how to decide. It might for instance guide resource allocation, might set the terms of organizational politics, and might establish routines and capabilities that can foster or block the incorporation of strategies (Washington & Ventresca, 2004). This may once again lead decision-makers to anchor their decisions and to maintain the

status quo “in adherence to standard operating routines, or for reasons of historical precedent or tradition.” (Samuelson & Zeckhauser, 1988: 39)

Although reusing knowledge proves beneficial as long as contexts and actions to which knowledge is applied remain constant and known Carlile (2004) shows that actors often reuse old knowledge, even when novelty is present. This happens because individuals do not know the distribution of rewards of a certain line of action in advance and only anticipate them (Arthur, 1994a). Therefore, “routines or actions that led to good performance in the past are used repeatedly even though they may be far from optimal” (Karim & Mitchell, 2000: 1068).

In fact, alliance research states that capabilities like alliancing that have proven successful several times in the past may get (over)exploited when firms trade off alliances against acquisitions in future decisions (Kale et al., 2002). Hence, the better the experience with prior successful alliances or IJVs, the more management might tend to install decision-making procedures that guide future investment decisions and, thus, to create a dominant logic. Such a dominant logic or “alliance function” (Kale et al., 2002) might also apply when deciding about pursuing or leaving a current alliance. According to Lampel and Shamsie (2000), IJVs that are consistent with a firm’s dominant logic of how to build and manage IJVs are more likely to persist than IJVs that depart from it. Their finding is supported by indications that greater experience with IJVs can lead to a higher probability of IJV survival and profitability (Delios & Beamish, 2004; Kale et al., 2002) and that “firms with greater alliance experience are more likely to choose alliances over divestitures” (Villalonga & McGahan, 2005: 1203).

In a study about the consequences of dominant logic on a firm’s acquisition strategy Côté, Langley, and Pasquero (1999: 919) concluded that “a firm will tend to preserve its unique dominant logic until the inconsistencies it creates are revealed in a crisis or series of crises”. There is no clear evidence, however, about the relationship between the extent of a dominant logic, the potential inconsistencies it might create, and the likelihood that a crisis or a series of crises may lead to change a dominant logic and, hence, to change a certain course of action. Therefore, we hypothesize that a decision-maker will more likely pursue an underperforming IJV the stronger the impact of an organization’s dominant logic:

Proposition 7: The management of a parent is more likely to persist with an IJV the more this IJV is consistent with the parent's dominant logic of IJVs.

6.6 Conclusion

Based on a literature review that reveals deficiencies of existing concepts and based on observations from practice, this paper develops an understanding and definition of IJV persistence. Our study conceptually develops a basic decision-making model that regards an IJV as an alternative to other internationalization modes which are regularly traded off against each other. Moreover, our paper suggests several theory-based propositions on how IJV persistence may unfold. Because IJV decision-making is a complex process of strategic resource allocation that consists of various subprocesses (cf. Ghertman, 1988), we argue that IJV decision-making procedures might be prone to valuation biases which may cause IJV persistence. More specifically, our conceptual framework consists of over- and undervaluation biases of benefits and costs and of cognitive biases which moderate the former and also exert a direct effect on IJV persistence. Concerning the directions future research can take we suggest ways to empirically test our propositions and propose possible extensions of our model. Finally, practical implications for policy-makers are drawn.

6.6.1 Empirical Testing

Concerning empirical methods, such that focus on the decisions and events that may lead to persistence are warranted. A method that captures human judgment policies, that accounts for decision models that involve multiple criteria, and that has been used in an international research setting is policy capturing (e.g., Hitt, Ahlstrom, Dacin, Levitas, Svobodina, 2004). When pursuing this method, decision-makers are confronted “with a series of case scenarios and asked to make decisions on the basis of the information presented.” (ibid.: 178) Such an approach may be useful because it avoids problems associated with retrospective bias and because especially research on cognitive biases has suffered from unrealistic, labor-like experiments where often “one- or two-sentence description[s] of an escalation situation rather than a more complete scenario as the context for decision making” (Staw, 1997: 211) are used.

Concerning variable operationalization, the dependent variable, i.e., IJV persistence, must account for the relative superiority or inferiority of alternative internationalization modes compared to an IJV. This information may be gathered by using a multi-dimensional, subjective rating scale estimated by manager(s) in charge of managing an IJV (e.g., general managers). Independent variables may include both subjective and objective measures. For example, the extent to which an IJV contributes to learning and knowledge transfer may be surveyed by using (semi-)structured interview instruments containing a range of transferable knowledge items. The degree of the social and structural cohesiveness might be gathered by asking managers for the degree of mutual adaptation of processes and competences and by using objective data on the extent of prior collaborative experiences between the partners (e.g., number of collaborations, length of collaborations).

6.6.2 Future Extensions of Our Model of IJV Persistence

There are several possible extensions of our basic model of IJV persistence. For example, because it has been indicated that especially initial or early events that take place in a historical sequence could matter (e.g., Doz, 1996; Yan, 1998), it would be of high interest to show how and why “small events” that are decisive for IJV persistence may arise in an IJV setting. Work related to the path dependency concept has shown, for instance, how firms may benefit from agglomeration economies and how and why such location choices are subject to “historical accidents” (Arthur, 1994a).

Another possible extension of our study would be to account for group-level effects. Group-based decision-making may either increase or decrease the risk of IJV persistence (Schwenk, 1984). According to Bazerman, Giuliano, and Appelman (1984), for instance, groups are less likely than individuals to escalate commitment to certain courses of action. This may be due to the lower need for group members to self-justify decisions (Whyte, 1993), which has been ascribed to be one of the most important fundamentals of escalating commitment (Staw, 1976). However, Whyte (1993) found that even groups may be liable to escalating commitment, independently from the decision-making situation. Moreover, other group-level biases such as groupthink may increase the tendency to persist with former decisions (Schwenk, 1984).

Additionally, one might extend the decision-making perspective of our model by examining whether real options theory helps to avoid negative IJV-persistence. Recent research has proposed the option-wise treatment of IJVs, suggesting, for instance, to include expiration dates into IJV contracts (Reuer & Tong, 2005). Although real options logic basically complements our model regarding strategic resource allocations to alternative modes of internationalization, its application is constrained by each of the valuation biases described in this study, too. Findings conceding that real options theory provides only little support for predicting firms' international investment behavior (e.g., Folta, 1998; Reuer & Leiblein, 2000) and indicating that when terminating IJVs planned divorces "are the exception rather than the rule" (Serapio & Cascio, 1996: 68) might confirm this concern. Hence, future research is clearly needed.

6.6.3 Practical Implications

The main focus of this study is on factors and phenomena that are decisive for negative IJV persistence, i.e., persisting with an IJV despite superior internationalization mode alternatives. Therefore, managers need to be fully aware of the valuation biases that were introduced in the paper in order to prevent the emergence of IJV persistence. The better managers understand these biases, the more likely IJV persistence and its negative consequences will be ruled out.

There are different ways to create such an understanding (see also Schwenk, 1984). Lovallo and Kahneman (2003), for instance, propose a structured way of taking "the outside view" to overcome overoptimism when making forecasts. More specifically, they suggest creating a reference class of prior events that are most similar to the decision-making problem at hand, which should then build the basis for a sequence of intuitive, corrective, and, thus, iterative estimations of the future project development. Moreover, Inkpen and Ross (2001: 144) propose to "make the intangibles tangible" by stating that firms should construct scenarios that not only include quantifiable costs and benefits but also incorporate qualitative "timeline projections of closing costs and salvage values if the firm were forced to exit." However, as we have shown in this paper, such an attempt will be challenging.

7 Conclusion

7.1 Main Insights and Results

There are many perceived advantages to entering foreign markets through international joint ventures (IJVs). However, IJVs are difficult to manage and reportedly failure rates are high. This has given rise to a significant research stream on the determinants of IJV performance. This literature has yielded many meaningful insights, but its voluminous output has by and large left both scholars and practitioners perplexed. Moreover, most IJV performance research to date is uni-causal and cross-sectional, with comparatively little analysis of the multi-causal and longitudinal aspects of IJV performance. Furthermore, much of the research that has been done has addressed research questions that are of minor relevance to practice.

Therefore, in this thesis, I have offered a basis for the establishment of a new perspective on IJV performance which is characterized by processes rather than factors, by multi-causal rather than uni-causal relationships, and by longitudinal rather than cross-sectional research. This ambition is based on the two main objectives of my thesis, which are first, to provide a literature review that is grounded in theory and that analyzes how the impact of success factors varies across different contexts, and second, to provide a foundation for theory advancement regarding a longitudinal perspective of IJV performance.

The literature review presented in Part One gives an integrative framework (see Figure 2.1) drawn from the main theories in the field, including the resource-based view of the firm, organizational economics, institutional and industrial organization economics, and contingency theory. This framework, unlike other mostly a-theoretical frameworks, allows for a systematic and rigorous review of the theoretical concepts and respective findings on the success factors for IJVs in China and other countries.

The review of the literature also shows that research on Sino-foreign IJV success factors, like success factor research on IJVs elsewhere, is dominated by popular theories like transaction cost economics or the resource-based view of the firm. Organizational

learning theory and the knowledge-based view of the firm figure more prominently in research looking at IJVs outside of China. Less research has been done using social exchange, procedural justice, bargaining power, and institutional theories. This is an important finding as it might be assumed that these theories can throw light on inter-firm exchanges in the Chinese context where implicit contracts often substitute for explicit ones (Luo, 2002c). This might also explain why behavioral variables such as forbearance or reciprocity still play a minor role in contemporary IJV performance research (Parkhe, 1993a, 2004), although it should be noted that in general such factors have been studied more frequently in research on IJV performance in China.

Success factor research on IJVs in China places relatively more emphasis on (1) the characteristics of IJVs, such as their size, location, and age, and on their resource endowment, e.g., R&D or advertising intensity or the technical quality of their products; (2) on the characteristics of local parents, e.g., whether they are private- or state-owned, and on their resource endowment, e.g., foreign and product market experience; and (3) on the extent of the fit between foreign and local parents, e.g., product relatedness and goal congruity. Success factor studies of IJVs elsewhere have concentrated extensively on the characteristics of the foreign parents, their strategy for the IJV, and on their resource endowment. Interestingly, this research has put more emphasis on host country regulatory regimes, e.g., political risk and local ownership restrictions.

Few consistent conclusions can be derived from a juxtaposition of these two streams of research. It seems that IJV age is a much more important success factor for IJVs located in China than elsewhere. Fit, in terms of business and product relatedness, is also a more significant success factor for IJVs in China. Yet, another important dimension of fit, i.e., cultural distance, does not seem to have a significant impact on IJV performance across both samples. More findings will be discussed below (see 7.3 Implications for Practice), but the overarching point is that it is difficult to draw a comprehensive conclusion given the multiplicity and heterogeneity of the factors explored, a point also made by other authors (e.g., Buckley & Glaister, 2002; Parkhe, 1993a, 2004, 2006; Robson et al., 2002). This begs the question of why there is such a multiplicity and heterogeneity of factors. There are at least three reasons: First, rather than building on previously published research in an attempt to reach normative conclusions based on a few decisive success factors, researchers strive for new and innovative contributions.

The extensive list of success factors given in Part One bears this out (see 2.9 Appendices).

Second, in the rare instances when researchers do look at factors previously identified, they often use different operationalizations for their dependent and independent variables. Hence, even studies that have analyzed the same success factors, have often reported divergent results. Third, differences in methodology and the possibility of sample biases hamper generalization. A good example of this is that many studies do not include failed or otherwise terminated businesses. For instance, although Isobe et al. (2000: 480) find that early market entry has a positive impact on performance, they admit that their sample selects for financially successful IJVs and as such may not sufficiently take into consideration early movers in China that might have been “terminated or taken over owing to poor performance in the early stages of local market development”. A survival bias of this kind is a shaky foundation for theory and may yield misleading implications for managers (Denrell, 2003).³¹

Apart from these problems, the practical applicability of IJV performance research suffers from its inadequacy to account for the complex interactions within IJVs and between IJV parents that may be responsible for marked differences in IJV performance (e.g., Doz, 1996). This finding is supported in Part Two, where I show that the frequent use of cross-sectional data and a lack of longitudinal analyses prevents researchers from sufficiently analyzing dynamic effects, such as feedback loops from previous decisions and outcomes (March & Sutton, 1997). I show, too, that this deficiency may be due to the research methods commonly used in the IJV field because quantitative analyses are ill suited to analyzing the multifaceted social interactions within IJVs and between their parents (Parkhe, 2006). Cross-sectional data, short-term analyses, and research methods aside, it may be that the failure to ask appropriate research questions to begin with leads to conclusions of little relevance or practical importance.

The second objective of this thesis is to provide the foundation for a longitudinal theory of IJV performance that addresses these shortcomings, and that amplifies evidence that managerial actions and decisions may significantly affect IJV performance (e.g., Blodgett, 1992; Doz, 1996; Ring & Van de Ven, 1994; Yan & Gray, 1994).

³¹ See also the vague and potentially misleading implications in Quer, Claver, and Rienda (2007: 370) which are based on the findings of Isobe et al. (2000)

In Part Three I suggest novel approaches for investigating the dynamics of long-term IJV performance and also provide a basis for the development of new theory. As I argue in this part of the thesis, cycles of self-reinforcing positive feedback effects can lead managers to behave myopically and to persist with even underperforming IJVs, for example because of the impression of high sunk and termination costs. Using path dependency logic, I take a closer look at the events, processes, and decisions that occur during the lifetime of an IJV and that might lead to such persistence. For example, apart from findings that an excessive amount of social capital can lead to a lock-in between actors (Borgatti & Foster, 2003) and that it can have a diminishing positive effect on IJV performance (Luo, 2002a) I provide a fine-grained analysis of how and why social exchange might lead to the building of excessive social capital and, thereby, to IJV lock-in.

Such reasoning, however, is restricted to explain past decisions and developmental paths of IJVs. Moreover, it is primarily based on the logic of positive feedback while at the same time ignoring any negative feedback that might lead a rational decision-maker to exit an underperforming IJV. Building on this insight, I develop a rigorous economic model of rational strategic decision-making in which the bounded rationality of individuals is behind the tendency to support an underperforming IJV, even when superior modes of internationalization exist. I propose that this results in faulty corporate planning as it inhibits the accurate valuation of intangible assets such as goodwill, technological competencies, or firm-specific human capital, and of costs such as IJV or partner-specific investments in learning and knowledge transfers. I also propose that such valuation biases could stem from cognitive biases that can further constrain managerial decision-making processes in real life organizations. By this means, the paper offers a new and important perspective of IJV research.

Besides these meaningful findings and contributions, the papers that constitute this dissertation offer interesting avenues future research could take. The most important directions for future research are explained in the following chapter.

7.2 Directions for Future Research

In this dissertation I suggest a number of avenues for future research. First, research on IJV success factor would clearly benefit from replication studies that vary some aspects while holding constant others.³² For instance, one possibility would be to analyze the same success factors but with different operationalizations while holding constant the research setting (e.g., countries or industries, time spans, interviewees), methodologies, and the operationalization of the dependent variable, i.e., IJV performance. In follow-up studies the research setting could be adjusted while the other components were held constant, and so forth. This procedure could prove particularly helpful in determining the extent of context-specificity of certain success factors. However, as shown above, replication studies are rare in international business research (cf. Meyer, 2007).³³

A second avenue for future research on IJV success factors would be to conduct more meta-analyses. Such analyses aggregate factors and findings in order to provide statistically sound conclusions and to at least partially substitute for longitudinal analyses (cf. Zhao et al., 2004). Unfortunately, there are only few examples of this kind of study in international business research. For instance, whereas Tihanyi, Griffith, and Russell (2005) perform a meta-analysis of the cultural distance construct and of its influence on entry mode choice, international diversification, and MNE performance, Zhao et al. (2004) meta-analyze the impact of transaction cost variables on the choice between wholly-owned affiliates and joint ventures. Future meta-analyses of IJV performance may, however, be constrained by the high level of heterogeneity in IJV performance studies regarding the factor-performance relationships investigated, the operationalization of the variables, the methodologies used, and regarding the research contexts (e.g., Robson et al., 2002). Therefore, it seems to be even more important to increase the consistency and robustness of success factors by conducting replication studies.

Third, future research would benefit from coherent publication policies such as “the development and publication of consistent research standards (e.g., definitions, operationalizations and measures)” (Nippa et al., 2007: 298). Editorial notes in top

³² For a related proposition concerning market entry modes see Brouthers and Hennart (2007).

³³ Replication studies are used more often in general management (Rungtusanatham et al., 1998) or psychology (e.g., Bragger, Bragger, Hantula, Kirnan, & Kutcher, 2003, replicating selective findings by Bragger, Bragger, Hantula, & Kirnan, 1998).

management journals such as the *Academy of Management Journal* show that editors are aware that “[h]ealthy science needs both meta-analysis and replication research.” (Eden, 2002: 843) However, such an approach depends on the willingness of researchers to use standard variable operationalizations and to make their data available (ibid.: 844), as well as the willingness of journals to publish such data.

Fourth, although replication studies and meta-analyses may add to the generality of factors and findings, such research is theory-testing rather than theory-generating and, hence, largely depends on primary studies based on rigorous and relevant theories. According to Parkhe (2006: 371), more effort should be put into “deepening our theoretical understanding of the alliance phenomenon”, a suggestion that I endorse in this thesis. “We need to put the horse before the cart and start asking the right questions before empirically trying to find the answers.” (ibid.) Since many top management journals feature quantitative theory-testing rather than qualitative theory-generating articles³⁴ this trend clearly needs to be reconsidered if more research is to be devoted to the latter.

A final avenue for future research would be to do empirical research based on the conceptual papers that I outlined in the last part of this thesis. Such research could take the form of case studies which might explore the proposed relationship between valuation biases and IJV persistence (cf. Parkhe, 1993a). Tripsas and Gavetti (2000), for instance, studied how managerial cognition impacts the evolution of capabilities and how it contributes to organizational inertia. In order to trace this evolutionary process, they conducted an in-depth inductive case study of Polaroid Corporation’s adaptation to digital imaging. Work of this kind could be followed either by other single, in-depth case studies or by comparative case studies. Yan and Gray (1994), for example, used a comparative case study of four U.S.-China JVs in order to look at the complex relationship between bargaining power, control, and IJV performance. Retrospective bias is an acknowledged problem with such case studies, but this can be partially solved through the use of multiple data sources and data triangulation (ibid.). Hitt and colleagues have proposed another promising approach (e.g., Hitt et al., 2004). To understand how managers make decisions, they confront them with a series of scenarios

³⁴ According to Parkhe (2006: 371), “it is puzzling to find over four out of every five published papers testing existing theory rather than developing new theory to test.”

and ask them to make decisions on the basis of the available information. This methodology may be useful in understanding valuation biases and, hence, IJV persistence.³⁵

7.3 Implications for Practice

This dissertation has several important implications for managers. First, the literature review presented in Part One suggests that IJV success in China depends to a much greater extent than elsewhere on the fit between parents. Such fit factors include, for example, goal congruity and product relatedness (see Appendix 2.9.1). Moreover, it seems that trust (e.g., personal attachment, see Appendix 2.9.1) is also more important in Sino-foreign IJVs than elsewhere. These results indicate that finding the right partner, in terms of complementary rather than competitive objectives (i.e., goal congruity), or in terms of general attributes or traits such as product relatedness or resource complementarity, is more important when establishing IJVs in China than elsewhere. This may be explained by the incomplete development of China's markets which may require stronger social ties as a substitute for a strong market structure (Luo, 2001). This does not imply that necessary changes of structures and processes, for example, in order to continuously exchange knowledge between the partners and/or the IJV, should not be carried out (cf. the declining effect of structural attachment on IJV performance in Luo, 2002a). Hence, social ties that tend to be too strong could lead IJV partners to persist with underperforming IJVs, even in the presence of superior alternatives. Indications in the literature that existing ties and social capital can directly lead to a lock-in between actors (Borgatti & Foster, 2003), and that ties may hinder formal changes in alliances (Gulati, 1995a), corroborate this proposition.

Second, the findings of the literature review throw some light on the often discussed and important question of the sharing of IJV control between partners. The most important implication, however, is not that IJVs dominated by a foreign partner will generally outperform those with shared control (e.g., Killing, 1983) or vice versa (e.g., Yan & Gray, 1994), but that the answer to this question depends on the type of control. For example, whereas foreign partners should exert dominant overall control (e.g., the

³⁵ For other valuable "strategies for theorizing from process data" see Langley (1999).

strategic direction of the IJV) they should share control in specific areas, i.e., they should exert selective control over certain functional areas such as marketing (see Choi & Beamish, 2004; Luo et al., 2001). However, it should be noted that generalizations are difficult since these findings are based on IJVs in emerging markets (i.e., China, Korea).

Third, managers should be judicious in using equity (i.e., ownership) as a means of control because: (1) some researchers have found that ownership does not always ensure control (e.g., Yan & Gray, 1994); (2) as I show in Part One, findings to date regarding the impact of the level of foreign ownership on IJV performance are inconclusive (see Appendices 2.9.1 and 2.9.2); and (3) the risks of IJV persistence may be increased when parents invest into IJV equity. Hence, studies that analyze IJVs from a real options view argue in favor of minority stakes in IJVs to maximize growth option value (Tong, Reuer, & Peng, forthcoming) and encourage managers to include call option clauses in IJV contracts (Reuer & Tong, 2005). As Jonathan Woetzel, a director of McKinsey & Company's Greater China office, is quoted as saying, "For a joint venture to be successful you have to plan for it to die." (Economist, 2007: 77)

Despite the value of each of these implications, managers and scholars alike must remain mindful of the fact that all of these findings and recommendations hinge on the characteristics of the studies on which they are based, be they the research setting (e.g., time frame, sample size, industry), operationalization of independent and dependent variables, research methodologies, or even the characteristics and objectives of the parents and IJVs included in the sample. An example should clarify that: Although the recent review by Quer et al. (2007: 370) concludes that, based on the finding of Isobe et al. (2000), early market entry into China will contribute to IJV performance, this finding needs to be carefully interpreted: first, because the study by Isobe et al. (2000), and other studies that come to the same conclusion (e.g., Pan et al., 1999), do not account for terminated IJVs and, thus, are prone to a survival bias; second, because the performance implications of early entry into China through IJV differ according to which performance measure one uses. For example, whereas early market entry may be beneficial in terms of local market expansion and asset turnover, it may increase risk and reduce accounting return in the first three years after entry (Luo, 1998). Hence, advice to managers should take into account the specificity of the studies on which it is

based and has to reflect the findings of other studies, too. But in the end, a practitioner has to rely upon the factor-performance causalities that are assumed and tested by scholars. Therefore, we need research that is both, rigorous and relevant!

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