Resolving post-formation challenges in shared IJVs: The impact of shared IJV structure on inter-partner relationships

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A B S T R A C T
The “50/50”, or the shared management international joint venture (shared IJV) remains a popular and yet challenging control structure to govern IJVs. The purpose of this study is to understand the post-formation management of shared IJVs, specifically the relationship between shared structure, relational conditions and management of post-formation challenges. Our evidence is based on 26 in-depth interviews across four cases of shared IJVs between British multinationals and Asian companies. Our findings indicate that the highly integrative nature of shared IJVs, including high operational interdependence and shared decision-making, encourages partners to work closely together, communicate frequently and intensely and exchange personnel. Although shared management can lead to inter-partner conflicts, the equal investment and mutual responsibility party provides partners with motivation and opportunities to learn about each other, to better implement the control structure, to build trust, and to commit to the venture and partner. These relational conditions facilitated the successful management of post-formation challenges such as diversity related conflicts and macro volatility.

1. Introduction

Highly symbolic of the co-operative spirit, the shared management international joint venture (shared IJV) is a popular management control structure to govern IJVs (Buckley & Casson, 2002). Often known as the “50:50”, this structure requires IJV parents to hold an equal equity, equally share control and co-manage IJV operations (Killing, 1983). Yet research contends shared IJVs are inherently problematic and unstable (Brouthers & Bamossy, 2006; Ding, 1997; Killing, 1983; Owens & Quinn, 2007). The conditions of effective shared control, participatory decision-making, integrative operations, extensive resource and task interdependencies are difficult to sustain due to cultural misunderstanding between partners, operational conflicts, competition for control, and other issues (Ding, 1997; Hambrick, Li, Xin, & Tsai, 2001; Johnson, 1997; Killing, 1983; Owens & Quinn, 2007; Pearce, 2000). Indeed, some authors have found that shared IJVs often evolve into either majority control ventures or wholly owned subsidiaries as partners become frustrated by their challenges (e.g. Brouthers & Bamossy, 2006).

At the same time, other authors consider potential performance-related benefits of shared IJV structures (e.g. Steensma & Lyles, 2000). They suggest that equal management input between partners may enhance learning and improve decision-making through mutual involvement and familiarity with IJV operations (Hill & Hellriegel, 1994; Saxton, 1997). Equal ownership and participation in decision-making may also engender commitment and perceptions of justice (e.g. Child, 2000).

Notwithstanding the valuable contribution of both perspectives, the research in both areas, with some exceptions (Barden, Steesma, & Lyles 2005; Salk, 1996; Salk & Brannan, 2000), has been limited to examining the direct relationship between IJV structure and performance (e.g., Beamish, 1984; Ding, 1997; Killing, 1983; Mjoen & Tallman, 1997; Phatak & Chowdhury, 1991; Yan & Gray, 1994). Existing research primarily sought to compare the IJV performance outcomes of the shared structure compared with the dominant or unilateral structure (Killing, 1983; Fryxell, Dooley, & Vryza, 2002; Yan & Gray, 1994). Yet the lack of agreement on the significance of the shared IJV structure described above suggests that other factors may interfere to determine its performance outcomes (Child & Yan, 2003; Steensma & Lyles 2000). Importantly, the impact of IJV structure on post-formation challenges and JV performance may be more complex than a simple positive/negative effect. For instance, Barden et al. (2005, p. 157) find that “the entire debate may be overly constrained and simplistic” and propose that the impact of JV structure is mediated by other factors such as...
whether managers perceive the equity distribution as just. This suggests that we need to supplement the performance studies with more in-depth investigations of how IJV structures are associated with various post-formation conditions and processes that may in turn impact managers’ ability to address post-formation challenges.

There are a number of studies on how IJV partners may manage post-formation challenges, and many authors have suggested strategies such as adjustment and compromise, personnel exchanges, training and intensified communication (Arino & de la Torre, 1998; Brouthers & Bamossy, 2006; Bucch, 2000, 2002; Das & Teng, 1998; Doz, 1996; Kim & Parkhe, 2009; Koza & Lewin, 1998; Kumar & Niti, 1998; Reuer, Zollo, & Singh, 2002). However, these studies have not specifically examined the interplay between IJV structure and post-formation IJV conditions. In the meanwhile, several IJV scholars put forward conceptual arguments that IJV structure shapes post-formation management processes, including formal controls and partner relations (Contractor, 2005; Contractor & Reuer, 2014; Hennart & Zeng, 2005). The IJV’s structure has been recognized as the organizational architecture that generates certain formal and informal control conditions that may provide the means to resolve post-formation problems (Fryxell et al., 2002; Gulati & Singh, 1998; Yan & Gray, 1994). However, none of the studies examined in detail how particular IJV structures generate specific control conditions and how, in turn, these conditions may help resolve specific post-formation challenges.

In this paper, we start to address these research gaps in the context of shared or 50:50 IJV structure that is widely regarded as problematic in the IJV literature. We aim to explore how the shared IJV structure makes possible certain relational conditions such as trust, commitment and communication. We also examine how these relational conditions, in turn, allow managers to cope with particular post-formation challenges. We focus on relational conditions as past IJV management and process studies have firmly established that positive relationships or “relational capital” has a major bearing on how IJVs proceed and perform (Brouthers & Bamossy, 2006; Cullen, Johnson & Sakano, 2000; Das & Teng, 1998; Doz, 1996; Kale & Singh, 2009; Liu, Ghauri, & Sinkovics, 2010; Muthusamy & White, 2006).

To accomplish this, we draw upon four case studies of shared IJVs between British multinationals and Asian partners. The institutional and organizational differences between European and Asian partners will often lead to challenges in IJV relationships – e.g. conflicts resulting from cultural differences (Mohr & Puck, 2005; Swierczek, 1994) – which provide a fertile context to investigate how shared IJVs cope with post-formation challenges.

The analysis of our case studies revealed that such features of the 50/50 structure as equal equity and equal division of management responsibilities in the IJV encourage partners to build trust, respect and commitment in their relationship and also to use more participatory and consensus-building strategies to address inter-organizational differences. These positive relational developments effectively provide opportunities and sometimes forceful motivation for the partners to resolve the challenges they experience in the post-formation stage.

Our findings contribute to the shared IJV literature through a more detailed and nuanced picture of the 50/50 structure post-formation (Child & Faulkner, 1998; Killing, 1983; Pearce, 2000). We respond to the call to create a more complex understanding of the post-formation effects of IJV control structures (Barden et al., 2005; Child & Yan, 2003; Steensma & Lyles, 2000), and ours is the first empirical investigation to examine the three-way relationship between the shared structure, relational conditions and the possibility of addressing post-formation challenges. Our finding that the shared structure can create organizational conditions that promote inter-partner trust and commitment challenges the argument that 50/50 structures are inherently detrimental to IJV performance (e.g. Brouthers & Bamossy, 2006; Ding, 1997; Killing, 1983). We further provide support for prior tentative conceptualisations of shared structures as having positive effects on cooperation in IJVs (Child, 2000; Hebert, 1996; Steensma & Lyles, 2000) and yet we detail the organizational and relational outcomes of shared structures. We connect specific features of the shared structure, such as high operational interdependence and shared decision-making, to specific outcomes such as trust, commitment and diplomacy. These conditions help managers steer the IJV through conflicts and external crisis situations. In this way, we contribute empirical evidence to mostly conceptual studies on how the initial structural decisions of IJV shape post-formation IJV behaviour and outcomes (Contractor, 2005; Contractor & Reuer, 2014). On the practical level, our findings will assist practicing IJV managers in better understanding the ramifications of the initial decision of a shared IJV structure for post-formation IJV management.

The remainder of this article is organized as follows. We first explain the conceptual understandings that underlie our research. We present our conceptualization of the shared IJV’s management structure, and then explain how the IJV relational conditions or the nature of the relationship between the IJV partners may impact the ability of the partners to manage IJV challenges. We then outline our theoretical understanding of how the shared structure may create particular relational conditions that then impact the ability of IJV partners to manage IJV challenges. Second, we explain our case study design, data collection procedures, and analysis. We then show our case analysis and discuss the findings. Finally, we illustrate the academic implications of the results, followed by limitations and future research directions.

2. IJV management structure

2.1. Definition and dimensions

Management structure has been defined as the pattern of division of power between the IJV partners in governing the IJV (Killing, 1983; Yan, 1998). The literature highlights two primary features of management structure: equity ownership and management control (division of management responsibility). The level of equity contributed by each partner provides control and influence through legally defined authority and formal decision rights (Liu, Adair & Bello, 2015; Mjoen & Tallman, 1997). Although the power of equity ownership to influence IJVs has been much debated (Killing, 1983; Mjoen & Tallman, 1997), much scholarship agrees with the established theoretical argument of transaction cost economics that equity aligns the interests of partners, promotes future investments and reduces partner opportunism (Beamish, 1985; Mjoen & Tallman, 1997). In cases of unequal equity share, partners with the larger equity can use majority voting rights to override other partners when disagreements occur (Brouthers & Bamossy, 2006).

Another important feature of an IJV structure is the management control arrangement. Yan and Gray (1994, p. 1994) define this as “the control exercised by the sponsoring organization in influencing a joint venture’s strategic and operational, decisions and regulating its important activities”. Control arrangement establishes the managerial division of labour and the amount of decision power each partner exercises over IJV strategy and operations. Although the management control arrangement is negotiated when the IJV is formed, it can change as the IJV progresses with some partners becoming more or less influential (Liu et al., 2015; Mjoen & Tallman, 1997; Yan & Gray, 1994).

2.2. Shared management structure

The “50:50” or shared IJV structure is a common approach to organize IJVs. In a shared IJV, partners make an equal equity contribution, have equal contractual control rights and formal power. As IJV parents co-manage IJV operations, they tend to share resources extensively and engage in frequent interaction and mutual consultation (Hambrick et al., 2001; Killing, 1983; Pearce 1997; Salk, 1996).

Research on the impact of the shared structure on the IJV performance is largely inconclusive. Many view the shared structure as prone
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