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The characteristics and stock-market performance of international joint ventures located in three host-country groups: An extension and empirical validation

Hemant Merchant *

College of Business, University of South Florida - St. Petersburg, St. Petersburg, FL 33701, USA

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ABSTRACT

In a well-known study of joint venture (JV) characteristics, Beamish (1985) compared the attributes and performance of JVs located in developed and developing countries. This study advances Beamish's (1985) work by circumventing some of its key limitations. It compares the structure and stock-market performance of two-party equity JVs across three host-country groups: (i) developed countries, (ii) newly industrialized countries, and (iii) developing countries (including Emerging markets and transition economies). Based on a cross-sectional sample of nearly 1100 JVs involving American firms and non-American partners, this study finds that JV characteristics diverge as well as converge vis-à-vis three host-country groups. Interestingly—unlike Beamish (1985)—differences in JV configurations across these groups do not result in differences in abnormal returns to American parents. However, some JV characteristics consistently influence firms' shareholder value (albeit sometimes in opposite directions) whereas the valuation impact of other characteristics depends upon a particular host-country group.

In a well-known study, Beamish (1985) analyzed the characteristics of joint ventures (JVs) located in developed and developing countries. Moreover, Beamish compared the extent to which these two JV groups differed in terms of their instability rates and levels of managerial dissatisfaction. Based on an analysis of 66 ventures, Beamish reported noticeable differences for all (eight) variables included in his study. His study furnished important evidence highlighting a managerial imperative to explicitly recognize the characteristics of host-countries in which JVs were located: Heterogeneity in external environments influences JVs' initial configurations (Harrigan, 1984) and, at least partly, JV performance. Conversely, JV performance depends upon the context in which JVs are formed and nurtured. Although many studies credit Beamish (1985) for this fundamental insight, the study is usually cited for its findings about distinctive characteristics of JVs located in developed and developing countries.

Notwithstanding the essence of these distinctions—that JV host-country contexts vary considerably and, indirectly, lead to performance differentials among firms, the Beamish study has been criticized for failing to comprehensively explain why performance differences exist between JVs located in developed and developing countries (Hyder, 1999). Specifically, the Beamish study cannot explain whether the reported performance differences arise from firm-specific characteristics or differences in the *type* of host-country (developed; developing) in which JVs are located (Hyder, 1999). Such differences are important to investigate because JV performance is influenced by firm-level as well as country-level factors (e.g., Hanvanich, Miller, Richards, & Cavusgil, 2003; Hanvanich, Richards, Miller, & Cavusgil, 2005).

* Tel.: +1 727 873 4891; fax: +1 727 873 4192.
E-mail address: hmerchant@usfsp.edu.

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Moreover, the country-specific contexts have themselves changed since Beamish conducted his work, probably during the early 1980s (Boateng & Glaister, 2002; Davies, Kenny, & Trick, 1996; Dunning, 1998; Etebari, 1993; Li & Clarke-Hill, 2004). Indeed, the mid-1980s and 1990s underscored the rise of newly industrialized countries (Beamish, 1993; Narula & Nguyen, 2011), emergence of 'transition' economies, and the evolution of Emerging markets (Annushkina, Colonel, & Berselli, 2011; Garten, 1996; Hoskisson, Eden, Lau, & Wright, 2000). Such developments amplified macro level differences across countries and influenced JV formation patterns (Moskalev & Swensen, 2007; *World Investment Report, 1997*). In fact, several JV studies have attempted to expose these patterns in countries as diverse as Bulgaria (Marangozov, 2005), China (Beamish, 1993; Li & Clarke-Hill, 2004), Czech Republic (Davies et al., 1996), Spain (Garcia-Canal, 1999), Turkey (Tatoglu, 2000) as well as regions such as Latin America (Kotabe et al., 2000) and the Triad (Glaister, Husan, & Buckley, 1998).

The basic character of JVs, especially international JVs, has also changed over the two decades since Beamish's original study. For example, international JVs have increased both in terms of frequency and dollar value (Culpan & Kostelac, 1993; Moskalev & Swensen, 2007). Moreover, international JVs involving relatively small firms (Badaracco, 1988; Klijn, Reuer, Buckley, & Glaister, 2010) as well as non-manufacturing firms (Culpan & Kostelac, 1993; Glaister et al., 1998) are becoming less uncommon. The scope of JVs seems to be widening in terms of partner nationalities as well as host-country locations (Moskalev & Swensen, 2007). Recent JVs also seem to be motivated by strategic, as opposed to tactical, considerations (Klijn et al., 2010; Kotabe et al., 2000; Nanda & Williamson, 1995). Apparently, the firm-specific and location-specific contexts within which JVs are formed have converged along some dimensions while diverging along other dimensions (Marangozov, 2005).

One implication of the above-mentioned trends is that both researchers and corporate managers would find it useful if the Beamish (1985) study were to be updated. Such an effort could reveal: (i) specific areas of convergence and divergence in JVs' firm-specific traits across different types of host-countries (developed countries; NICs; developing countries), and (ii) the impact of these traits on JV performance. An update would also facilitate better managerial understanding of the specific context in which firms enter into JVs and, thereby, move the academic literature towards a contingency-based framework for augmenting JV performance (Beamish, 1993; Hanvanich et al., 2005; Meschi, 2004). To that end, importantly, a update of Beamish's original work can generate a more informed perspective on variables where managerial energies need to be channelized vis-à-vis the design, and perhaps the implementation, of profitable JVs (Hyder, 1999; Nielsen, 2007).

Despite its merits, a comprehensive extension of Beamish (1985) poses as a significant challenge as several studies in this genre imply (e.g., see Beamish, 1993; Boateng & Glaister, 2002; Demirbag & Mirza, 2000; Etebari, 1993; Hyder, 1999; Marangozov, 2005; Sim & Ali, 1998). This is because such extensions require a sufficiently rich database of JVs (e.g., see Nielsen, 2007). Conversely, access to such databases can circumvent the noted challenge. This study is fortunate in that regard because it relies on a database that was created as part of another research program on international JVs between American firms and non-American partners worldwide. Thus, this study is an opportunistic attempt to update and extend the current literature on the drivers of differential performance of JVs located in three distinct host-country contexts, a genre spawned by Beamish's pioneering work.

This study asks: *How do JV characteristics vary across host-country contexts and what is the impact of this variance on JV performance?* Specifically, (i) how do American firms' international JVs differ across distinct groups of JV host-countries? and (ii) what is the impact of these differences on stock-markets' expectations of American firms' JV performance? The study addresses these questions in two stages. In the first stage, this study identifies differences in JV characteristics across three host-country groups and conducts (M)ANOVA analysis of these differences. In the second stage, this study conducts regression analysis of the impact of variables on firms' stock-market performance associated with JV formation; the study undertakes this analysis separately for each host-country group.

This study makes four contributions to the JV literature. One, it identifies American firms' JV configurations based on the ventures' location worldwide, thus assisting managers responsible for designing more efficient JV arrangements (e.g., Hyder, 1999; Nielsen, 2007). Two, the study demonstrates the influence of individual variables on shareholder value creation for each JV host-country group, so facilitating a contingency view (e.g., Beamish, 1993) of firms' JV performance. Three, the study focuses on a relatively understudied area in the JV literature that involves a comparative analysis of JVs located in countries with varying levels of economic development (Sim & Ali, 1998). Finally, the study updates Beamish's (1985) work along several dimensions: (i) it studies JVs formed during a later time-frame, (ii) it defines JV host-country groups on the basis of economic development, and statistically analyzes several context-specific variables, (iii) it statistically analyzes differences in JV characteristics, and (iv) it statistically analyzes the impact of JV characteristics on shareholder value creation for each host-country group. Hence, this study rigorously analyzes the topic of JV differences across host-country contexts, and the role of these differences on firms' expected JV performance.

The next section summarizes theoretical arguments regarding salient influences on JV performance, both expected as well as actual JV performance. The following section develops research propositions, and the next two sections respectively describe this study's methodology and report the study's empirical findings. The final section discusses these findings and highlights areas for future research.

1. Theoretical influences on JV performance

A survey of the literature on shareholder value creation via JVs identifies numerous influences on JV outcomes. These influences can be classified into four broad groups. In the first group, labeled as task-related factors (Geringer, 1991), belong