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Technology and the effects of cultural differences and task relatedness: A study of shareholder value creation in domestic and international joint ventures

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Abstract

Drawing on the organizational learning literature, we seek to enhance our understanding of joint ventures by developing a theory to explain the influence of technology on shareholder value creation. We also explain the moderating effects of national culture and task relatedness. Using an event-study methodology to examine the shareholder value creation for the parents of US partners in joint ventures, we found support for our hypotheses. The results thus shed light on the complex interaction between type of knowledge, national cultural difference, and task relatedness.

Keywords: Joint ventures; Task relatedness; National cultural difference; Event study methodology

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Research in the field of international management underscores that the attributes of knowledge used by a firm play an important role in the firm's expansion (e.g. Martin & Salomon, 2003). For example, according to internalization theory (Buckley & Casson, 1976), a firm's knowledge can be transferred with minimal or no cost to many locations. However, ownership of knowledge-based resources does not guarantee that a firm will be able to exploit these resources in the host-country market. To exploit knowledge resources, it must be transferred. Some scholars suggest that less codified (i.e. more tacit) knowledge resources may be difficult to transfer (Kogut & Zander, 1992), especially from an overseas affiliate to its parent.

Joint ventures (JVs) represent a viable, though challenging, vehicle through which organizations acquire knowledge, facilitate organizational learning, and develop capabilities (Kogut, 1988). JVs are also used to deal with entry mode restrictions, competitive forces, escalating technology costs or even to precipitate structural changes in vertical integration (Harrigan, 1988). Although scholars have devoted increased attention to knowledge resources of a firm, there has been less attention devoted to these resources in joint ventures, and the implications for shareholder value of the parent firm. In deepening our understanding of knowledge-based resources with respect to joint ventures, we note that some JVs are located in the parent firm's home country, while others are located abroad; making national culture differences an important, yet often overlooked moderator of this relationship. Some scholars have also contended that in JVs, cultural differences (Simonin, 1999a) can represent impediments to knowledge transfer.

Another potential moderator of the relationship between technology and shareholder value creation is task relatedness, which has received considerable attention in the JV literature since Rumelt's (1974) study. Some studies have focused on relatedness between parents (Saxton, 1997), while others have focused on relatedness of activities between a parent and the JV (Merchant & Schendel, 2000; Reuer & Koza, 2000).[4] However, results of the task relatedness on the parent performance have been inconclusive. As such, we contend that knowledge-based resources in JVs need to be examined within the context of cultural differences and task relatedness.

Drawing upon the organizational learning-knowledge transfer perspectives, the study aims to answer the following two-part research question: "In joint ventures, to what extent does technology level influence shareholder value of the parent firm and to what extent do national culture and task relatedness moderate that relationship?" Before proceeding, we define key concepts used in the study. Task relatedness is defined as the similarity between industries of joint ventures and the parent firms. In addition, an international joint venture (IJV) is defined here as collaborations between firms that involve an establishment of a new firm located outside of at least one parent's home country. Hence, national cultural differences refer to the dissimilarity between the parent firm's country of origin and its JV's country of operation. Thus, our concept of national culture differences focuses on location of the joint venture.[5]

[4] In addition, Gomez-Mejia and Palich (1997) examined relatedness of cultures and the impact on multinational enterprises (MNEs) performance. They found no significant cultural effects.

[5] Drawing upon Makino and Beamish (1998) and Hanvanich et al. (2003), we distinguish between location-based cultural differences and partner-based culture differences. In the present study, we control for the latter using a dichotomous variable (i.e. international partner) in the regression analysis.