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Antecedents and consequences of international joint venture partnerships: A social exchange perspective

Yung-Chul Kwon *

Department of International Business, Yeungnam University, 214-1 Daedong, KyungSan City, KyungBuk 712-749, Korea

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ABSTRACT

This paper assessed the antecedents and consequences of IJV partnerships on the basis of the social exchange paradigm. Based on the analysis of 94 joint ventures formed between Korean firms as a local partner and the US, European, and Japanese firms as a foreign partner, we ascertained the key structural and social components of trust–commitment partnerships and their contributions to IJV effectiveness. In addition, the trust–commitment partnerships were shown to be higher in joint ventures formed between Korean and Japanese companies than in those formed between Korean and Western (i.e. US, Europe) companies. This result raises the issue of a cultural influence on the IJV partnerships. Contrary to expectations, however, the competitive relationship between partners was shown not to exert a significant negative influence on both the trust–commitment partnerships and the effectiveness of IJVs. This result provides us with a meaningful implication to the selection of competitors as IJV partners.

1. Introduction

Strategic alliances have become a highly popular strategy for coping with rapid changes in the global competitive environment as well as with resource constraints of firms. In this regard, joint ventures as a type of capital alliance represent a very useful mode, particularly for entry into foreign markets (Berdrow & Lane, 2003; Inkpen, 1996; Kogut, 1988; Lane & Beamish, 1990).

Recently, the successful management of joint venture partnerships has been keenly concerned. For instance, Madhok (1995, 2006) emphasized the necessity of shifting from an ownership issue (i.e., control) to a relational issue (i.e., trust) with regard to the successful management of IJVs. In this respect, he drew attention to the importance of researching the antecedents and consequences of trust-building in IJV partner relationships. Accordingly, the principal objective of this study is to fill this gap. In order to accomplish the research objective, we focused on the role of social capital, including trust and commitment between partners, in IJV success. As a consequence, we assessed the following two questions: (1) How do IJVs' partners generate social capital, including mutual trust and commitment between themselves. (2) What is the outcome of social capital in the management of IJVs? The result will contribute validity to the social exchange paradigm within the context of the successful management of IJVs. In addition, we assessed the role of both the competitive position between partners and the nationality of each partner in IJV partnerships. Owing to the attributes of IJVs, these two factors influence the social inter-activity between the partners. Hence, the results will serve to draw our attention to the pivotal role of the factors like culture and competition in IJV partnerships.

* Tel.: +82 53 810 2759; fax: +82 53 815 4353.
E-mail address: yckwon@ynu.ac.kr

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This paper consists of six integral parts: Section 2 is devoted to a literature review. The research model and hypotheses are demonstrated in Section 3. The research methodology is explained in Section 4. The research results are presented in Section 5. In Sections 6 and 7, the research results are discussed and some managerial implications are suggested.

2. Literature review

A variety of theories have been actively applied to elucidate the validity of IJV partnerships. Some examples include the transaction costs theory, the bargaining power theory, the resource-based theory, and the social exchange theory. Among them, as shown in Table 1, the social exchange theory has recently received a great deal of attention in the study of inter-firm relationships, including manufacturer–distributor relationships (Anderson & Narus, 1990; Bandyopadhyay & Robicheaux, 1997; Gilliland & Bello, 2002; Kumar, 1996; Mohr & Spekman, 1994; Morgan & Hunt, 1994), supplier–buyer relationships (Hausman, 2001), exporter–foreign buyer relationships (Campbell, 1998; Homburg, Krohmer, Cannon, & Kiedaisch, 2002; Johnson & Raven, 1996), and inter-partner relationships in strategic alliances including IJVs (Inkpen & Currall, 1997; Johnson, Cullen, Sakano, & Takenouchi, 1997; Madhok, 1995; Sarkar, Cavusigil, & Evirgen, 1997; Wu & Cavusgil, 2006).

According to the social exchange paradigm, social capital, containing such attributes as trust, goodwill, commitment, reciprocity, and benevolence, plays an important role in successful inter-firm relationships. In particular, it has been acknowledged that mutual trust and commitment between partners are positioned as a central construct of social capital. For instance, Morgan and Hunt (1994) proposed that commitment and trust are the principal factors resulting in cooperative behaviors in supplier–retailer relationships. According to them (p. 22), "The presence of relationship commitment and trust is central to successful relationship marketing, not power and its ability to condition others."

As a component of social capital, trust has been defined by a variety of concepts, including confidence in a partner's reliability and integrity (Morgan & Hunt, 1994), an action that requires one to have a belief in an opponent's conduct (Deutsch, 1969; Moorman, Deshpande, & Zaltman, 1994), a belief regarding mutual fidelity (Aulakh, Kotabe, & Sahay, 1997) an expectation that the opponent is faithful in their duty (Madhok, 1995; Thorelli, 1986), and a willingness that the partners can exercise self-restraint even when one partner is provided with an opportunity that can cause the other partner to be profitable (Hosmer, 1995). Accordingly, mutual trust between partners weakens the need to control all circumstances through safeguards such as a legal contract which is required to watch the opponent's opportunistic behavior (Madhok, 1995; Peterson & Shimada, 1978). With trust, in addition, each partner shares critical information and exerts efforts to understand the opponent's business (Kumar, 1996). Consequently, trust compels each partner to endure short-term sacrifices for the sake of long-term profit (Axelrod, 1984; Beamish & Banks, 1987).

As another key element of social capital, commitment represents affection and willingness to do whatever necessary to maintain a long-term relationship between partners. Anderson and Weitz (1992, p. 19), for example, defined commitment as "a desire to develop a stable relationship, a willingness to market short-term sacrifices to maintain the relationship, and a confidence in the stability of the relationship." Similarly, Morgan and Hunt (1994, p. 23) defined relationship commitment as a case characterized by: "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it." Of course, commitment of both sides can be expected to some degree through the observance of contract and engagement, but voluntary commitment is weighted more profoundly for relationship continuity (Madhok, 1995). In this respect, commitment has been referred as a voluntary obligation restraining a firm's own self-interests (Adcock, 2000).

The underlying rationale of the trust–commitment partnerships is that each partner is likely to behave opportunistically for only its own interests, in the absence of social capital, including trust and commitment (Kale, Singh, & Perlmutter, 2000). In other words, mutual trust and commitment, as social capital components, contribute to the prevention of transaction costs caused by opportunistic behaviors and conflicts between partners. Furthermore, mutual trust and commitment generate synergy via the combination of the resources and knowledge of each partner.

There have been three groups in the studies of inter-firm relationships under the social exchange paradigm. The first group is related to the studies examining the antecedents of social capital, including trust and commitment (Gilliland & Bello, 2002; Labahn, 1999). In manufacturer–foreign distributor relationships, for example, the role of resource transferability was determined to be a crucial factor for building trust and commitment (Labahn, 1999). In the same vein, the influence of human resources and time on commitment was evaluated in manufacturer–dealer relationships (Gilliland & Bello, 2002).

The second group includes the studies focusing on the role of social capital in successful inter-firm relationships. For instance, Bandyopadhyay and Robicheaux (1997) previously assessed the association of social capital (e.g., solidarity, mutuality, and trust) with relationship satisfaction in manufacturer–dealer relationships. Similarly, Paswan and Young (1999) evaluated the role of solidarity, role integrity, and mutuality in a long-term orientation within the context of Indian buyer–seller relationships. Particularly in IJV partnerships, Lane and Beamish (1990) assessed the role of mutual commitment between partners. Interestingly, it has been noticed that both inter-partner conflict and commitment present an important function in joint venture performance, and consequently in the satisfaction of parent firms in joint ventures in Turkey (Demirbag & Mirza, 2000). With regard to strategic alliances, Nielsen (2007) detected that trust between partners significantly affects the performance in strategic alliances formed between Danish firms and