



Microfoundations for learning within international joint ventures



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ABSTRACT

IJV research highlights the importance of learning in international joint ventures (IJVs) but has not indicated how to achieve it. We combine organizational learning and internationalization process research within a microfoundations framework to understand learning in IJVs. We study a Samsung–Tesco IJV that successfully learned retail practice from one partner and applied it in a South Korean context known by the other. The managers used many learning processes, not just experiential learning emphasized in international business research, and used many more knowledge sources than assumed in prior research, including the IJV partners' other subsidiaries. To build absorptive capacity, IJVs need appropriate microfoundations at individual, process and structural levels, and coherent interlinkages between them, especially by having IJV managers' with extensive experience and orientation to learn who are given structural and process autonomy to invest in learning.

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1. Introduction

International joint venture (IJV) research at firm and IJV partner levels has extensively highlighted the importance of learning in IJVs. IJVs offer a channel for learning opportunities (Park & Ghauri, 2011) and provide a means of developing ventures that obtain knowledge, skills and competencies from partners with complementary capabilities (Beamish & Berdrow, 2003; Inkpen, 2008; Kwon, 2008; Tsang, 2002). IJVs need to ensure appropriate learning processes because their capability to learn and diffuse accumulated knowledge stocks, flows and processes from their IJV partner firms is critical for their development (Beamish & Berdrow, 2003; Park & Ghauri, 2011); learning is their source of competitive advantage (Foss, Husted, & Michailova, 2010; Glaister, Husan, & Buckley, 2003; Kandemir & Hult, 2005). The difficulty of managing IJVs, face considerable barriers to knowledge transfer and learning in comparison with single firms (Pak, Ra, & Park, 2009), however, has been found to lead to a high failure rate (Beamish & Delios, 1997; Pak et al., 2009).

Little understanding has yet been gained concerning how managers in IJVs achieve the learning that they need (Beamish & Berdrow, 2003), despite increased interest in their management (Hyder & Ghauri, 2000). There is a gap in research at the “micro-level” of IJV manager action and interaction (Foss et al., 2010), concerning the “microfoundations” of learning within IJVs. This

study asks what are the capabilities, actions and decisions that help IJV managers to learn from their partners, to develop capability from that learning, and to build the absorptive capacity needed to do so. We take advantage of recent theoretical advances concerning the microfoundations of routines and capabilities to disentangle the underpinnings of organizational learning within IJVs. Drawing on the behavioral theory of the firm (Feldman & Pentland, 2003; Winter, 2003), Felin, Foss, Heimeriks, and Madsen (2012) have recently presented a framework for disentangling these microfoundations into individual, process and structural levels, and have noted that capacity building requires coordinated development within and between these levels.

We examine the individual, process and structural microfoundations of the learning and absorptive capacity building undertaken at Homeplus, a well-known and highly successful retail IJV formed by Samsung and Tesco in pursuit of Tesco's internationalization strategy in Korea in 1999. Recent firm-level studies of this IJV have noted that learning lay at the heart of its creation, but they have not identified how it was achieved (Coe & Lee, 2006; Palmer, 2005; Suh & Howard, 2009). This study examines how Homeplus managers engineered its success, and specifically, how Homeplus managers, mainly Korean Samsung employees, learned how to undertake world class retailing within the Korean setting that they knew well, and how Tesco as an organization learned how to overcome its liability of foreignness (Zaheer, 1995) in operating within Korea.

At individual level, we find that prior knowledge and experience, as well as the underlying educational level of the IJV managers, appeared to help the absorptive capacity of the IJV and its speed of learning (Lane, Salk, & Lyles, 2001; Zahra & George, 2002). At process level, experiential learning was important (Eriksson & Chetty, 2003;

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Eriksson, Johanson, Majkgard, & Sharma, 2000; Johanson & Vahlne, 1990), but so were other types of learning identified in organizational learning research, especially vicarious learning and grafting, mainly because of the managers' absorptive capacity developed from their previous experiential knowledge (Huber, 1991; Fletcher & Harris, 2012). Homeplus overcome substantial structural barriers to learning (Pak et al., 2009) by investing in intensive processes for developing effective absorptive capacity, by its managers having high levels of absorptive capacity as individuals, and by their having structural and process autonomy to drive the learning themselves.

We therefore found that Homeplus managers benefited from having the structural position, the process authority and the individual capability to source the knowledge they needed from where they could find it most readily, within and outwith the firms, and to implement it as they considered appropriate. This showed that all three sets of microfoundations are important, rather than the structural one that has hitherto been the focus of IJV research. Further, we also show how coherent linkages between the microfoundations of individuals, processes and structure are essential if absorptive capacity building is to be achieved within IJVs. The paper proceeds as follows: The theoretical foundations, outlined above, are presented that lead to a research framework that informs the study. We then outline the method of research before presenting the findings and analysis, which we discuss. Our conclusions include a revised research framework and implications for managers and future research.

2. Learning in IJVs

Taking a firm-level and especially a IJV partner level perspective, IJV research has mainly focused on the resource bases and skills of the partners, on structural factors between them such as their trust and commitment, and on the contractual formats they use (e.g. Luo, Shenkar, & Nyaw, 1998). It has also highlighted the importance of learning, seeing it as an IJV partner driven activity in which knowledge is held by partners, who institute processes to get knowledge and learning into and from the IJVs and where the IJVs, who also institute processes to get knowledge from the IJV partners (Beamish & Berdrow, 2003). The amount of knowledge available for transfer within IJVs therefore initially depends on the IJV partner's prior knowledge and experience (e.g. Tsai, 2001), where the more diverse the sources, the greater the opportunities for learning (Huber, 1991).

Research also shows that an IJV's competitive advantage depends on its absorptive capacity (Mahnke, Pedersen, & Venzin, 2005; Minbaeva, 2005; Tsai, 2001). This learning capability to acquire, assimilate and exploit new knowledge from the partnership (Gupta & Govindarajan, 2000; Szulanski, 1996; Yao, Yang, Fisher, Ma, & Fang, 2013) and to innovate with the creation of new knowledge (Kim, 1998) is critical for knowledge acquisition in international settings (Cohen & Levinthal, 1990; Yao et al., 2013). When IJVs are formed as part of one partner's internationalization strategy, for example, this strategic advantage would be sought by combining one firm's firm and location specific advantages with another's, with one of the firms having location advantages in particular territories (Rugman & Verbeke, 2001). Being able to structuralize learning and knowledge processes is a strategic source of international competitive advantage for IJVs (Foss et al., 2010; Kandemir & Hult, 2005).

The process of integrating knowledge and learning across national boundaries, and between individuals from different backgrounds, however, raises major challenges within IJVs (Luo, 2009; Meschi & Riccio, 2008; Westney, 2001). Learning between partners from different national contexts is inhibited by different ways of social interaction and different understandings (Morgan & Kristensen, 2006; Pak et al., 2009). If the partners have different

organizational cultures, developing absorptive capacity is especially complex (Daghfous, 2004; Nti & Kumar, 2000; Tsai, 2001). While more parties and more diverse partners can present more learning potential, it can also inhibit inter-partner cooperation and IJVs performance (Gong, Shenkar, Luo, & Nyaw, 2007).

The role of IJV managers where the partners differ greatly is critical; they need to achieve high intensity of learning effort (Park & Ghauri, 2011). Organizational learning research has noted the importance of IJV managers' capacity to absorb new knowledge, and that internationalizing firms are not restricted to experiential learning emphasized in international business research (Johanson & Vahlne, 1977, 1990) but can also use vicarious learning, congenital learning, grafting, searching and noticing for their learning and knowledge acquisition (Cohen & Levinthal, 1990; De Prijcker, Manigart, Wright, & De Maeseneire, 2012; Huber, 1991). IJV managers need to construct specific and particular organizational routines and processes to facilitate learning for their businesses (Bhagat, Kedia, Harveston, & Triandis, 2002). As yet, however, research is yet to identify what these might be.

The learning processes involved in IJVs involve many different levels. These range from the outset learning objectives on the party of the IJV partners, to the learning structures and processes that they institute, to the processes that the partners' and the IJV's managers follow, to the specific activities and orientations of those managers as individuals. Little IJV research has been undertaken at a management process or individual manager level, so the individual managers' agency in this process, and the processes of learning in which they engage remain unclear.

Interpreting overall developments where its constituent behaviors take place at multiple levels is a fundamental problem in business research (Nicolini, 2012), but one that has been addressed through the concept of "microfoundations". Microfoundations represent explanatory mechanisms located at the level of the individual, individual actions and processes, and interactions between those and other mechanisms concerning phenomena that can be located at a higher level. The research question of this study concerns the "micro-level" of individual actions, and interactions that help IJV firm-level learning. Contention and debate concerning this approach has been provoked, inter alia, by the conflation of levels of analysis intrinsic to this approach (see, for example, Jepperson & Meyer, 2011; Pentland, 2011; Winter, 2011). Some resolution of many of these issues has been offered by Nicolini (2012) who proposes that attention to microfoundations not be undertaken in isolation from analysis at macro or intermediate levels. We adopt this approach within a critical realist position to gain a fuller and more comprehensive understanding in a poorly researched area.

For IJVs created for internationalization of one partner, therefore, the macro-level outcome of firm specific advantage (FSA) transfer might reflect macro-level explicators of, for example, the partner's extant FSAs and structures. Understanding the learning processes, however, is incomplete without examination and consideration of the micro-level actions and processes of the individual managers involved (the focus of this study), notwithstanding that these take place within a macro structure of the partners' organizations and the IJV structure that may shape or constrain their behavior. Felin et al. (2012) propose a framework that goes some way to reconciling these tensions, and this is now examined in the context of IJV management.

3. Microfoundations for IJV learning

Felin et al. (2012) categorize microfoundations lying within individuals, within social processes and within structures, and also between each of these categories (Fig. 1). Different processes have

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