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Journal of World Business 42 (2007) 435–448
JWB
www.socscinet.com/bam/jwb

Do culturally distant partners choose different types of joint ventures?

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Abstract

Studies of international joint ventures yield conflicting results when looking at the role played by cultural distance. We argue that managers understand the problems associated with cultural distance and seek to mitigate its impact by selecting certain types of joint ventures. Using Das and Teng's [Das, T. K., & Teng, B.-S. (2001). A risk-perception model of alliance structuring. *Journal of International Management, 7*(1): 1–30] typology of unilateral and bilateral alliances to categorize a sample of ventures based on their strategic focus, our results indicate that greater cultural distance is associated with an increased probability that a marketing or supplier alliance will be formed and a lower probability that an innovation-oriented alliance will be formed.

Keywords: Joint venture; Cultural distance; Type

The number of joint ventures formed between firms from different countries has increased dramatically in the past three decades (Hambrick, Li, Xin, & Tsui, 2001). This increase has been driven, in part, by the globalization of markets and the realization by many firms that they lack the necessary resources to compete in these markets (Glaister & Buckley, 1998). International joint ventures (IJVs) help firms to cope with globalization by allowing access to foreign partner resources as source of leverage for their own resources (Makino & Beamish, 1999).

Despite their growing popularity, IJVs have proven notoriously difficult to manage. Much of this difficulty has been attributed to the cultural differences between the partners (e.g., Brannen & Salk, 2000; Harrigan, 1988; Killing, 1983). The basis for this attribution is that cultural differences are associated with increased difficulties in communication and coordination; areas that are essential for cooperation between the parties (Glaister & Buckley, 1999; Lasserre, 1999; Merchant & Schendel, 2000). Moreover, the goals of partners from different cultures often differ (Osland & Cavusgil, 1996; Schwartz & Dibner, 1992). These coordination difficulties and differences in expectations, in turn, are thought to increase the costs associated with cooperation and subsequently lower the chances of successful performance (Park & Ungson, 2001).

Our study examines the role of strategic choices made by the partner firms in coping with the difficulties outlined above. Specifically, we contend that managers understand and anticipate the difficulties associated with cultural distance and take steps *a priori* to minimize these problems. In particular, we show that managers attempt to mitigate these problems by choosing less complex and

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doi:10.1016/j.jwb.2007.06.005

demanding types of JVs in a culturally distant context. This selection process, in turn, may help firms avoid many of the problems associated with cultural distance in joint ventures and help to explain the inconsistent results found in prior studies.

1. The problem of cultural distance in IJVs

National culture refers to the values, beliefs and assumptions that distinguish one group of people from another (Newman & Nollen, 1996). These distinguishing traits are shaped by a variety of country-specific factors (Wallace, 1993) and create the context within which managerial decisions take place (Geringer & Hebert, 1991). As such, an understanding of national culture can provide a competitive advantage if managers can use that understanding to correctly align internal and transnational practices with the external (cultural) environment (Newman & Nollen, 1996; Powell, 1992).

The most commonly used measure of cultural distance draws from Hofstede's (1980) pioneering work outlining and quantifying the dimensions of national culture. Hofstede's first cultural dimension, labeled power distance, refers to a country's acceptance of inequality in social systems. The second dimension, individualism/collectivism, is the degree to which people look after themselves and their families (individualism) versus the degree to which they identify with social groupings (collectivism). Masculinity–femininity refers to the preference for achievement versus affiliation, as well as to the traditional role distinctions between the sexes. Finally, uncertainty avoidance refers to the general discomfort with unstructured or unusual circumstances within a society.

Subsequent studies have provided substantial evidence for the validity and reliability of the dimensions and scores derived from Hofstede's study (e.g., Barkema & Vermeulen, 1997; Kogut & Singh, 1988; Merchant, 2005; Morosini, Shane & Singh, 1998). The only measure that has failed to find consistent support is uncertainty avoidance (Newman & Nollen, 1996). The Chinese Cultural Connection (1987), for example, suggested that Hofstede's measures may be culture-bound by Western values and re-created the scale, using questions geared toward Asian sensibilities. The Asian-derived scale identified factors that showed significant overlap with regard to power distance, individual/collectivism, and masculine/feminine, but not with regard to uncertainty avoidance. Two rationales have been offered to explain this result. First, Hofstede (1991) acknowledged that the construct is based on linear notions of right, wrong and truth, which may be less relevant for Asian cultures. Second, uncertainty avoidance may be a function of the time period in which the research was conducted. Hofstede described this dimension as "the level of anxiety... in a particular society in the face of an uncertain future" (1991, p. 112), and such, issues as the Cold War and memories of World War II may have affected measures of uncertainty avoidance in the 1960s and 1970s (Newman & Nollen, 1996). Nevertheless, uncertainty avoidance has been found to have explanatory power in some situations (e.g., Barkema, Shenkar, Vermeulen, & Bell, 1997; Brouthers & Brouthers, 2001). Therefore, the relevance of uncertainty avoidance in a particular setting is both an empirical question and a filter to use in examining the results of a particular study.

Hofstede's study (1980) changed the nature of organizational research on the impact of national culture. The availability of "scores" for each country allowed researchers to quantify the cultural distance between countries and use these distances to understand the impact of culture on various types of organizational phenomena (see Kogut & Singh, 1988).

2. The use of Hofstede's measures in organizational research

Numerous studies have examined the variation in management practices across national cultures. These studies looked at such areas as strategic decision-making (Schneider & DeMeyer, 1991), leadership style (Dorfman & Howell, 1988; Puffer, 1993), inter-partner negotiations (Brannen & Salk, 2000), the internal operations of an alliance (Vanhonacker & Pan, 1997), human resource management (Luthans, Welsh, & Rosenkrantz, 1993) and employee compensation systems (Schuler & Rogovsky, 1998). Each of these studies identified significant differences in managerial behaviors that correlated with differences in national culture.

An element missing from these studies was a direct examination of the differences in management practices, national cultures, and performance within a set of specific ventures. In response to this situation, Newman and Nollen (1996) examined the financial performance of firms whose management practices were congruent with the relevant national culture, even though the culture of the partners differed. Their study found that "[w]ork units that are managed consistent with the values of the external culture are more profitable than work units in which the fit is less well achieved" (p. 773). These results demonstrate, then, that managers