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Institutional forces in adoption of international joint ventures: Empirical evidence from British retail multinationals

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ABSTRACT

In this study, we used institutional theory as a lens to understand the factors that influence the adoption of international joint ventures. Drawing on case evidence from British retail multinationals, we found MNEs adopting IJVs to manage a range of host market institutional pressures and to build legitimacy in foreign markets. Normative institutional legitimacy with customers, property agents and employees emerged as particularly salient for MNEs in our retail cases. The findings further indicated that IJV-derived legitimacy is central to market entry and development objectives. Finally, contrary to institutional theory's central assumption that MNEs seek to conform to institutional pressures, we find IJVs enabling MNEs to practice non-conforming responses, including negotiating and altering local social norms.

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1. Introduction

Past theoretical and empirical works on international joint ventures (IJVs) provide valuable explanations for why firms engage in equity IJVs (e.g., Dong & Glaister, 2006; Glaister, 2004; Glaister & Buckley, 1996; Hennart, 1988; Kogut, 1988). However, notably lacking from this literature is explicit attention to the role of the institutional environment in firms' decisions to engage in IJVs (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004; Hitt, Dacin, Levita, Arregle, & Borza, 2000). International management (IM) scholarship continues to demonstrate the powerful influence of host country institutions on MNE behaviour (Kostova, 1999; Kostova & Zaheer, 1999; Lu, 2002; Peng, Wang, & Tiong, 2008). MNEs often encounter strong heterogeneous institutional forces; their external environments consist of influential and diverse regulations, norms, and cognitive frames (Kostova, 1999; Kostova & Zaheer, 1999; Scott, 1995). IJVs are one important strategy MNEs can employ to manage new host market institutional demands and build legitimacy[3] with salient institutional actors (Dacin, Oliver, & Roy, 2007; Hitt et al., 2000; Oliver, 1991). This legitimacy is considered valuable for accessing critical resources for market entry, survival and profitability (Bianchi, 2002; Dacin et al., 2007; Kostova & Zaheer, 1999; Kostova & Roth, 2002; Lu & Xu, 2006; Oliver, 1991). To date, however, there have been few empirical attempts to show how institutional pressures shape firms' decisions to adopt IJVs (Hitt et al., 2000, 2004). In this paper, we use institutional theory to address this research gap.

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[3] Legitimacy, as defined by Suchman (1995), is "a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions" (p. 574).

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The role of institutions in firms' decision to use IJVs has not gone entirely unnoticed in IJV research. For instance, several works linked host government policy with IJV formation (Beamish, 1993; Boateng & Glaister, 2002; Hood & Young, 1979; Killing, 1983). Others suggested that host market uncertainties, particularly unfamiliar national cultures, can encourage a preference for IJVs over acquisitions or greenfield ventures (Franko, 1971; Kogut & Singh, 1988; Pan, 1996). Yet, we suspect IJVs are often the product of multiple and diverse institutional forces (Dacin et al., 2007; Kostova, 1999). As host markets present distinct and fragmented external institutional environments, MNEs must seek legitimacy with multiple institutional constituents: suppliers, communities, real estate agents, customers, employees and governments. Each of these constituents imposes own requirements on MNEs (Kostova & Zaheer, 1999; Suchman, 1995).

A small number of studies have discussed the link between firm alliances and legitimacy and showed that the reputation of an alliance partner can contribute to the legitimacy of a firm (Dacin et al., 2007; Dollinger, Golden, & Saxton, 1997; Hitt et al., 2000; Oliver, 1990). An implicit assumption here is that MNEs free-ride on local partner legitimacy. Yet some scholars working with institutional theory assume a more strategic view of firm behaviour and argue that MNEs adopt more extensive, deliberate and proactive strategies to build legitimacy (Oliver, 1991; Suchman, 1995; Zimmerman & Zeitz, 2002). Against this background, MNEs may require a range of IJV partner resource contributions to build legitimacy in host markets. Although much research has applied institutional theory to MNE behaviour (Davies, Desai, & Francis, 2000; Kostova, 1999; Kostova & Zaheer, 1999), the use of institutional theory in IJV research is minimal (Barringer & Harrison, 2000; Dacin et al., 2007). We use institutional theory to explain the MNE decision to adopt IJVs.

We do so by drawing on qualitative case evidence from three UK retail multinationals. Retail MNEs are particularly sensitive to local institutional pressures in their foreign markets (Huang & Sternquist, 2007) and thus provide an excellent context for addressing our research questions. Huang and Sternquist's (2007) presented a persuasive *theoretical* argument that, underlying retail entry decisions, is the pressure of salient norms, values and beliefs operating within cognitive, regulative and normative institutions. When building store networks in foreign retail markets, retailers are intrinsically engaged with host market with real estate, social and regulatory institutions (see Wrigley, Coe, & Curragh, 2005) and therefore usually require considerable socio-cultural or normative inputs in store location, product design and operation (Dawson, 2007, p. 384).

Conducting our study in the retailing context also allows us to contribute to the literature on retail IJVs. Despite the contemporary as well as the historical adoption of IJVs by leading international retailers, retail research neglects the question of why IJVs are formed (Owens & Quinn, 2007; Owens, Zueva-Owens, & Palmer, 2012; Palmer, 2006). We explore how foreign market institutional environments influence retail MNEs to adopt IJVs as foreign market entry strategies.

The results of our study demonstrate that MNEs use IJVs to manage a wide range of sometimes conflicting host market institutional pressures and build legitimacy in foreign markets. We find that IJVs also allow the MNEs to practice non-conforming responses, including negotiating and altering aspects of local institutional frameworks.

The paper is structured as follows: we begin by exploring the main theoretical debates on IJV formation. We then examine IJV formation through an institutional perspective. Then, we outline the research design. Following this, we present the case findings and conclude with a summary of our key findings and their theoretical implications.

2. Theoretical perspectives on IJV adoption

An impressive body of work examines the factors influencing the propensity of firms to establish IJVs (Beamish, 1985; Contractor & Lorange, 1988; Kogut, 1988). Theoretical works use a variety of perspectives to explore the various conditions and firm motives for IJV formation, e.g. transaction cost economics (TCE) (Hennart, 1991; Williamson, 1975), resource-dependency theory (Hyder & Ghauri, 2000; Pfeffer & Salancik, 1978), network theory (Gulati, 1998), and the organisational learning view (Hamel, 1991). TCE seeks to explain which organising method will minimise production and transaction costs (Williamson, 1981). This approach suggests that equity JVs are formed to bypass the inefficiencies of intermediate markets with respect to providing loan capital, tacit knowledge, distributions systems and raw materials (Hennart, 1988). Resource dependency perspective assumes firms are not self sufficient with respect to critical resources (Pfeffer & Salancik, 1978). As resource insufficiency fosters dependence on other firms, forming IJV partnerships is one way to access resources and manage dependence (Hyder, 1999; Hyder & Ghauri, 2000). The network view builds on the notion that economic actions are influenced by the social context in which actors are embedded. This suggests social networks may constrain and also create opportunities for firms to discover IJV prospects and select specific JV partners (Gulati, 1995; Gulati & Westphal, 1997). The organisational learning view suggests that knowledge is often deeply embedded in host firms and can be extremely difficult to transfer to other firms (Hamel, 1991; Lyles & Salk, 1996; Mowery, Oxley, & Silverman, 1996). IJVs can provide a suitable vehicle for tacit knowledge and skills transfer from one partner to another (Beamish & Berdrow, 2003; Inkpen, 2000). Few IJV studies, however, examine the role of institutional pressures in IJV formation (Barringer & Harrison, 2000).

Empirically, research examining why firms adopt IJVs has focused on identifying and ranking a portfolio of strategic motivations and determining factors (e.g. Boateng & Glaister, 2002; Dong & Glaister, 2006; Glaister & Buckley, 1997; Glaister & Wang, 1993). IJVs are primarily adopted to expand into new national markets (e.g., Dong & Glaister, 2006; Glaister & Buckley, 1997; Hitt et al., 2000). As a result, several market-related motives are associated with IJV adoption – faster market entry (Beamish, 1993), facilitation of international expansion (Glaister & Buckley, 1996; Glaister & Wang, 1993), complying with government policy on FDI (Boateng & Glaister, 2002; Contractor & Lorange, 1988; Killing, 1983), market knowledge acquisition (Hamel, 1991) and reduced risk (Glaister & Wang, 1993). Yet, as IM studies continue to stress how MNEs must

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