



# Multi-party international joint ventures: Multiple post-formation change processes

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## ABSTRACT

Research on multi-party IJVs has been limited to a static context. Little attention has been paid to analyzing dynamic post-formation change processes. This study investigates the evolving influences of multi-party IJV complexity on performance in a dynamic context where the multi-party IJV goes through multiple waves of structural change. Using a static context, some previous studies found support for a negative impact of multi-party complexity on performance, while others did not. Analyzing 2652 multi-party IJVs over a period of 17 years, we attempt to reconcile previous work by investigating whether there is a threshold beyond which the negative impact of multi-party complexity on performance becomes salient.

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## 1. Introduction

An international joint venture (IJV) is a separate legal organization that represents the joint equity holdings of two or more partners, in which the headquarters of at least one partner is located outside the country of the venture operation (Shenkar & Zeira, 1987). Although this widely used definition does not restrict the number of partners, most research only considers conventional two-partner IJVs that are typically comprising one foreign and one local partner (i.e., dyadic IJVs). A substantial number of IJVs however involve three or more partners (i.e., multi-party IJVs). Makino and Beamish (1998) found that 55% of 737 Japanese IJVs they reviewed involved three or more partners. Garcia-Canal, Valdes-Llaneza, and Arino (2003) reported that 49% of a sample of 80 Spanish IJVs involved three or more partners. In Gong, Shenkar, Luo, and Nyaw's (2007) sample of Chinese IJVs, approximately 30% had three or more partners.

Despite the prevalence of multi-party IJVs, researchers have seldom examined the effect of partner numbers in IJVs. When the number of partners is included, these numbers are frequently used as a control variable (Hennart & Zeng, 2002; Makino & Beamish, 1998), or they are simply dichotomized between dyadic and multi-party IJVs (Garcia-Canal et al., 2003). Only a few researchers exclusively focus on multi-party IJVs and use the number of partners as a key construct (e.g., Gong et al., 2007). Even then, the researchers who use the partner number as a key construct

typically use this variable as a static predictor on governance choices (Garcia-Canal, 1996; Garcia-Canal et al., 2003) and venture performance (Beamish & Kachra, 2004; Griffith, Hu, & Chen, 1998).

The most significant paucity in multi-party IJV research is that it has been limited to a static context. Little attention has been paid to analyzing dynamic post-formation change processes that occur in the middle stages of multi-party IJV evolution. Most IJV research focuses on the early stages of IJV development, including IJV formation. As the IJV research field develops, researchers have shifted their focus from the formation stage of the IJV to its end destinations (e.g., termination); however, these researchers pay little attention to analyzing the middle developmental stages. A new stream of research that focuses on post-formation processes has emerged. However, this research is largely based on deductive theoretical approaches and conceptual models (Das & Teng, 2002; Khanna, Gulati, & Nohria, 1998; Koza & Lewin, 1998; Kumar & Nti, 1998; Ring & Van de Ven, 1994),<sup>2</sup> and includes a few case-based studies (Arino & de la Torre, 1998; Brouthers & Bamossy, 2006;

<sup>2</sup> To study the three alliance evolution stages of negotiation, implementation, and adjustment, Ring and Van de Ven (1994) developed a process framework for analyzing repeated interactions in each stage. Kumar and Nti (1998) proposed an alliance developmental path theory for examining outcomes following environmental or major strategic changes instigated by one or more partners. Koza and Lewin (1998) presented an alliance development and success framework reflecting co-evolving strategies among partner firms; changing competitive, organizational, and institutional environments; and adjustments in alliance goals among managers. Khanna et al. (1998) established a theoretical framework addressing learning alliance dynamics, and used it to study efforts to create alliance structures that result in optimal private and common benefit configurations. Das and Teng (2002) used their alliance process model to analyze co-evolutionary dynamics that reflect the interests of partner firms and to clarify transformations of alliance conditions over different stages.

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Doz, 1996).<sup>3</sup> Yet, to our best knowledge, there is no longitudinal empirical study that investigates the continual post-formation change processes of multi-party IJVs where they experience multiple waves of structural change.

In this paper, we focus on the unique characteristics of multi-party IJVs and investigate their evolving influences on short-term performance and long-term survival in a dynamic context where they go through multiple waves of change in the equity ownership structure.<sup>4</sup> Compared with conventional dyadic IJVs, multi-party IJVs have at least two characteristics that are unique to their situation. First, the number of partners in a conventional two-partner form is always two; however, the number varies in multi-party IJVs. Second, in multi-party IJVs, the equity ownership can be shared between unrelated partners with different national origins (i.e., different-country partners), but it may also be shared between related partners with the same national origin (i.e., same-country partners). In multi-party IJVs, one partner may have dominant ownership control with less than 50% of the equity shares; however, if the other partners share the same national origin, potentially collusive behavior may influence their application of equity ownership toward control.

Fixated on a static context, some previous studies found support for a negative impact of multi-party IJV complexity on performance (García-Canal et al., 2003; Hennart & Zeng, 2002), while others did not find a significant relationship (Beamish & Kachra, 2004; Park & Russo, 1996;). Analyzing 2652 multi-party IJVs over a period of 17 years, we investigate whether there is a threshold beyond which the negative impact of multi-party complexity on performance becomes salient. We find that when multi-party IJVs experience structural change once or twice, there is not a significant relationship between the number of partners and performance. Once the multi-party IJV experiences structural change more than twice, the relationship between the partner number and performance becomes not only significant but also negative. These results indicate that second structural change is a threshold beyond which the negative relationship between multi-party complexity and performance becomes salient.

Our dynamic contextual focus is particularly important in studying partner interactions in multi-party IJVs where subgroup distinctions exist but partners do not always attach prominence to them. Since subgroup distinctions are often not given significance by partners unless they are provoked by situational stimuli as such structural changes, it is important to examine multi-party IJV interactions in a dynamic context in which subgroup distinctions are likely to be activated.

## 2. Conceptual background and hypotheses

This study analyzes the performance and survival implications of multiple structural changes from the transaction cost perspective.

<sup>3</sup> Doz (1996) investigated four alliances in order to establish a process model reflecting the influences of initial conditions on learning processes that can trigger alliance re-evaluation and readjustment. A case study of Arino and de la Torre (1998) focused on alliance dynamics by conducting a longitudinal analysis of key developmental events and examined the relationship between external changes and the partners' perceptions of efficiency and equity. In Brouthers and Bamossy's (2006) case study of eight eastern/western European IJVs, they provided insights into trust-related, culture-related, ownership-related, control-related post formation processes, how these processes relate to each other, and how they relate to managers' evaluations of IJV success.

<sup>4</sup> In this paper, structural change is defined as change in IJV equity ownership structure. Equity ownership divisions between partners play a central role in shaping the structural configuration of IJV governance (Beamish & Banks, 1987; Killing, 1983). Compared to such non-equity alliances as licensing agreements and research and development (R&D) consortia, a distinct feature of equity-based IJVs is the shared equity ownership of the partnering firms. In such equity-based alliances, formal venture structure is mainly determined by equity ownership divisions that confer residual rights to assets that are not contractually given to other partners (Anderson & Gatignon, 1986; Grossman & Hart, 1986; Milgrom & Roberts, 1992; Luo, Shenkar, & Nyaw, 2001; Lu & Hebert, 2005).

Transaction costs involve both the costs of engaging in arms length exchange through markets and the management costs of coordinating exchange in a hierarchy or a hybrid organizational form (Williamson, 1985). Specific sources of transaction costs include searching, contracting, monitoring, coordinating, and enforcement (Dyer, 1997). The search for and choice of the right partner is a costly undertaking. All else being equal, the costs associated with forming an IJV with more than one partner would increase. Using similar logic, it seems natural that in a multi-party IJV, the costs associated with monitoring and coordination would also increase (Beamish & Kachra, 2004; Gong et al., 2007; Parkhe, 1993).

In equity-based multi-party IJVs, change in the equity ownership control structure is a paramount event since it alters the blueprint set at the formation stage for premises about the collaborative arrangement. When an initial multi-party IJV arrangement is modified and a new ownership control structure is implemented, the initial foundation on which the complementary multi-party arrangement was built is likely to fray (Inkpen & Beamish, 1997; Shenkar & Yan, 2002). When multi-party IJVs experience multiple waves of structural change, the costs of monitoring (Park & Russo, 1996; Parkhe, 1993), coordination (Gong et al., 2007; Hennart & Zeng, 2002), communication (García-Canal, 1996; García-Canal et al., 2003), and administration (Harrigan & Newman, 1990; Reuer & Arino, 2002) increase since continual structural negotiations and reorganizations concerning ownership control relations are associated with strategic, policy, and personnel changes.

### 2.1. Multiple waves of structural change

The important framing question for this paper is how to set up a model of multiple structural changes. To address this framing question, we utilize the performance-driven organizational change model of Structural Adjustment to Regain Fit (SARFIT) (Donaldson, 1987, 2001). The SARFIT model posits that the need for structural change does not arise directly from changes in internal and external environments; rather, the need for structural change arises from poor organizational performance, which in turn results from a misfit between the organizational structure and environments. The SARFIT model hinges on the feedback effect of performance as the mediating cause between structural misfit and structural change. This avoids the need to exhaustively incorporate various antecedents of structural change, such as environmental, industry, parent-firm, or IJV factors.

Given that our focus is to investigate multiple structural changes and their performance outcomes once initial post-formation change occurs, the SARFIT model helps in setting up a parsimonious initial change-triggering point. In dynamic environments, the original structure of the multi-party IJV may no longer fit with the newly changed internal and external environments; thus, this structural misfit may lower the performance of the venture. As a response to poor performance, multi-party IJV partners may modify their initial structure so that they can meet the new contingencies in their internal and external environments.

These changes may fall short if they do not meet the new organizational needs. The venture may continue to perform poorly even after the initial structural change. In this case, the partners are likely to institute a second structural change to achieve a better fit with their new environment and restore profitability. On the other hand, if the venture performs well following their initial structural change, the partners may stop changing the structure. The same performance feedback logic applies to subsequent changes as well. Multi-party IJVs are more likely to institute a third structural change when the venture performs poorly after a second change; however, additional structural changes are less likely to occur when the venture performs well following the previous structural change. In other words, if the subsequent change results in a

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