



Joint venture stability and cooperation: Direct, indirect and contingent effects of resource complementarity and trust

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ABSTRACT

Despite the increased use of JVs and other forms of alliances, research shows that most collaborative arrangements end in failure due to relationship and resource sharing problems. We note that extant research and practice in this area has tended to emphasize structural and partner selection issues, often at the expense of the relationship and resource development processes which promote ongoing stability and cooperation. This paper presents a view of JV formation and success grounded in the Resource–Advantage (R–A) theory of competition. Our results illustrated the distinct effects of resource complementarity and trust upon JV stability and cooperation. Further, we found that trust was most influential in newer JVs, while the presence of resource complementarity was more critical in older ventures. For firms with greater (less) JV experience, resource complementarity (trust) between the partners was more critical for attaining JV outcomes.

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1. Introduction

In recent years, more firms have turned to various types of cooperative arrangements as a strategic response to uncertainty relating to increased global competition, the emergence of new markets, and rapid technological change. Under such circumstances it is difficult for a single firm to possess all resources needed to develop and sustain existing competitive advantages while simultaneously trying to build new ones (Dyer & Singh, 1998). As such, prior research has consistently linked the presence of strong inter-organizational relationships to a number of critical outcomes including improved innovation, access to markets, reduced costs, and enhanced financial performance (e.g., Cannon & Homburg, 2001; Rindfleisch & Moorman, 2001). Despite a sharp rise in the number and form of collaborative business relationships, observers have noted that these arrangements are often characterized by high failure rates and subsequent partner dissatisfaction (e.g., Kok & Wildeman, 1999; Park & Ungson, 1997). Furthermore, even those ventures that eventually succeed frequently must overcome very serious problems in their early years (Bleeke & Ernst, 1993). Thus, while managers increasingly see substantial

potential in developing formal ties to external partners, the evidence suggests that goals and expectations prevalent at the outset of these relationships are not regularly realized (Madhok, 2006). Given this quandary, research aimed at investigating factors relating to alliance relationship management and success remains of great interest to scholars and managers.

Parkhe (1993a) notes that theory development in inter-organizational research has historically proceeded at an uneven pace and been fragmented by a variety of conceptual and methodological predispositions. Given the overlapping nature of many of the theories applied to alliances, however, these alternative perspectives may best be viewed as complementary, rather than rival, explanations (Varadarajan & Jayachandran, 1999). For instance, early work by IO scholars analyzing large secondary data sets successfully identified industry characteristics likely to lead to alliance formation and survival (e.g., Berg & Friedman, 1978; Boyle, 1968), but provided scarce insight into factors promoting cooperation and alliance success. Likewise, transaction cost (e.g., Hennart, 1988; Parkhe, 1993b) and resource dependency (e.g., Pfeffer & Salancik, 1978; Steensma & Lyles, 2000) concepts have provided a foundation of a theory of alliance structure and governance, but not one of strategy (e.g., Heide, 1994). It should be noted that the foci and foundational assumptions of much mainstream inter-organizational theory have been directed toward determining the allocative efficiency of routine resource combinations in a pre-determined, static environment. As such, these perspectives are less useful when attention is turned to the increased productivity potential embodied by new resource combinations (Williamson, 1985), or even

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the unanticipated consequences often arising from many intentional combinations (Moran & Ghoshal, 1999; Williamson, 1985). To address this problem, Osborn and Hagedoorn (1997) suggest the need for more work that incorporates multiple perspectives in order to sort out theory boundaries.

In addition to calls for more inclusive research designs, there has been growing recognition of the distinct capabilities and limitations associated with specific alliance types (Singh, 1997). For instance, substantial anecdotal and scholarly evidence has emerged to suggest that the rigidity of core assumptions girding efficiency-based frameworks may be overly restrictive when applied to many equity joint ventures (JVs). Following an extensive series of managerial interviews, Madhok (2006) reported that few firms actually entered into equity JVs guided by the assumption that its new partner would behave opportunistically. Unlike other types of alliances, JV creation entails the birth of a new firm, one that possesses its own capital and structure and is typically established to endure for an indefinite period (Webster, 1992). JV partners contribute resources possessing high degrees of specificity with the understanding that such investments are likely to be recouped only after an extended time (Houston and Johnson, 2000). Assumptions of opportunism or hasty exercises of power may hinder the attainment of marketplace advantages (e.g., Moran & Ghoshal, 1996; Madhok, 1995; Madhok, 2006), since each inhibits the development of relational bonds needed for JV parents to realize the synergistic potential of their bundled resources.

In seeking to help bridge such limitations, the current study adopts foundational assumptions consistent with the Resource–Advantage (R–A) theory of competition (Hunt, 2000; Hunt & Morgan, 1995, 1996, 1997) in presenting a model that investigates factors leading to JV stability and cooperative intent. In contrast to static, equilibrium-oriented perfect competition, R–A theory advances a disequilibrium-oriented, resource-based view of competition that incorporates competence based theory. That is, it conceptualizes a competence as a distinct combination, or composite, of more basic lower order resources or capabilities. By definition then, the *distinctive competences* held by JVs result from resources contributed by two or more parent firms. As these resources are jointly owned, this new knowledge must be socially embedded. Furthermore, the competitive advantages arising from JVs result from partner knowledge discovery routines, i.e., the identification of novel resource combinations that produce more useful market offerings. Given the componential nature of knowledge and its social embeddedness within organizations, knowledge discovery within the JV context requires: (a) a secure knowledge base from which to build; and (b) the willingness of partners to collaborate in identifying advantageous new resource combinations (e.g., Potts, 2001).

This research aims to contribute to the literature by addressing strategic and relational factors which contribute to stability and ongoing cooperation within equity JVs. Further, the study examines how experience-based learning may alter the strength of these relations. In so doing, we seek to address the following research questions:

- 1) To what extent do resource complementarity and trust influence JV stability and cooperative intent, over and above explanations rooted in transaction costs, dependency, organizational structure, and agency theories?
- 2) How does the relative influence of these factors change over time as JV partners develop more relationship-specific skills and routines?
- 3) Does the relative influence of these factors differ for firms with greater experience in managing JVs?

Study results confirm the significance of both a direct and trust-mediated relationship between resource complementarity and JV stability and cooperative intent. Findings suggest that partner trust is more important to achieving both outcomes for newer JVs, while developing resource complementarity is more critical in older ventures.

For firms with greater (less) prior JV experience, partner trust (resource complementarity) is more vital to the attainment of the JV stability and cooperative intent.

It is not an aim of this paper to critically analyze the validity of arguments rooted in alternative traditions. By the same token, it is undeniable that variables such as trust or resource complementarity may be examined under efficiency-rooted views. Scholars have noted, however, that the predominance of these perspectives within the alliance literature has resulted in an overemphasis on partner selection and structural characteristics of the alliance at the expense of implementation and relationship management issues (e.g., Kanter, 1994). This bias is a direct function of the prefacing conditions (e.g., opportunism and demand-side uncertainty only) of the operant theories applied by researchers (cf. Tsang, 2006), resulting in counsel that is mechanistically bound to undermine the importance of learning and relational variables (Dopfer & Potts, 2008; Hunt, 2000; Morgan & Hunt, 1994). Moreover, as Kogut (1988) observed, it should be expected that theories and their derived hypotheses will fare differently depending on the types of alliances and research questions being pursued. Thus, to the extent a factor like resource complementarity may be important under a certain set of conditions, the reason *why* it is important may change when considered under an alternative suppositions. Furthermore, the outcomes investigated and the implications drawn by its effects may differ. Therefore, the present study seeks only to complement, not supplant, existing depictions of alliance success by focusing on the drivers of equity JV stability and cooperation.

In the ensuing discussion, we briefly clarify how R–A theory augments current discussions of inter-organizational relationships. For more comprehensive treatments of R–A theory and its view of alliances, readers are directed to Hunt (2000) and Lambe, Spekman and Hunt (2000, 2002). Following this discussion, the conceptual model is developed, with more extensive elaboration on the role of trust and resource complementarity in driving JV outcomes as well as the contexts influencing the strength of these relations.

2. Resource–Advantage theory and JV-based competitive advantage

We consider the development of JV stability and cooperative intent based on a view of competitive markets consistent with Hunt and Morgan's (1995) R–A theory of competition (see also Hunt, 2000; Hunt & Morgan, 1996, 1997). For R–A theory, the ability of a firm(s) to combine lower order resources in a fashion that cannot be matched by competitors represents a distinctive competence, or higher-order resource, that contributes to competitive advantage (Lambe et al., 2002). Thus, R–A competition directly contrasts neoclassical perfect competition, portraying the competitive process as an ongoing struggle amongst firms for comparative advantages in resources, which in their deployment yield positions of marketplace advantage and, thereby, superior financial performance. Given the persistent disequilibrium implied by its rejection of global rationality and perfect information, R–A theory proposes that boundedly rational firm managers acting under conditions of imperfect information are driven to form JVs in order to gain preferential access to *potentially*-valuable resource bundles. In other words, the productive capacity of new resource combinations cannot be fully understood by JV managers until well after the formation of the alliance, if ever (Kiessling & Richey, 2005). By this view, therefore, firm managers engage in strategic alliances when partners are identified whose resources, when combined with its own resources, are judged to provide potential competitive advantages.

As opposed to a view of knowledge structures and market preferences simply being given (i.e., fixed) as in perfect competition, innovation and learning are endogenous to R–A competition. That is, each JV parent recognizes a set of potential resource combinations, which in reference to current or anticipated market preferences may

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