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Resource attributes and firm performance in international joint ventures

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Abstract

Using the resource-based view of the firm, we examine how four key resource attributes affect performance. The relationship between resource attributes and performance is studied in the context of international joint ventures (IJVs), using data from 96 IJVs in Malaysia. Executives were asked to assess the extent to which four resources (product reputation, technical expertise, local business network and marketing skills) exhibited the following attributes: (1) value; (2) rarity; (3) imperfect imitability; (4) non-substitutability. For each resource, the relationships between these attribute ratings and performance were analyzed. We found that each of the four attributes had an influence on performance. Value, rarity, and non-substitutability were found to be significant drivers of performance for IJV assets. In contrast, value, rarity, and non-imitability were critical attributes for organizational capabilities.

Keywords: Joint venture; Resource attributes; Resource-based view of the firm; Performance

1. Introduction

Performance is a key issue for international joint ventures (IJVs). Over the past 20 years, IJV research has tackled the performance issue by looking at a wide range of factors from different perspectives. One basic reason for IJV formation is to gain access to resources that enhance performance. This suggests that use of a resource-based focus may help managers make better joint venture decisions.

Traditionally, strategic analyses have relied on industrial organization economics perspectives focusing on competitive forces and external fit (i.e., looking at the external business environment) to understand performance differences. Scholars have also argued for the need to look inside organizations – at the resources within firms – for superior performance drivers (Rouse & Daellenbach, 1999). This resource-based view of the firm (RBV) predicts that certain types of resources controlled by firms have the potential to generate superior performance. Surprisingly, very little work has been done to test empirically the major tenets of RBV. To our knowledge, no research has empirically tested elements of RBV in an IJV context. Therefore, exploring the

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linkage between resources and IJV performance is a practical and theoretical imperative.

Firms possess resources with specific attributes that provide the potential for competitive advantage which then leads to superior performance (Connor, 1991; Peteraf, 1993; Teece, Pisano, & Shuen, 1997; Wernerfelt, 1984). These resource attributes are value, rarity, imperfect imitability and non-substitutability (Barney, 1991).

The RBV predicts (Barney, 2001a, p. 648), ''firms that build their strategies on path dependent, causally ambiguous, socially complex, and intangible assets outperform firms that build their strategies only on tangible assets.'' Much of this work focuses on resources that, a priori, are assumed to be valuable, rare, inimitable, and non-substitutable rather than measuring the resource attributes specifically. Furthermore, what is missing from the results of much of this early work is calibrating which resources are valuable, rare, inimitable, and non-substitutable and how these specific resources attributes affect performance. Deepening our understanding of these relationships is an important next step in the resource-based stream of research (Barney, 2001b; Peng, 2001; Peteraf & Barney, 2003; Srivastava, Fahey, & Christensen, 2001). We report the results of a study in which we explicitly examine the relationships between specific resource attributes and types, and firm performance.

The empirical context we use to study these relationships is IJVs formed between Malaysian and non-Malaysian companies. Malaysia has attracted some high profile joint ventures with firms such as General Electric, Nokia, Shell, Johnson Controls, Southwall Technologies, O2iC (a chip manufacturer), and AAR Corporation. The IJV context itself is an appropriate one for studying resource/performance relationships (Osland & Cavusgil, 1996) for a number of reasons. First, there has been dramatic growth in the use of alliances, leading to extensive pooling of organizational resources across firms (Harrison, Hitt, Hoskisson, & Ireland, 2001). In the process of combining their resources, firms must identify resource attributes and then deploy those resources most effectively to influence performance (Beamish & Kachra, 2004; Bedrow & Lane, 2003). Second, use of joint venture arrangements has increased steadily (Beamish & Delios, 1997), so IJV research is important to managers given that not all joint ventures lead to satisfactory outcomes (Geringer & Hebert, 1991). Further, IJVs can be highly unstable (Beamish, 1985; Blodgett, 1992; Gomes-Casseres, 1987; Kogut, 1988a). Given these reasons, we suggest that resources held by an IJV represent one potentially critical set of determinants of IJV performance.

2. Background to IJVs research

Traditionally, joint venture research has explored external competitive forces, including environmental factors, such as the influence of a host country government's policies on joint venture formation (Blodgett, 1991a; Gomes-Casseres, 1990; Lecraw, 1984). Research has also related IJV performance to structural factors, such as ownership and control (Beamish, 1985), and size (Merchant & Schendel, 2000), and behavioural factors, such as trust (Inkpen, 1995; Johnson, Cullen, Sakano, & Takenouchi, 1996; Morris, Williams, Leung, & Larrick, 1998), commitment (Beamish, 1985; Glaister & Buckley, 1999; Isobe, Makino, & Montgomery, 2000; Inkpen, 1995), and conflict (Habib, 1987). Various theoretical perspectives have been applied in this work to explain the formation of IJVs and to identify the determinants of their performance. Five theoretical perspectives have commonly been used: (1) transaction costs (Beamish & Banks, 1987; Hennart, 1988; Williamson, 1975, 1985); (2) strategic behaviour (Harrigan, 1986; Kogut, 1988b; Porter & Fuller, 1986); (3) organizational learning (Ciborra, 1991; Hamel, 1991; Kogut, 1988a); (4) resource dependence (Pfeffer & Salancik, 1978); (5) bargaining power (Blodgett, 1991a, 1991b).

All five perspectives include a common element—the contribution of resources by the partners to the IJV. The transaction costs perspective is concerned with the opportunistic behaviour of IJV partners involved in the exchange of resources, whereas the strategic behaviour perspective is concerned with the potential competition from the partner and the IJV. The organizational learning perspective is concerned with the partners' abilities to learn by acquiring each other's resources (Bedrow & Lane, 2003). Finally, the resource dependence and bargaining power perspectives are concerned with partners' interdependence on each other's resources and the level of contribution of partners' resources (respectively).

All of these perspectives identify the importance of firms' resources, but they do not focus specifically on those resources that are internalized by the JV as an independent business entity, and they do so differently. For example, the transaction cost perspective focuses on the reduction of transaction and production costs. The core assumption is that decisions are made to minimize costs. The RBV perspective, however, is more focused on value maximization. Firms accumulate, integrate and