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Embeddedness and networking as drivers in developing an international joint venture

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Abstract
In this article we regard embeddedness in relationship networks as a key issue in the development of an international joint venture (IJV). We look at IJVs from a perspective which highlights the role of network relationships and of networking behaviour. This perspective suggests that the development of an IJV is not a dyadic or an organisation-level process, but is rather a process embedded in extensive networks of relationships and driven by individual-level action for relationship-building. We elaborate on this network action perspective to IJVs by reference to a longitudinal case study of the 12-year development process of a greenfield equity IJV. In interpreting the findings we suggest convincing, compromising, resourcing, internal organising and legitimising as the behaviours associated with the changing of the relational embeddedness and the developing of the IJV.

1. Introduction

International joint ventures (IJVs) are among the most prominent modes of international business today (Delios & Beamish, 2004; Zeira & Newburry, 1999). Yet IJVs have been reported as having a high rate of failure (Hennart & Zeng, 2002). Taken together, the shared ownership across national borders, the institutionalisation of relationships and the formal independence of joint ventures result in considerable organisational and managerial complexity (Borys & Jemison, 1989; Killing, 1988), and make an IJV a demanding way of organising a business.

By definition an IJV is a small international network—a triad. It is the sum of the contributions of at least two firms as Shenkar and Zeira (1987) among others have pointed out: "An IJV is a separate legal organizational entity representing the partial holdings of two or more parent firms, in which headquarters of at least one is located outside the country of operation of the joint venture" (p. 547). In addition, through the parent relationships the joint venture often becomes, in its very initiation, embedded in an internal network of other subsidiaries of the parents (see, e.g., Andersson & Forsgren, 1995). Added to this complexity is the fact that despite having parent relationships to support it, an IJV—like any subsidiary—has to maintain contact with many external actors in its markets of operation (see, e.g., Birkinshaw, Hood, & Young, 2005;

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Schmid & Schurig, 2003; Scott-Kennel & Enderwick, 2004). It thus becomes embedded in an extensive network of relationships, all of which affect the way it develops.

Most previous research on IJVs has focused on the parents' motives, partner selection, parental conflict/ control and performance measurement (Buckley & Casson, 1998; Gulati, 1998; Parkhe, 1993). Much less has been said about the implementation and development processes of the cooperative units (de Rond & Bouchikhi, 2004; Spekman, Forbes, Isabella, & MacAvoy, 1998). The present study shares the interest of IJV process researchers (e.g., Büchel, 2001; Hyder & Ghauri, 2000; Kemp & Ghauri, 1998; Woodside & Pitts, 1996) in the determinants of the development of joint ventures. However, the concentration of these studies on the parent relationship means that they pay rather less attention to the development of the joint venture itself.

Here it is assumed that the embeddedness of organisations in networks of relationships means that relationships, and acting in relationship networks, are central determinants of the way an organisation develops (Anderson, Håkansson, & Johanson, 1993; Gulati, 1998; Granovetter, 1985; Håkansson & Snehota, 1989, 2006). The network action perspective, described in the present paper, will be adopted in an attempt to understand how and why an IJV evolves as a continuous process of relating the joint venture to its network context.

This paper represents a contribution to existing research on IJVs and their management in two specific ways. First, we describe the development of an IJV as a process embedded in extensive networks of relationships, rather than as a dyadic or triadic relationship. Secondly, it will be shown that the development of an IJV is driven by individual-level action geared to relationship building in the course of which the joint venture is constantly being redefined. In this way new knowledge is brought to bear on the way an IJV is created and changed by a variety of actions on the part of the IJV managers having different relationship and network-level influences.

Below we first review previous research on IJVs revealing a gap in our understanding of the context-dependent and action-driven development of IJVs. We then present the key elements of the network action perspective on IJV development, and elaborate upon this perspective in a longitudinal case study concerning a greenfield equity IJV. An IJV will be approached from the focal net point of view (Anderson et al., 1993; Halinen & Törnroos, 1998; Salmi, 1995), whereby the joint venture is seen as the focal actor in a network of relationships. Consequently, we suggest five managerial ways of acting connected with changing of the relational embeddedness and developing the IJV. In conclusion we note the theoretical and managerial implications of the network action perspective on IJVs.

2. Overview of research on international joint ventures

A great deal of research has looked at IJVs as entry modes to new foreign markets and has approached such IJVs from the transaction-cost or resource-dependence perspective (see also Borgatti & Foster, 2003). Hennart (1988) saw joint ventures as the best strategy in specific circumstances when markets are failing but full ownership is not an effective mode of governance due to, for example, high management costs, post-acquisition problems or economies of scale or scope (for further research see Chen & Hennart, 2002, 2004; Hennart & Reddy, 1997). Antecedents to foreign market entry, such as motives for joint venture establishment and partner selection, have been emphasised (Arino, Abramov, Skorobogatych, Rykounina, & Vila, 1997; Beamish, 1985). Performance measurement has often been included and the longevity of IJVs has been examined (Anderson, 1990; Barkema, Shenkar, Vermeulen, & Bell, 1997; Delios & Beamish, 2004; Hennart & Zeng, 2002). Control by the parents has been seen as a critical determinant of IJV performance (Geringer & Hebert, 1989; Johnson, Cullen, Sakano, & Bronson, 2001).

Studies that view IJVs primarily as cooperative relationships stress the resource dependence and the cooperative motivations of the parent companies, emphasising the long-term advantages to the parents that result from learning (Hamel, 1991; Inkpen & Beamish, 1997; Inkpen & Currall, 2004; Kogut, 1988). Partner selection is a critical decision where a balance has to be found between a necessary fit and complementary strengths and resources (Lorange & Roos, 1992; Parkhe, 1991). Special attention is often paid to cultural differences (Kedia & Bhagat, 1988). Development of an IJV relationship is described as a process built on exchanges, actions and interpretations on the part of the parents (Büchel, 2001; Hyder & Ghauri, 2000; Kemp & Ghauri, 1998; Kogut, 1988).

In general, the development process of the joint venture itself has not received much attention in studies of joint ventures as entry modes. Rather, the focus is on the antecedents of IJVs and then on their outcomes. The primary object of analysis has been the parent companies' decisions and their satisfaction. Studies of interfirm cooperation have also concentrated on the relationship between the parents. Joint ventures have been regarded as a concrete expression of this relationship. In connection with embeddedness, some studies such as Woodside and Pitts (1996) and Hyder and Ghauri (2000), have noted the influence of external relationships—with governments or authorities, for example—on the IJV relationship and the way parent companies act.

An approach closely related to that of the present study can be found in studies of subsidiaries adopting a knowledge perspective (Kogut & Zander, 1993). Here the subsidiary is acknowledged as a separate entity and the role of subsidiaries in corporate networks of multinational companies is examined (Birkinshaw, 1999; Birkinshaw & Hood, 1998; Frost, Birkinshaw, & Ensign, 2002; Moore & Birkinshaw, 1998; Schmid & Schurig, 2003; Taggart, 1998). Many crucial assets, especially of the intangible kind, are located in the various affiliated companies. New knowledge often emerges from interaction with clients and team members around the world, and the subsidiaries are mandated to transfer that knowledge to all parts of the global firm. Interaction between headquarters and subsidiary managers is thus important. Such relations are characterised by mutual dependence and learning that can affect the roles of both sides over time (Butler & Sohod, 1995; O'Donnell, 2000).

This sort of research envisages the possibility of independent and important roles on the part of the subsidiaries and