

Effect of host country and project conditions in international construction joint ventures

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Abstract

Joint ventures (JVs) have become popular because of their importance as a strategic alternative in global competition. International joint ventures (IJVs) are difficult to manage due to their complex structures involving more than two entities having different and competing objectives and strategies. Since each construction project is unique, project-specific factors are significant for the success of an IJV as well as the risks associated with the host country in which the IJV operates. In this study, the impact of host country conditions and project characteristics on IJV performance is investigated through a questionnaire survey. IJV performance is defined as a three-dimensional construct considering the performance of the project, the IJV partners, and the IJV organization itself. The results of the study suggest that project-related factors have a great impact on IJV performance. But they failed to provide evidence that IJV performance is affected by host country related risks.

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1. Introduction

Inter-firm collaboration has become a crucial component of the pursuit of international competitive advantage as market complexity is growing. With increased globalization, alliances between multinational firms are becoming popular [1]. Joint ventures, a special type of strategic alliance, offer a unique opportunity to combine the distinctive competencies and the complementary resources of participating firms. An international joint venture (IJV) is defined as a joint venture that involves at least two organizations that contribute equity and resources to a semi-autonomous legally separate entity [2] with at least one partner headquartered outside the JV's country of operation [3]. Although IJVs are not a new occurrence in international business, the trend towards forming IJVs has become

increasingly common since the 1970s [4–6]. The complexity of the venture is caused by the presence of two or more partner organizations usually of different cultures, which may be competitors as well as collaborators [7,8].

The majority of the current literature on IJVs concentrate on manufacturing industries. IJV theories have not been extensively investigated empirically in the construction industry, except for few studies associated with the risks of IJVs in construction [9–12], the factors affecting the performance of IJVs [13–15], and management issues in IJVs [16–18]. There are numerous advantages to undertaking IJVs including greater access to local markets and engineering consultants; improved capabilities in terms of size and scope of work carried out; broadened expertise; an ability to select and obtain suitable staff relatively easily as opposed to recruiting from the external market; access to new areas of the world without having to carry all the risk; and an ability to take on and maintain an international workload [19].

Despite the benefits associated with IJVs, the failure rate of IJVs is high [20]; higher than are those for domestic joint

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ventures because IJVs generally face greater challenges. For example, many IJV partners must monitor operations in settings with which they have little familiarity (e.g. markets, distribution systems, political and legal systems); they must often cope with significant geographical separation; and they must bridge cultural boundaries [21]. The core objective of the study presented in this paper was to explore the impact of host country conditions and project-specific issues on IJV performance. IJV performance was defined in this study to reflect three dimensions: “project performance”, an objective indicator that measures the extent to which project objectives are realized in terms of schedule, cost, quality and client satisfaction; “partner performance”, a subjective indicator that measures the extent an IJV partner’s objectives are met; and “performance of the IJV management”, a subjective measure that indicates the effectiveness of management control of the IJV as perceived by an IJV partner. A questionnaire survey was administered to construction companies that have established IJVs with foreign partners. In this study, it was hypothesized that hospitable host country conditions and a strong ability to handle project-related factors have a positive effect on IJV performance.

2. Impact of host country on IJV performance

International construction projects involve multinational participants from different political, legal, economic, and cultural backgrounds [22]. When firms enter an international market, they are likely to face a high level of uncertainty. Those uncertainties are caused by political, economic, structural, policy, environmental, market, production, and social risks [10,23] as well as completion, operational, and regulatory risks [24]. The environment under which IJVs operate was found to influence their performance [25].

Considering the overlaps among these factors, “host country conditions” in this study was defined by political stability, macroeconomic conditions, strength of the legal system and relations with the host government. These factors cover all the factors mentioned in the literature.

- *Political risk* is defined as the occurrence of politically motivated events that affect the IJV’s ability to operate effectively in the host country [26]. It includes inconsistency in policies, changes in laws and regulations, restrictions on fund repatriations, and import restrictions.
- *Macroeconomic conditions* such as fluctuations in economic conditions, inflation, and foreign exchange rates affect the overall performance of the construction industry, and are also critical to the performance of IJVs.
- The *strength of the legal system* in the host country is important in the formation and operation of an IJV as it is the legal system that regulates the management of claims, disagreements, conflicts, disputes and any and all contract related problems.
- The *quality of the relations between IJV partners and the host government* may be critical for the success of an IJV, especially for government projects, since one of the prin-

cipal market characteristics frequently cited as influencing IJV performance is how policies are implemented by host country governments [27].

Based on the above discussions, it was hypothesized that political stability, strong macroeconomic conditions, and a strong legal system in the host country, and strong relations between IJV partners and the host government enhance IJV performance. In addition, host country conditions are expected to influence the project-specific factors that are discussed in Section 3. Survey respondents were asked to rate the extent of these issues in their projects on a 1–5 point Likert scale.

3. Impact of project related factors on IJV performance

Although some companies may cooperate with the same partner in several projects, IJVs in the construction industry are considered to be project-based rather than continuous collaborations. Unlike many other industries, construction is a complex blend of disparate needs, skills and techniques that are difficult to coordinate. It is widely accepted that a construction project is subject to more risks than other business activities because of its complexity [11]. The risks associated with construction businesses may be split into those that are related to the management of internal resources and those that are prevalent in the external environment. Internal factors are relatively more controllable and vary from project to project. External risks are relatively uncontrollable, but they need to be continually scanned and forecasted in order to develop company strategies for managing their impact [28]. While host country conditions (Section 2) constitute external risks, project-related factors (this section) represent internal risks.

In this study, project-related factors cover project risks that are frequently reported in the literature as significant [10,29,30]. These include completeness of payments by the client; tolerance/flexibility of the client; relations with other project parties; competence of other project parties; completeness of project definition; availability of resources; technical complexity of the project; impact of factors such as weather and soil conditions; completeness of the design; completeness of the contract documents; handling the project requirements in terms of quality, environment, health and safety; penalty sanctions concerning duration; and effectiveness of the project management functions such as planning, coordination, monitoring, and controlling. The above listed project-related factors were hypothesized to affect IJV performance. Survey respondents evaluated these factors on a 1–5 point Likert scale.

4. Performance indicators

The measurement of the performance of strategic alliances has been an important research topic in the field of international management [31,32]. According to Chowdhury [33], no consensus has yet emerged on an appropriate

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