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# International joint venture partner origin, strategic choice, and performance: A comparative analysis in an emerging economy in Africa☆

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ABSTRACT

This study examines the competitive strategic choices of international joint ventures (IJVs) and their performance implications in a low-income emerging economy in Sub-Saharan Africa — Ghana. Using the resource-based view of the firm, it is argued that IJVs with partners from emerging economies are more likely to pursue an efficiency-oriented business strategy to strengthen their strategic positioning, competitiveness and performance. Conversely, IJVs with partners from advanced industrialized economies would be more likely to pursue a market effectiveness-oriented strategy to strengthen their strategic positioning, competitiveness and performance. The findings from 76 IJVs offer support for the hypothesized relationships. IJVs with partners from emerging economies implementing an efficiency-oriented strategy of cost leadership outperform those with partners from advanced industrialized economies implementing the same strategy. In contrast, IJVs with partners from advanced industrialized economies implementing a differentiation strategy outperform those with partners from emerging economies implementing a differentiation strategy.



## 1. Introduction

The globalization of the world economy and the surge in competitive pressures in today's business environment has led many emerging economies in Sub-Saharan Africa to transform their economies from state-controlled capitalism towards private entrepreneurial capitalism. Economic liberalization policies and privatization of state-owned enterprises (SOEs) have been used as central mechanisms in promoting efficiency, productivity growth, economic development and international competitiveness of enterprises. The economic transformation policies have led to the creation of different forms of business organizations with the principal forms being wholly owned enterprises by domestic entrepreneurs and international joint ventures (IJVs) between foreign firms/entrepreneurs and local firms/entrepreneurs (Beamish and Delios, 1997; Demirbag and Mirza, 2000). An IJV is the creation of a separate organization whose stock is shared by two or more cross-border partners in which they both hold equity ownership (Contractor and Lorange, 1988). In Ghana, the changes in investment legislation over the past two decades have favored IJV formation as a means of attracting foreign direct investment (FDI). For example, the *Ghana Investment Promotion Acts* of 1985 and 1994 have made it easier for foreign companies to form an IJV instead of establishing a wholly owned subsidiary by requiring foreign companies to invest a lower equity capital for IJVs than a wholly owned subsidiary (Boateng and Glaister, 2003; Debrah, 2002).

The primary intent of governments from emerging economies in favoring IJVs is to attract foreign capital and investment to develop major strategic economic sectors while at the same time gaining domestic control over those economic sectors. On the other hand, private enterprises in emerging economies enter into IJV relationships by selecting partners who can provide them

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with financial and intangible assets, technical and managerial capabilities, and the capability for offering quality products (Hitt et al., 2000). However, the motives of foreign partners for establishing an IJV relationship in an emerging economy are varied. The most common motive advanced in the literature is to access and exploit needed resources and capabilities in order to improve the firm's strategic positioning vis-à-vis rivals (Glaister, 2004; Inkpen, 2001; Kogut, 1988). Yet, Boateng and Glaister (2003) find that the main motives for IJV formation in Ghana by foreign firms are to overcome government-mandated barriers, facilitate risk and cost sharing, and to access the domestic market.

This study examines the competitive strategic choice of IJVs in a low-income emerging economy in Sub-Saharan Africa, Ghana, by answering the following questions: (1) what is the predominant competitive strategic choice of IJVs with partners from emerging economies vis-à-vis those with partners from advanced industrialized economies? (2) What is the relative impact of the strategic choice used by IJVs with partners from emerging economies and those with partners from advanced industrialized economies on IJV performance? Ghana is one of only seven low-income emerging economies in Sub-Saharan Africa (Hoskisson et al., 2000); and has received considerable attention with respect to the successful implementation of economic liberalization policies and the improvement of the overall environment for attracting FDI (Leechor, 1994). Moreover, the growth rate of inward FDI stocks to Ghana between 1980 and 2004 grew by about 317% making it one of the fastest growing recipients of inward FDI in Sub-Saharan Africa (UNCTAD, 2005).

Investigating the strategic choice of IJVs operating in emerging economies is important due to the vast number of studies that have been devoted to studying IJVs in emerging economies in the international management literature. But most of these IJV studies have focused primarily on issues such as the motives for the formation of IJVs, IJV partner selection, control and management issues between IJV partners, and factors influencing IJV performance (e.g., Boateng and Glaister, 2003; Choi and Beamish, 2004; Hitt et al., 2000; Inkpen, 2001). With the unprecedented growth rates experienced by some of the larger emerging economies such as China, India, Brazil, Mexico, South Korea and Indonesia over the past two decades, firms from these emerging economies have started competing with firms from advanced industrialized countries in low-income emerging economies by establishing IJVs with domestic firms. These larger emerging economy firms have been investing in the low-income emerging economies by establishing IJVs to access the vast market potential, natural resources, skills, and leverage their brand names to enhance their competitiveness and performance. With over four billion people and the fastest-growing population in these low-income emerging economies (or what is being called the 'base of the pyramid markets'), there are tremendous opportunities to harness this untapped market potential (London and Hart, 2004; Ricart et al., 2004). Thus, IJVs operating in the 'base of the pyramid markets', whether the partners are from other emerging economies or advanced industrialized economies, would need to pursue business strategies that would enable them to benefit from the vast untapped markets in these economies.

Nevertheless, the study of the relative choice of a competitive strategy that is used by IJVs with partners from emerging economies and those with partners from advanced industrialized economies to improve their strategic positioning, competitiveness and performance has been relatively unexplored. For example, in a recent study, London and Hart (2004: 351) state, "while MNCs are increasingly viewing low-income markets in developing countries as potential sources of future growth, there is almost no empirical research on *strategies* for pursuing these opportunities" (emphasis mine). International business scholars have therefore renewed their call for an increase attention to international business strategy issues in the 'base of the pyramid markets' (Hart and Christensen, 2002; London and Hart, 2004; Ricart et al., 2004; Prahalad and Hammond, 2002; Prahalad and Hart, 2002). This study responds in part to such a call for a focus on business strategy issues for reaching consumers in the 'base of the pyramid markets'. Thus, this study focuses on how the origin of an IJV partner of a firm doing business in an emerging economy influences the firm's choice of a competitive strategy that is implemented, and how the alignment of IJV partner origin and competitive strategic choice affects IJV performance.

## 2. Background and hypotheses

### 2.1. International joint venture competitive strategy choice in emerging economies

The theoretical lens used to explain the differential strategic choice used by IJV partners from emerging economies and those from advanced industrialized economies operating in low-income emerging economies is largely drawn from the resource-based view of the firm (RBV). According to the RBV, firms are fundamentally heterogeneous in terms of their resource endowments and capabilities (Barney, 1991; Wernerfelt, 1984). Resources and capabilities include all assets, capabilities, organizational processes, firm attributes, information and so on owned and controlled by a firm that enable that firm to conceive of and implement strategies that improve effectiveness and efficiency (Barney, 1991). These heterogeneous resources and capabilities persist over time because of factors such as historical conditions, path dependency, social complexity, time compression diseconomies and causal ambiguity (Barney, 1991; Reed and DeFillippi, 1990). A firm's resources and capabilities position can therefore lead to a sustainable competitive advantage if they are valuable, rare, difficult to imitate and organized, combined and deployed appropriately (Barney, 1991). Thus, the RBV posits that firms are driven to engage in IJVs because of the need to either fill a resource and capability gap or obtain a critical complementary resource and capability that is unavailable for exploiting the market (Das and Teng, 2000). This is especially true in most Sub-Saharan African emerging economies where "competitive advantage requires the synergistic combination of resources which a firm is unable to purchase through a market transaction or to develop internally in a timely and cost-effective manner" (Madhok, 2000: 76).

Resources and capabilities of particular interest to firms in emerging economies in the formation of IJVs include financial resources, technical capabilities, managerial capabilities, and firm and product reputational advantages; while those from