Available online at www.sciencedirect.com
ScienceDirect
Industrial Marketing Management 38 (2009) 71 – 82
INDUSTRIAL MARKETING MANAGEMENT

Choice of ownership mode in joint ventures: An event history analysis from the automotive industry

M. Berk Talay [a], S. Tamer Cavusgil [b,*]

[a] *HEC Montréal, 3000, chemin de la Côte-Sainte-Catherine, Montréal Québec, Canada H3T 2A7*
[b] *Michigan State University, N370 North Business Complex, East Lansing, MI 48824-1122, USA*

Received 20 March 2006; received in revised form 22 December 2006; accepted 28 June 2007
Available online 11 February 2008

Abstract

Inter-firm partnerships continue to be a major trend in the B2B context. Firms seek collaborative ventures to enter foreign markets, combine resources, share costs and risks, and build synergies in an increasingly competitive environment. Accordingly, the impacts of firm and host country characteristics on the selection of entry mode have been extensively studied in the literature. Nevertheless, most of these studies regard all entry modes as feasible alternatives for firms, which is rarely the case in practice. Instead, the number of entry modes available to a firm is more likely to be limited by the firm's assets and the context of the host country. As such, these contingencies, coupled with the idiosyncrasies of each entry mode, necessitate more focalized inquiry in the entry mode literature. Drawing from the OLI framework, this study zeroes in on international joint ventures (IJVs) and analyses the impact of ownership and location advantages on firm's decision about the level of control (i.e., internalization level) in an IJV in a given country. Results indicate a positive relationship between the ownership advantages and the level of control. It is also found that firms tend to favor higher control mode where the host country provides better locational advantages.
Published by Elsevier Inc.

Keywords: Joint ventures; Entry mode; OLI framework; Event history analysis; Automotive industry

Developments in the last quarter of the 20th century have dramatically changed the rationale behind the operations of firms. With the improvements in data processing technology, business practitioners and academics witnessed the inauguration of the post-Fordist era, which involved a paradigm shift from mass production on economies of scale and vastly integrated firms to customization, economies of scope and firms focused on core competence. Moreover, technological and political developments have intensified the international trade and globalization, rendering the world a huge, single, and virtually borderless marketplace. In order to survive in this context, a firm must determine ways, and appropriate mode, to expand its activities across the national borders of its home country.

In expanding into new international markets, firms aim to gain access to some opportunities, which are not available in their home country. They seek to take advantage of the size and/or growth potential of the foreign market (i.e., market seeking), or they may want to access relatively cheaper and/or scarce resources in the foreign country (i.e., resource seeking). Alternatively, cheaper labor and/or production costs (i.e., efficiency seeking), accessing knowledge, new distribution channels (i.e., strategic asset seeking) may be listed as other benefits for which firms internationalize (Dunning, 1993).

While these are the four main motivations for internationalization suggested in the international business (henceforth: IB) literature, locating the market, which can offer one or more of the abovementioned opportunities among the set of possible countries, is a complicated task by itself. However, after deciding which market to enter, a firm must also choose an entry mode, which is "one of the most critical decisions in international marketing" (Terpstra & Sarathy, 1991). In selecting an entry mode, firms determine the extent to which they will engage in operations in that country, the level of control they will have on these operations, and the degree to which they will succeed in that market (Anderson & Weitz, 1986; Erramilli &

* Corresponding author. Tel.: +1 517 432 4320; fax: +1 517 432 4322.
E-mail address: cavusgil@msu.edu (S.T. Cavusgil).

0019-8501/$ - see front matter. Published by Elsevier Inc.
doi:10.1016/j.indmarman.2007.06.015

Rao, 1993; Root, 1987; Terpstra & Sararthy, 1991). IB researchers have defined and analyzed several entry modes, ranging from direct exporting to wholly-owned subsidiaries (e.g., Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986; Cavusgil, 1980; Dunning, 1988; Ruckman, 2004).

Almost all studies in the entry mode literature assume that all entry modes are in the choice set of the firms (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986; Buckley & Casson, 1998; Burgel & Murray, 2000; Caves & Mehra, 1986; Chang & Rosenzweig, 2001; Gomes-Casseres, 1989; Root, 1987; Ruckman, 2004). That is, it is assumed that every firm has the luxury of choosing any entry mode. However, in reality not all firms have the ability to choose among full set of modes. Instead, a firm is more likely to be limited with a subset of entry modes. For instance, firms tend to favor joint ventures over other entry modes in China because of the laws and regulations. We submit that these limitations, coupled with idiosyncrasies of each entry mode necessitate further, and more focused, inquiry in entry mode literature.

Of particular interest to this study are the international joint ventures (IJVs), which are defined as "separate legal organizations representing the partial holdings of two or more parent firms, in which the headquarter of at least one is located outside the country of operations of the joint venture" (Zeira & Newburry, 1999). Since the 1980s, IJVs and other forms of inter-organizational relationships have gained greater significance (Luo & Park, 2004), become a prominent part of corporate strategy and driver of firm growth, hence the wide interest of IB scholars. Research endeavors are focused on, but not limited to, firms' motivations for forming IJVs (Oliver, 1990), advantages of IJVs, (Harrigan, 1988), inter-organizational learning via IJVs (Hamel, 1991), and effects of IJV formation on firms' future performance (Madhavan & Prescott, 1995; Merchant, 2004). Despite the empirical evidence that forming IJVs bears unique challenges as well as advantages and drawbacks, (Brown, Rugman & Verbeke, 1989; Chen & Hennart, 2002; Contractor, 1990; Franko, 1989; Guillen, 2003; Harrigan, 1988; Hennart, 1991; Merchant, 2005; Zeira & Newburry, 1999), to the best of our knowledge, there is no single study which zeroes in on IJV formation as a particular mode of international market entry, and inquires patterns, if any, in different types of firms' various levels of control and commitment given a foreign market.

Specifically, drawing from the OLI Framework (Dunning, 1993), this study analyzes the impact of ownership and location advantages on a firm's decision regarding the level of control (i.e., internalization level) it prefers when forming an IJV in a given country. Using data on IJVs formed by U.S. companies in the automotive industry, between 1985 and 2001; we test the relationships between firm's asset power and market attractiveness of the host country and IJV formations.

The purpose of this study is to examine how firms choose among different ownership modes in IJVs. There are significant reasons for focusing on the ownership mode. First, in the literature, a firm's entry mode choice is modeled to be a decision on the level of gains with regard to the risks of investment (Agarwal & Ramaswami 1992; Caves, 1971; Cavusgil, 1980; Woodcock, Beamish & Makino, 1994), and the choice of ownership mode is regarded as a representation of the *via media* between these two factors (Barkema, Bell & Pennings, 1996; Brouthers, 2002; Brouthers, Brouthers & Werner, 2000; Gomes-Casseres, 1989; Rivoli & Salorio, 1996; Root, 1987; Woodcock et al., 1994). Second, Lecraw (1984) highlights the negligence of research on the relationship between the ownership mode and the IJV formations, and attribute this neglect to the presumption that differences in control levels across different types of IJVs may be hard to distinguish. More to the point, in their study about the entry modes, Klein, Frazier & Roth (1990) argue that "attempting to classify across four different options is difficult."

Therefore, the contribution of this paper to the literature is threefold. First, and foremost, it attempts to fill a gap in international market entry literature (henceforth: IME) by focalizing on a particular IME type, and hence eliminating the pervasive assumption that every firm enjoys the ability to select from all IME types (Erramilli, Agarwal & Dev, 2002). Second, different from other studies which mostly focus on large multinational corporations (Erramilli & Rao, 1993), this study also includes small and medium-sized firms in the sample to capture more efficiently the effects of firms' resources. Third, we use panel data in our analyses, which enables amalgamation of the inter-firm differences and intra-firm dynamics and have several advantages over cross-sectional or time-series data via more accurate estimation of model parameters, controlling the impact of omitted variables, and unveiling dynamic relationships (Hsiao, 2003).

This study begins with the presentation of the conceptual framework and development of the hypotheses about the ownership modes. In the second section, the empirical analyses are described, followed by the presentation of the results, including a discussion about their managerial and theoretical implications, along with the limitations of the study and suggestions for future research.

1. Conceptual framework

IB literature defines an entry mode as "an institutional arrangement for organizing and conducting international business transactions" (Andersen, 1997) and fims' foreign market entry mode choice has been an extensively studied phenomenon in the IB research. While there exists some theories and conceptual frameworks in IME literature elucidating the influences of various factors affecting the choice of entry mode, the conceptual framework of this study draws upon Dunning's (1988) OLI framework which has been widely utilized in literature to explain the antecedents of entry mode since it "incorporates a plethora of influential factors including transaction cost/internalization, ownership specific, and location-specific variables" (Brouthers, Brouthers & Werner, 1999).

The three pillars of the OLI framework are: *O*wnership advantages, *L*ocation advantages, and *I*nternalization advantages. Ownership advantages pertain to a firm's exploitation of its asset power, which may include knowledge, product superiority, scale economies, and financial advantages. Location