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# Survival of Joint Ventures in Emerging Countries: An Emphasis on Cultural Differences

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***Abstract:***
*Much ink has been spilled on strategic management studies. Research uses multiple theoretical lenses from the resource-based view (RBV) to institutional theory to transaction cost theory, with perspectives from diverse contexts such as conception-to-assembly activities, research and development industries, and developing to developed countries. This study reviews the literature for a 25-year period, from 1977 to 2002, related to joint venture (JV) survival and focusing on the impact of national culture as a fundamental variable to determine the success of joint ventures. In doing so, this study tries to identify a new area for future research on strategic alliances.*

***Keywords:*** *Joint venture performance, survival, national culture*

## 1. Introduction

Earlier studies have attempted to form a definition of joint venture (JV) performance, but no consensus emerges on a final measure. According to Geringer and Hebert (1991), assessment performance models are based on both objective and subjective criteria. Objective measures are mainly from financial and strategic analysis, and subjective measures are the satisfaction of stakeholders who are mainly interested in the overall organizational perception. In terms of objective criteria, Geringer and Herbert (1991) demonstrate that survival analysis is a reliable tool for measuring the performance of joint ventures, enhancing the identification of key variables associated with instability factors and JV evolution.

Despite their increasing importance, JVs are an unstable organizational form (Franko, 1977; Leung, 1997; Gomez Casserez, 1987; Blodgett, 1992). Instability stems from both external and internal factors. External factors include industry characteristics, cultural differences, and country risk (Franko, 1977; Blodgett, 1992; Hennart, Kim and Zeng, 1998; Hennart and Larimo, 1998; Barkema and Vermeulin, 1997; Meschi, 2002). Internal factors include product characteristics, size, and technology absorption (Delios and Beamish, 2001; Park and Russo, 1996; Kogut, 1989; Park and Ungson, 1997)

Theorists propose several schemes and paradigms to clarify JV performance. We distinguish between a resources-based view (RBV), transaction cost theory, and population ecology theory. Such diversity and overlapping orientations result from the special characteristics of the JV, which, as Kogut (1988) argues, needs a multidisciplinary approach.

In strategic analysis, transaction cost theory integrates economic implications of organizational behaviour. The short life of JVs and their evolution towards acquisition is consistent with Williamson's theory highlighting the multiple choices of different governance structures and entry modes. RBV theory is an important turning point in management; a company is seen as a set of resources combined with competencies in order to provide products and services. Performance differences among firms depend mainly on the resources in their portfolio of assets. The theory of population ecology is considered as an extension of the evolutionist school and an attempt to explain the logic of the evolution and transformation of firms.

These paradigms are utilized in a North-North context. Indeed, following Franko (1971), several authors have enriched the research on JV survival (Park and Russo 1996; Hennart, Kim, and Zeng, 1998; Barkema and Vermeulin, 1997; Kogut, 1989). Their studies are based exclusively on firms in developing countries; studies in the context of emerging countries are rare. The first studies related to JV survival came from Meschi (2002). Accordingly, we propose a literature review of JV survival in emerging countries and focus on the impact of cultural differences on JV survival.

## 2. Theoretical Background

Franco's studies, which serve as a reference on JV survival, examine a set of instability variables including the industry characteristics and cultural differences. All subsequent studies have borrowed the same variables (see Table 1) but integrate some changes, which can be explanatory variables as well as dependent variables in instability measures and failure rates.

'Instability', 'failure', 'sale', 'dissolution', and 'liquidation' are asymptotic terms that refer to the disappearance of the JV. However, each issue reflects a particular research tendency and addresses a specific context analysis. Franko (1971) identifies three possibilities: the first one is dissolution, the straightforward liquidation of the JV; the second is a simple transfer of shares that happens when a partner sells shares to a local or a foreign partner; and the third is the acquisition, which takes place when a partner monopolizes the majority of the equity in the JV, which then becomes a wholly owned subsidiary.

Leung (1996) and Hennart, Kim, and Zeng (1998) have shown that instability can accompany a transfer of shares. Meanwhile, Kogut (1989) and Park and Ungson (1997), have measured JV volatility with a simple dissolution. Meschi (2002) suggests that a JV is considered finished if it makes a clear dichotomy between its initial and current configuration.
Going beyond JV failure and forms of termination, it is perfectly legitimate to ask about causes of instability. Table 1 represents a synthesis of JV survival studies. This table also shows the different variables used in studies, and the main proposals and corresponding hypotheses implemented. The studies show that cultural differences between parent companies are a major cause of JV failure (Franko, 1977; Park and Ungson, 1997; Barkema and Vermeulin, 1997).
The main variables that have a significant impact on JV longevity when partners are from developed countries are the effects of competition, research and development activities, and the size of the common subsidiaries (Franko, 1977; Kogut, 1989; Park and Russo, 1996). In the context of international JVs in emerging markets, the research emphasis seems likely to be on the business environment, particularly on the country risk and cultural differences (Meschi, 2002). Otherwise, constraints on foreign direct investment in emerging countries are the same for JVs. Various studies also show that instability is not an inherent attribute of international JVs. For instance, Gomez Casseres (1987) argues that acquisitions may have the same issues. He demonstrates that the same causes of instability can be investigated using alternative structures. This hypothesis is tested in Park and Russo (1996). They found that the competition between partners is positively correlated with JV failure and acquisitions. According to Park and Russo (1996), unilateral research on instability variables remains an incomplete approach. To overcome this insufficiency, it is necessary to find a statistical model capable of analysing a set of events simultaneously. As a result, an in-depth review of survival analysis is required.
Many studies show a remarkable evolution in the use of survival analysis. This evolution is manifest in expressing the hazard rate functions in terms of various explanatory variables. In this method of analysis, parametric and non-parametric models are used. The parametric model puts hypotheses on the shape of the risk distribution. For example, the honeymoon is recognized when the hazard rate increases during the beginning period, reaches its peak in the medium-term, and then decreases as the time extends to infinity. The most common parametric models are the Weibull and lognormal models. Non-parametric models are identified by their lack of hypotheses on hazard rates and can be used in exploratory research. Kaplan-Meier is a convenient method (Ungson and Park, 1997).
In the second category of analysis, organizational mortality has been investigated in several studies (Franko, 1971; Carroll and Delacroix, 1982; Blodgett, 1992; Barkema and Vermeulin, 1997; Meschi, 2002) in such a way as to reduce the evolution of joint ventures to a dichotomy, that is, as success or failure, or as a single-state or a one-way transitions model. This is because it is common in the social sciences to be interested in the occurrence (or non-occurrence) of different kinds of events (Steffensmeier and Jones, 2004). However, the singular interest in two events may be too simplistic. We propose to extend the classic use of a survival analysis model to study the occurrence of many events: from the original state 'being in a JV' to failure (downward exit), acquisition (upward exit), or keeping the same position (no exit). In other words, we propose to estimate a model with one origin state and three destination states, a multi-destination or competing-risks model.

| Authors | Variables | Proposition | Context | Interval | Risk Distribution |
|---|---|---|---|---|---|
| **Meschi (2002)** | Country risk | Negative correlation between country risk and JV survival. | Emerging countries | 1996–2003 | Monotonous (parametric) |
| **Delios and Beamish (2001)** | Intangible assets<br>Experience in local markets<br>Size and ages of JV | The intangible assets (advertising and technology) have a positive impact on JV survival<br>Experience in host countries has a positive impact on JV survival. | Japanese JV | 1987–1996 | (parametric) |
| **Hennart, Kim, and Zeng (1998)** | Experience in foreign markets<br>Position of the JV activity compared to the parent<br>Parent size, age, climate | A cooperative termination does not mean liquidation<br>Status, size, and diversification lead to the sale of the JV. | Japanese JV and acquisition in the U.S. | 1980 - 1991 | inverted U-curve non-monotonous (parametric) |
| **Barkema and Vermeulin (1997)** | Cultural differences<br>Culture dimensions | Uncertainty avoidance and long-term orientation have a negative impact on the JV survival.<br>Considerable cultural differences encourage investors to choose the JV as a mode of entry in foreign markets | European JV | 1966–1994 | Semi-parametric model |
| **Leung (1997)** | Sales, ages, horizontal or vertical integration, and growth rate | JV is more unstable than acquisitions<br>JV longevity in emerging countries is greater than in developed countries | International JV | 1980-1992 | Kaplan and Meiere (1958) (non-parametric) |

| | | | | | |
|---|---|---|---|---|---|
| **Park and Ungson (1997)** | Cultural distance<br>Size, age, competition between partners, the difference in activity between the parent company and the JV<br>Technology transfer | Cultural differences have no effect on the survival of international JV between competing JV partners<br><br>Technology transfer and the difference in activity between the parent company and the JV have a negative impact on survival | U.S. and international JV | 1979 - 1988 | Inverted U-curve<br>Non-monotonous (parametric) |
| **Park and Russo (1996)** | Competitiveness<br>Former JV contracts<br>Integration | JVs between competitors are more likely to fail<br>Integration JV is more likely to fail than sequential JV<br>Partners who have experience in cooperation are more likely to survive | International, domestic JV | 1979-1988 | Inverted U-curve<br>Non-monotonous (parametric) |
| **Kogut (1989)** | Relations with other partners, suppliers, JV, and licenses<br>Research and Development in JV<br>Production of the JV<br>Marketing in JV<br>Industry growth | JVs including a research and development department in R&D-intensive industries are more likely to survive.<br>Having contracts such as licenses reduces the chance of failure | U.S. JV | 1975–1983 | (parametric) |
| **Franko (1977)** | Cultural differences<br>Industry characteristics<br>Product characteristics | The instability of JV depends on cultural differences | U.S. JV | 1960 - 1967 | |

*Table 1*

Having reviewed major research on survival analysis applied to JVs, we do a literature review on a major source of external uncertainties: national culture.

## 3. Anchorage and the Impact of Culture on Joint Venture

### *3.1. The Definition of Culture*

Defining culture is one of the most difficult tasks in sociology. Edgar Morin highlights the difficulty of understanding this concept (Pesqueux, 2002), noting that scientists have not yet formulated a statement of this social phenomenon. Therefore, it seems impossible to illustrate an exhaustive definition. To study joint ventures, a literature review of previous research is essential. Edgar Morin's vision has as dual nature; he puts forth a metaphorical definition borrowed from biology, describing culture as a genetic informational basis of human society. In other words, culture ensures the durability and evolution of society. In doing so, culture plays a double role, ensuring the invariance of societies and the genesis of innovations. The dynamism encountered in Morin's dual conception is completely at odds with anthropological proposals that culture represents a static set of values and practices, and includes knowledge, belief, art, morals, law, and any other capabilities and habits acquired by a member of society. Furthermore, structural anthropologists identify the invariant elements between cultures and synthesize culture as a set of symbolic systems such as language, matrimonial rules, economic relations, art, science, and religion. These systems are intended to express certain aspects of physical and social reality and the relationship between them.

The following definitions examined reflect a sociological perspective. Geert Hofstede (1980) builds a quantitative model and synthesizes the major differences between national cultures in four dimensions. He defines culture as 'a collective programming of the mind distinguishing the members of one group or category of people from another'. Hofstede's contribution will be discussed further in this study.

### *3.2. Anchorage and the Impact of Culture on Joint Ventures*

According to institutional theory, the environment generates two kinds of constraints which can affect a company's behaviour and performance. The first includes economic, political, and legal or regulatory constraints. The second includes informal constraints and encompasses national culture and ideology (North, 1981). According to Hill (1995), the institutional framework in the U.S. stimulates economic development, while in Japan it promotes the organization's competitiveness. This study underlines the important value of informal institutional constraints, in particular, national culture.

Culture can be considered a resource leading to competitive advantage. Porter (1990) argues that competitive advantage comes from the accumulation of assets and specialized skills, and sometimes only from commitment. Dunning and Bansal (1997) argue that the commitment is based on cultural values, as observed in some countries. A country can obtain a competitive advantage if its national

culture promotes entrepreneurship and business. To illustrate this idea, consider two different cultures, the United States and Japan. Each country has advantages pointing toward different growth strategies. The U.S. has an individualistic culture, and its advantage lies in technology mastery. However, Japan has a collectivist culture that focuses on building relationships with labour, customers, and suppliers and on creating joint ventures.
Culture represents both a resource and a constraint, a reflection of the fact that the dimensions of culture are bipolar, for example, masculinity versus femininity. A high level of collectivism, long-term direction, and masculinity can lead to considering culture as a resource that, in turn, can represent a source of competitive advantage. A short-term orientation and individualism present culture as an environmental constraint. The Japanese culture played an important role in rebuilding Japan after World War II. Japan's miracle seems to be a result of cultural characteristics (a high level of collectivism, long-term direction, and masculinity).
Regarding the impact of cultural differences on JV performance, previous studies have focused on the entry mode in foreign markets. Kogut and Singh (1988) show that cultural distance and uncertainty avoidance are positively correlated with preference for the JV instead of a merger and acquisition. Dunning and Bansal (1997) stipulate that in a host country with a low level of individualism and the presence of transaction costs, companies tend to prefer the JV. In addition, Li, Khatri, and Lam (1999) argue that JVs from collectivist countries that are operating in China prefer to invest in labour-intensive industries. However, companies from individualistic countries tend to invest in technology- and equipment-intensive industries. Investment in technology is crucial for JV longevity. In fact, Li et al. (2001) and Li et al. (2000) argue that JVs between countries with similar cultures - Asian countries and collectivist cultures - fail to perform well while the JVs conducted between Western companies - individualistic culture - and Chinese companies are more profitable, mainly due to technological resource transfer between partners.

*3.3. Dimensions of Culture and Joint Ventures*
Hofstede's four dimensions of culture were used in several studies, particularly in the context of strategic alliances. Kogut and Singh (1988) combined these dimensions into one aggregate in order to measure the cultural distance between nations. They highlighted the influence of cultural differences on the entry mode decision in foreign markets. The index of Kogut and Singh (1988), measuring cultural distance, has been used in much research, including Barkema and Vermeulin (1997).

$$CD_j = \sum_{i=1}^{4} \left\{ \left( I_{ij} - I_{itn} \right)^2 / V_i \right\} / 4$$

$I_{ij}$ = index of cultural dimension i for country j
$V_i$ = variance index of dimension i
$CD_j$ = cultural distance

Nevertheless, it is irrelevant to assess cultural differences and capture their impacts using only a numerical index value. Synthesizing culture into one aggregate remains an incomplete approach. In this research, we study the impact of each dimension separately on JV survival.

$$CD\left(D_i\right) = \sum_j W_j \left| D_{ij} - D_{i,Tn} \right|$$ [1]

Where
CD = cultural distance
Di = score of cultural dimension
Wj = ratio of subsidiaries (NFS: the number of foreign branches) divided by total number of joint ventures

$$NFSj \Big/ \sum_j NFSj$$

According to Schein (1985), culture has been defined as a shared value system. It serves two critical functions: resolving problems of external adaptation and internal integration. The external adaptation refers to defining the organization's objectives, strategies, and responses to the opportunities and threats of the environment. Attitudes toward uncertainty avoidance and long-term orientation influence this reaction (Demeyer and Schneider, 1991). On the contrary, internal integration is associated with interpersonal relationships in the organization that are influenced by individualism, power, and masculinity (Demeyer and Schneider, 1991). Therefore, we consider that the analysis of external adaptation problems is more conclusive in this research, dictated by the need to minimize the number and extent of the contingencies related to cultural differences.
Uncertainty avoidance refers to differences in the perception and management of environmental opportunities and threats (Schneider and Demeyer, 1991). Companies in countries characterized by high levels of uncertainty avoidance tend to organize themselves formally and hierarchically (Hofstede, 1980). On the contrary, in countries where the level of uncertainty avoidance is low, formalization becomes unpleasant and employees will be attracted by a more flexible structure. Furthermore, control of uncertainty reflects a deep psychological need for security and control. In this research, these differences mean a variance in a partner's behaviour

[1] Murad, Barry, and Pantzalis (2007)

toward environmental opportunities and threats, detected at the top of the hierarchy where strategic decisions are made. Therefore, any disagreement at this level generates inconvenience and conflicts between partners and may lead to the dissolution of the JV.
Differences between the partners' long-term orientations are seen as both time and urgency. According to Schneider and Demeyer, 1991, a sense of urgency makes partners prefer instant results. On the other hand, the long-term orientation means a preference for investing in financial assets and building sustainable relationships with partners. This tendency could impact JV survival. Moreover, Yeh and Lawrence (1995) argue that the fifth dimension, long-term orientation, is positively correlated with collectivism: societies that have a high level of long-term orientation are collectivist societies. But in the context of strategic alliances both dimensions do not seem to be the same. While the degree of individualism affects the management of human resources, long-term orientation acts in the process of decision making.
Finally, the power distance, masculinity, and individualism refer to internal integration problems and human resource management problems, for example, the form of control and the remuneration system (Hofstede, 1980). In fact, Hofstede (1991) states that most often it is the local partner that assumes the responsibility for human resource management. Soeters and Schreuer (1988) show that U.S. multinationals avoid any transfer of individualism and power distance values to their German partners. Shenkar Zeira (1992) found that having different partners of different genders is positively correlated with JV survival because the partners will be complementary rather than confrontational.

**4. Conclusion**
The JV survival studies for companies from developed countries can be projected onto other investigations and contexts. In particular, we can discuss the impact of environment, technology transfer, and cultural distance in emerging countries. This article focuses on cultural distance and its dimensions. Culture has five facets: individualism, power distance, masculinity, control of uncertainty, and long-term orientation (Hofstede 1980; Hofstede and Bond, 1988). To test its impact, it is appropriate to establish a model that simultaneously tests the impact of cultural distance, measured according to the Kogut and Singh method (1988), and tests the impact of each cultural dimension individually. This model allows us to learn about how to manage these differences in order to reduce the cultural gap and on the other hand to predict the outcome of cooperation.

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