

Managing Joint Ventures

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Executive Overview

Joint ventures aid firms in accessing new markets, knowledge, capabilities, and other resources. Yet they can be challenging to manage, largely because they are owned by two or more parent companies. These companies may have competing or incongruent goals, differences in management style, and in the case of international business, additional complexities associated with differing government policies and business practices. We examine research on joint venture (JV) performance in order to identify prominent academic discussions established over the last 25 years. From this research, we draw implications from past research and areas for future research on successfully managing JVs, taking into account the decisions JV partners must make throughout the partnering process, from initial motivations through partner selection and negotiation of terms to implementation and ongoing management. Key implications include the necessity of honesty, trust, and commitment for the success of the JV, settling disputes by focusing on what is best for the JV rather than individual partner objectives, and division of managerial responsibilities according to the functional expertise of each partner.

Firms enter into joint venture (JV) agreements in order to create new products and services, enter new and foreign markets, or potentially both (Beamish, 2008). While foreign ownership restrictions that necessitated the involvement of a local partner previously have been eliminated in many countries, international JVs (IJVs) still make up a substantial proportion of foreign entry and investment. Equity JVs are legally distinct business units, owned by two or more partner firms. Parent firms may hold as little as a 5% equity stake in a JV although, in many countries, local regulators do not even recognize investments of less than 20% as giving investors significant influence. JVs enable firms to access each others' complementary resources and capabilities in order to achieve economies of scope and/or scale, and to develop new products faster, more reliably, and more cheaply than could be done by either firm acting alone or through acquisition. In IJVs, local

partners help foreign firms navigate unfamiliar business practices and policies, and sometimes increase a firm's credibility in the eyes of local consumers.

While JVs are not the only means of accessing the resources of another firm, they are often preferred to licensing, contracting, and other nonequity strategic alliances. In highly uncertain foreign markets in particular, IJVs tend to outperform wholly owned subsidiaries (WOSs) because of the benefits a local partner provides (Brouthers, 2002). Unlike nonequity alliances, the capital invested in a JV signals partner commitment, thereby enhancing the probability of success. This commitment enhances cooperation among the parent firms, which is especially important when they are competitors, as is sometimes the case. Also, the specialized resources and capabilities provided to JVs are not easily duplicated.

The importance of JVs in the global economy is reflected in the attention that management scholars have afforded them. They have been the subject of hundreds of research studies pub-

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lished in a host of scholarly journals. The implications of individual studies, however, can lead to conflicting recommendations for the management of JVs. These conflicting recommendations may be a result of contextual factors such as JV and parent firm nationalities, evolutionary stage of the economy in which the JV is located, and the industry in which the JV is established. While entry mode and other control mechanisms have received substantial scholarly attention, the performance implications of the various decisions made by managers are ultimately more important (Geringer & Herbert, 1989). Thus, we focus our review on factors that influence JV performance. Our intention is not to review and consolidate all prior JV research, but to contribute to a growing research agenda by proposing implications derived from a review of influential JV research and proposing areas for future research.

About the JV Literature Included in Our Review

Here we focus on the research that appears to have had the greatest impact. We measured impact by the number of citations using the Social Science Citation Index (SSCI). We did not include book titles¹. However, a number of books have been highly influential on JV management practice and scholarly research. We present these books titles and citation information in Table 1. Journal articles are presented in Table 2. For further detail on the methodology we used to conduct our research review, see the Appendix.

Current Knowledge on the Effective Management of JVs

Each study we reviewed fell into one or more of the six established JV research streams presented in Table 3. We recognize that our list cannot possibly cover every JV management issue researched to date and that researchers are likely examining other topics (that did not make our list due to low citations) in greater depth at present.

¹ For a detailed description of why book titles were not included in our results, see footnote 2 of Table 1.

After classifying the articles into one or more of the six JV research streams, we then endeavored to determine the importance of each managerial issue during the JV partnering process. We did so by identifying the stages during which managers make decisions that impact these issues. This resulted in a mapping of the key managerial issues onto the JV partnering process. The JV partnering process proceeds through four identifiable phases: (a) assessing the strategic logic for creating the venture, (b) selecting a partner, (c) negotiating the terms, and (d) implementation and ongoing management of the business. Not surprisingly, most scholarly research is focused on already-established JVs as there is less opportunity to conduct research in the formative stages. However, there are important decisions to be made by managers at each phase of the JV partnering process that ultimately affect the probability that the venture will perform to the satisfaction of the partners. To assess the extent to which scholarly research provides insight to managers who make these decisions, we review the most highly cited JV performance articles published in the last 25 years.

Each of the six managerial issues we identify is more relevant during some JV partnering phases than others. Governance, for example, is an ongoing concern for a JV, but some of the biggest decisions influencing its form are actually made as partners negotiate terms. Figure 1 depicts the phases in which the six managerial issues are most salient. With the exception of firm internationalization, all issues tend to apply to the ongoing management of the JV. As we discuss the results of the JV studies in our sample, we consider these phases in order to provide implications concerning how decisions made in one phase of JV partnering will affect ongoing performance and management.

In what follows, we summarize insights gained from JV research and consider potential extensions of existing research as well as their implications for JV management. We consider the extent to which current knowledge guides managers in making decisions that affect the

Table 1
Often-Cited JV and Alliance Books

Joint Ventures			
Author(s)/Editor(s)	Title (Year of Publication)	Times Cited ¹	Times Cited in SSCI ²
J. P. Killing	<i>Strategies for Joint Venture Success</i> (1983)	39	237
L. G. Franko	<i>Joint Venture Survival in Multinational Corporations</i> (1971)	26	145
K. R. Harrigan	<i>Strategies for Joint Ventures</i> (1985)	15	292
K. R. Harrigan	<i>Managing for Joint Venture Success</i> (1986)	13	173
P. W. Beamish	<i>Multinational Joint Ventures in Developing Countries</i> (1988)	12	98
J. W. C. Tomlinson	<i>The Joint Venture Process in International Business: India and Pakistan</i> (1970)	11	55
W. G. Friedmann & J. P. Beguin	<i>Joint International Business Ventures in Developing Countries</i> (1971)	9	24
A. R. Janger	<i>Organization of International Joint Ventures</i> (1980)	9	28
J. A. Stuckey	<i>Vertical Integration and Joint Ventures in the Aluminum Industry</i> (1983)	7	8
S. F. Berg, J. Duncan, & P. Friedman	<i>Joint Venture Strategies and Corporate Innovation</i> (1982)	5	27
J. M. Geringer	<i>Joint Venture Partner Selection: Strategies for Developed Countries</i> (1988)	5	59
K. J. Hladik	<i>International Joint Ventures: An Economic Analysis of U.S.-Foreign Business Partnerships</i> (1985)	5	92
D. C. Mowery	<i>International Collaborative Ventures in U.S. Manufacturing</i> (1988)	5	103
M. M. Pearson	<i>Joint Ventures in the People's Republic of China: The Control of Foreign Direct Investment Under Socialism</i> (1991)	5	78
Alliances			
Author(s)/Editor(s)	Title (Year of Publication)	Times Cited	Times Cited in SSCI
F. J. Contractor & P. Lorange (Eds.)	<i>Cooperative Strategies in International Business</i> (1988)	51	457
P. W. Beamish & J. P. Killing (Eds.)	<i>Cooperative Strategies</i> (1997, 3 volumes)	21	51
J. Bleeke & D. Ernst	<i>Collaborating to Compete: Using Strategic Alliances and Acquisitions in the Global Marketplace</i> (1993)	8	91

¹Times cited refers to the number of articles included in our review (n = 86) that cite the book. Where multiple chapters within an edited book have been cited by an article, only the first is counted.

²Times cited in SSCI refers to the number of times a book is cited by all works indexed in the SSCI database. While this information can be obtained by searching on the author's name in a cited reference search, these book titles are not returned when a general search term, such as "joint venture," is used. After consulting with representatives from Thomson Reuters, it was determined that books are not as extensively indexed in the database as journal articles. Hence, while we were able to find citation counts for these specific books, there may be other books that have been influential in JV management and research.

design, management, and ultimately performance of their JVs.

Performance

JV performance is typically believed to be an outcome of the strategies implemented by managers and employees. However, performance remains an issue of importance throughout the partnering process, beginning with the strategic rationale for entering into a JV. One of the primary questions to be answered is what constitutes an appropriate measure of JV performance (Griffith, Cavusgil, & Xu, 2008). Financial indicators

such as profitability and stock market returns are common measures yet are less frequently used in scholarly research because (a) they are often not available in public databases, especially in the case of IJVs, (b) JVs usually do not issue or trade stock on the market, and (c) financial measures are sometimes not applicable given the objectives of a JV.

Measures that are commonly used in JV research can be divided into subjective, meaning they are the opinions of JV managers, and objective, meaning they can be obtained from external sources such as company financial statements or

Table 2
Partial Review Summary (10 most cited of the 86 articles reviewed)

Study	Design	Scope	Firm Type	Performance	Antecedents	Sample Size	Theory	Key Findings
Mowery, Oxley, & Silverman (1996)	Cross-sectional	International; at least one partner in U.S.	Various; not specified	Change in technological capabilities (patent)	JV as alliance type	132 JVs (total 792 alliances)	RBV, KBV, learning	Equity JVs are more effective for knowledge transfer.
Inkpen & Beamish (1997)	Theory	International	NA	(In)stability	Knowledge acquisition and access	NA	Bargaining power, resource dependence	Increase in local knowledge increases a foreign partner's bargaining power, which may in turn lead to greater JV instability.
Aitken & Harrison (1999)	Panel	Single country and international	ISIC 3111–3999	Plant productivity	Foreign equity	43,010	Industrial organization	Foreign equity participation increases plant productivity but has a negative effect on domestic plant productivity.
Barkema, Bell, & Pennings (1996)	Survival analysis	International; all entries by Dutch companies	Large nonfinancial firms	Longevity	Cultural barriers, prior entry	225 entries, 13 Dutch firms	Behavioral theory of the firm	"Cultural barriers punctuate an organization's learning" (p. 151). Prior entry and lower cultural barriers improve survival.
Yan & Gray (1994)	Case study	U.S.-PRC JVs	Even/near-even JVs; various industries	Achievement of both parties' objectives	Ownership structure, trust, goals	4 cases	Game theory	Bargaining power affects ownership structure (not the other way around), and this in turn affects performance, depending on the level of trust and presence of shared goals.
Geringer & Hebert (1991)	Cross-sectional	U.S.- or Canadian-based	Manufacturing IJV	Subjective (5-point satisfaction scale) IJV survival, stability, and duration	NA	69 U.S., 89 Canada	None	Objective measures tend to correlate with subjective measures, but not substantially so in the case of JV stability.
Kogut (1989)	Survival analysis	Single country and international	Manufacturing	Survival	Ties, relationship longevity	92	Cooperation/competition (e.g., mutual forbearance)	Longer term relationships and larger numbers of ties (reciprocity) lead to fewer dissolutions. However, these effects are offset in highly competitive industries.
Geringer & Hebert (1989)	Review	International	Not specified	Various	Control (i.e., structure)	NA	TCE, strategy-structure paradigm	The fit between strategy and focus-extended mechanisms of control affects performance.
Anand & Khanna (2000)	Event study	Single country and international	At least one public U.S. firm	Abnormal stock market returns of U.S. parent	JV experience, JV type	870 JVs, 1,106 licenses	Organizational learning	More learning occurs in JVs than through licensing. This is especially true for marketing JVs.
Park & Ungson (1997)	Event study	Single country and international	U.S.-Japan, U.S.-U.S.	JV longevity	Partner nationality, organizational similarity, and motivation	186 JVs	Mainly TCE assumptions	U.S.-Japanese JVs last longer than domestic U.S. ventures. Rivalry and threat of opportunism reduce longevity of ventures.

Table 3
JV Management Issues Represented in Current Research

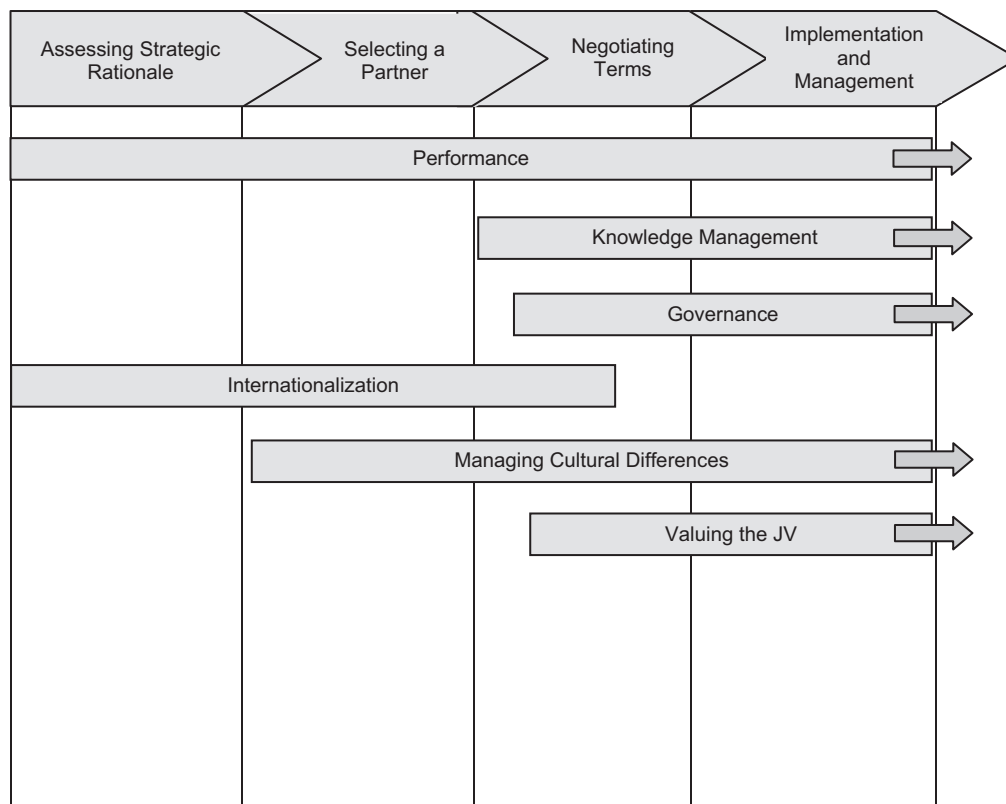
JV Management Issue	Description	Articles
Performance	Identification and measurement of JV performance and the interrelatedness of measures	6
Knowledge management	Organizational learning, knowledge sourcing, capability development, knowledge spillovers, intellectual capital protection, others	26
Internationalization	Performance implications of location selection, international partner selection, industry selection, mode and timing of foreign market entry, parent firm international experience	11
Cultural differences	The impact of national and organizational cultural differences on performance	7
Governance and control	Performance implications of equity ownership structure, bargaining power, and social and financial controls in JVs	28
Valuing a JV	Factors influencing the market value of a JV or parent firm gaining access to resources through a JV or the acquisition of a JV	9

third-party surveys. Subjective measures are typically obtained through surveys of managers' satisfaction with financial and/or operational performance, the extent to which JV goals are achieved, knowledge transfer, and/or capability development. Common objective measures include *profitability*, assessed by margins, return on assets, etc.; *longevity*, assessed by the age of the joint venture; *survival*, referring to whether the JV remains an

ongoing concern or terminates; and *stability*², assessed by changes in ownership (Geringer & Herbert, 1991). Other objective measures range from patent counts to changes in the market value of firms creating or acquiring JVs.

² Some authors use the term *stability* in a manner consistent with the definition of *survival* that we use here. In discussing the results of those articles, we use the term *survival* to avoid confusion.

Figure 1
Importance of Managerial Issues During the JV Partnering Process



Anderson (1990) argued that subjective measures are often more appropriate indicators of JV performance because goals vary and cannot always be measured. If the purpose of an IJV is to access local market knowledge or technology, for example, the best indicator of success is probably the satisfaction of those who most closely manage it. This also represents a situation in which partners to the JV may not be satisfied by achieving the same objectives. With the exception of JV stability, however, subjective and objective measures tend to be somewhat related (Geringer & Hebert, 1991; Glaister & Buckley, 1998). Stability is more difficult to interpret as there are multiple definitions used, including termination, changes in ownership structure, reorganization, and renegotiation of contracts (Yan & Zeng, 1999). Restructuring of a JV often indicates that it isn't performing as planned. However, it may also simply indicate strategic adaptation to changing economic and competitive conditions (Gomes-Casseres, 1987). Termination of a JV may not even be an indicator of failure if one or more partners willingly sell their equity stakes to another partner or external firm (Hennert, Kim, & Zeng, 1998). Also, organizations engaging in mergers and acquisitions may spin off JVs that don't fit the strategy of the new parent.

Both JV and parent firm managers' assessment of performance is typically related to whether strategic objectives are achieved. To that end, it is often more useful to delineate measures of performance according to an assessment of process and outcomes (Yan & Zeng, 1999). Process performance considers how well JV and parent firm managers deal with issues as they arise, while outcome performance refers to indicators such as profitability. Ariño (2003) found that process and outcome are very different measures and thus should be considered separately. A JV may not, for example, be in existence long enough to achieve the strategic objectives of its parent firms and yet managers might still be satisfied with its process performance. If parent firm managers are not satisfied with their JV's performance, this could indicate a failure of the parent firms to agree on strategic objectives or how to assess performance on an ongoing basis, as well as deal with any other

implications that were not thoroughly considered before creating the JV.

The decisions managers make regarding performance proceed as follows. First, managers must consider whether a JV is their best option. For a JV to be the right choice, each partner must be willing to provide the other with access to the resources needed to fulfill its objectives. If either firm is unwilling to agree to these conditions, it is probably best if it does not even begin seeking a JV partner. In the initial stages of assessing potential partners, each should fully disclose its goals. In this stage there is a need to determine if there is enough congruence among the partners' differing objectives. Firms do not necessarily need to have identical objectives in order to form a JV, but each must be willing to provide access to the resources necessary for its partner to achieve its goals.

The next step is for partners to agree on how JV performance will be assessed. This should be explicitly stated in the JV contract. If disagreements arise between the partners, either during the negotiations or after implementation, it is recommended that the default decision rule should be a consideration of what is best for the JV (Beamish, 2008). When one parent attempts to maximize its own gain without considering the interests of the other, the long-term prospects of a JV are poor.

In summary, there are numerous possible measures of performance, and each varies in relevance depending on the intentions of a JV's parent firms. Managers should consider carefully how they will assess performance before attempting negotiation with potential partners. Failure to do so may result in substantial conflict among partners. Also, failure to consider how performance will be assessed may result in contracts that are impossible to enforce because no measurable indicator was specified. Researchers should consider using multiple measures of performance in their research to reflect its many dimensions³ (Hill & Hellriegel, 1994).

³ Another potentially more salient implication for researchers is that purposive sampling may be required depending on the performance measure of interest in a particular study. Results of studies that do not consider the applicability of the performance measure employed for the firms sampled may be misleading.

Knowledge Management

Much of the research we reviewed examines the importance of effectively managing an organization's knowledge and capabilities, as these are sometimes its most valuable source of competitive advantage. Here, knowledge may refer to either intellectual capital such as patents or other sources of value such as customer or market knowledge. Examples of capabilities include production processes or R&D expertise. JVs are often used to access new knowledge, or to profit from existing knowledge (Inkpen & Crossan, 1995; Shenkar & Li, 1999). Knowledge tends to flow more freely and capabilities are developed more easily in IJVs than in wholly owned subsidiaries (WOSs) (Luo, 2002a). For IJVs, access to local knowledge improves JV performance (Beamish & Banks, 1987; Inkpen & Crossan, 1995; Lyles & Salk, 1996; Makino & Delios, 1996), and in the long run, learning enhances a firm's competitive advantage (Inkpen & Dinur, 1998).

Multinational enterprises (MNEs) partner with local firms to access market and business practice expertise and to develop local management talent (Beamish, 1987). To achieve this, foreign firms must often transfer knowledge to JVs in order to serve new markets. Fahy et al. (2000), however, found that WOSs and IJVs established in some central European countries were equally effective when it came to transferring marketing capabilities to the local subsidiary. Hence, there are apparently other factors that affect organizational learning in IJVs. The subsidiary's desire to receive the capabilities, and the willingness of the parent to provide them, may have outweighed any advantages accruing from ownership structure. This is consistent with Gupta and Govindarajan (2000), who found that motivation to learn is one of the most important predictors of learning.

The two most cited articles we reviewed examined knowledge transfer and learning in IJVs (Inkpen & Beamish, 1997; Mowery, Oxley & Silverman, 1996). Mowery et al. (1996) found that IJVs are more effective than nonequity alliances at transferring technological capabilities. This is likely because it is much easier to transfer person-

nel directly to a JV than it is to transfer these employees' tacit capabilities from one organization to another (Kogut, 1988). Likewise, Anand and Khanna (2000) found that more learning occurs in JVs than in licensing arrangements. We believe, however, that the effectiveness of JVs for knowledge transfer may have less to do with level of equity ownership and more to do with the contribution of human talent to the JV.

While knowledge transfer is often necessary for the success of a JV, firms may be concerned with protecting their intellectual property and trade secrets. Nicholls-Nixon and Woo (2003) found that firms using JVs in new and emerging business segments, where the underlying technologies are constantly changing, actually produce fewer patents. As they explained, it may be that firms are more inclined to use JVs for riskier R&D where the outcomes are more uncertain. However, it may also be because it takes longer for trust to develop to the point where knowledge is freely contributed to the JV. This may also explain why the most recent advances in technology are more commonly accessed through nonequity agreements with universities, research consortia, and licensing (Tidd & Trewhella, 1997).

Inkpen and Beamish (1997) proposed that bargaining power shifts when valuable knowledge from one IJV partner is transferred to the other. This will be especially true where partners try to outpace each other's learning so as to gain a competitive advantage over each other (Hamel, 1991; Yan, 1998). In turn, this can reduce cooperation among partners, making the JV less stable. Given that learning in JVs takes time and involves adaptation as organizations learn from prior experiences (Van de Ven & Polley, 1992), instability is not desirable and may even lead to dissolution. Whether JV instability results depends on the type of knowledge and how it is obtained, as demonstrated by the success of NUMMI, a JV formed between GM and Toyota (Adler & Cole, 1993). Also, while Blomström and Sjöholm (1999) found that the successful transfer of parent firm knowledge to the JV improves performance, Djankov and Hoekman (2000) found that the knowledge transfer would not necessarily spill beyond the JV.

Some types of knowledge are more valuable

than others, depending on the industrial sectors and activities a country specializes in. Chinese firms, for example, seek to access the technological and marketing capabilities of foreign partners more often than they seek management skills (Shenkar & Li, 1999). Acquisition of these skills has helped Chinese firms develop their manufacturing capabilities and gain access to new markets. Luo (1997) found that Chinese firms seek partners with market experience and a superior market position when their goal is market expansion. Firms seeking stability and profitability, however, may prefer partners with more international experience and market power.

As knowledge is transferred among partners, their capabilities may become more similar. However, the JV will perform better if each partner focuses on enhancing its own capabilities in order to complement those of its partner (Nakamura, Shaver, & Yeung, 1996). It is therefore important for firms to choose partners with complementary resources, capabilities, and knowledge. Trust between partners is also an important precondition to learning as it enables knowledge sharing. Some firms may be reluctant to share knowledge given its strategic importance. Others involved in IJVs may be constrained by parent firm managers' preferences for clearly delineated roles, as opposed to integration and coordination (Child & Markoczy, 1993). Trust alone will not always ensure that learning occurs. Lane, Salk, and Lyles (2001) found that trust and support from foreign partners did not lead to learning in Hungarian IJVs, although it did lead to improved performance. In addition to trust, knowledge acquisition skills must be developed, and this requires time and the active involvement of managers (Tsang, 2002). Forming strong social ties between managers and developing shared values also aids partners in learning (Dhanaraj, Lyles, Steensma, & Tihanyi, 2004; Luo, 2001). This implies that foreign partner visits and expatriate staffing may create greater learning opportunities.

A clear managerial implication of this stream of research is that while JVs may allow partners access to each other's knowledge, they should not necessarily attempt to acquire it outright. Unless

the partner has agreed to transfer this knowledge, attempts to acquire it will likely lead to conflict, which diminishes the long-term viability of the JV. Therefore, when considering the strategic rationale for a JV, managers should take into consideration whether they want to acquire new knowledge or whether they simply need access in order to achieve their objectives. If knowledge acquisition is desired, a JV is not likely a stable option.

Another issue firms should consider is actively collecting and codifying knowledge concerning the JV management process itself. Firms may be involved in numerous JVs, yet those managing them may not be aware of the corporate experience with this mode. Firms that actively oversee the JV management process may be able to develop core competencies by collecting, codifying, and disseminating their best practices in JV management throughout the organization. Pharmaceutical giant Eli Lilly, for example, has developed a highly sophisticated proprietary framework that covers every aspect of its alliance formation process (Dhanaraj, Lyles, & Lai, 2007). Such expertise is a major contributor to Lilly's competitive advantage.

Effective knowledge management is clearly essential for continued business success. IJVs have long been primary vehicles for learning and knowledge transfer, and this trend will likely continue. As managing knowledge in JVs can be more challenging than in WOSs, partners must carefully plan the transfer of their firm's knowledge, where to invest in order to gain access to relevant knowledge, and how to govern their knowledge resources.

Governance and Control

Managing JVs can be demanding if partners have different objectives (Pearce, 1997; Shenkar, 1990). Governance decisions become particularly relevant as the terms of a JV are negotiated. Decisions made during this period are critical, as it is usually more difficult to make major governance changes after the JV has been implemented. Partners have a number of issues to consider, including the level of equity ownership of each and the division of management responsibility. The stud-

ies we discuss here examined the relationship between the division of equity ownership among partners and JV performance.

Foreign participation generally has a positive impact on JV performance in emerging economies, resulting from the transfer of production and process knowledge from the foreign parent. Aitken and Harrison (1999) found that foreign equity participation in Venezuelan JVs increased plant productivity. Several studies examined the relationship between division of equity among partners and JV performance, and the results appear to be, at least in part, dependent on the context. Steensma and Lyles' (2000) study of Hungarian-based small and medium-size enterprises (SMEs) with Western partners, for example, found that imbalance in ownership reduces the likelihood of survival. Lee and Beamish (1995), however, found that performance was improved when JV partners from a newly industrialized country held a higher equity stake in JVs formed in other emerging economies. The size of equity stake firms prefer depends, among other things, on where it is established. U.S. partners of China-based JVs tended to prefer a large ownership stake (Osland & Cavusgil, 1996), although this may reflect a preference for establishing a WOS.

Salant and Shaffer (1998) proposed that firms achieve balance in governance by holding equity stakes that maximize the total return to both partners combined, rather than the individual return for one partner. The balance of ownership that leads to improved performance likely depends on the resources each partner contributes and the resources of the nation in which the venture is established. In other words, the criticality of the resources committed to a JV affords a parent some control independent of its equity share. In addition, equity ownership levels may actually be related to the bargaining power afforded to partners by the resources they possess (Mjoen & Tallman, 1997). However, when a firm holds a very small equity stake in an IJV, typically less than 20%, this may signal lack of commitment and therefore increase the probability of failure (Dhanaraj & Beamish, 2004). Intervention by local governments can also influence the bargaining power of a firm. Brouters and Bamossy (1997) found that

intervention in negotiations by transition economy governments shifts the balance of power in favor of the local partner but not necessarily to the benefit of the JV.

The link between equity ownership and performance is not necessarily direct. Das and Teng (1996), for example, proposed that JVs should be used primarily to enhance cooperation among partners, as opposed to achieving separate strategic goals. Goals are important for JVs, but achieving them is facilitated by effective cooperation. Both Lockheed Martin and Boeing, for example, could have supplied space launch services on their own. But by forming United Launch Alliance (ULA) to share the costs of producing expensive launch sites and technology, they were able to lower their prices and therefore compete more effectively. Therefore, forming and maintaining trust between partners is crucial to effectively governing a JV. In part, this is because governance remains an important ongoing activity for managers involving learning and sometimes even renegotiation (Ariño & de la Torre, 1998).

A comprehensive JV contract and cooperative relationship contributes substantially to the formation of trust between JV partners (Luo, 2002b). Trust, in turn, enhances satisfaction and commitment to the JV (Cullen, Johnson, & Sakano, 1995). Yan and Gray (1994, 2001) noted that the quality of the working relationship between partners directly affects the achievement of each partner's goals. Therefore, opportunistic behavior by JV partners will likely be detrimental (Kogut, 1989; Luo, 2002b). Park and Russo (1996) found that external market competition between partners reduces the likelihood that a JV will survive. Madhok (2006) suggested that trust is so crucial for JV success that knowledge concerning how it is established and maintained is of central importance to JV managers.

Partners must also decide whether one partner will dominate the JV by taking all management responsibilities or whether control will be shared. Like equity level, making this decision requires consideration of context. Beamish (1985) found that shared control is preferred to dominant control in IJVs involving less developed countries (LDCs), and later Beamish and Choi (2004) em-

phasized splitting control by functional expertise. Split control differs from shared control in that partners take responsibility for managing those functions in which they excel as opposed to both partners sharing responsibility for all functions. Note that shared control is conceptually similar to the matrix organizational structure. The challenge of shared control is that it increases the potential for conflict between the parent companies and the JV management. Luo, Shenkar, and Nyaw (2001) found evidence that U.S. partners prefer more dominant overall control of Chinese JVs, while Chinese partners instead prefer to have specific control over functional areas because they are more interested in technology transfer than overall control. Ding (1997) further found that dominant foreign control improved performance of U.S.-China JVs.

In IJVs involving developed countries, Killing (1982) suggested that shared control is actually detrimental to performance and should be used only when the resources and capabilities of both parents are critical to the success of the venture. Yet this raises the fundamental question: Why would one firm voluntarily enter into a JV if it did not want the partner to provide and manage the resources and capabilities it originally sought? While the costs of coordination and control with any partner are by definition greater than would exist in a WOS, the benefits of having access to the newly contributed resources and capabilities will typically exceed such costs in a successful JV. If the costs are expected to exceed the benefits, a JV should not be formed.

Additional considerations regarding JV governance include the number of partners involved in the JV and whether the JV is between partners at the same or different stages of the value chain. Makino and Beamish (1998) found that two-partner IJVs are likely to outperform those with three or more partners. Dussauge and Garrette (1995) reported that partnerships between firms at different stages of the value chain that start out as nonequity alliances perform better than those established as JVs. As these partnerships are typically established to create new technology, retaining separate ownership may give suppliers adequate motivation to compete for the business

of the buyer in order to reap the benefits when the technology is commercialized.

In summary, it is mainly the value of the resources each partner contributes to a JV that determines the level of bargaining power, and hence control, it possesses. In determining the level of equity contributed to the JV, partners must take into consideration a number of factors. First, any foreign ownership restrictions must be respected. In China, for example, it is often advisable but no longer legally necessary to find a local partner to do business with, at least in most sectors. Second, firms in some economies may be less able to contribute an equivalent amount of equity, and so the foreign partner may need to increase its stake. Survival of JVs also depends on the level of commitment of the foreign parent, and this may be signaled by going beyond a nominal equity investment. To achieve the full benefit of forming a JV, management control should usually be split according to the partners' functional expertise. Finally and perhaps most important, establishing and maintaining trust between the parents is crucial. Where conflict between partners arises, the best advice is for each to consider what is best for the JV rather than for one partner versus the other.

Internationalization

JVs are a mode of international expansion that provides foreign partners with access to local knowledge concerning markets and business practices while allowing them to retain some operational and strategic control. Nearly all the articles we reviewed focused on or included international JVs. This demonstrates the prevalence and importance of JVs in the global economy. A few of the articles in our sample focused specifically on the performance implications of firm internationalization through JVs.

When making foreign investment decisions, managers choose from a variety of options, including acquisition, establishing a new WOS or a new IJV, or taking a partial ownership stake in an existing foreign firm. This decision may be, in part, influenced by the resources of the firm (Hel-fat & Lieberman, 2002). Firms may form IJVs to overcome barriers to entry related to scale or scope

or to overcome their inexperience in operating in international markets. From a host country's perspective, local firms often welcome the technological capabilities and new market opportunities made available by foreign partners.

The appropriateness of each mode of internationalization depends on various factors, including the foreign firm's host country knowledge and its managerial and financial resources. Where a firm lacks local knowledge the probability of success may be enhanced by entering the market with a partner. Local partners can provide access to downstream resources, such as marketing and sales capabilities, which the foreign partner may lack (Anand & Delios, 1997). However, if a firm does not require access to additional resources JVs may not be the best mode of market entry, considering the additional management challenges they present. Woodcock et al. (1994) found that new wholly owned Japanese subsidiaries established in North America outperformed new JVs, which in turn outperformed subsidiaries established by acquisition. This suggests that most Japanese parent firms had accumulated adequate capabilities and knowledge to serve the local market needs before entering. In China, on the other hand, manufacturing JVs originally outperformed WOSs and nonequity alliances (Pan & Chi, 1999; Pan, Li & Tse, 1999), suggesting that access to local knowledge was critical for success. Finally, Barkema et al. (1997) found that firms with more experience operating JVs in their home country were able to establish IJVs with higher survival rates. This is likely because experience enhances JV management competencies, especially in the area of maintaining effective working relationships.

Emerging economies such as China continue to attract substantial foreign direct investment. Government policy originally stipulated that all foreign investments required a local partner, but this did not prevent numerous new ventures from being established. Early investors were satisfied with the performance of their JVs in China despite the ownership restrictions (Davidson, 1987). Early entrants who made large technological transfers to China-based IJVs tended to outperform latecomers (Isobe, Makino, & Montgomery, 2000; Pan, Li, & Tse, 1999).

Large MNEs from the U.S. and other nations have a substantial portfolio of foreign investments. However, SMEs headquartered in countries with smaller home markets must also respond to the pressure of international competition by increasingly investing abroad. Lu and Beamish (2001) found that SMEs with several foreign investments performed better than those that were less internationalized. Like larger firms, the more experience foreign SME partners have doing business in a particular country, the better their JV's performance in that country (Delios & Beamish, 2001). Finally, Luo (2002c) found that JVs established in the same industrial sector as their parents performed better than those in unrelated sectors. This is likely because diversifying into unrelated sectors through JV requires parents to develop new competencies rather than exploiting existing ones.

In summary, IJVs are an important component of a firm's global strategy and can be a source of competitive advantage. JVs aid parent firms in reducing the risk of their investments by partnering with firms that have more local knowledge and international experience (Lu & Beamish, 2001). It is important that managers consider the following factors when selecting an international partner: (a) Does the potential partner have the knowledge and experience needed to successfully conduct business, and are they willing to provide access to it?, (b) What are the candidate's goals, and are we willing to assist in achieving them?, and (c) Is the JV likely to be important for the local partner? If the answer to any of these questions is no, the foreign partner should consider other local firms. Furthermore, the foreign parent should determine whether the local firm has continued to develop its capabilities over time. In the following section, we address some of the challenges of managing IJVs that result from national cultural differences.

Cultural Differences

Managing IJVs may be complicated by cultural differences that make communication, decision making, and managing personnel more challenging (Child & Markoczy, 1993). JV managers must learn to conduct business in a country that is

foreign to at least one of the partners, and also how to work with a local partner (Barkema, Bell, & Pennings, 1996). Research on the impact of cultural differences on IJV performance has produced mixed results. While Barkema, Bell, and Pennings (1996), for example, found that cultural differences could affect the long-term survival of JVs, Park and Ungson (1997) found that U.S.-Japanese JVs actually survived longer than domestic U.S. JVs. Conversely, Hu and Chen (1996) found that in a sample of Chinese JVs, cultural differences appear to have no impact on performance whatsoever.

Inconsistencies in the results of cultural distance studies may indicate the need for a closer examination of how different cultural traits interact. Some of the research on cultural differences we reviewed is inspired by Hofstede (1980, 1991), who identified a number of traits that relate to individuals' work values, including uncertainty avoidance, long-term orientation, and individualism. Uncertainty avoidance refers to an individual's comfort level in ambiguous situations; individuals with a long-term orientation tend to take implications for the future into consideration when making decisions and acting in the present. Individualism refers to the extent to which individuals prefer to do things on their own and to have their achievements recognized and rewarded. Barkema and Vermeulen (1997) found that when JV partners are based in countries with substantial differences in uncertainty avoidance and long-term orientation, the chance that the JV will survive is diminished. Differences in individualism, however, have been shown to improve JV profitability and productivity (Li, Lam, & Qian, 2001).

Managers need to be aware of cultural differences when selecting a JV partner and negotiating terms, and in ongoing management. A partner with a low tolerance for uncertainty will likely want the other partner to signal its commitment through actions such as increasing its equity stake and transferring new technology to the JV. A large difference in long-term orientation can be a problem, as emphasis on short-term objectives by one partner may signal a lack of long-term commitment. Here the impetus is similar to agreeing on goals: Each partner has to decide what is most important for it and whether it is willing to allow the other partner to achieve its

own goals. In the case of individualism, a difference may be desirable, as conflict is more likely between similarly individualistic partners. Here, JV stability and performance may be improved by clearly delineating management responsibilities and deferring to a set of previously agreed-upon rules if conflict arises. Finally, issues related to cultural differences may be mitigated by training expatriate managers adequately before sending them on assignment to a foreign JV.

Organizational cultural differences may pose another challenge for managing JVs. Pothukuchi et al. (2002), for example, found that JVs formed between Indian and foreign partners were affected more by differences in organizational culture than by differences in national culture. Likewise, Fey and Beamish (2001) found that JVs with similar organizational cultures had a higher probability of success. While these differences would also affect a merger or acquisition, they likely affect a JV more because the two parent firms retain their separate management. Hence, when selecting a JV partner, managers of each parent firm should observe the internal environment of the other parent firm closely to assess the fit with their own. If it is not a close match, this should be addressed before proceeding with further negotiations.

Valuing a JV

When considering the formation of a JV, partners are often mindful of the potential impact on the market valuation of their own firm, if publicly traded. This valuation will be, in part, affected by the amount of information shareholders have concerning the pending JV, the capabilities and resources of the potential partner, and the governance structure. The value of a proposed JV is often difficult to assess by shareholders, especially when it is more difficult to directly observe its performance. Hence, some researchers have studied the effect of JV announcements and acquisitions on the market value of the parent firm(s) instead. Managers of partner firms expect that investing financial capital and other resources in a JV will allow them to create more economic value than they could with a go-it-alone strategy, and research largely suggests this to be the case. Koh and Venkatraman (1991) found, for example, that JV announce-

ments lead to larger gains in the value of the parent firms than do technology exchanges, licensing, or marketing and supply agreements.

Value is created in JVs by combining two or more parent firms' complementary assets. The intended result is that more value is created when the resources are combined than when they are separated or accessed through another form of contractual agreement (McConnell & Nantell, 1985; Reuer & Koza, 2000). Following the announcement of the formation of a JV, any substantial changes in the value of the parent firms gives an indication of the market's assessment of the JV. Factors that are found to positively influence a parent firm's market value after a JV announcement include the extent to which the business line of the JV is related to that of the parent firm, pursuit of research and development (R&D), and higher equity ownership (Merchant & Schendel, 2000; Park & Kim, 1997).

Another way to value JVs is through changes in the market value of a firm after it acquires the equity held in a JV by its partners. Reuer (2001), for example, found that the market reacts positively when U.S. firms acquire JVs with heavy investment in R&D. However, the market reacts negatively when U.S. firms acquire IJVs because of the perception that national cultural and political differences could make these investments more difficult to manage. Reuer and Miller (1997) also found that JVs with higher insider ownership result in larger stock gains for the acquiring firm. This likely reflects shareholder beliefs that insider equity holders have better information about the true value of the JV. In a sense, shareholders may feel that due diligence was more reliably carried out prior to the acquisition if inside owners are involved.

JVs can be considered investments in which loss is constrained to a fixed amount and that have the potential to yield large returns. As with financial options with high potential upside, Chi (2000) proposed that partners' assessment of the growth potential of a JV is positively related to its value. Reuer and Leiblein (2000), however, found that increasing a firm's global reach with IJVs does not reduce market value loss. This suggests that, while JV valuation is initially related to growth potential, market risk is not necessarily mitigated

through an internationally diverse portfolio of JVs. This also implies that there is likely no alternative to active management when it comes to enhancing JV performance.

Research suggests that JVs will be most highly valued when they are pursued to increase the returns from new technology and when parents hold a meaningful equity stake. As discussed earlier, large equity stakes do not necessarily lead to better JV performance. Hence, managers should be diligent in communicating their intentions to shareholders regarding how the JV will be used to create value. While shareholders seem to react negatively to the formation of JVs with international partners, this may simply reflect shareholders' lack of knowledge concerning the foreign partner or market, and the empirically unfounded reputation that IJVs have for higher failure rates than WOSs. The key to mitigating shareholder uncertainty is communication. Treating JVs as options may be interpreted as lack of commitment on the part of one or more of the partners and could lead to reduced goodwill from both current and potential future partners.

Summary and Extension of JV Management Knowledge

Figure 2 summarizes the major questions managers address at each phase of designing, implementing, and managing a JV. The research we reviewed and some of the inferences we have drawn give guidance in answering these questions, although the latter are subject to further empirical verification. There is still substantial opportunity for researchers to examine the important decisions made during the initial phases of JV formation. In this section, we outline some areas of research that would benefit from more attention in the future. These include the value of case studies for gaining deeper insights into JV management processes; JVs between nontraditional partners; the role of managerial characteristics, attitudes, and experience in entry mode selection and effective JV management; leveraging new capabilities developed in JVs; the potential overemphasis of majority ownership; and the influence of national economic development on effective JV management.

Figure 2
Decisions Made at Each Phase of the JV Partnering Process

Assessing Strategic Rationale	Selecting a Partner	Negotiating Terms	Implementation and Management
<ul style="list-style-type: none"> ❖ What are our objectives? ❖ What sort of resources do we need to achieve our objectives? ❖ Do we want to access or acquire these resources? ❖ Are we in this for the long or short term? ❖ Is a JV our best option? 	<ul style="list-style-type: none"> ❖ Does the partner have the resources we need? ❖ Will they provide us access to the resources we need? ❖ What are their goals? ❖ Are their goals congruent with ours? ❖ What are their motives? ❖ Are we compatible? ❖ Do they have experience in managing JVs? 	<ul style="list-style-type: none"> ❖ Is our management in full support of the JV? ❖ What is best for the JV? ❖ What is the relative importance of each of our requirements? ❖ What are the typical practices in the industry/country in which the JV is located? ❖ How should the performance of the JV be assessed? ❖ Is each party aware of the other's assumptions? ❖ What level of equity is appropriate? ❖ Who will be responsible for managing the JV? ❖ Are there any unresolved issues? 	<ul style="list-style-type: none"> ❖ How do we handle disputes that may arise? ❖ Are we learning from our JV? ❖ How do we renegotiate terms if one or more partners think it necessary? ❖ Are we capturing and codifying any JV management capabilities? ❖ If the JV does not perform as anticipated, how do we turn it around? ❖ Under what conditions should we terminate the JV?

Sources: Four phases adapted from Kelly and Schaan (2005). Decisions adapted from Beamish (2008).

Currently, most studies rely on secondary data sources and surveys rather than direct contact with JV and parent firm managers, which has a few limitations. First, research that uses secondary data usually does not result in the depth of insight made possible by case studies. Consider Yan and Gray (1994), in which four JVs were examined in depth during the formation process. In this study, which is the fifth most cited in our sample, the scholars found that bargaining power affects ownership structure, a result that is counter to a commonly held assumption that ownership structure necessarily affects bargaining power. Studies using secondary data likely would not have uncovered this finding, as data pertaining to bargaining power and ownership structure would have been collected at the same time. In fact, many researchers may be inclined to use the terms *ownership structure* and *bargaining power* interchangeably, which Yan and Gray (1994) showed is not accurate.

Another limitation of secondary data studies is the difficulty in differentiating between equity and nonequity strategic alliances. Managers of short-term nonequity alliances face substantially

different issues than managers of long-term equity JVs. In JVs with a long-term focus, relationship management, including building and maintaining trust and mutual understanding, is significantly more important than in short-term alliances. Separating alliance types when studying collaborative strategies, therefore, is important for drawing reliable implications for JV management. What works in the case of nonequity strategic alliances may not in JVs. Often, this distinction cannot be made when using secondary data sources.

Finally, case studies allow researchers to track the development of JVs over time, which allows greater insight into how the dynamic interaction among partners, stakeholders, and other environmental influences affects the partnering process. They clarify the challenges faced by managers in designing a JV, pitfalls to be avoided, and management techniques for resolving those challenges. Consider the case of an IJV formed between a diversified Malaysian company and a Finnish telecommunications company. The Malaysians wanted to access the Finnish digital switching system knowledge to fulfill a contract with Malaysia's national telecommunications

agency. While the Malaysian partner had prior experience with IJVs, it was still having difficulty finalizing the deal after 20 meetings (Beamish & Ainuddin, 2006). One of the main stumbling blocks, it appeared, was the lack of cultural awareness on the part of Malaysian managers, who mistakenly assumed that Finnish culture was similar to that of other Western countries. Other issues included lack of preparation on the part of the Finns, who seemed unaware of standard industry practices in Malaysia, and on the part of the Malaysians, who were unaware of standard Finnish business practices. In-depth studies allow scholars to gain deeper insights such as these, and as a result, to provide advice to other firms considering, or in the process of forming, a JV. Case studies can also be of substantial value for firms involved in JVs as they provide an opportunity to gain deeper insights into their own JV management processes and their effectiveness.

All of the studies in our sample considered JVs formed between traditional business partners. While this reflects the majority of JVs, businesses are increasingly allying with nontraditional partners such as NGOs and universities. Partnerships with NGOs help businesses reach some of the least-developed nations while providing tangible economic benefits to their constituents. Likewise, partnerships with universities provide access to, and help fund, new technological developments. JVs between nontraditional partners may face increased instability given that the goals of the parents differ in fundamental ways. Yet many of the implications of JV research should still hold.

It is also important to realize that much, although not all, of the international research currently published is implicitly biased toward the concerns of the foreign JV partner. This bias typically results from the availability of data and research sites. Not taking into account the local partner's insight can limit a full understanding of JV management processes, and so more research from both partners' perspectives would be beneficial.

Most JV governance research has focused on high-level factors such as ownership structure and division of control. Research on the characteristics of effective JV managers could lead to valu-

able insights. It may be that the attitudes necessary for managing a JV are different than for managing a WOS. JV managers may, for example, need to be more open-minded and flexible and have less of a need for control. Research in this area could provide valuable insight for the selection, retention, and development of top talent for JVs. This line of research could also provide additional insights into how cultural differences affect governance and entry mode choices. It could potentially provide answers about why U.S. firms seem to prefer to invest in China with WOSs while Japanese firms are entirely willing to use JVs.

Another factor that may contribute to managers' attitudes toward forming JVs is their prior experiences. While experience is typically defined in current research as the number and longevity of JVs owned by a firm, a closer examination may reveal that managers' specific prior experiences affect their willingness to form new JVs. Research along this line could contribute to our understanding of what manager-specific factors influence entry mode, in addition to the characteristics of the firm and the country in which investment is made.

If the resources contributed by two or more JV partners are more valuable when combined than when separate, it stands to reason that there is a potential for substantial capability development. This creates two potential lines of inquiry concerning knowledge and capability management in JVs. The first deals with how newly developed knowledge and capabilities may be leveraged in JVs and potentially by the parent firms. The second deals with how to manage a JV that becomes more adept at creating value than its parent firms.

JV governance research often stresses the importance of majority ownership and underemphasizes the potential value of 50-50 JVs. If the bargaining power of a JV partner is largely linked to the value of the resources it provides, and trust is crucial in maintaining a stable JV, then it stands to reason that a 50-50 JV could be viable. Committing substantial investment to gain a controlling 51% share in the equity may simply not be worthwhile. The long-term performance implications of majority-ownership versus equal-equity

JV investment need to be studied in order to determine whether making this additional investment is justifiable.

Finally, much of the recent IJV research has been conducted in China, as its rapid economic expansion has fueled foreign investment over the last decades. However, policies governing foreign investment and ownership have changed substantially over this time frame, and, overall, China is now a much more open business environment. The findings of studies conducted during various stages of development within a particular setting, such as China, are therefore subject to verification as these environments change. Longitudinal studies examining the relationship between changing economic and political regimes and the effectiveness of governance structures and JV management techniques could therefore provide insights that are more widely applicable in developing, maturing, and transitional economies.

Conclusion

Our review of high-impact research on managing JVs revealed a number of dominant academic discussions, including the assessment of JV performance, knowledge management, governance and control, challenges associated with differences in organizational and national culture, the role of JVs in the internationalization process, and assessment of JV market value. Although others might categorize these discussions differently, our approach identifies the influences on JV performance that have received the most attention in managerial and scholarly thinking to date. Scholars have provided substantial guidance for the decisions that partners must make in forming and managing JVs. Much work remains, of course, as the JV structure continues to evolve, as evidenced by increasing numbers of partnerships formed between nontraditional partners. Just as the global business environment continues to evolve, so too does the role and importance of the JV as firms increasingly work together to create value. We live in a time when the global economy is increasingly integrated. Neither countries, nor firms, nor managers can go it alone without sacrificing the advantages of good partnerships. Equity JVs will continue to matter.

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Appendix

Using the SSCI database, which we accessed through Web of Science, we performed a search⁴ that returned 2,458 results. We excluded nonbusiness-related topics from those listed in the subject area field, including only academic research articles. This left us with 1,645 results. We included articles from this set if they had been cited at least 20 times. The result was that all articles in our sample were published between 1982 and 2006. While this biases our results against newer articles, it is not possible to objectively assess what impact the newer research will have in the future. These restrictions resulted in a sample of 318 articles.

We reviewed each of the 318 articles to determine its suitability based on our criteria. To be included, the article must have examined equity JVs, as opposed to WOSs or nonequity partnerships and alliances. It also had to include some assessment of JV performance. We broadly defined performance as any desirable outcome over which JV owners and managers have control. We took this approach because financial indicators typically used to measure performance are often difficult to obtain and do not always coincide with the intentions of the JV partners (Ariño, 2003). Some of the most common indicators used include profitability, return on investment (ROI), knowledge transfer, learning, survival, and ownership stability. Upon completing this phase of the review, our sample consisted of 86 articles that provide evidence and/or conjecture regarding management practices that influence performance in JVs.

We next carefully reviewed each of the articles in our sample, noting whether each was empirical, a review article, or a conceptual discussion. Seventy-four of the papers were empirical; 12 were conceptual or review papers. For empirical articles we recorded study design, theoretical lens, scope (international versus single country), the types and indus-

⁴ Our exact search term was “joint venture.”

tries of firms involved, sample size, type of performance assessed, posited antecedents to that performance, and the associated findings. Due to space limitations, we cannot include all these details here. Instead, data on the 10 most cited studies are included in Table 2 as an illustration.

With respect to the empirical characteristics of the articles in our sample, about 8%, especially theoretical pieces, do not clearly specify whether their domain was single country, international, or both. For sample size, we considered only the 74 empirical papers we reviewed as this characteristic is not relevant for other types.

International business research leads in some areas of management research and lags in others. In JV research, international business clearly leads, as 69% of all the influential articles we reviewed focused on IJVs and another 22% included both single country and IJVs. With respect to sample size, 23% of this research was conducted using sample sizes of fewer than 50 firms or managers, 59% utilized sample sizes of 50 to 399, while the other 18% utilized sample sizes greater than 400. Ten of the articles report on in-depth case studies, which typically examine fewer JVs.

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